A
BROWN
COMPANY, INC.

A Brown Company, Inc. experienced a banner year in 2012 when the Philippines enjoyed GDP growth as the result of a combination of economic factors affecting global and local industries. Over the past year, however, our company encountered some challenges beyond control, as the country seemed fraught with natural disasters and socio-political crises that the Filipino people have yet to fully recover from today. Still and all, as we have always been able to show, one of our greatest traits as a nation is resilience, and this holds true within our company as well.

With the Philippine economy being rated as investment-grade in 2013, business continues to grow. This is particularly evident in the construction sector, as seen in the various projects that have started to be developed. Albeit, there has been some hesitation on the part of prospective investors in real estate during the first half of the year due to uncontrollable factors mentioned above, things picked up as we approached the latter half, thus allowing for the bolstering of our position as the leading real estate development company in Northern Mindanao.

Among the problems encountered in the year was the sharp drop in commodity prices in the world market, which have adversely affected our crude palm oil revenues. Unfavorable climatic conditions and sporadic weather resulted to lower yields of our own plantations. Our sourcing initiatives for fresh fruit bunches from various growers to maximize our mill output was likewise beset by challenges in infrastructure links. All told, we are focused to minimize the negative effects of the uncontrollable factors in our agribusiness topline.

Our palm oil refinery, the launch of which was pushed back from the slated middle of the year target, will provide a steadier stream of revenues moving forward. Our operational parameters have been corrected and recalibrated, and we are confident that the refinery will be fully operational by July 2014.

This year, our company has reinforced its goal of becoming a key player in the power sector, primarily to address the ever-growing demand in energy particularly in Visayas and Mindanao. Our projects were not without their share of delays due to realignment of equity stakeholders. It was an unforeseen, nevertheless welcome change: a mutual and amicable decision to restructure partnerships has enabled us to get our schedule back on track nearing the tail end of 2013. We are anticipating favorable market conditions as well, so we are very happy with these developments.

In addition to the combined operational efforts of the parent company and subsidiaries, A Brown has also started to push towards brand visibility and awareness by becoming more aggressive in our marketing and advertising strategies, one of the highlights of which was a dedicated episode featuring our real estate developments on the "Philippine Realty TV" show of the ABS-CBN News Channel (ANC), shown locally and overseas via The Filipino Channel (TFC). This has resulted in increased exposure and interest in what our company has to offer, with properties being sold to expatriates and Overseas Filipino Workers (OFWs) as a direct result of the episode.

As 2013 came to a close, our company has bounced back from the initial downturns, and we are fully confident in our ability to attain the production and commencement dates of our various projects. Our improved performance and increased sales volume has compensated for the slow start experienced in the first part of 2013. For 2014, we are confident that this growth would be sustained.

Walter W. Brown
Executive Chairman

Robertino E. Pizarro
President

# FINANCIAL HIGHLIGHTS

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|
| Operating Results | | | |
| Revenues | ₱ 552,720,068 | ₱ 740,453,388 | ₱ 482,858,037 |
| Net Income | ₱ 3,988,428 | ₱ 70,336,070 | ₱ 22,241,648 |
| Equity holders of the parent company | 3,555,644 | 70,761,417 | 22,555,795 |
| Noncontrolling Interest | 432,784 | (425,347) | (314,147) |
| Return on Assets[1] | 0.08% | 1.38% | 0.57% |
| Return on Equity[2] | 0.14% | 2.52% | 1.09% |
| Financial Position | | | |
| Total Current Assets | 1,481,535,755 | 2,366,395,838 | 1,255,232,557 |
| Total Assets | 5,190,654,281 | 5,109,397,672 | 3,884,105,641 |
| Total Current Liabilities | 771,637,218 | 694,383,183 | 715,704,860 |
| Total Long-term Debt, net of current portion | 1,490,895,233 | 1,532,991,485 | 1,041,675,094 |
| Total Liabilities | 2,406,333,110 | 2,323,488,070 | 1,849,412,479 |
| Total Equity | 2,784,321,171 | 2,785,909,602 | 2,034,693,162 |
| Equity holders of the parent company | 2,780,935,857 | 2,782,957,072 | 2,030,902,785 |
| Non-controlling Interest | 3,385,314 | 2,952,530 | 3,790,377 |
| No. of Shares Outstanding | 1,732,865,522 | 1,386,293,229 | 1,136,293,229 |
| Weighted Average No. of Shares Outstanding | 1,732,865,522 | 1,177,146,587 | 1,136,293,229 |
| Current Ratio[3] | 1.92 | 3.41 | 1.75 |
| Current Debt to Equity Ratio[4] | 0.28 | 0.25 | 0.35 |
| Total Debt to Equity Ratio5 | 0.86 | 0.83 | 0.91 |
| Earnings Per Share[6] | ₱ 0.0021 | ₱ 0.0601 | ₱ 0.0199 |
| Net Book Value Per Share[7] | ₱ 1.605 | ₱ 2.007 | ₱ 1.787 |
| Net Asset Value Per Share[8] | ₱ 2.062 | ₱ 2.417 | ₱ 2.330 |

*[1] computed as net income divided by total assets*
*[2] computed as net income divided by stockholders' equity*
*[3] computed as current assets divided by current liabilities*
*[4] computed as current liabilities divided by stockholders' equity*
*[5] computed as total liabilities divided by stockholders' equity*
*[6] computed as net income attributable to the equity holders of the parent company divided by WANOS*
*[7] computed as total equity attributable to the equity holders of the parent company divided by no. of shares outstanding*
*[8] computed as total equity plus appraisal increase and potential gain on the market values of lot inventory attributable to the equity holders of the parent company divided by no. of shares outstanding*

*The restatement is a result of the changes based on the new accounting standard PAS 19 (Employee Benefits) on retirement benefits which classify the actuarial gains and losses to the Other Comprehensive Income as opposed to directly include under the Statement of Income, among others.*

# OPERATIONAL HIGHLIGHTS

### Real Estate

ABCI continues to strengthen its position as the leader in residential real estate development in Northern Mindanao. As one of its core businesses, real estate projects continue to provide the most family-oriented and nature-themed environments for prospective buyers. The company prides itself with the use of a nature-themed, well-planned integrated community concept.

2013 has been host to a number of newly launched facilities and a slew of media exposure, contributing to the overall growth in sales and general interest for the properties ABCI owns.

### Cagayan de Oro City

As of the end of 2013, all phases of Xavier Estates now have 2,687 lots, of which 2,619 have been sold. Ventura Residences inside Xavier Estates, the company's initial foray into housing initiatives, has now grown to 187 units, twice the number it had in 2012. As of the end of 2013, 74 units of houses have been built and 45 are under construction. A "Move-in Now" promotion was held to entice starter families and the happily-single in availing the ready-for-occupancy units.

Teakwood Hills Subdivision, the idyllic enclaves with a breathtaking 180-degree scenic view of the mountains and Macajalar Bay, has now sold half of the available units.

### Socialized Housing

St. Therese Subdivision in mid-Balulang, Cagayan de Oro, exists as the company's socialized housing property. The lots, which are divided into row-houses, duplex and single-attached, are almost sold out, with only 11 units that are available for sale.

### Bukidnon

With construction in Valencia Estates having been completed, 94 of the total 351 units have been sold, with 28 units still under reservation deposits. Aggressive marketing was implemented for this facility, through regular exhibits at the local mall, sales caravans and sales booths in strategic places, a regular Saturday Acoustic event, and a quarterly Investors' Forum.

### Misamis Oriental

Located in Initao, Misamis Oriental and with a total land area of 10 hectares, Coral Resort Estates Phase 1 is now 97% complete, 30% more than from the previous year. It was officially launched in October 2013, and has become a landmark, being the first residential resort in Northern Mindanao. 21 of the 42 developed lots has been sold. Reservation deposits were received for the remaining 21 units.

Overlooking the tranquil waters of Iligan Bay, CRE also provides amenities for the whole family. These include a gazebo, parks and playground, a meditation garden, an infinity pool, a sea pool, a viewdeck, an aquasports area, floating jetty, and a diving area. Its clubhouse also has an open lounge, a function hall and restaurant.

### Butuan

West Highlands is a golf and residential estate located in Brgy. Bonbon, Butuan City. It offers a panoramic view of the historic Mt. Mayapay and the cityscape. From 32.6% completion in 2012, Phase 1 is now at 67.4%. A Golfers' Lane was launched in March 2013, featuring lots strategically located near the golf course. 36 lots were sold in 2013.

Real estate sales recorded in 2013 amounted to 335.14 million, with a decrement of (111.02 million) from last year's 446.16 million. Although in 2013, the booked units is higher by 13 units as against the 205 accounts booked in 2012, 26% or 57 units of the total booked units were from the sale of the socialized housing units. Interest earned from in-house financing on the sale of real estate increased by 1.2 million from 21.8 million in 2012.

Additional efforts in construction, marketing exposure, and client retention have been focused on by the company, as Saturday events have been regularly conducted for sales inquiries, open houses, and visits from lot owners. Partner realties are also recognized for their sales performance through incentives. Additional marketing exposure has been made through local newspapers, airline reading materials, billboards throughout Northern Mindanao, radio advertisements and a feature on "Philippine Realty" TV on the ABS-CBN News Channel (ANC).

# OPERATIONAL HIGHLIGHTS

## Agribusiness

A Brown Energy and Resources Development, Inc. (ABERDI) is in the oil palm business. ABERDI extracts from fresh fruit bunches (FFB) to the crude palm oil (CPO) in its mill plant in Malubog, Impasug-ong, Bukidnon. ABERDI also operates a 1,600-hectare oil palm plantation in Kalabugao, Impasug-ong, in the Province of Bukidnon and in Tingalan, Opol in the Province of Misamis Oriental.

ABERDI's mini mill constructed in 2006 has been upgraded from its initial capacity of 1.5 tons per hour to 8 tons per hour in 2009. Its performance has been further improved, now processing at 10 tons per hour. Currently, the facility can mill 80 metric tons (MT) of fresh fruit bunches per day in 8 hours using two vertical sterilizers, compared to its previous 40 MT of fresh fruit bunches per day.

Fresh fruit bunches processed for 2013 was 11,985.54 MT, down by 6.20% compared to 12,777.40 MT in 2012. This could be attributed to unusually heavy rainfall. A total of 2,501.28 MT of crude palm oil was recovered at an oil extraction rate (OER) of 20.90%. Total kernels produced for the year was 326.34 MT as compared to 111.12 MT in 2012. Sales were as follows: 2,356.72 MT of CPO, 80.496 MT of sludge oil, 402.60 MT of kernel and 24.07 MT of sludge. During the year, CPO prices were low. Moreso, to augment the lack of in-house production, ABERDI turned to Central Mindanao for bulk purchases.

The operating performance of the company for 2013 is not quite good. The net loss for the year totaled P26.3 million from the previous year's net loss of P19.1 million.

The sales of crude palm oil decreased by 21.73% this year from P82.6 million in 2012 to P64.7 million in 2013. The quantity sold decreased by 10.69%, or 281.97 MT from a volume of 2,638.69 MT in 2012 to 2,356.72 MT in 2013, and with a decrease in the average selling price per MT of 12%, from P31,319.75 per MT last year to P27,448.53 per MT this year. Sales volume variance is P8.8 million or 11% unfavorable and sales price variance is P26.8 million or 11% unfavorable.

The company has started the groundwork for its refined bleached deodorized (RBD) refinery with fractionation machine, with a capacity of 50 MT per day of operation. With full capacity of the CPO mill of 700 MT CPO per month and additional purchase of CPO from outside source of 500 MT CPO, the refinery could produce RBD of 1,140 MT. After fractionation, 798 MT of palm olein and 342 metric tons of palm stearin will be produced monthly. The facility is being upgraded using major parts from Germany, India and the United States. The refinery is scheduled to be operational by July 2014.

ABERDI will soon introduce to the market RBD and palm olein products. These will be distributed to key accounts outlets through wholesale.

## COAL-FIRED POWER

Palm Concepcion Power Corporation (PCPC), a 135MW coal-fired power plant in Concepcion, Iloilo, started the year with its groundbreaking ceremonies on January 15, 2013. It was well-attended by several stakeholders of the project from Iloilo provincial and local government offices, business community and Visayas electric cooperatives.

On February 3, PCPC awarded the Engineering, Procurement and Construction (EPC) contract to NLSC, the consortium of First Northeast Electric Power Engineering Corp. of China (NEPC), Liaoning Electric Power Survey & Design Institute and Shenyang Electric Power Design Institute Co., Ltd. Alstom Power will provide the Steam Turbine and Generator for the Project. Alstom is one of the world's foremost suppliers of steam turbines and all types of power generation equipment, having supplied more than 700 gear-driven machines and more than 500 direct drive conventional turbines. Alstom operates a dedicated industrial steam turbine business currently operating from its headquarters in Baden, Switzerland; Engineering in UK and Poland and Manufacturing in Poland.

On March 6, the coal supply contract was signed with PT. Pevensey Indonesia, a company based in Jakarta, and currently supplies coal to power plants in China, India and the Philippines. Their contract specifies that they will source the coal requirements of PCPC from the Arjuna mine located in East Kalimantan, Indonesia.

On June 25, PCPC issued to NLSC the Notice to Proceed and the construction commenced July 18. Also in July, PCPC signed a separate term loan facility agreements with Asian United Bank, China Banking Corporation and BDO Unibank, with BDO Capital and Investment Corporation as the Lead Arranger and Sole Bookrunner for the term loan facilities. Furthermore, through the efforts of PCPC's marketing group, several electric cooperatives in the Visayas have signed Electric Power Purchase Agreements with PCPC.

From October to December, preparatory work and activities for the coal-fired power plant's associated transmission line project were rolled out. These are the geotechnical investigation, route and parcellary survey, and land and land rights acquisition. In November 2013, PCPC was able to complete all the necessary LGU endorsements and permits for the social acceptance of the transmission line project.

## BUNKER-FIRED POWER

Peakpower Energy Inc. (PEI) was incorporated to implement power projects in Mindanao which are designed to address the deficit in electricity supply during peak hours of the day. These projects are Build-Operate-Maintain and Transfer (BOMT) agreements for 15 years with the corresponding electric cooperatives.

Wartsila Diesel/bunker-fired engines will be used in these power plants as generating engines to ensure high quality and sustainable power efficiency.

Peakpower Soccsargen, Inc. was incorporated for a BOMT agreement with South Cotabato II Electric Cooperative, Inc. This project will build a 20.9MW power plant in General Santos City. A groundbreaking ceremony was held on August 14.

Peakpower San Francisco, Inc. was incorporated for a BOMT agreement with Agusan del Sur Electric Cooperative, Inc. to build a 5.2MW power plant in San Francisco, Agusan del Sur. A groundbreaking ceremony was held on August 21.

Both projects are slated for commercial operations in the last quarter of 2014. Other projects are in the pipeline for PEI which are still under negotiations.

## HYDRO POWER

Hydro Link Projects Corporation (HLPC) has around 100MW prospect sites for hydroelectric generation across the Philippines pursuant of ABCI's vision of energizing the country's development.

In Mindanao, HLPC is currently pursuing the Carac-an Hydroelectric Project (CHP) located in Cantilan, Surigao del Sur. This 25MW hydroelectric plant is HLPC's first venture in the renewable energy market under the auspices of ABCI. The Department of Energy (DOE) has already given its approval with the issuance of the Hydropower Service Contract and the Certificate of Registration on June 28, 2013. Following the approval of DOE, all associated activities related to its implementation are being carried out.

Other than the Carac-an project, there are other areas of interest in the field of renewable energy that are being pursued. Depending on its viability, these projects are potential investment area that HLPC might get into.

## ABCI

The following are initiatives taken by the company and its subsidiaries to the communities within the areas where the businesses operate and serve.

The ABCI Scholarship Program has been ongoing since 2011. This year, six college students belonging to the Higaonon tribe from Kalabugao, Impasug-ong, Bukidnon benefited from this scholarship. They are currently enrolled at Bukidnon State University in Malaybalay City. Of the six ABCI scholars, one is graduating with a BSBA degree this SY 2013-14.

In partnership with the Philippine Red Cross, employees from the Brown Group of Companies participated in the Red Cross Run for Humanity in February 2013. The Million Volunteer Run was in support of the various causes of Red Cross 143.

From February to March, ABCI again partnered with the Philippine Red Cross for its annual bloodletting activity at Xavier Estates in Cagayan de Oro and at Salawaga, Opol, Misamis Oriental. Employees and friends of the A Brown group took part in this humanitarian activity. As a consistent blood donor, the company received the Red Cross Diploma of Service Award this year.

Twice a year, in March and October, rituals are done by the Higaonon tribe to appease bad spirits and sustain peace and harmony. As stipulated in the development contracts between ABERDI and people's organizations KMBT of Opol and KASAMAKA of Kalabugao, ABCI provides assistance during these ceremonies, held in two palm oil plantations in these areas.

Several CSR projects were accomplished in June. In Kalabugao, some residents of Kaanibongan, 70% of whom were Higaonons, have availed of free dental and medical services during the conducting of Medical Mission in the area. A team of doctors, nurses, midwives, barangay health workers and barangay nutrition scholars from the National Commission on Indigenous Peoples (NCIP) and Impasug-ong LGU have jointly offered their professional services for free during the clinic. The rehab and repair of the Health and Nutrition Center in Kaanibongan was also completed. This center is now serving the health and nutrition needs of more than 700 residents in the area.

The medical outreach program will become a regular CSR activity to be conducted in Kalabugao and Opol. Also in Opol in the same month, ABERDI extended its support to Mayor Dexter Yasay's educational assistance program for Opol Community College. ABERDI shares P50,000 per year with 10 college students, five of whom are residents of Barangay Tingalan. For workers of the Opol plantations in the said barangay, the APB Foundation provided pre-owned clothing.

In August, ABERDI allocated P18,000 worth of cash assistance for the purchase of Higaonon tribal costumes. The recipients were the 16 members of the Higaonon Tribal Council.

The following month, ABERDI extended financial and manpower assistance in support of DENR's National Greening Program. P50,000 has been sourced out for the purchase of additional seedlings for Kalabugao area, planting in a total land area of 100 hectares. In Opol, there was a total of 10,000 tree seedlings planted over an area of 20 hectares, at a harvest scheme of 50% for P.O. and 50% for ABERDI.

In the company's efforts to improve the welfare of citizens in Kalabugao and Opol, ABCI donated assorted medicines worth P21,000 to the Municipal Health Office of LGU Impasug-ong and Barangay Tingalan Health Center.

# PCPC

Palm Concepcion Power Corporation (PCPC) is one with the Municipality of Concepcion in its objectives to improve programs for social services, human resource development, infrastructure programs, economic programs, and the sustained effort for integrated area development.

Aside from the financial support that PCPC's coal-fired power plant project will be able to contribute to the Municipality, PCPC understands that the concerns of the community and the environment should always be balanced with our responsibility to build and maintain an essential power generating facility that will soon provide for the electricity needs of the people living in the areas we will serve.

Continuous information and educational campaigns (IEC) were conducted throughout the Municipality discussing the project in detail. In these IEC sessions, the technology that the power plant project will adopt is lengthily explained together with the environmental impacts and mitigating measures that the proponent will implement.

We are also constantly in coordination with local officials through regular dialogues and consultation meetings as part of the IEC program.

In addition to these, PCPC remains faithful to its commitment to do its part in preserving and protecting the environment. Through the corporation's CSR group, we collaborated with the local government units in the National Greening Program of the government and became part of the tree-planting project of the Municipality of Concepcion.

For 2013, PCPC launched its own project called the Green Program for Active Reforestation and Conservation (Green P.A.R.C.). This project aims to contribute to the expansion of Mount Apitong forest, in order to restore the environmental and economic benefits that it provides to the community, maintain a nursery of seedlings to continuously populate the trees in the impacted areas of the coal-fired power plant project, contribute to the restoration and conservation of identified mangrove areas and for the program to serve as a vehicle to strengthen and unify the local community.

Green P.A.R.C. was launched last April 2013 with initial planting activities in the five-hectare site of Mount Apitong then followed by mangrove enhancement activities in the identified island barangay near the host community.

Continuous monitoring and maintenance activities are now in place to ensure that the planted areas are protected and preserved.

When Supertyphoon Yolanda hit Concepcion, PCPC Management immediately came up with a relief and rehabilitation program with the aim to give assistance to those affected by the devastating calamity. Together with its project partners namely: A Brown Company, Inc., Alstom, JNRI, NLSC, Philinsure, Rebisco Foundation and SNC-Lavalin, everyone wholeheartedly supported the program by contributing significant amount of funds that was used to help and reach more beneficiaries from the local community, the Catholic Church and the electric cooperatives.

PCPC also partnered with the local government in the "Adopt a Fisherman" project by contributing motorized boats to the fishermen beneficiaries of its host community with the help of Rebisco Foundation and A Brown Co. Inc.

The company values this collaboration with the local government and the residents of the communities where we are establishing our presence, and endeavors to make this partnership last long.

# BOARD OF DIRECTORS 2013-2014

## Board Committees

### Executive Committee

Chair: Annabelle P. Brown
Members: Walter W. Brown, Robertino E. Pizarro

### Audit & Risk Committee

Chair: Elpidio M. Paras
Members: Thomas G. Aquino, Gerardo Domenico Antonio V. Lanuza

### Nomination Committee

Chair: Thomas G. Aquino
Members: Elpidio M. Paras, Walter W. Brown

### Compensation Committee

Chair: Thomas G. Aquino
Members: Annabelle P. Brown, Elpidio M. Paras

### Governance Committee

Chair: Elpidio M. Paras
Members: Thomas G. Aquino, Antonio S. Soriano

### Corporate Culture & Values Formation Committee

Chair: Annabelle P. Brown
Members: Thomas G. Aquino, Elpidio M. Paras

**Walter W. Brown**
**Executive Chairman**

Dr. Brown is Chairman of Palm Thermal Consolidated Holdings Corporation, Palm Concepcion Power Corporation and ABERDI, Chairman and President of Apex Mining Inc. and Director of Monte Oro Resources & Energy, Inc. He has held executive posts in companies such as Atok Big Wedge Co Inc., Philex Mining Corporation, National Grid Corporation of the Philippines, and Philippine Realty & Holdings Corporation. He was Technical Director of Dragon Oil, listed on the London Stock Exchange, and Vice Chairman of the Board of Trustees of Xavier University in Cagayan De Oro.

**Robertino E. Pizarro**
**President**

Mr. Pizarro is the President of ABCI's many subsidiaries: ABERDI, Brown Resources Corporation, Xavier Sports & Country Club, Andesite Corporation, Bonsai Agricultural Corporation. Presently he is also the President of Philippine Palm Oil Development Council, Inc. (PPDCI).

**Annabelle P. Brown**
**Director**

Mrs. Brown is concurrently the President and Director of PBL Corporation, Treasurer of Brown Resources Corporation, Treasurer/Director of Bendaña-Brown Holdings Corporation and Pine Mountain Properties Corporation. She is also the Chairperson of Rosevale School in Cagayan De Oro City, Professional & Cultural Development of Women (PCDW) Foundation, Inc. and Development Advocacy of Women Volunteerism (DAWV) Foundation, Inc., President and Founder of Alalay sa Bayan at Pamilya (APB) Foundation, Inc. She is also affiliated with Educhild Foundation, Inc.

**Antonio S. Soriano**
**Director**

Atty. Soriano is the Senior Managing Partner of Soriano, Saarenas & Associates. He is Corporate Secretary of Rise Foundation and Kagayhaan Davao Resources Management Corporation, and Chairman of Xavier Sports & Country Club, Roadside Shops, Inc., Cagayan De Oro Medical Center, and Philippine National Red Cross - Misamis Oriental Chapter.

**Gerardo Domenico Antonio V. Lanuza**
**Director**

Mr. Lanuza sits as Vice President of Campos, Lanuza & Co., Inc. and Director and Vice President - Special Projects of Philippine Realty and Holdings Corporation, and Director of Greenhills Properties, Inc. He finished his Legal Management degree from the De La Salle University in 2006.

**Elpidio M. Paras**
**Independent Director**

Mr. Paras is the President and CEO of Parasat Cable TV, Inc., Arriba Telecontact, Inc., UC-1 Corporation, Inc., and Jade Cable TV Systems, Inc. He is also connected with the Philippine Cable TV Association, Promote CDO Foundation, Cagayan De Oro Chamber, Xavier University Board of Trustees, CDO ICT Committee, and the Cagayan De Oro International Trade and Convention Center Foundation, Inc.

**Thomas G. Aquino**
**Independent Director**

Mr. Aquino is a Senior Fellow at the Center for Research and Communication of the University of Asia & the Pacific. He is the Chairman of Now Corporation, an Independent Director of Alsons Consolidated Resources, Inc., and is formerly the Senior Undersecretary of the Department of Trade and Industry.

**Roel Z. Castro**
**Director / Vice President for Business Development**

Mr. Castro joined the company as Vice President for Business Development in May 2013. He is also the President and CEO of Palm Thermal Consolidated Holdings Corp., Panay Consolidated Land Holdings Corp., and Palm Concepcion Power Corporation. He finished his Bachelor of Science in Agricultural Business degree at the University of the Philippines - Los Baños. He also earned his Master in Management at Asian Institute of Management with Commendation in 1997.

**Rosa Anna Duavit Santiago**
**Director / VP and Chief Financial Officer / Treasurer**

Atty. Santiago is the Vice President and Chief Finance Office as of March 2011, and the Treasurer of the Company as of July 2011. She took her undergraduate studies with double major in Economics and Accounting at De La Salle University in 1986 and passed the May 1987 CPA Board Examination. In 1993, she earned her Doctor of Jurisprudence at Ateneo Law School and was subsequently admitted to the Bar in 1993.

**Jason C. Nalupta**
**Corporate Secretary**

Atty. Nalupta is a partner of Tan Venturanza Valdez specializing on corporate, securities and business laws. He earned his Bachelor of Science degree in Management, major in Legal Management, at the Ateneo de Manila University in 1992 and his Juris Doctor degree at the Ateneo Law School in 1996. He was admitted to the Bar the following year.

**Anna Francesca C. Respicio**
**Assistant Corporate Secretary**

Atty. Respicio is one of the Associates in Tan Venturanza Valdez. She finished her Bachelor of Arts Major in Philosophy in 2007 and earned her Juris Doctor from the Ateneo Law School in 2011. Among her business affiliations as Assistant Corporate Secretary are: Discovery World Corporation, First Abacus Financial Holdings, I-Remit Corp, Inc., Tagaytay Highlands International Gold Club, Inc., and Reomulan Lands, Inc. She is also the Corporate Secretary of Luckyfortune Business Ventures, Inc.

# Audit Committee Report

March 20, 2014

The Board of Directors
A Brown Company, Inc.

The Audit Committee represents and assists the Board of Directors in its general oversight of the Company's accounting and financial reporting processes, audits of the financial statements, and internal control and audit functions. The Committee also takes the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

Further to our compliance with applicable corporate governance laws and rules, we confirm for 2013 that:

- The Audit Committee is chaired by an independent director as determined by the Board of Directors;

- In the performance of our oversight responsibilities, we have reviewed and discussed the audited financial statements of A Brown Company, Inc. and Subsidiaries, or ABCI Group, as of and for the year ended December 31, 2013 with ABCI Group's management, which has the primary responsibility for the financial statements, and with Constantino Guadalquiver and Co., CPAs, the ABCI Group's independent auditor who is responsible for expressing an opinion on the confirmity of the ABCI Group's audited financial statements with generally accepted accounting principles;

- We have discussed with Constantino Gudalquiver and Co., CPAs the matters required to be discussed by the Statement on Auditing Standards No. 61 (Communication with Audit Committees) as modified or supplemented;

- We have received written disclosures and the letter from Constantino Guadalquiver and Co., CPAs required by the Independencce Standards Board Standard No. 1 (Independence Discussion with Audit Committees) and have discussed with Constantino Gudalquiver and Co., CPAs its independence from the ABCI Group and the ABCI Group's management;

- We have discussed with the ABCI Group's internal audit group and Constantino Gudalquiver and Co., CPAs the overall scope and plans for their respective audits. We also met with the ABCI Group's internal audit group and representatives from Constantino Gudalquiver and Co., CPAs to discuss the results of their examinations, their evaluations of the ABCI group's internal controls and the overall quality of the ABCI Group's financial reporting; and

- Based on the reviews and discussions referred to above, in reliance on the ABCI Group's management and Constantino Gudalquiver and Co., CPAs and subject to the limitations of our role, we recommended to the Board of Directors and the Board has approved the inclusion of the ABCI Group's audited financial statements as of and for the year ended December 31, 2013 in the ABCI Group's Annual Report to the Stockholders and to the Philippine Stock Exchange, Inc. and the Securities and Exchange Commission on Form 17 A.

**ELPIDIO M. PARAS**
Chaiman
Independent Director
TIN 106-126-150

**THOMAS G. AQUINO**
Member
Independent Director
TIN 111-621-372

**GERARDO DOMENICO ANTONIO V. LANUZA**
Member
TIN 243-606-771

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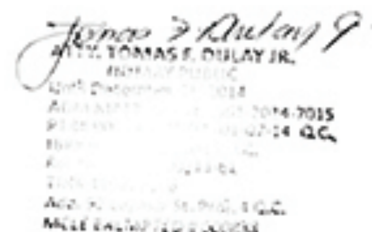


A BROWN COMPANY, INC.

March 20, 2014

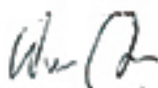
The Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

# Statement of Management's Responsibility for Consolidated Financial Statements

The management of A Brown Company, Inc. and its subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 Director reviews and approves the consolidated financial statements including the additional components attached therein and submits the same to the stockholders or members.

Constantino Guadalquiver and Co., the independent auditors and appointed by the stockholders, has examined the conslidated 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.



**WALTER W. BROWN**
**Executive Chairman**

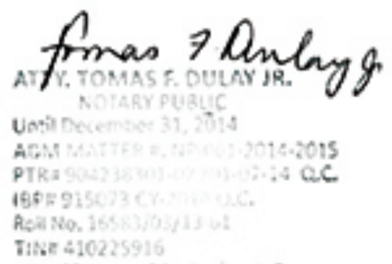
**ROBERTINO E. PIZARRO**
**President**

**ATTY. ROSA ANNA DUAVIT-SANTIAGO**
**Chief Financial Officer**

MAR 2 4 2014

SUBSCRIBED AND SWORN to before me this day of , affiants exhibiting to me their respective passposts, as follows:

| Names | Passport No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Walter W. Brown | EB3952116 | October 27, 2001 | Manila |
| Robertino E. Pizarro | EB8037747 | May 4, 2013 | Cagayan de Pro |
| Rosa Anna Duavit Santiago | EB8745666 | July 22, 2013 | Manila |

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Book No. 86
Series of 2014

CG&Co

BAKER TILLY INTERNATIONAL

Constantino Guadalquiver & Co.
Certified Public Accountants
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8741 Paseo de Roxas Street
Salcedo Village, Makati City, Philippines
Telephone (+632) 848 1051
Fax (+632) 728 1014
E mail address:mail@cgco.com.ph

# Independent Auditor's Report

The Stockholders and the Board of Directors
A Brown Company, Inc. and Subsidiaries
Xavier Estates Uptown, Airport Road,
Balulang, Cagayan de Oro City

## Report on Financial Statements

We have audited the accompanying consolidated financial statements of A Brown Company, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the 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 statement whether due to fraud or error.

*Auditor's 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internol control relevant to the entity's preparation and fair presentation of the 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 financial statements.

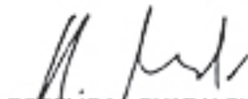
We believe that the audit evidence we have obtainedis sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of A Brown Company, Inc. and Subsidiaries as of December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

CONSTANTINO GUADALQUIVER & CO.

By:



ROGELIO M. GUADALQUIVER
Partner
CPA Certificate No. 13608
PTR No. 4245659, January 22, 2014, Makati City
TIN 123 305 015 000
BIR Accreditation No. (AN) 08 001507 1 2012, valid until January 4, 2015
SEC AN (Partner) 0017 AR 2 (Group A), valid until September 21, 2014
SEC AN (Firm) 003 FR 2 (Group A), valid until September 21, 2014
PRC BOA AN 0213, valid until December 31, 2016

March 20, 2014

# Consolidated Statements of Financial Position

December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| | Note | 2013 | 2012 (As restated) | 2011 (As restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 6 | ₱ 131,124,390 | ₱ 995,259,528 | ₱ 149,709,918 |
| Current portion of accounts receivable – net | 7 | 311,883,468 | 274,436,737 | 236,222,883 |
| Notes receivable | 8 | 6,632,828 | 6,284,916 | 920,417 |
| Real estate held for sale | 9 | 776,403,011 | 863,768,785 | 702,986,307 |
| Prepayments and other current assets | 10 | 255,492,058 | 226,645,872 | 165,393,032 |
| Total Current Assets | | 1,481,535,755 | 2,366,395,838 | 1,255,232,557 |
| **Noncurrent Assets** | | | | |
| Noncurrent portion of accounts receivable | 7 | 205,093,873 | 302,916,253 | 267,795,047 |
| Available for sale investments | 11 | 914,260,817 | 707,002,512 | 727,189,676 |
| Investment in associates | 12 | 222,682,747 | 233,597,520 | 213,791,918 |
| Investment properties – net | 13 | 295,951,342 | 304,581,093 | 510,877,403 |
| Property and equipment – net | 14 | 396,863,691 | 316,984,996 | 292,311,079 |
| Land and improvements | 15 | 584,046,452 | 403,596,984 | 332,452,302 |
| Biological assets | 16 | 301,657,002 | 237,165,975 | 181,852,081 |
| Investments and deposits | 20 | 695,882,779 | 158,640,390 | |
| Leasehold rights | 17 | 36,861,194 | 38,117,242 | 27,704,147 |
| Deferred tax assets | 29 | 55,814,749 | 40,383,349 | 51,961,969 |
| Goodwill | 2 | | | 22,921,942 |
| Other noncurrent assets | | 3,880 | 15,520 | 15,520 |
| Total Noncurrent Assets | | 3,709,118,526 | 2,743,001,834 | 2,628,873,084 |
| | | ₱ 5,190,654,281 | ₱ 5,109,397,672 | ₱ 3,884,105,641 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current Liabilities** | | | | |
| Accounts payable and accrued expenses | 18 | ₱ 290,307,674 | ₱ 342,890,512 | ₱ 439,361,442 |
| Short term debt | 19 | 220,000,000 | 170,000,000 | 100,000,000 |
| Current portion of long term debt | 19 | 110,905,259 | 22,875,000 | 19,308,320 |
| Deposit from customers | 31, 32 | 65,873,542 | 41,646,355 | 40,166,673 |
| Income tax payable | | | 112 | |
| Dividends payable | 34 | | 2,420,541 | 2,240,877 |
| Subscription payable | 11, 31 | 84,550,743 | 114,550,663 | 114,550,663 |
| Due to related parties | 20 | | | 76,885 |
| Total Current Liabilities | | 771,637, 218 | 694,383,183 | 715,704,860 |
| **Noncurrent Liabilities** | | | | |
| Long term debt – net of current portion | 19 | ₱ 1,490,895,233 | ₱ 1,532,991,485 | ₱ 1,041,675,094 |
| Retirement liability | 27 | 18,833,922 | 17,828,743 | 4,520,703 |
| Deferred tax liabilities | 29 | 84,966,737 | 78,284,659 | 87,511,822 |
| Deposit for future stocks subscription | | 40,000,000 | | |
| Total Noncurrent Liabilities | | 1,634,695,892 | 1,629,104,887 | 1,133,707,619 |
| Total Liabilities | | 2,406,333,110 | 2,323,488,070 | 1,849,412,479 |
| **Equity** | 33 | | | |
| **Equity attributable to equity holders of Parent Company** | | | | |
| Share capital | 21 | 1,732,865,522 | 1,386,293,229 | 1,309,924,887 |
| Additional paid in capital | 21 | 586,198,947 | 586,198,947 | 155,948,570 |
| Net unrealized gain on available for sale investments | | 144,393,483 | 146,894,874 | 167,082,038 |
| Cumulative actuarial loss reserve | 27 | (27,282,459) | (24,206,991) | (9,990,469) |
| Retained earnings | | 344,760,364 | 687,777,013 | 611,551,082 |
| Treasury shares | 39 | | | (203,613,323) |
| | | 2,780,935,857 | 2,782,957,072 | 2,030,902,785 |
| **Non controlling interests** | | 3,385,314 | 2,952,530 | 3,790,377 |
| Total Equity | | 2,784,321,171 | 2,785,909,602 | 2,034,693,162 |
| | | ₱ 5,190,654,281 | ₱ 5,109,397,672 | ₱ 3,884,105,641 |

*See accompanying Notes to Consolidated Financial Statements.*

# Consolidated Statements of Income

For the years ended December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| | Note | 2013 | 2012 *(As restated)* | 2011 *(As restated)* |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sales | 22 | ₱ 452,664,225 | ₱ 556,574,324 | ₱ 410,201,118 |
| Financial income | 23 | 31,546,448 | 33,481,433 | 28,380,996 |
| Sale of aggregates | | 13,458,404 | 19,804,262 | 5,241,459 |
| Rental income | 20, 28 | 5,447,917 | 6,604,501 | 7,210,538 |
| Gain on sale of property and equipment | | 233,803 | 294,077 | 8,929 |
| Dividend income | 11 | 5,336 | | 2,450 |
| Discount on loans payable | 19 | | 52,968,915 | |
| Others | 24 | 49,363,935 | 70,725,876 | 31,812,547 |
| | | 552,720,068 | 740,453,388 | 482,858,037 |
| **COST AND EXPENSES** | | | | |
| Cost of sales and services | 25 | 234,344,944 | 348,732,330 | 213,049,770 |
| General and administrative | 26 | 197,380,238 | 183,383,308 | 155,557,613 |
| Finance costs | 19 | 68,467,666 | 54,693,886 | 40,898,953 |
| Marketing | | 41,308,313 | 41,329,446 | 30,029,784 |
| Equity in net loss of an associate | 12 | 11,846,345 | 9,348,773 | 1,107,337 |
| Provision for impairment loss | 13 | 1,528,600 | 1,528,600 | 1,528,600 |
| Discount on loan receivable | 8 | | 1,017,949 | |
| | | 554,876,106 | 640,034,292 | 442,172,057 |
| **INCOME (LOSS) BEFORE INCOME TAX** | | (2,156,038) | 100,419,096 | 40,685,980 |
| **INCOME TAX EXPENSE (BENEFIT)** | 29 | | | |
| Current | | 11,461,437 | 29,965,224 | 453,101 |
| Deferred | | (17,605,903) | 117,802 | 17,991,231 |
| | | (6,144,466) | 30,083,026 | 18,444,332 |
| **NET INCOME** | | ₱ 3,988,428 | ₱ 70,336,070 | ₱ 22,241,648 |
| **NET INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | | ₱ 3,555,644 | ₱ 70,761,417 | ₱ 22,555,795 |
| Non controlling interests | | 432,784 | (425,347) | (314,147) |
| | | ₱ 3,988,428 | ₱ 70,336,070 | ₱ 22,241,648 |
| **BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO:** | 30 | | | |
| Equity holders of the Parent Company | | ₱ 0.00205 | ₱ 0.06011 | ₱ 0.01985 |

*See accompanying Notes to Consolidated Financial Statements.*

# Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| | Note | 2013 | 2012 *(As restated)* | 2011 *(As restated)* |
|---|---|---|---|---|
| NET INCOME | | ₱ 3,988,428 | ₱ 70,336,070 | ₱ 22,241,648 |
| OTHER COMPREHENSIVE LOSS | | | | |
| Unrealized loss on available for sale investments | 11 | (2,501,391) | (20,187,164) | (60,746,009) |
| Actuarial loss | 27 | (3,075,468) | (14,216,522) | (5,290,757) |
| COMPREHENSIVE NET INCOME (LOSS) | | ₱ (1,588,431) | ₱ 35,932,384 | ₱ (43,795,118) |
| Attributable to: | | | | |
| Equity holders of the Parent Company | | ₱ (2,021,215) | ₱ 36,357,731 | ₱ (43,480,971) |
| Non controlling interests | | 432,784 | (425,347) | (314,147) |
| | | ₱ (1,588,431) | ₱ 35,932,384 | ₱ (43,795,118) |

*See accompanying Notes to Consolidated Financial Statements.*

# Consolidated Statements of Changes In Equity

For the years ended December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| | Note | 2013 | 2012 *(As restated)* | 2011 *(As restated)* |
|---|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY** | | | | |
| SHARE CAPITAL – P1 par value | | | | |
| Authorized – 2,000,000,000 shares in 2013, 1,620,000,000 shares in 2012, and 1,320,000,000 in 2011 | | | | |
| Subscribed – 1,732,865,522 shares in 2013, 1,386,293,229 shares in 2012, and 1,136,293,229 in 2011 (net of subscriptions receivable of P2,046 in 2011) | 21 | | | |
| Balance at beginning of year | | ₱ 1,386,293,229 | ₱ 1,309,924,887 | ₱ 1,309,924,887 |
| Issuance during the year | | 346,572,293 | 76,366,296 | |
| Collection of subscription receivable | | | 2,046 | |
| Balance at end of year | | 1,732,865,522 | 1,386,293,229 | 1,309,924,887 |
| ADDITIONAL PAID IN CAPITAL | 21 | | | |
| Balance at beginning of year | | 586,198,947 | 155,948,570 | 155,948,570 |
| Additions during the year | 39 | | 430,250,377 | |
| Balance at end of year | | 586,198,947 | 586,198,947 | 155,948,570 |
| NET UNREALIZED GAIN ON AVAILABLE FOR SALE INVESTMENTS | | | | |
| Balance at beginning of year | | 146,894,874 | 167,082,038 | 227,828,047 |
| Net unrealized loss during the year | 11 | (2,501,391) | (20,187,164) | (60,746,009) |
| Balance at end of year | | 144,393,483 | 146,894,874 | 167,082,038 |
| CUMULATIVE ACTUARIAL LOSS RESERVE | 27 | | | |
| Balance at beginning of year as previously reported | | | | |
| Adjustments | | (24,206,991) | (9,990,469) | (4,699,712) |
| Balance at beginning of year as restated | | (24,206,991) | (9,990,469) | (4,699,712) |
| Actuarial loss as previously reported | | (3,075,468) | | |
| Adjustments | | | (14,216,522) | (5,290,757) |
| Actuarial loss as restated | | (3.075,468) | (14,216,522) | (5,290,757) |
| Balance at end of year | | (27,282,459) | (24,206,991) | (9,990,469) |
| RETAINED EARNINGS | | | | |
| Balance at beginning of year as previously reported | | 685,835,631 | 610,442,318 | 588,106,872 |
| Adjustments | | 1,941,382 | 1,108,764 | 888,415 |
| Balance at beginning of year as restated | | 687,777,013 | 611,551,082 | 588,995,287 |
| Stock dividends declared and distributed | | (346,572,293) | | |
| Increase in retained earnings due to deconsolidated subsidiaries | | | 5,464,514 | |
| Net income as previously reported | | 3,555,644 | 69,928,799 | 22,335,446 |
| Adjustments | | | 832,618 | 220,349 |
| Net income as restated | | 3,555,644 | 70,761,417 | 22,555,795 |
| Balance at end of year | | 344,760,364 | 687,777,013 | 611,551,082 |
| TREASURY SHARES, AT COST | 34, 39 | | | |
| Balance at beginning of year | | | (203,613,323) | (203,613,323) |
| Reissuance of treasury shares (173,633,704 shares in 2012) | | | 203,613,323 | |
| Balance at end of year | | | | (203,613,323) |
| Total Equity Attributable to Equity Holders of Parent Company | | ₱ 2,780,935,857 | ₱ 2,782,957,072 | ₱ 2,030,902,785 |
| NON CONTROLLING INTERESTS | | | | |
| Balance at beginning of year | | 2,952,530 | 3,790,377 | 3,854,524 |
| Increase (decrease) in non controlling interests | | | (287,500) | 250,000 |
| Net income (loss) during the year | | 432,784 | (425,347) | (314,147) |
| Decrease in non controlling interests due to deconsolidated subsidiaries | | | (125,000) | |
| Balance at end of year | | 3,385,314 | 2,952,530 | 3,790,377 |
| | | ₱ 2,784,321,171 | ₱ 2,785,909,602 | ₱ 2,034,693,162 |

*See accompanying Notes to Consolidated Financial Statements.*

## Consolidated Statements of Cash Flows

For the years ended December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| | Note | 2013 | 2012 *(As restated)* | 2011 *(As restated)* |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income (loss) before income tax and non-controlling interest | | ₱ (2,156,038) | ₱ 100,419,096 | ₱ 40,685,980 |
| Adjustments for: | | | | |
| Finance costs | 19 | 68,467,666 | 54,693,886 | 40,898,953 |
| Depreciation and amortization | 13, 14 | 49,285,498 | 45,202,159 | 39,265,107 |
| Financial income | 23 | (31,546,448) | (33,481,433) | (28,380,996) |
| Equity in net loss of associate | 12 | 11,846,345 | 9,348,773 | 1,107,337 |
| Provisions for: | | | | |
| Retirement | 27 | 2,978,165 | 2,316,284 | 2,701,121 |
| Impairment losses | 13 | 1,528,600 | 1,528,600 | 1,528,600 |
| Doubtful accounts | 7, 26 | - | 143,384 | - |
| Write-off of dividends payable | | (2,355,117) | - | - |
| Decrease in fair value of biological assets | 16 | 2,257,728 | 5,678,862 | 2,494,221 |
| Amortization of leasehold rights | 17 | 1,331,078 | 1,213,520 | 929,088 |
| Gain on sale of property and equipment | 14 | (233,803) | (294,077) | (8,929) |
| Unrealized foreign exchange loss (gain) | | (70,223) | 12,755 | (15,500) |
| Discount on: | | | | |
| Long-term debt | 19 | - | (52,968,915) | - |
| Notes receivable | 8 | - | 1,017,949 | - |
| Accounts receivable written-off | | - | - | 398,882 |
| Dividend income | 11 | - | - | (2,450) |
| Operating income before working capital changes | | 101,333,451 | 134,830,843 | 101,601,414 |
| Decrease (increase) in: | | | | |
| Accounts receivable | 7 | 59,064,439 | (77,876,257) | (80,689,352) |
| Real estate held for sale | 9 | (75,387,821) | (76,848,675) | (11,828,938) |
| Prepayments and other current assets | 10 | (14,777,785) | (76,840,063) | (90,415,433) |
| Other noncurrent assets | | 11,640 | - | - |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | 18 | (56,149,238) | (94,255,235) | (63,773,769) |
| Deposit from customers | 31, 32 | 24,227,187 | 1,479,682 | (1,940,573) |
| Cash provided by (used in) operations | | 38,321,873 | (189,509,705) | (147,046,651) |
| Interest received | | 31,310,478 | 33,067,949 | 28,389,200 |
| Income tax paid | | (16,673,370) | (20,608,751) | (1,230,872) |
| Contributions to plan assets | 27 | (5,048,453) | (3,224,766) | (3,459,814) |
| Net cash provided by (used in) operating activities | | 47,910,528 | (180,275,273) | (123,348,137) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investments and deposits | 20 | (678,605,873) | (110,800,390) | - |
| Investments in an associate | 12 | (169,901,667) | (600,000) | (85,619,255) |
| Additions to: | | | | |
| Property and equipment | 14 | (137,654,249) | (116,033,932) | (153,688,999) |
| Land and improvements | 15 | (17,695,874) | (19,242,431) | (23,096,829) |
| Available-for-sale investments | | (789,600) | - | - |
| Investment properties | 13 | (202,322) | (619,726) | (5,391,831) |
| Leasehold rights | 17 | (75,029) | (11,626,615) | (12,093,232) |
| Return of investments and deposits | 20 | ₱ 101,363,484 | ₱ 77,647,260 | ₱ - |

*(Forward)*

## Consolidated Statements of Cash Flows

For the years ended December 31, 2013, 2012 and 2011
*(Amounts in Philippine Pesos)*

| *(Carryforward)* | Note | 2013 | 2012 *(As restated)* | 2011 *(As restated)* |
|---|---|---|---|---|
| Decrease (increase) in: | | | | |
| Biological assets | 16 | ₱ (66,748,755) | ₱ (60,992,756) | ₱ (63,471,694) |
| Goodwill | 2 | - | 250,000 | - |
| Payment of subscription payable | | (29,999,921) | - | - |
| Proceeds from disposal of: | | | | |
| Property and equipment | 14 | 16,027,332 | 881,752 | 36,233,129 |
| Investment properties | 13 | - | - | 9,320,018 |
| Decrease in cash due to deconsolidation of subsidiaries | | - | (8,233,696) | - |
| Loans granted | 8 | - | (7,000,000) | - |
| Collection of notes receivable from a related party | 8 | - | 920,417 | 329,583 |
| Goodwill on the acquisition of new subsidiaries | 2 | - | - | (1,449,375) |
| Dividend received | 11 | - | - | 2,450 |
| Net cash used in investing activities | | (984,282,474) | (255,450,117) | (298,926,035) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from: | | | | |
| Long-term debt | 19 | 85,000,000 | 568,280,000 | 950,000,000 |
| Short-term debt | 19 | 50,000,000 | 70,000,000 | - |
| Sale of treasury shares | 39 | - | 493,019,611 | - |
| Issuance of share capital | 21 | - | 217,210,385 | - |
| Payments of: | | | | |
| Finance cost | 19 | (60,783,986) | (53,796,332) | (38,251,831) |
| Long-term debt | 19 | (43,248,696) | (21,325,568) | (398,602,465) |
| Cash dividends | 34 | - | - | (58,589) |
| Receipts of deposits for future stock subscriptions | | 40,000,000 | - | - |
| Increase (decrease) in: | | | | |
| Due to related parties - net | 20 | 1,199,268 | 8,185,113 | (5,817,997) |
| Non-controlling interests of subsidiaries | | - | (287,500) | 250,000 |
| Collections of stock subscription receivables | 21 | - | 2,046 | - |
| Net cash provided by financing activities | | 72,166,586 | 1,281,287,755 | 507,519,118 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | 6 | 70,232 | (12,755) | 15,500 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | (864,135,138) | 845,549,610 | 85,260,446 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 995,259,528 | 149,709,918 | 64,449,472 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 6 | ₱ 131,124,390 | ₱ 995,259,528 | ₱ 149,709,918 |

*See accompanying Notes to Consolidated Financial Statements.*

# Notes to Consolidated Financial Statements

*(Amounts in Philippine Pesos)*

## 1. Corporate Information

A Brown Company, Inc. (Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 21, 1966 as Bendaña Brown Pizarro and Associates, Inc. to primarily engage in the business of property development and to invest in shares of stocks of listed companies. On October 1, 1992, the Parent Company amended its articles of incorporation to change its registered name to EPIC Holdings Corporation, which was further amended on July 1, 1993 to its current registered name. On February 8, 1994, the Parent Company was listed in the Philippine Stock Exchange.

The Parent Company's principal purpose is to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including of shares of stock, bonds, debentures, notes, evidences of indebtedness, and other securities or obligations of any other corporation, associations, domestic or foreign, for whatever lawful purpose or purposes the same may have been organized without being a stock broker or dealer, and to pay therefor in money or by exchanging therefor stocks, bonds, or other evidences of indebtedness or securities of this or any other corporation and while the owner or holder of any such real or personal property, stocks, bonds, debentures, contracts or obligations, to receive, collect and dispose of the interest, dividends, and income arising from such property and to possess and exercise in respect thereof all the rights, powers and privileges of ownership, provided the corporation shall not exercise the functions of a trust corporation. The principal activities of the operating subsidiaries are as follows:

| Name of subsidiary | Principal Activity |
| --- | --- |
| A Brown Energy and Resources Development, Inc. (ABERDI) | Manufacturing, trading of goods on wholesale and retail basis and other services. |
| Brown Resources Corporation (BRC) | Real estate holding and management of chalet operations. |
| Andesite Corporation (AC), Bonsai Agri Corporation (BAC) and Nakeen Corporation (NC) | Development of land for palm oil production and sale of palm seedlings and crude palm oil. |
| Masinloc Consolidated Power, Inc. (MCPI) | Operating of power plants and/or purchase, generation, production supply and sale of power. However, as of March 19, 2013, the Company has not yet started commercial operations. |
| Palm Thermal Consolidated Holdings, Corp. (PTCHC) | Holding of properties of every kind and description. |
| Hydro Link Projects Corp. (HLPC) | Developing, constructing and operating hydro electrical plants. |

On June 13, 2012, the SEC approved the amendment of the Company's By Laws to amend and define the functions of its Executive Chairman and President, remove the requirement that the Company's vice presidents must be a member of the Board, and to impose certain requirements on granting of bonuses to its BOD, officers and employees.

On October 5, 2012, the Parent Company's Board of Directors (BOD) approved during their meeting the private placement of 250.0 million of its listed common shares consisting of 173.6 million treasury common shares and 76.4 million common shares owned by a shareholder. The Placement Shares, with a par value of P1 per share was sold at a price of P2.89 per share and crossed in the Exchange on October 8, 2012. The BOD likewise approved the issuance of an equal number of shares of the Parent Company at an issue price equal to the net proceeds per share in favor of the lending shareholder. The shares will be issued out of the increase in the Parent Company's authorized capital stock from P1.32 billion divided into 1.32 billion shares with a par value of P1 to P1.62 billion divided into 1.62 billion shares with par value of P1. On December 28, 2012, the SEC approved the Company's application for increase in authorized capital stock. Subsequently, the 76.4 million common shares were issued.

On June 7, 2013 the Parent Company's Board of Directors (BOD) unanimously approved the proposed 25% stock dividend declaration or equivalent to 346.6 million of the Parent Company's outstanding shares. The shares will be distributed to the stockholders record as of September 12, 2013 and shall be issued out of the increase in the Parent Company's authorized capital stock from P1.62 billion divided into 1.62 billion shares with par value of P1 to 2.0 billion divided into 2 billion shares with par value of P1. On August 16, 2013, the SEC approved the Parent Company's application for increase in authorized capital stock. Subsequently, 346.6 million shares were issued.

The Parent Company's registered office and principal place of business is at Xavier Estates, Upper Balulang, Cagayan de Oro City, Philippines (see Note 36).

The accompanying consolidated financial statements of the Parent Company and the above mentioned subsidiaries (collectively referred herein as "the Group") as of and for each of the three years ended December 31, 2013, 2012 and 2011 were authorized for issue by the Board of Directors on March 20, 2014.

## 2. Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for available for sale investments and biological assets which are measured at fair values. These consolidated financial statements are presented in Philippine Peso, which is the Group's functional and reporting currency. All values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS) and Philippine interpretations International Financial Reporting Interpretations Committee (IFRIC) issued by the Financial Reporting Standards Council.

Principles of Consolidation
The consolidated financial statements consist of the financial statements of the Parent Company and its subsidiaries as of December 31 of each year. The consolidated financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated.

Noncontrolling interests represent interests in certain subsidiaries not held by the Parent Company and are presented separately in the consolidated statements of income, consolidated statements of comprehensive income and consolidated statements of changes in equity and within equity in the consolidated statements of financial position, separately from equity attributable to the equity holders of Parent Company.

The subsidiaries and the percentage of ownership of the Parent Company are as follows:

| | | Percentage of ownership | |
|---|---|---|---|
| Name of subsidiary | Nature of business | 2013 | 2012 |
| ABERDI | Manufacturing and trading/Service/Agriculture | 100 | 100 |
| AC | Agriculture | 100 | 100 |
| BAC | Agriculture | 100 | 100 |
| NC | Agriculture | 100 | 100 |
| BRC | Real estate holding/Hotel operations | 100 | 100 |
| MCPI | Power plant operation | 49 | 49 |
| PTCHC | Holdings | 100 | 100 |
| HLPC | Power plant operation | 100 | 100 |

All of the above subsidiaries were incorporated in the Philippines.

ABERDI obtained control in the ownership of AC, BAC and NC. AC and BAC are still in their development stages. NC started its commercial operations as of March 1, 2007. Prior to 2013, NC manages the palm oil nursery and plantations operations. The separate financial statements of these companies are included in the consolidated financial statements as of December 31, 2013 and 2012.

On August 30, 2012, the SEC approved the ABERDI's and NC's Articles and Plan of Merger which was approved by their Board of Directors (BOD), in their meeting on March 6, 2012.

However, on July 31, 2012, before the SEC approved the ABERDI's Articles and Plan of Merger which was filed on July 12, 2012, the BOD and the Stockholders of Nakeen approved and ratified the subscription by ABERDI to the 750,000 unsubscribed shares of Nakeen at P1 per share with P50 million as Additional Paid in Capital. The BOD and the Stockholders of Nakeen also approved the filing with SEC the amended Articles and Plan of Merger reflecting the new capital structure of Nakeen and specifying the effectivity date of the revised merger to be the first day of the subsequent month following the SEC approval.

On February 19, 2013, the BOD of Nakeen approved the filing of the amended Articles and Plan of Merger using the 2012 audited Financial Statements. The amended articles and plan was filed to the SEC on July 24, 2013 to amend certain provision on the articles and plan of merger. As of March 20, 2014, the SEC has not yet approved the petition.

In 2007, the Parent Company invested P4.9 million in MCPI representing 49% equity holdings. However, control over the operating and financial policies of MCPI is exercised by the Parent Company through its representations in the Board. Accordingly, MCPI qualifies as a subsidiary of the Parent Company. The financial statements of MCPI as of and for each the three years ended December 31, 2013, 2012 and 2011 are included in the consolidated financial statements.

The Board of Directors in their meeting on February 6, 2009, unanimously decided to wind up the affairs of MCPI, cease any and all of its operations; and close its business. Pursuant to the same, MCPI shall do all acts legally that are necessary and required. However, on October 29, 2009, the Board of Directors resolved the revocation of its previous resolution to dissolve the MCPI and any act pursuant to the dissolution.

In 2010, the Parent Company subscribed 2,850,000 shares and 3,000,000 shares of PTCHC and PCLHC, respectively, at par value. The investment represents 95% and 100% equity holdings of PTCHC and PCLHC, respectively. PTCHC and PCLHC are newly organized companies in 2010.

On December 8, 2010, PTCHC acquired 100% of equity holdings of Palm Concepcion Power Corporation (PCPC), formerly DMCI Concepcion Power Corporation. DMCI Power Corporation, PCPC's former parent company, transferred and conveyed to PTCHC all of the rights, title and interest in and to the shares of stock of PCPC. The acquisition cost is higher than the fair value of the identifiable net assets of the acquired subsidiary. Accordingly, goodwill of P21,472,567 is recognized in the 2010 consolidated statements of financial position. In 2011, additional acquisition cost amounting to P1,199,375 was capitalized as investment in subsidiaries which resulted to additional goodwill of the same amount. In 2012, when the Group's equity interest in PCPC was reduced to 30%, the entire goodwill was derecognized.

On January 12, 2011, the Parent Company and HLPC entered to a deed of subscription, which increased HLPC's authorized share capital from 10,000 to 160,000 shares with par value of one hundred pesos (P100) per share. Out of the 150,000 increase in authorized shares of HLPC, the Parent Company subscribe an aggregate share of 37,500 common shares which represents ninety three and seventy five percent (93.75%) of the resulting total issued and subscribed share capital of 40,000 shares. Accordingly, goodwill of P250,000 is recognized in the 2011 consolidated statements of financial position. In December 2011, a deed of assignment was entered into by the Parent Company and HLPC's stockholder, assigning the remaining six and twenty five percent (6.25%) shares of HLPC to the Parent Company.

In September 2012, the Parent Company, together with its subsidiaries, PTCHC, Palm Concepcion Power Corporation (PCPC) and Panay Consolidated Land Holdings Corporation (PCLHC), has signed a Shareholders' Agreement with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource, Inc. (JNRI) to implement the Memorandum of Agreement between the parties to build power generation plant in the Province of Iloilo.

In relation to the above agreements, the Parent Company transferred all of its equity interest in PCLHC to PTCHC. Likewise, PTCHC, ACEHI and JNRI subscribed on the remaining unissued authorized share capital of PCLHC and PCPC. The subscription of ACEHI and JNRI to PCLHC and PCPC reduced the Parent Company's holdings, through PTCHC, to 30%.

In May 2013, ACEHI sold all its interest in PCPC and PCLHC to focus its investing power to its existing power projects imminent in its development pipeline. In the light of this event, PTCHC has taken the opportunity to acquire the entire stake of ACEHI bringing PTCHC's interest to 70% on both entities. Later before the end of the year, Oriental Knight Limited (OKL) bought out and subscribed to the 30.46% equity interest of PCPC from PTCHC. Additional shares were subscribed by PTCHC bringing its equity interest to 39.54%. On the other hand, PTCHC's interest in PCLHC as of December 31, 2013 remained at 70%. On December 11, 2013, the BOD and shareholders of PCLHC and PCPC approved the merger of the two entities, with PCPC as the surviving entity. PTCHC will hold sufficient interest in PCPC for it to be able to exercise significant influence. PTCHC's interest in PCLHC will still be presented under the investment in associate account as a result of the merger application (see Note 12).

## 3. Changes in Accounting policies

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following standards, amendments and Philippine Interpretations based on the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) effective beginning January 1, 2013.

- Amendments to PFRS 7, "*Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*"
  These amendments require 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 Philippine Accounting Standard (PAS) 32, "Financial Instruments: Presentation". 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 amendments require 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 consolidated balance sheet;
  c. The net amounts presented in the consolidated balance sheet;

d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   ii. 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.

The amendments affect disclosures only and have no impact on the Group's financial position or performance (see Note 31).

- PFRS 13, *"Fair Value Measurement"*
  This standard establishes a single source of guidance for fair value measurement. It 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.

  As a result of the guidance in PFRS 13, the Company reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The application of PFRS 13 did not have a material impact on the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values where determined. The fair value hierarchy is provided in Note 31 to the consolidated financial statements.

- Amendment to PAS 1, *"Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (OCI)"*
  The amendment to PAS 1 changes the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment affected the presentation of items of OCI and has no impact on the Group's financial position or performance.

- Amendments to PAS 19, *"Employee Benefits"*
  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in OCI and unvested past service costs previously recognized over the average vesting period to be recognized immediately in the consolidated statement of income when incurred.

Prior to adoption of the revised standard, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of the plan assets. Unvested past service costs are recognized as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised standard, the Group changed its accounting policy to recognize all actuarial gains and losses in OCI and all past service costs in the consolidated statement of income in the period they occur.

In addition, the Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset, which is calculated by multiplying the net defined benefit liability or asset at the beginning of the year by the discount rate used to measure the defined benefit obligation, each at the beginning of the annual period.

The revised standard also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. It also modifies the timing of recognition for termination benefits, where termination benefits are recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

The opening balance sheet of the earliest comparative period presented (January 1, 2012) and the comparative figures have been restated accordingly resulting to a retroactive adjustment of P1,108,764 as of January 1, 2012. The effects of the application on the financial statements are as follows:

| | January 1, 2013 | January 1, 2012 |
|---|---|---|
| Retained earnings as previously reported | ₱ 685,835,631 | ₱ 610,442,318 |
| Decrease in retirement benefit cost | 1,941,382 | 1,108,764 |
| Retained earnings as restated | ₱ 687,777,013 | ₱ 611,551,082 |

Reconciliation of Retirement Benefit Asset (Liability)

| | January 1, 2013 | January 1, 2012 |
|---|---|---|
| Retirement benefit asset as previously reported | ₱ 4,436,866 | ₱ 4,361,002 |
| Recognition of cumulative actuarial loss reserve | (24,206,991) | (9,990,469) |
| Decrease in retirement benefit cost | 1,941,382 | 1,108,764 |
| Retirement liability as restated | ₱ (17,828,743) | ₱ (4,520,703) |

Reconciliation of Cumulative Actuarial Loss Reserve

| | January 1, 2013 | January 1, 2012 |
|---|---|---|
| Cumulative actuarial loss reserve as previously reported | ₱ | ₱ |
| Recognition of cumulative actuarial loss reserve | (24,206,991) | (9,990,469) |
| Cumulative actuarial loss reserve as restated | ₱ (24,206,991) | ₱ (9,990,469) |

The transition did not have a significant impact on the statements of cash flows and earnings per share for the years ended December 31, 2013 and 2012.

Remeasurement loss on retirement benefits liability was closed to retained earnings at transition date. Subsequent to January 1, 2012, remeasurement loss on retirement benefits liability is separately presented in equity.

The Revised PAS 19 also requires more extensive disclosures which are presented in Note 27 to the financial statements.

- Philippine Interpretation IFRIC 20, *"Stripping Costs in the Production Phase of a Surface Mine"*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a noncurrent asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The interpretation did not have any significant impact on the Company's financial position or performance.

- *Annual Improvements to PFRS (2009 to 2011 cycle)*
  The Annual Improvements to PFRS (2009 to 2011 cycle) contain non-urgent but necessary amendments to PFRS. The Company adopted these amendments in 2013.

  - PFRS 1, *"First-time Adoption of PFRS - Borrowing Costs"*
    The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening balance sheet at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, "Borrowing Costs". The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

  - PAS 1, *"Presentation of Financial Statements - Clarification of the Requirements for Comparative Presentation"*
    The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. 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. On the other hand, supporting notes for the third balance sheet (which are mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

  - PAS 16, *"Property, Plant and Equipment - Classification of Servicing Equipment"*
    The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment did not have any impact on the Company's financial position or performance.

  - PAS 32, *"Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments"*
    The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, "Income Taxes". The amendment did not have any impact on the Company's financial position or performance.

  - PAS 34, *"Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities"*
    The amendment 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 Company's financial position or performance.

Future Changes in Accounting Policies

The standards, amendments and interpretations which have been issued but not yet effective as at December 31, 2013 are disclosed below. Except as otherwise indicated, the Company does not expect the adoption of the applicable new and amended PFRS to have a significant impact on the financial position or performance.

*Effective in 2014*

- Amendments to PFRS 10, *"Consolidated Financial Statements"*, *PFRS 11, "Joint Arrangements"* and PAS 27, *"Separate Financial Statements": Investment Entities*

  The amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss (FVPL). It is not expected that these amendments will be relevant to the Company since none of the entities in the Company will qualify as an investment entity under PFRS 10.

- Amendments to PAS 32, *"Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities"*

  The amendments clarify 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. The amendments will affect presentation only and will have no impact on the Company's financial position or performance.

- Amendments to PAS 36, *"Impairment of Assets - Recoverable Amount Disclosures for Nonfinancial Assets"*

  The amendments remove the unintended consequence of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is applied. The Company did not early adopt the amendments. These amendments will affect disclosures only and will have no impact on the Company's financial position or performance.

- PAS 39, *"Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting"*

  The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The amendments are not expected to have an impact on the Company's financial position or performance.

- Philippine Interpretation IFRIC 21, *"Levies"*

  The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Company does not expect that the interpretation will have a material financial impact on its future financial statements.

*Effective in 2015*

- Amendments to PAS 19, *"Employee Benefits - Defined Benefit Plans: Employee Contributions"*

  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments will not have any significant impact on the financial statements of the Company as its retirement plans are noncontributory.

- Annual Improvements to PFRS (2010 to 2012 cycle)

  The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

  - PFRS 2, *"Share-based Payment - Definition of Vesting Condition"*

    The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it currently has no share-based payments.

  - PFRS 3, *"Business Combinations - Accounting for Contingent Consideration in a Business Combination"*

    The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32, Contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *"Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets"*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will not have an impact on the Company's financial position or performance.

- PFRS 13, *"Fair Value Measurement - Short-term Receivables and Payables"*
  The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment is effective immediately.

- PAS 16, *"Property, Plant and Equipment: Revaluation Method - Proportionate Restatement of Accumulated Depreciation"*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment will have no impact on the Company's financial position or performance.

- PAS 24, *"Related Party Disclosures - Key Management Personnel"*
  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments will affect disclosures only and will have no impact on the Company's financial position or performance.

- PAS 38, *"Intangible Assets: Revaluation Method - Proportionate Restatement of Accumulated Amortization"*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. These amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments will have no impact on the Company's financial position or performance.

- *Annual Improvements to PFRS (2011 to 2013 cycle)*
  The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

  - PFRS 1, *"First-time Adoption of Philippine Financial Reporting Standards - Meaning of Effective PFRS"*
    The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *"Business Combinations - Scope Exceptions for Joint Arrangements"*

  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.

- PFRS 13, *"Fair Value Measurement - Portfolio Exception"*

  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment will have no impact on the Company's financial position or performance.

- PAS 40, *"Investment Property"*

  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

*New Standard with No Mandatory Effective Date*

- PFRS 9, *"Financial Instruments: Classification and Measurement"*

  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace 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 OCI or profit or loss. Equity financial assets held for trading must be measured at FVPL. For liabilities designated as at FVPL using the FVO, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI 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 to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will 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.

  On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for nonfinancial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

*Deferred*

- Philippine Interpretation IFRIC 15, *"Agreements for the Construction of Real Estate"*

  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council (FRSC) have deferred the affectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

4. **Summary of Significant Accounting and Financial Reporting Policies**

Revenue Recognition
Revenue is recognized to the extent that is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

- *Sale of real estate*
  Sale of real estate is recognized in full provided the profit is determinable, and the earning process is virtually complete. Specifically, revenue recognition is applied to sale if construction development is almost complete, sufficient cumulative downpayment has been received, and that collectibility of sales price is reasonably assured.

  The percentage of completion method is used to recognize revenue from sales of projects where the Group has material obligations to complete the project after the property is sold. 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.

  Pending recognition of sale when conditions for recording a sale are not met, cash received from buyers are presented under "Deposit from customers" in the liability section of the consolidated statements of financial position. Any excess of collections over the recognized receivables are also included in the said account.

- *Sale of crude palm oil.* Revenue is recognized upon delivery or shipment of goods to customers.

- *Sale of aggregates, seedlings and fresh fruit bunch.* Revenue is recognized when goods are delivered to the buyer.

- *Water service income.* Revenue is recognized when services are rendered and normally when billed.

- *Hotel operations.* Revenue is recognized when the services are rendered and when goods are delivered to the buyer.

- *Interest income.* Interest income is recognized as the interest accrues, taking into account the effective yield on the asset. Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rate applicable.

- *Rental income.* Rental income on leased properties arising from operating leases or investment properties is accounted for on a straight line basis over the lease term.

- *Dividend income.* Dividend income is recognized when the shareholders' right to receive payment is established.

- *Other income.* Revenue is recognized as other income accrues.

- *Realized gains and losses.* Realized gains and losses are recognized when the sale transaction occurs.

Cost and Expense Recognition
Contract costs include all direct materials and labor costs and those indirect costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Expenses are recognized in the consolidated statements of income upon utilization of the assets or services or at the date they are incurred.

Preoperating Expenses
Preoperating expenses are expensed as incurred.

Cash and cash equivalents
Cash is stated at face value and 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 original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Assets and Liabilities

*Date of recognition*
The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

*Initial recognition*
Financial assets and financial liabilities are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by preference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction costs.

*Determination of fair value*
Fair value is determined by preference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value model where the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for a similar instruments with similar maturities. Other valuation techniques include comparing to similar instruments for which market observable prices exist; recent arm's length market transaction; option pricing model and other relevant valuation models.

*Financial Assets*
The Group determines the classification at initial recognition and, where allowance is appropriate, re evaluates this designation every reporting date. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Subsequent to initial recognition, the Group classifies its financial assets in the following categories:

- *Financial asset at fair value through profit or loss (FVPL)*
  A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management as at FVPL. Derivatives are also categorized as held at fair value through profit or loss, except those derivatives designated as effective hedging instruments. Assets classified in this category are carried at fair value in the consolidated statements of financial position. Changes in the fair value of such assets are accounted for in consolidated statements of income. Financial instruments held at fair value through profit or loss are classified as current if they are expected to be realized within 12 months from the end of financial reporting period.

  As of December 31, 2013 and 2012, the Group has no financial asset at FVPL.

- *Loans and receivables*
  Loans and receivables are non derivative financial assets with fixed or determinable payments and are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables.

  Such assets are carried initially at cost and at amortized cost subsequent to initial recognition in the consolidated statements of financial position. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within 12 months from the end of financial reporting period. Otherwise, these are classified as non current assets.

  The Group's cash and cash equivalents, accounts receivable, notes receivable, due from related parties and refundable deposits under prepayments and other current assets account, are included in this category (see Notes 6, 7, 8, 10, 20 and 31).

- *Held to maturity investments*
  Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. Held to maturity investments are carried at cost or amortized cost in the consolidated statements of financial position. Amortization is determined by using the effective interest method. Assets under this category are classified as current assets if maturity is within 12 months from the end of financial reporting period and as non current assets if maturity is more than a year from the end of financial reporting period.

  As of December 31, 2013 and 2012, the Group has no held to maturity investments.

- *Available for sale financial assets*
  Available for sale financial assets are those non derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial recognition, available for sale financial assets are measured at fair value with gains or losses being recognized as separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statements of income.

  The fair value of investments that are actively traded in organized financial market is determined by reference to quoted market bid prices at the close of business on the end of financial reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include reference to recent arm's length market transaction, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and option pricing models.

  The Group's investment in shares of stocks in golf, sports and country clubs, listed and non listed companies are included in this category (see Note 11).

*Financial Liabilities*

- *Financial liability at FVPL*
  Financial liabilities are classified in this category if these result from trading activities or derivatives transaction that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

  As of December 31, 2013 and 2012, the Group has no financial liabilities at FVPL.

- *Other financial liabilities*
  This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations (e.g. payables excluding statutory regulated payables, accruals) or borrowing (e.g., long term debt).

  The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

  The Group's short term and long term debt, accounts payable and accrued expenses, deposit from customers, due to related parties, dividends payable and subscription payable are included in this category (see Notes 18 19, 20 and 31).

*Impairment of Financial Assets*
The Group assesses at each end of financial reporting period whether a financial asset or group of financial assets is impaired.

- *Assets carried at amortized cost.* If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the 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 either directly or through use of an allowance account. The amount of the loss shall be recognized in the Group's consolidated statements of income.

  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 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 a group of financial assets with similar credit risk characteristics and that group of financial asset 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 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 statements of income to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- *Assets carried at cost.* If there is objective evidence that an impairment loss has been incurred in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

- *Available for Sale Financial Assets.* If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from consolidated equity to the consolidated statement of income. Reversals in respect of equity instruments classified as available for sale financial assets are not recognized in the consolidated statement of income. For available for sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available for sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of income, is removed from consolidated equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in consolidated equity.

*Derecognition of Financial Assets and Liabilities*

*Financial Assets*
A financial asset is derecognized when (1) the rights to receive cash flows from the financial instruments expire, (2) 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 (3) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows of an asset or has entered into a pass through arrangement and has neither transferred nor retained substantially all the risks and rewards of an asset nor transferred control of the assets, 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.

*Financial Liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where the 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 consolidated statements of income.

*Classification of Financial Instrument between Debt and Equity*
Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as expenses.

A financial instrument is classified as debt if it provides for a contractual obligation to:
(a) deliver cash or another financial asset to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by exchange of a fixed amount of cash or other financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

*Offsetting Financial Instruments*
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements 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 statements of financial position.

Real Estate Held for Sale and Land and Improvements
Real estate held for sale, and land and improvements consisting of properties held for future development are valued at the lower of cost and net realizable value (NRV). Cost includes the acquisition cost of the land plus all costs incurred directly attributable to the development and improvement of the properties. NRV is the estimated selling price in the ordinary course of business, less estimated cost of completion and estimated costs necessary to make the sale.

Inventories
Finished goods are valued at the lower of cost and net realizable value.

Costs incurred in bringing inventory to its present conditions are accounted for as follows:

- Finished goods and goods in process – cost includes direct materials and labor and proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs. Cost is determined by the moving average method.
- Materials and supplies – at cost using the first in first out method.

Prepayments and Other Current Assets
Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises the following:

- Input Tax. Input tax is recognized when an entity in the Group purchases goods or services from a Value Added Tax (VAT) registered supplier. This account is offset, on a per entity basis, against any output tax previously recognized.
- Prepaid Commission and Other Expenses. Prepaid commission and other expenses are apportioned over the period covered by the payment and charged to the appropriate account in the consolidated statements of income when incurred.

- Creditable Withholding Tax. Creditable withholding tax is recognized for income taxes withheld by customers. The balance as of end of each reporting period represents the unutilized amount after deducting any income tax payable.

Prepayments and other assets that are expected to be realized for no more than 12 months after the reporting period are classified as current asset. Otherwise, these are classified as other noncurrent asset.

Investment in an Associate
Investment in shares of stock where the Group holds 20% or more ownership, or where it has the ability to significantly influence the investee company's operating activities is accounted for under the equity method. Under the equity method, the cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the investee company since the date of acquisition.

Any excess of the cost of acquisition over the Group's share in the fair value of the identifiable net assets of the associate at date of acquisition is recognized as goodwill. Any excess of the fair value of the identifiable assets, liabilities and contingent liabilities and assets of the investee company over cost is included in the determination of the Group's share of the profit or loss in the period in which the investment is acquired.

Under the equity method, investment in shares of stock is carried at cost adjusted by
post acquisition changes in the Group's share of the net assets of the investee. The Group's share in the investee's post acquisition profits or losses is recognized in the statements of income, and its share of post acquisition movements in reserves is recognized in reserves, if any. The cumulative post acquisition movements are adjusted against the carrying amount of investment. The carrying value is also decreased for any cash or property dividends received.

Investment Properties

Investment properties consist of properties held to earn rental income, for capital appreciation or both. These are initially recorded at cost, including transaction cost. The carrying amount includes the cost of replacing part of an existing property at the time the cost are incurred if the recognition criteria are met, and excludes the costs of day to day servicing of investment properties. Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and any impairment in value.

Depreciation and amortization are computed on a straight line method over estimated useful lives ranging from 2 to 20 years. The useful lives and depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from the use of the properties for lease.

Investment properties are derecognized when these are disposed of or when the investment property is permanently withdrawn from use and there is no future economic benefit expected to arise from the continued use of the properties. Any gain or loss on the retirement or disposal of said properties are recognized in the consolidated statements of income in the year of retirement or disposal.

Property and Equipment

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

The initial cost of property and equipment comprises its purchase price or construction cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenses incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed using the straight line method over the following estimated useful lives, except for leasehold improvements, which are amortized over their estimated lives or term of the lease, whichever is shorter and crushing equipment, which is depreciated using units of production method based on estimated recoverable reserves:

| Category | Estimated useful life |
|---|---|
| Land improvements | 1 to 10 years |
| Building and improvements | 10 to 20 years |
| Leasehold improvements | 2 to 5 years |
| Machinery and equipment | 2 to 10 years |
| Furniture, fixtures and equipment | 2 to 9 years |
| Transportation equipment | 2 to 5 years |
| Tools and other equipment | 2 to 5 years |
| Other assets | 3 to 5 years |

The useful life and depreciation and amortization methods are reviewed periodically to ensure the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the asset is derecognized.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time the relevant assets are completed and ready for operational use.

Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is recognized at fair value at acquisition date. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are not capitalized and expenditure is reflected in the consolidated statements of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. The intangible asset recognized and determined by the Group has finite useful lives and represents leasehold rights.

Intangible assets with finite lives are amortized over the straight line method over their useful economic lives of three (3) to twenty (20) years and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method for an intangible asset with a finite useful life is reviewed at least annually. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is capitalized as part of the "Biological assets" account in the in the consolidated statements of financial position consistent with the function of the intangible asset.

Biological Assets and Agricultural Produce
The Group's biological assets include growing palm oil seedlings, which are grouped according to their physical state, transformation capacity and location/areas.

These are carried at accumulated cost net of impairment losses. The cost and expenses incurred up to the start of the productive stages are accumulated and amortized over the estimated produce of the palm trees. The Group uses the cost method of valuation since fair value cannot be measured reliably. The Group's biological assets have no active market and no active market for similar assets is available in the Philippine industry.

The carrying values of the biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The Group's agricultural produce consists of those harvested from the biological assets and is measured at fair value less point of sale costs at the point of harvest. The fair value is based on the quoted price in the market at any given time.

Goodwill
Goodwill arising from the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if changes in circumstances indicate that the carrying value may be impaired. An impairment loss is recognized for goodwill is not reversed in a subsequent period. Negative goodwill, which is the excess of net fair value of subsidiaries' identifiable assets, liabilities and contingent liabilities over the cost of the business combination, is immediately recognized as income.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Impairment of Non financial Assets
The carrying values of assets such as investment properties, property and equipment, leasehold rights and biological assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less cost to sell. 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 assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is charged to operations in the period in which it arises unless the asset is carried at a revalued amount in which case the impairment is charged to the revaluation increment of the said asset.

An assessment is made at each end of financial reporting period to determine whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's 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 recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Employee benefits
*Short term benefits*
Short term employee benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the accounting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments. Short term benefits given by the Group to its employees include salaries and wage, social security contributions, short term compensated absences, bonuses and non monetary benefits.

*Retirement benefits*
Retirement benefit cost is actuarially determined using projected unit credit method. Actuarial gains or losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of the plan assets at that date. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to a retirement plan, past service cost is recognized immediately.

The defined benefit obligation is the aggregate of the present value of the defined benefit contribution and actuarial gains and losses not recognized, reduced by past service costs not yet recognized, and the fair value of plan assets, out of which the obligation are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that these exceed any reduction in the present value of those economic benefits. If there is no change or increase in the present value of the economic benefits, the entire net actuarial losses or the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

The Group has defined benefit pension plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined by using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Operating Lease
*Group as a lessee*
Leases of assets under which the lessor effectively retains all the risks and reward of ownership are classified as operating lease. Operating lease payments are recognized as expense in the consolidated statements of income on a straight line basis over the lease term. Associated costs such as repairs and maintenance and business taxes are expensed when incurred.

*Group as a lessor*
Leases where the Group does not transfer substantially all the risks and benefits of the ownership of the assets are classified as operating leases. Operating lease receipts are recognized in the consolidated statements of income on a straight line basis over the lease term.

Borrowing Cost
Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset while the asset, which includes intangibles and property and equipment, is being constructed are capitalized as part of the cost of that asset. Capitalization of borrowing cost should commence when: (i) expenditures for the asset and borrowing costs are being incurred; and (ii) activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalization is suspended. When construction occurs piecemeal and use of each part is possible as construction continues, capitalization of each part ceases upon substantial completion of that part. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowing is used.

All other borrowing costs are expensed as incurred.

Foreign Currency Transactions
The consolidated financial statements are presented in Philippine Pesos, which is the Group's functional and presentation currency. Items included in the consolidated financial statements of each entity are measured using the functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange as of the financial reporting date. Gains or losses arising from these transactions and translations are recognized in the consolidated statements of income. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Income Tax

Income taxes represent the sum of the tax currently due and deferred tax.

The tax currently due is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statements of income because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current income tax is calculated using tax rates that have been enacted or substantively enacted at the end of financial reporting period.

Deferred tax is provided, using the liability method. Deferred tax assets and liabilities are recognized for future tax consequence attributable to differences between the financial reporting bases of assets and liabilities and their related tax bases. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess minimum corporate income tax (MCIT) and carryforward benefit of unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets and liabilities are measured using the tax rate that is expected to apply to the period when the asset is realized or the liability is settled.

The carrying amount of deferred tax assets is reviewed at each end of financial reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of 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 assessment 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 passage of time is recognized as a financial expense.

Contingencies

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. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable.

Equity

Share capital is determined using the nominal value of shares that have been issued.

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

Net unrealized gain on available for sale investments accounts for the excess of the fair market value over the carrying amounts of these investments. When fluctuation is deemed permanent, the gain or loss resulting from such fluctuation will be reversed and charged to consolidated statements of income in the year that the permanent fluctuation is determined.

Treasury shares are stated at the cost of re acquiring such shares.

Retained earnings include all current and prior period results as disclosed in the consolidated statements of income.

Non controlling Interests

Non controlling interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Group. If losses applicable to the minority interest in a subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

Earnings per share (EPS)

Basic earnings per share is determined by dividing net income for the year by weighted average number of common shares outstanding during the year (after retroactive adjustment for any stock dividends declared in the current year).

Diluted EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares.

In determining both the basic and diluted earnings per share, the effect of stock dividends, if any, is accounted for retroactively.

Segment reporting

For management purposes, the Group is organized into six (6) major operating businesses which comprise the bases on which the Group reports its primary segment information. Financial information on business segments is presented in Note 35. The Group has no geographical segments as all of the companies primarily operate only in the Philippines.

Segment revenue, expenses and performance include transfers between business segments. The transfers are accounted for at competitive market prices charged to unaffiliated customers for similar products and services. The measurement policies the Group used for segment reporting are the same as those used in the consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine profit and loss. No asymmetrical allocations have been applied between segments.

Inter segment assets, liabilities, revenue, expenses and results are eliminated in the consolidated financial statements.

Events After End of Financial Reporting Period

Post year end events that provide additional information about the Group's position at the end of financial reporting period, if any, are reflected in the consolidated financial statements. However, post year end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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

The preparation of the Group's consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of date of the consolidated financial statements. Actual results could differ from such estimates. The following is a summary of these significant estimates and judgments and the related impact and associated risks on the consolidated financial statements.

*Judgments*

- *Determination of Control.*
  The Parent Company determines control when it is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the equity. The Parent Company controls an entity if and only if the Parent Company has all of the following:

  - Power over the entity;
  - Exposure, or rights, to variable returns from its involvement with the entity; and,
  - The ability to use its power over the entity to affect the amount of the Parent Company's returns.

  The Parent Company regularly reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

- *Real Estate Revenue and Cost Recognition*
  In determining whether economic benefits will flow to the Group and the revenue can be reliably measured, the Group assesses certain judgments based on buyers' commitment on sale which may be ascertained through the significance of the buyer's initial down payment, and stage of completion of the project development. Total costs of property development are based on cost estimates made by the Group's technical personnel made in concurrence with management. These estimated costs are reviewed at least annually and are updated if expectations differ from previous estimates. Changes are mainly due to adjustments in development plan, materials and labor prices.

  Also, the Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate sales are recognized based on the percentage of completion and the completion rate is measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of projects. Revenue and costs from sale of real estate are shown in Notes 22 and 25, respectively.

- *Classification of Financial Instruments*
  The Group classifies a financial instrument, or its component parts, on initial recognition financial liability or an equity instrument in accordance with the substance of the contractual definitions of a financial asset, a financial liability or an equity instrument. The substance rather than its legal form, governs its classification in the consolidated statements of financial position.

- *Classification of Leases*
  The Group has entered into various lease agreements as either a lessor or a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Currently, all of the Group's lease agreements are determined to be operating leases.

  Rental expense and income for 2013, 2012 and 2011 are shown in Notes 26 and 28, respectively.

- *Classification of Leases*
  The Group has entered into various lease agreements as either a lessor or a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Currently, all of the Group's lease agreements are determined to be operating leases.

  Rental expense and income for 2013, 2012 and 2011 are shown in Notes 26 and 28, respectively.

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

  Some properties are held to earn rentals or for capital appreciation and other properties are held for use in rendering of services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing 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 in making its judgment.

- *Determination of Fair Value of Financial Instruments*
  The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect income and loss and equity.

  The summary of the carrying values and fair values of the Group's financial instruments as of December 31, 2013 and 2012 is shown in Note 31.

Estimates

- *Estimation of Allowances for Doubtful Accounts*
  Recoverability of specific receivables including amounts due from related parties is evaluated based on the best available facts and circumstances, the length of the Group's relationship with its debtors, the debtors' payment behavior and known market factors. These specific reserves are reevaluated and adjusted as additional information received affects the amount estimated to be uncollectible.

  The Group's allowance for doubtful accounts amounted to P0.6 million as of December 31, 2013 and 2012 (see Note 7). The carrying values of accounts receivables, notes receivable and amounts due from related parties as of December 31, 2013 and 2012 are shown in Notes 7, 8 and 20, respectively.

- *Estimation of Impairment of Financial Assets*
  The computation for the impairment of available for sale financial assets and refundable deposits requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of available for sale equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group's investments.

  No impairment losses on financial assets were recognized in 2013, 2012 and 2011.

- *Estimation of Useful Lives of Certain Assets*
  The Group estimates the useful lives of investment properties, property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of these assets is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by any changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of investment properties, property and equipment and intangible assets would increase recorded operating expenses and decrease noncurrent assets. There were no significant changes on the estimated useful lives of the above mentioned assets.

  The carrying value of the Group's investment properties, depreciable property and equipment, and leasehold rights amounted to P296.0 million, P396.9 million and P36.9 million, respectively as of December 31, 2013, and P304.6 million, P317.0 million and P38.1 million, respectively as of December 31, 2012 (see Notes 13, 14 and 17).

  As of December 31, 2013 and 2012, the Group's property and equipment have no residual values.

- *Determination of Net Realizable Value of Inventories*
  The Parent Company uses the fair value to determine how much it could gain by selling its real estate held for sale inventories, agricultural produce and other inventories. The net realizable value is calculated in an effort to prevent the Parent Company from under or overestimating the value of its real estate held for sale inventories, agricultural produce and other inventories.

- *Impairment of Non financial Assets*
  The Group reviews inventories, land and improvements, investment properties, property and equipment, biological assets, leasehold rights and other assets for impairment of 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, plans in the real estate projects, 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 net selling price 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 may affect land and improvements, investment properties, property and equipment, biological assets and other assets.

  The Group's allowance for impairment loss pertaining to an investment property amounted to P15.3 million and P13.8 million as of December 31, 2013 and 2012, respectively (see Note 13). Provision for impairment loss recognized in the consolidated statements of income amounted to P1.5 million in 2013, 2012 and 2011.

  The carrying amounts of investment properties, property and equipment, biological assets and leasehold rights are disclosed in Notes 13, 14, 16 and 17, respectively.

- *Estimation of Pension and Other Retirement Benefits*
  The determination of the Group's obligation and cost for pension and other retirement benefits is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts.

  The assumptions for pension costs and other retirement benefits are described in Note 27, and include among others, expected returns on plan assets and rates of compensation increase. In accordance with PFRS, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Group's pension and other retirement obligations.

  Retirement benefit costs amounted to P3.0 million in 2013, P2.3 million in 2012 and P2.7 million in 2011. Retirement liability amounted to P18.8 million and P17.8 million as of December 31, 2013 and 2012, respectively (see Note 27).

- *Estimation of Deferred Income Tax Assets and Deferred Tax Liabilities*
  Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

  The Group's deferred income tax assets amounted to P55.8 million and P40.4 million as of December 31, 2013 and 2012, respectively (see Note 29). The Group's deferred tax liabilities amounted to P85.0 million and P78.3 million as of December 31, 2013 and 2012, respectively (see Note 29).

- *Estimation of Provisions for Contingencies*
  The Group is a party to certain lawsuits involving recoveries of sum of money arising from the ordinary course of business.

  The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. These are recognized in the books only when the claims are finally settled or when judgment is rendered.

  There is no provision for probable losses recognized in the consolidated financial statements in 2013, 2012 and 2011.

- *Estimation of Fair Value of Biological Assets and Agricultural Produce*
  The total estimated production of the Company's biological assets is based on the expected crop yield over its expected lifespan which patterned on the scientific studies conducted on neighboring countries wherein similar biological assets are also grown. Unit of harvest method is used in determining the periodic amortization over the estimated yield of the crops over its life span.

  As of December 31, 2013 and 2012, the Group's biological assets have a carrying value of P301.7 million and P237.2 million, respectively (see Note 16).

## 6. Cash and Cash Equivalents

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Cash on hand | ₱ 889,386 | ₱ 1,474,292 |
| Cash in banks | 91,676,995 | 195,043,638 |
| Cash equivalents | 38,558,009 | 798,741,598 |
| | ₱ 131,124,390 | ₱ 995,259,528 |

Cash in banks pertain to savings and current account that generally earn interest rates based on prevailing respective bank deposit rates of approximately1.1% to 2.4%per annum in 2013 and 0.25% to 0.65% per annum in 2012.

The Group's cash in banks include dollar denominated accounts with Peso equivalent amounting to P726,671 and P812,383 as of December 31, 2013 and 2012, respectively. The Group's foreign currency denominated cash account is translated to Peso equivalents using an exchange rate of P41.414/$1.00 and P41.192/$1.00 as of December 31, 2013 and 2012, respectively.

Cash equivalents include short term money market placements placed by the Group in a local bank. These have a maturity of less than 90 days with an interest of 3.5% to 4% per annum.

Financial income recognized in the consolidated Statements of income on cash in banks and cash equivalents amounted to P8.1 million in 2013, P11.4 million in 2012 and P8.2 million in 2011 (see Note 23).

## 7. Accounts Receivable

| | 2013 | 2012 |
|---|---|---|
| Contract receivables on sale of real estate | ₱ 385,894,180 | ₱ 453,835,184 |
| Trade receivables | 23,288,189 | 37,722,302 |
| Advances to officers and employees | 1,100,850 | 5,348,325 |
| Accrued interest receivable (Note 8) | | 111,941 |
| Others | 107,289,239 | 80,931,847 |
| Total receivables | 517,572,458 | 577,949,599 |
| Allowance for doubtful accounts | (595,117) | (596,609) |
| | 516,977,341 | 577,352,990 |
| Noncurrent portion of contract receivables on sale of real estates | (205,093,873) | (302,916,253) |
| | ₱ 311,883,468 | ₱ 274,436,737 |

Contract receivables on sale of real estate represent amounts due and collectible in monthly installment over a period of 5 to 15 years, and bear interest ranging from less than 10% to 18% in 2013 and less than 6% to 18% in 2012 . The transfer certificates of title remain in the possession of the Group until full payment has been made by the customers.

Interest income on contract receivables on sale of real estate amounted to P23.0 million in 2013, P21.8 million in 2012 and P20.1 million in 2011.

No contract receivables on sale of real estate is collateralized as of December 31, 2013 and 2012.

Accrued interest receivable includes interest from contract receivables, notes receivable and loans receivable.

Other receivables are interest free. These include receivables from various companies for the sale of available for sale investments in 2008.

Other receivables amounting to P0.6 million as of December 31, 2013 and 2012 were impaired and fully provided for (see Note 32).

There was no additional provision for doubtful accounts in 2013. Allowance for doubtful accounts amounting to P1,492 was recovered in 2013.

## 8. Notes Receivable

On March 5, 2010, the Group made a loan to Xavier Estates Sports and Country Club, Inc. (XSCCI), an affiliate, amounting to P1.5 million. The loan bears a 10% interest per annum collectible within one (1) year for twelve monthly equal installments commencing on March 26, 2010 and every 26th of the following month thereafter.

The Group granted another loan to XSCCI on July 30, 2010 amounting to P1.0 million and bears an interest of 10% per annum and collectible within one (1) year for twelve monthly equal installments. The loan was extended for one year until July 30, 2012 and was fully paid on the same year.

Total collections made from loans to XSCCI amounted to P920,417 and P329,583 in 2012 and 2011, respectively.

In January 2013, the Parent Company granted a loan to XSCCI amounting to P1.0 million and bearing the same interest rate of 10% per annum and collectible within one (1) year for twelve monthly equal installments. The loan was fully paid in December 2013.

Subsequent to this, the Parent Company extended two other loans to XSCCI amounting to P394,674 and P200,000 last February 2013 and July 2013 respectively. All of these were fully paid in December 2013.

Interest income on the notes receivable amounted to P73,994 and P15,050 in 2013 and 2012 respectively.

On February 2, 2012, the Group granted a noninterest bearing loan to a third party debtor amounting to P7 million payable on or before December 31, 2014. The debtor has the option to prepay in partial or full after the first year of the loan without a pre termination penalty.

The loan was discounted at the prevailing interest rate applicable to the Group. The carrying value of this loan is presented below:

| | 2013 | 2012 |
|---|---|---|
| Principal | ₱ 7,000,000 | ₱ 7,000,000 |
| Discount on loans receivable: | | |
| Balance at beginning of year/date of loan | 715,084 | 1,017,949 |
| Amortization of discount on loads during the year | 347,912 | 302,865 |
| Balance at end of year | 367,172 | 715,084 |
| | ₱ 6,632,828 | ₱ 6,284,916 |

## 9. Real Estate Held for Sale

Real estate held for sale represents land, development costs and construction materials issued to the Group's various projects in Cagayan de Oro City, Initao, Valencia City, Bukidnon and Butuan detailed as follows:

| | 2013 | 2012 |
|---|---|---|
| Land | ₱ 317,366,818 | ₱ 306,843,672 |
| Development cost | 336,381,274 | 475,803,095 |
| Construction materials | 122,654,919 | 81,122,018 |
| | ₱ 776,403,011 | ₱ 863,768,785 |

Real estate held for sale with carrying value of P497.9 million and P677.6 million as of December 31, 2013 and 2012, respectively, are collateralized to the loans obtained from UCPB, BPI, BPIF, CBC and UBP (see Note 19).

In 2013, the Group reclassified land and improvements amounting to P10.5 million in to real estate held for sale.

The Group reclassified land cost of P107.1 million in 2012 into real estate held for sale previously accounted for as land and improvements and investment properties (see Notes 13 and 15).

The Group also reclassified real estate held for sale with a total cost of P173.3 million in 2013 and P23.1 million in 2012 into land and improvements (see Note 15).

## 10. Prepayments and Other Current Assets

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Deposit for land acquisition | ₱ 101,028,906 | ₱ 76,400,419 |
| Creditable withholding taxes | 57,067,754 | 42,999,352 |
| Prepaid expenses | 48,019,647 | 30,527,195 |
| Refundable deposits | 26,719,819 | 55,373,170 |
| Inventories | 12,195,541 | 13,135,869 |
| Value added input taxes | 9,542,946 | 7,647,253 |
| Others | 917,445 | 562,614 |
| | ₱ 255,492,058 | ₱ 226,645,872 |

In 2011, the Group entered into several contracts to sell with several sellers of land. Installments made by the Group to the sellers were presented as deposits for land acquisition as the Transfer Certificates of Title were not yet transferred to the name of the Group.

Also in 2012 and 2011, the Group paid for refundable deposits totaling to P45.7 million which pertains to payments made by the Group in connection with its engagement to a third party to look for suitable parties for the Group to enter into a joint venture agreement for acceptable plant facilities. Such payments will be used to answer for the out of pocket expenses incurred in relation to and during the engagement. The entire balance was refunded in 2013 when the third party failed to find a suitable party for the Group to enter into a joint venture agreement.

## 11. Available for Sale Investments

The rollforward analysis of the net carrying value of this account is shown below:

| | 2013 | | | |
|---|---|---|---|---|
| | Golf, Sports and Country Clubs | Non listed Companies | Listed Companies | Total |
| Carrying value: | | | | |
| Balance at beginning of year | ₱ 279,780,001 | ₱ 296,094,152 | ₱ 131,128,359 | ₱ 707,002,512 |
| Additions | 789,600 | | | 789,600 |
| Reclassification | | 208,970,096 | | 208,970,096 |
| Unrealized loss | | | (2,501,391) | (2,501,391) |
| Balance at end of year | ₱ 280,569,601 | ₱ 505,064,248 | ₱ 128,626,968 | ₱ 914,260,817 |

| | 2012 | | | |
|---|---|---|---|---|
| | Golf, Sports and Country Club | Non listed Companies | Listed Companies | Total |
| Carrying value: | | | | |
| Balance at beginning of year | ₱ 279,780,001 | ₱ 296,094,152 | ₱ 151,315,523 | ₱ 727,189,676 |
| Unrealized loss | | | (20,187,164) | (20,187,164) |
| Balance at end of year | ₱ 279,780,001 | ₱ 296,094,152 | ₱ 131,128,359 | ₱ 707,002,512 |

On November 29, 2011, the Group acquired investment in shares of stock of Phigold Limited (Phigold), with 22.87% ownership wherein it exercises significant influence over its operations. The acquisition cost equals the fair value of the net assets acquired.

In 2013, the Group reclassified its investment in shares of stock of Phigold Limited amounting to P209.0 previously recognized as investment in associate into available for sale investment.

Available for sale (AFS) investments are stated at fair value. The changes in the fair value are recognized directly in equity, through the consolidated Statements of comprehensive income and consolidated statements of changes in equity.

The fair values of AFS investments in listed companies have been determined directly by reference to published prices in active market. Fair values of unquoted equity instruments are determined at the present value of estimated future cash flows. Fair values of golf, sports and country club shares are based on prevailing market prices.

The related subscriptions payable on the above investment in listed companies amounted to P84.6 million and P114.6 million as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the Group had investments in MOREI of P295.1 million, representing 11.70% equity holdings. The Group has no power to govern the financial and operating policies of MOREI.

## 12. Investment in Associates

Workforward analysis of this account follows:

| | 2013 | 2012 |
|---|---|---|
| Carrying value at beginning of year | ₱ 233,597,520 | ₱ 213,791,918 |
| Reclassification to AFS investments | (208,970,096) | |
| Acquisition cost | 169,901,668 | 1,100,000 |
| Reclassification from deposit for future stocks subscription | 40,000,000 | |
| Equity in net for the year | (11,846,345) | (9,348,773) |
| Increase due to a deconsolidated subsidiaries | | 28,054,375 |
| Carrying value at end of year | ₱ 222,682,747 | ₱ 233,597,520 |

On November 29, 2011 the group acquired investment in shares of stocks of Phigold Limited (Phigold). In 2013, the group reclassified this investment into available for sale investment (see Note 11).

As discussed in Note 2, the Parent Company, together with its subsidiaries, PTCHC, Palm Concepcion Power Corporation (PCPC) and Panay Consolidated Land Holdings Corporation (PCLHC), has signed a Shareholders' Agreement with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource, Inc. (JNRI) to implement the Memorandum of Agreement between the parties to build power generation plant in the Province of Iloilo. PTCHC reacquired the interest of ACEHI in PCPC and PCLHC in 2013 bringing its interest to 70%. OKL subscribed to the 30.46% equity interest of PCPC from the PTCHC.

In February 2013, the Parent Company subscribed to 25% of 160,000,000 authorized shares of Peakpower Energy, Inc. (PEI) with 1 par value per share for P40.0 million. In October 2013, a shareholders' agreement was signed together with new investors to the joint venture whereby the Parent Company will hold 20% of the total outstanding shares.

Summarized below is the aggregated financial information of PEI, PCLHC and PCPC in 2013:

| | |
|---|---|
| Total assets | |
| Current assets | ₱ 915,996,226 |
| Noncurrent assets | 1,737,474,462 |
| | 2,653,470,688 |
| Total liabilities | |
| Current liabilities | 19,986,944 |
| Equity | 2,633,483,744 |
| Gross revenue for the year | 28,654,310 |
| Net loss for the year | ₱ (38,663,831) |

Summarized financial information of Phigold in 2012 follows:

| | |
|---|---|
| Total assets | |
| Current assets | $ 6,800,277 |
| Total liabilities | |
| Current liabilities | 956,216 |
| Non current liabilities | 851,247 |
| | 1,807,463 |
| Equity | 4,992,814 |
| Gross revenue in 2012 | 394,655 |
| Net loss in 2012 | (499,335) |

## 13. Investment Properties

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Properties held for capital appreciation net | ₱ 231,688,077 | ₱ 233,014,355 |
| Properties held under lease | 64,263,265 | 71,566,738 |
| | ₱ 295,951,342 | ₱ 304,581,093 |

Investment properties are stated at cost less any impairment. Investment properties have a fair market value of about P636.8 million as of December 31, 2013 and 2012 as determined by an independent firm of appraisers. The excess of the fair market value over the carrying amount of the asset is not recognized in the consolidated financial statements.

The rollforward analysis of properties held for capital appreciation as of and for the years ended December 31, 2013 and 2012 follows:

| | 2013 | | |
|---|---|---|---|
| | Land and improvements | Building | Total |
| Cost: | | | |
| Balance at beginning of year | ₱ 216,238,950 | ₱ 30,532,806 | ₱ 246,771,756 |
| Additions | 202,322 | | 202,322 |
| Balance at end of year | 216,441,272 | 30,532,806 | 246,974,078 |
| Allowance for impairment loss: | | | |
| Balance at beginning of year | | 13,757,401 | 13,757,401 |
| Additions | | 1,528,600 | 1,528,600 |
| Balance at end of year | | 15,286,001 | 15,286,001 |
| Net book value | ₱ 216,441,272 | ₱ 15,246,805 | ₱ 231,688,077 |

| | 2012 | | |
|---|---|---|---|
| | Land and improvements | Building | Total |
| Cost: | | | |
| Balance at beginning of year | ₱ 413,606,258 | ₱ 30,532,806 | ₱ 444,139,064 |
| Additions | 619,726 | | 619,726 |
| Reclassifications | (136,106,054) | | (136,106,054) |
| Adjustment (Note 3) | (61,880,980) | | (61,880,980) |
| Balance at end of year | 216,238,950 | 30,532,806 | 246,771,756 |
| Allowance for impairment loss: | | | |
| Balance at beginning of year | | 12,228,801 | 12,228,801 |
| Additions | | 1,528,600 | 1,528,600 |
| Balance at end of year | | 13,757,401 | 13,757,401 |
| Net book value | ₱ 216,238,950 | ₱ 16,775,405 | ₱ 233,014,355 |

Land and improvements amounting to P61.9 million from a former subsidiary was deconsolidated in 2012.

In 2012, the Group reclassified investment properties amounting to P109.0 million, P26.8 million and P0.3 million into land and improvements, real estate held for sale and property and equipment, respectively (see Notes 9, 14 and 15)

The provision for impairment loss of P1.5 million in 2013, 2012 and 2011, represents the write down of an unfinished building to its estimated net recoverable amount.

Direct operating expenses relative to investment properties which are not earning income are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Security | ₱ **1,557,286** | ₱ 1,370,246 | ₱ 2,126,090 |
| Taxes and licenses | **1,528,589** | 1,439,390 | 1,389,900 |
| Non professional fee | **718,746** | | |
| Repairs and maintenance | **111,054** | 435,259 | 356,199 |
| Transportation | **3,000** | 21,247 | 44,480 |
| Utilities | | 22,148 | 143,159 |
| Insurance | | 64,981 | 657 |
| Others | **5,050** | 1,033,763 | 61,401 |
| | ₱ **3,923,725** | ₱ 4,387,034 | ₱ 4,121,886 |

The details of the properties held under lease follow:

| | 2013 | | |
|---|---|---|---|
| | Land | Building and improvements | Total |
| Cost: | | | |
| Balance at beginning and end of year | ₱ 25,538,133 | ₱ 134,673,524 | ₱ 160,211,657 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | | 88,644,919 | 88,644,919 |
| Additions | | 7,303,473 | 7,303,473 |
| Balance at end of year | | 95,948,392 | 95,948,392 |
| Net book value | ₱ 25,538,133 | ₱ 38,725,132 | ₱ 64,263,265 |

| | 2012 | | |
|---|---|---|---|
| | Land | Building and improvements | Total |
| Cost: | | | |
| Balance at beginning and end of year | ₱ 25,538,133 | ₱ 134,673,524 | ₱ 160,211,657 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | | 81,244,517 | 81,244,517 |
| Additions | | 7,400,402 | 7,400,402 |
| Balance at end of year | | 88,644,919 | 88,644,919 |
| Net book value | ₱ 25,538,133 | ₱ 46,028,605 | ₱ 71,566,738 |

Rental income generated from investment properties held under lease amounted to P5.4 million in 2013, P6.6 million in 2012 and P7.2 million in 2011 (see Note 28).

Direct operating expenses relative to investment properties held under lease are as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Depreciation (Notes 25 and 26): | | | |
| General and administrative expense | ₱5,729,507 | ₱5,826,436 | ₱5,802,144 |
| Cost of services other direct cost | 1,573,966 | 1,573,966 | 1,573,966 |
| | 7,303,473 | 7,400,402 | 7,376,110 |
| Taxes and licenses | 313,792 | 110,567 | – |
| Utilities | 24,853 | 86,940 | 119,712 |
| Transportation and travel | 7,761 | – | – |
| Insurance | 4,933 | 50,783 | 23,996 |
| Others | 24,000 | 33,925 | – |
| | ₱7,678,812 | ₱7,682,617 | ₱7,519,818 |

There are no restrictions on the realizability of investment properties nor on the remittance of income. There are also no contractual obligations to purchase, construct or develop investment properties for repairs, maintenance or enhancements as of December 31, 2013.

## 14. Property and Equipment

The net carrying value of this account is as follows:

| | 2013 | 2012 |
|---|---|---|
| Land | ₱16,398,819 | ₱16,398,819 |
| Land improvements | 1,538,174 | 2,181,150 |
| Building and improvements | 34,554,571 | 27,348,103 |
| Leasehold improvements | 798,334 | 947,367 |
| Machinery and equipment | 158,018,663 | 172,348,077 |
| Furniture, fixtures and equipment | 6,250,707 | 3,032,950 |
| Transportation equipment | 18,162,270 | 20,410,149 |
| Tools and other equipment | 369,576 | 315,229 |
| Other assets | 19,059,627 | 7,700,154 |
| Construction in progress | 141,712,960 | 66,302,998 |
| | ₱396,863,691 | ₱316,984,996 |

The net carrying value of this account is as follows:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Balance at beginning of year | Additions/ Depreciations | Disposals | Reclassification | Balance at end of year |
| Cost: | | | | | |
| Land | P16,398,819 | P– | P– | P– | P16,398,819 |
| Land improvements | 3,572,029 | – | – | – | 3,572,029 |
| Building and improvements | 75,712,154 | 13,417,017 | (4,429,145) | – | 84,700,026 |
| Leasehold improvements | 2,432,436 | 341,017 | – | – | 2,773,453 |
| Machinery and equipment | 271,150,626 | 6,024,783 | (410,000) | – | 276,765,409 |
| Furniture, fixtures and equipment | 22,656,952 | 5,817,865 | (104,014) | – | 28,370,803 |
| Transportation equipment | 56,383,708 | 7,688,209 | (4,576,303) | – | 59,495,614 |
| Tools and other equipment | 2,455,726 | 574,540 | (22,768) | – | 3,007,498 |
| Other assets | 21,572,951 | 8,046,185 | (12,590) | 8,535,010 | 38,141,556 |
| Construction in progress | 66,302,998 | 95,744,633 | (11,799,671) | (8,535,010) | 141,712,950 |
| | 538,638,399 | 137,654,249 | (21,354,491) | – | 654,938,157 |
| Accumulated depreciation and amortization: | | | | | |
| Land improvements | 1,390,879 | 642,976 | – | – | 2,033,855 |
| Building and improvements | 48,364,051 | 4,946,507 | (3,165,103) | – | 50,145,455 |
| Leasehold improvements | 1,486,069 | 490,050 | – | – | 1,976,119 |
| Machinery and equipment | 98,802,549 | 20,354,196 | (409,999) | – | 118,746,746 |
| Furniture, fixtures and equipment | 19,624,002 | 2,591,351 | (95,257) | – | 22,120,096 |
| Transportation equipment | 35,973,559 | 7,234,211 | (1,874,426) | – | 41,333,344 |
| Tools and other equipment | 2,140,497 | 503,012 | (5,587) | – | 2,637,922 |
| Other assets | 13,872,797 | 5,219,722 | (10,590) | – | 19,081,929 |
| | 221,653,403 | 41,982,025 | (5,560,962) | – | 258,074,466 |
| Net Book Value | P316,984,996 | P95,672,224 | (P15,793,529) | P– | P396,863,691 |

*(Amounts in Philippine Pesos)*

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Balance at beginning of year | Additions/ Depreciations | Reclassification/ Disposals | Adjustments | Balance at end of year |
| Cost: | | | | | |
| Land | P16,098,819 | P30,000 | P270,000 | P– | P16,398,819 |
| Land improvements | 3,566,601 | 19,500 | (3,072) | – | 3,572,029 |
| Building and improvements | 75,032,170 | 695,346 | (15,362) | – | 75,712,154 |
| Leasehold improvements | 1,632,790 | 799,646 | – | – | 2,432,436 |
| Machinery and equipment | 235,109,585 | 37,933,812 | (1,892,771) | – | 271,150,626 |
| Furniture, fixtures and equipment | 21,289,576 | 2,138,326 | (220,095) | (550,855) | 22,656,952 |
| Transportation equipment | 48,251,686 | 8,656,272 | 644,500 | (1,168,750) | 56,383,708 |
| Tools and other equipment | 2,204,483 | 239,154 | 12,089 | – | 2,455,726 |
| Other assets | 17,836,601 | 3,409,403 | 346,579 | (19,632) | 21,572,951 |
| Construction in progress | 56,426,384 | 62,112,473 | (454,627) | (51,781,232) | 66,302,998 |
| | 477,437,695 | 116,033,932 | (1,312,759) | (53,520,469) | 538,638,399 |
| Accumulated depreciation and amortization: | | | | | |
| Land improvements | 750,447 | 640,432 | – | – | 1,390,879 |
| Building and improvements | 43,678,966 | 4,685,085 | – | – | 48,364,051 |
| Leasehold improvements | 1,171,270 | 313,799 | – | – | 1,485,069 |
| Machinery and equipment | 80,975,195 | 17,909,499 | (82,145) | – | 98,802,549 |
| Furniture, fixtures and equipment | 17,565,995 | 2,408,342 | (207,656) | (142,679) | 19,624,002 |
| Transportation equipment | 28,681,833 | 8,065,558 | (540,082) | (233,750) | 35,973,559 |
| Tools and other equipment | 1,852,022 | 290,627 | (2,152) | – | 2,140,497 |
| Other assets | 10,450,888 | 3,488,415 | (64,067) | (2,439) | 13,872,797 |
| | 185,126,616 | 37,801,757 | (896,102) | (378,868) | 221,653,403 |
| Net Book Value | P292,311,079 | P78,232,175 | (P416,657) | (P53,141,601) | P316,984,996 |

In 2012, the Group reclassified land cost previously accounted as investment property amounting to P270,000 into property and equipment (see Note 13).

The Group's management had reviewed the carrying values of the property and equipment as of December 31, 2012 and 2011 for any impairment. Based on the evaluation, there are no indications that the property and equipment might be impaired. Furthermore, there is no property whose title is restricted from use of the Group in both years.

There are no contractual commitment to purchase property and equipment. There also no property and equipment that are pledged as securities for liabilities.

The depreciation and amortization charges were presented as part of the following accounts:

| | ₱ 2013 | ₱ 2012 | ₱ 2011 |
|---|---|---|---|
| General and administrative expenses (Note 26) | 21,842,638 | 18,406,447 | 11,626,656 |
| Cost of sales and services (Note 25) | 7,516,135 | 8,509,184 | 11,114,029 |
| Real estate held for sale | ₱ 12,623,250 | ₱ 10,886,126 | ₱ 9,148,312 |
| | 41,982,023 | 37,801,757 | 31,888,997 |

## 15. Land and Improvements

This account represents land held for future development and improvements consisting of various properties in Tanay, Initao, Cagayan de Oro City and Butuan City.

The rollforward analysis of this account is shown below:

| | 2013 | | |
|---|---|---|---|
| | Land | Improvements | Total |
| December 31, 2012 | ₱ 348,209,055 | ₱ 55,387,929 | ₱ 403,596,984 |
| Additions | | 17,695,874 | 17,695,874 |
| Reclassifications | (10,540,275) | 173,293,869 | 162,753,594 |
| December 31, 2013 | ₱ 337,668,780 | ₱ 246,377,672 | ₱ 584,046,452 |

| | 2012 | | |
|---|---|---|---|
| | Land | Improvements | Total |
| December 31, 2011 | ₱ 293,105,918 | ₱ 39,346,384 | ₱ 332,452,302 |
| Additions | 747,957 | 18,494,474 | 19,242,431 |
| Reclassifications | 54,355,180 | (2,452,929) | 51,902,251 |
| December 31, 2012 | ₱ 348,209,055 | ₱ 55,387,929 | ₱ 403,596,984 |

In 2012, the Group reclassified land and improvements with a total cost of P80.2 million into real estate held for sale (see Note 9).

The Group also reclassified in 2012 investment property and real estate held for sale with a total cost of P109.0 million and P23.1 million, respectively, into land and improvements (see Notes 9 and 13).

In 2013, the Group reclassified land with a total cost of P-10.5 million into real estate held for sale. Also, in 2013 the Group reclassified real estate held for sale with a total cost of P173.3 million to land and improvements (See Note 9).

## 16. Biological Assets

| | 2013 | 2012 |
|---|---|---|
| Cost: | | |
| Beginning of year | ₱ 249,077,511 | ₱ 188,084,755 |
| Additions during the year | 66,748,755 | 60,992,756 |
| End of year | 315,826,266 | 249,077,511 |
| Accumulated amortization: | | |
| Beginning of year | 11,911,536 | 6,232,674 |
| Amortization during the year | 2,257,728 | 5,678,862 |
| End of year | 14,169,264 | 11,911,536 |
| | ₱ 301,657,002 | ₱ 237,165,975 |

The carrying value of the biological assets in 2013 is determined based on the accumulated cost of the biological assets less accumulated amortization and any impairment recognized in prior years. In 2012, the carrying value of the Group's biological assets is based on its fair value using the cost approach. In 2013, the Group was not able to determine reliably the fair value of its biological assets. Management believes that the change from fair valuation method in 2012 to cost method of valuation in 2013 did not have any material effects in the Group's financial statements, thus no adjustment was made for such effects.

The amortization of biological assets was charged to cost of sales in profit or loss.

## 17. Leasehold Rights

This account pertains to amounts paid by the Company during the year for the rights to use parcels of land in Salawaga Tingalan, Opol, Misamis Oriental and Tignapoloan, Cagayan de Oro City and to develop them as oil palm commercial plantations (see Note 37).

Rollforward analysis of this account is shown below:

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | ₱ 41,580,361 | ₱ 29,953,746 |
| Additions during the year | 75,030 | 11,626,615 |
| | 41,655,391 | 41,580,361 |
| Accumulated amortization | (4,794,197) | (3,463,119) |
| Balance at end of year | ₱ 36,861,194 | ₱ 38,117,242 |

Rollforward analysis of the accumulated amortization as of December 31, 2013 and 2012 is shown below:

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | ₱ 3,463,119 | ₱ 2,249,599 |
| Amortization during the year | 1,331,078 | 1,213,520 |
| Balance at end of year | ₱ 4,794,197 | ₱ 3,463,119 |

Amortization of leasehold rights is capitalized as part of the development costs of the Group's biological assets.

## 18. Accounts Payable and Accrued Expenses

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Accounts payable | ₱ 187,980,967 | ₱ 278,535,009 |
| Accrued expenses | 39,236,410 | 25,646,318 |
| Contracts payable | 5,971,335 | 5,993,714 |
| Accrued interest payable | 9,320,633 | 9,758,800 |
| Retention payable | 8,073,763 | 2,845,837 |
| Others | 39,724,566 | 20,110,834 |
| | ₱ 290,307,674 | ₱ 342,890,512 |

The above accounts payable and accrued expenses do not include any advances from directors, officers, employees, principal stockholders and related parties which are not arising in the ordinary course of business.

Details of Accounts payable and accrued expenses   others are as follows:

| | 2013 | 2012 |
|---|---|---|
| Output VAT payable | ₱ 11,886,753 | ₱ 1,872,999 |
| Construction bond payable | 4,602,674 | |
| Withholding tax payable | 5,690,971 | 3,973,070 |
| Deposit from subscribers | 1,300,659 | 1,300,659 |
| SSS, HDMF, PHIC premium payable | 571,694 | 468,801 |
| Others | 15,671,815 | 12,495,305 |
| | ₱ 39,724,566 | ₱ 20,110,834 |

## 19. Short term and Long term Debt

Short term debt consists of loans obtained from the following:

| | 2013 | 2012 |
|---|---|---|
| Financial institutions | | |
| Union Bank of the Philippines (UBP) | ₱ 100,000,000 | ₱ 100,000,000 |
| China Banking Corp. (CBC) | 100,000,000 | 70,000,000 |
| United Coconut Planters Bank (UCPB) | 20,000,000 | |
| | ₱ 220,000,000 | ₱ 170,000,000 |

The loan from UBP pertains to the term loan availed by the Group amounting to P100 million in January 2012 and October 2011. The loan bears annual interest rate of 5.5% and will mature one (1) year from the date of availment and was subsequently renewed on December 20, 2013. The loan balance in 2011 was secured by real estate held for sale with carrying value of P56.6 million as of December 31, 2011. The loan balance as of December 31, 2013 and 2012 is unsecured (see Note 9).

The loan from CBC pertains to a clean term loan availed by the Group amounting to P70 million in September 2012 with an interest rate of 6.0%. The Group paid the 2012 loan in 2013 and availed another loans on various dates with interest rate of 5.5%.

On March 18, 2013, the Group availed a clean term loan from UCPB amounting to P20 million payable after one year from the date of availment with 5.75% interest rate.

Long term debt consists of loans obtained from the following:

| | 2013 | 2012 |
|---|---|---|
| Financial institutions | | |
| Union Bank of the Philippines (UBP) | ₱ 354,242,824 | ₱ 380,047,720 |
| Asia United Bank (AUB) | 85,000,000 | |
| Bank of the Philippine Islands (BPI) | 210,500,000 | 224,000,000 |
| BPI Family Savings Bank (BPIF) | 274,610,126 | 274,610,126 |
| Cihna Banking Corp. (CBC) | 300,000,000 | 300,000,000 |
| United Coconut Planters Bank (UCBP) | 296,056,200 | 300,000,000 |
| | 1,520,409,150 | 1,478,657,846 |
| Shareholders | 81,391,342 | 77,208,639 |
| | 1,601,800,492 | 1,555,866,485 |
| Less current portion | (110,905,259) | (22,875,000) |
| | ₱ 1,490,895,233 | ₱ 1,532,991,485 |

In August and December of 2011, the Group obtained P400 million loan from UCPB to refinance its outstanding term loan and finance various real estate development projects. The loan shall have a term which shall expire at the end of ten (10) years from initial date of drawdown and shall bear interest payable quarterly in arrears, based on 3 month Philippine Dealing System Treasury Fixing rate obtaining at the time of availment, plus a spread of two percent (2.0%) inclusive of Gross Receipt Tax (GRT) or floor rate 5.25% inclusive of GRT per annum whichever is higher, subject to quarterly payment and resetting.

This loan is collateralized by real estate mortgage over the real estate held for sale with a carrying value of P109.0 million and P234.7 million as of December 31, 2013 and 2012, respectively (see Note 9).

The loans from BPI were obtained on various dates within 2011 and will mature five (5) years after loan release dates, the last of which being 2016. These bear interest at 3 month Philippine Dealing System Treasury R2 plus a spread of one and a half percent (1.50%) per annum or the applicable bank floor lending rate at the time of availment, whichever is higher, subject to monthly payment and quarterly resetting, with one time option to fix rate based on 5 year Philippine Dealing System Treasury R2 rate, plus a spread of one and a quarter percent (1.25%) per annum. The interest rate is currently at 4.75% per annum. These are collateralized by real estate mortgages over the real estate held for sale of the Group with a total carrying value of P94.5 million and P89.5 million as of December 31, 2013 and 2012, respectively.

The loans from BPIF were obtained on various dates within 2004 to 2012 and will mature ten (10) years after loan release dates, the last of which will be in 2022. These bear interest at the rates ranging from 5.5% to 11.50% per annum. These are collateralized by real estate mortgages over the real estate held for sale of the Group with a total carrying value of P116.3 million and P175.3 million as of December 31, 2013 and 2012 respectively (see Note 9).

The Group availed several clean loans from CBC on various dates within February to July 2011 and will mature five (5) years after loan release dates, the last of which will be in 2016. These loans bear interest rate of 7.33% per annum.

The loan from UBP pertains to a 7 year loan availed by the Parent Company in 2012, with 3 years grace period on principal. Principal payments of 48 equal monthly amortization will be made starting on the end of the grace period which will start in 2015. Quarterly interest payment in arrears is made for the first 3 years, then monthly payments for the rest of the term. The loan bears interest of 5.56% and is collateralized by the Parent Company's real estate held for sale assets with carrying amount of P178.2 million as of December 31, 2013 and 2012.

On December 2, 2013, the Group availed loan from AUB amounting to P85 million that will mature on December 1, 2017 with an interest rate of 5%. This loan is collateralized by real estate mortgage on the Parent Company's investment properties with net carrying amount of P0.2 million as of December 31, 2013 and a real mortgage on the property of the stockholder of Parent Company.

The loans from shareholders represent a 10 year noninterest bearing loan with a total principal amount of P129.28 million availed on various dates from October to November 2012.The loan is repayable in lump sum on or before maturity. The Group recognized discount on loans payable amounting to P52.97 million in 2012 in the Statements of comprehensive income. Amortization of discount on loans recognized amounted to P4.17 million in 2013 and P0.90 million in 2012.

The following table presents the contractual maturity of short term and long term debt as of December 31, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| Due within 1 year | ₱ 330,905,259 | ₱ 192,875,000 |
| Due beyong 1 year, not later than 5 years | 956,570,174 | 1,037,002,797 |
| Due beyond 5 years | 534,325,059 | 495,988,688 |
| | ₱ 1,821,800,492 | ₱ 1,725,866,485 |

The Group's short term and long term debts as of December 31, 2013 and 2012 do not include any significant warranties and covenants.

The finance cost relative to the foregoing loans were presented as part of the following accounts:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Finance costs (Note 19) | ₱ 68,467,666 | ₱ 54,693,886 | ₱ 40,898,953 |
| Construction in progress | 31,081,740 | 24,546,069 | 18,796,200 |
| | ₱ 99,549,406 | ₱ 79,239,955 | ₱ 59,695,153 |

## 20. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting entities and key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of relationship and not merely the legal form. For financial statements disclosure purposes, an affiliate is an entity under common control of the Parent Company's stockholders.

The Parent Company enters into transactions with related parties. Outstanding balances at year end are unsecured and noninterest bearing and are settled based on agreed upon terms. The following are the related party transactions.

a. Investments and deposits

The Group made deposits for future subscription to its affiliates which amounted to P695,882,779 and P158,640,390 as of December 31, 2013 and 2012.

b. Lease of Parent Company's office space from an affiliate

| | 2013 | 2012 |
|---|---|---|
| Amount of rent expense | ₱ 431,164 | ₱ 381,795 |
| Outstanding balances | | |

c. Noninterest bearing loans received from shareholders

The loans from the shareholders represent a 10 year noninterest bearing loan with a total principal amount of P129.28 million availed on various dates from October to November 2012. The loan is repayable in lump sum on or before maturity (see Note 19).

The summary of the above related party transactions follows:

| | 2013 | | | |
|---|---|---|---|---|
| Category | Amount/Volume | Outstanding balance | Terms and Condition | Guaranty/Settlement/ Provision |
| Shareholders<br>1. Loans received from shareholders | Amortization of discount: ₱4,182,703 | ₱81,391,342 | Noninterest bearing and repayable in lump sum on or before maturity after 10 years from 2012 | Unsecured; no significant covenants |
| Affiliates<br>2. Investments and deposits | Deposits: ₱678,605,873<br>Return of deposits: ₱101,363,484<br>Reclassification to investment in associate: ₱40,000,000 | ₱695,882,779 | To be applied in equity call | |
| 3. Lease of office space from an affiliate | ₱431,164 | ₱– | One year subject to annual review and renewable upon mutual agreement of parties; payable in cash every 15th of the month without necessity of demand | No guarantees |

| | 2012 | | | |
|---|---|---|---|---|
| Category | Amount/Volume | Outstanding balance | Terms and Condition | Guaranty/Settlement/ Provision |
| Shareholders<br>1. Loans received from shareholders | ₱129,280,000 | ₱77,208,639 | Noninterest bearing and repayable in lump sum on or before maturity after 10 years from 2012 | Unsecured; no significant covenants |
| Affiliates<br>2. Investments and deposits | Deposits: ₱110,800,390<br>Return of deposits: ₱19,340,960<br>Increase due to deconsolidated subsidiaries: ₱67,680,960<br>Applied to additional subscription: ₱500,000 | ₱158,640,390 | To be applied in equity call | |
| 3. Lease of office space from an affiliate | ₱381,795 | ₱– | One year subject to annual review and renewable upon mutual agreement of parties; payable in cash every 15th of the month without necessity of demand | No guarantees |
| 4. Collection of notes receivable from an affiliate | ₱920,417 | ₱– | One year and to be collected in twelve monthly installments at 10% per annum. | No guarantees |

Below are the account balances as of December 31, 2013 and 2012 on the separate financial statements of the companies within the Group which were eliminated upon consolidation:

- Receivables/Payables

| | 2013 | | |
|---|---|---|---|
| | Payable | | |
| | ABERDI | Andesite | Total |
| Receivable: | | | |
| ABCI Parent Company | ₱966,048 | ₱– | ₱966,048 |
| ABERDI | – | 649,607 | 649,607 |
| Bonsai | 24,431 | – | 24,431 |
| Nakeen | 3,766,237 | – | 3,766,237 |
| | ₱4,756,716 | ₱649,607 | ₱5,406,323 |

| | 2012 |
|---|---|
| | Payable (ABERDI) |
| Receivable | |
| ABCI Parent Company | 130,000,000 |
| Andesite | 648,511 |
| | 130,684,511 |

- Deposits for future stock subscription

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Deposits to | | | | |
| | ABERDI | BRC | Palm Thermal | Nakeen | Total |
| Deposits from: | | | | | |
| ABCI Parent Company | ₱269,303,228 | ₱14,877,000 | ₱695,701,000 | ₱– | ₱979,881,228 |
| ABERDI | – | – | – | 254,685,103 | 254,685,103 |
| | ₱269,303,228 | ₱14,877,000 | ₱695,701,000 | ₱254,685,103 | ₱1,234,566,331 |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Deposits to | | | | | |
| | ABERDI | BRC | Palm Thermal | Nakeen | Hydro Link | Total |
| Deposits from: | | | | | | |
| ABCI Parent Company | ₱43,399,253 | ₱14,569,000 | ₱183,400,000 | ₱– | ₱19,809,461 | ₱261,177,714 |
| ABERDI | – | – | – | 261,018,437 | – | 261,018,437 |
| | ₱43,399,253 | ₱14,569,000 | ₱183,400,000 | ₱261,018,437 | ₱19,809,461 | ₱522,196,151 |

- Compensation of key management personnel by benefit type follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Salaries and wages | ₱31,593,149 | ₱28,296,226 | ₱22,326,780 |
| Short-term employee benefits | 8,467,203 | 12,557,963 | 3,287,441 |
| Post-employment benefits | 4,590,858 | 4,474,872 | 2,941,908 |
| | ₱44,651,210 | ₱45,329,061 | ₱28,556,129 |

The Group has no transactions with its retirement fund involving loans (neither as creditor nor debtor), investments (neither as investor nor investee), lease on services and guarantee or surety made or received. The information on carrying value and fair value of fund, amount of contributions to the fund, description of the fund and trustee of the fund is shown in Note 26.

## 21. Share Capital

The details of the number of shares of authorized and subscribed capital stock follows:

| | 2013 | 2012 |
|---|---|---|
| Authorized (Note 1) | 2,000,000,000 | 1,620,000,000 |
| Subscribed and issued (Note 1) | 1,732,865,522 | 1,386,293,229 |

Movements of the amount of subscribed capital stock and additional paid in capital (APIC) during the years 2013 and 2012 follow:

**2013**

| | Share Capital | | | |
|---|---|---|---|---|
| | Subscribed and issued | Subscribed but not issued | Total | Additional paid in capital |
| Balance as at December 31, 2012 | ₱1,386,293,229 | ₱– | ₱1,386,293,229 | ₱586,198,947 |
| Issuance for the year | 346,572,293 | – | 346,572,293 | – |
| | ₱1,732,865,522 | ₱– | ₱1,732,865,522 | ₱586,198,947 |

**2012**

| | Share Capital | | | |
|---|---|---|---|---|
| | Subscribed and issued | Subscribed but not issued | Total | Additional paid in capital |
| Balance as at December 31, 2011 | ₱1,309,916,933 | ₱7,954 | ₱1,309,924,887 | ₱155,948,570 |
| Issuance for the year | 76,366,296 | – | 76,366,296 | 140,844,089 |
| Collections of unpaid subscriptions | – | 2,046 | 2,046 | – |
| Transfer of paid up shares | 10,000 | (10,000) | – | – |
| Reissuance of treasury shares (Note 39) | – | – | – | 289,406,288 |
| | ₱1,386,293,229 | ₱– | ₱1,386,293,229 | ₱586,198,947 |

The Securities and Exchange Commission (SEC) issued the following orders related to the Group's registration of its securities: SEC BED Order No. 1179 issued on December 17, 1993 amounting to P200,000,000; SEC BED Order No. 847 issued on August 15, 1994 amounting to P230,000,000 and SEC CFD Order No. 64 issued on March 12, 1996 totaling P530,000,000. Common shares are the only equity securities registered and issued by the Group. As of December 31, 2013 and 2012, there are 2,129 and 2,139 stockholders in the records of the transfer agent, Fidelity Stock Transfers, Inc. (FSTI), respectively.

The share price closed at P1.00 on December 27, 2013 and P3.01 on December 29, 2012.

## 22. Sales

This account consists of:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Real estate | ₱ 335,141,057 | ₱ 446,164,956 | ₱ 310,117,058 |
| Crude palm oil | 64,688,505 | 82,643,118 | 71,318,039 |
| Management fee | 23,200,000 | | |
| Water service | 12,276,412 | 11,554,742 | 9,246,993 |
| Hotel operations (Note 13) | 7,078,305 | 9,187,557 | 10,766,361 |
| Crop and palm seedlings | 6,553,360 | 5,547,443 | 7,201,494 |
| Kernel nuts and fertilizer | 3,726,586 | 1,476,508 | 1,551,173 |
| | ₱ 452,664,225 | ₱ 556,574,324 | ₱ 410,201,118 |

## 23. Financial Income

This account consists of:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Interest from: | | | |
| Sales of real estate (Note 7) | ₱ 22,991,015 | ₱ 21,786,104 | ₱ 20,108,810 |
| Cash in banks and cash equivalents (Note 6) | 8,095,676 | 11,372,428 | 8,202,082 |
| Notes and loans receivable (Notes 8 and 20) | 459,757 | 322,901 | 70,104 |
| | ₱ 31,546,448 | ₱ 33,481,433 | ₱ 28,380,996 |

## 24. Other income

This account consists of:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Income from forfeited accounts | ₱ 3,787,664 | ₱ 10,291,505 | ₱ 7,698,999 |
| Surchange income | 2,876,086 | 5,569,052 | 5,423,408 |
| Others | 42,700,185 | 54,865,319 | 18,690,140 |
| | ₱ 49,363,935 | ₱ 70,725,876 | ₱ 31,812,547 |

Other income includes sale of by products derived from the production of crude palm oil.

## 25. Cost of Sales and Services

This account consists of:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Real estate | ₱ 136,520,528 | ₱ 227,964,807 | ₱ 122,631,632 |
| Crude palm oil | 64,557,360 | 80,040,467 | 59,654,531 |
| Hotel operations | 13,876,758 | 12,621,324 | 12,324,216 |
| Aggregates | 7,787,268 | 13,252,613 | 2,676,982 |
| Water services | 4,041,787 | 4,691,116 | 4,296,596 |
| Crop and palm seedlings | 3,224,689 | 7,327,634 | 10,546,110 |
| Kernel nuts and fertilizers | 2,204,383 | 2,834,369 | 919,703 |
| Other direct costs | 2,132,171 | | |
| | ₱ 234,344,944 | ₱ 348,732,330 | ₱ 213,049,770 |

Cost of sales and services includes depreciation charges and other direct costs (e.g. repairs and maintenance, salaries and wages) related to the Group's investment properties and property and equipment which were charges as part of cost of real estate and hotel operations

## 26. General and Administrative Expenses

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Personnel costs (Notes 20 and 27) | ₱ 67,203,548 | ₱ 68,113,004 | ₱ 49,950,656 |
| Depreciation and amortization (Notes 13 and 14) | 27,572,145 | 24,232,883 | 17,428,800 |
| Taxes and licenses | 21,870,688 | 26,066,654 | 23,454,478 |
| Utilities and supplies | 6,449,370 | 6,062,507 | 6,856,919 |
| Repairs and maintenance | 4,846,198 | 8,786,605 | 8,550,582 |
| Entertainment, amusement and recreation | 1,023,868 | 5,363,135 | 2,583,193 |
| Rental (Notes 20 and 28) | 916,761 | 706,408 | 3,613,892 |
| Provision for doubtful accounts (Note 7) | | 143,384 | |
| Accounts receivable written off | | | 398,882 |
| Others | 67,497,660 | 43,908,728 | 42,720,211 |
| | ₱ 197,380,238 | ₱ 183,383,308 | 155,557,613 |

Significant components of other operating expenses follow:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Professional fees | P32,029,366 | P9,518,061 | P11,006,212 |
| Security services | 13,592,802 | 11,907,853 | 9,388,789 |
| Transportation and travel | 7,016,604 | 8,701,158 | 10,065,944 |
| Director fees | 1,489,480 | 2,920,215 | – |
| Board meetings | 1,210,264 | 927,643 | 1,204,869 |
| Litigation fees | 1,088,884 | 283,548 | 141,661 |
| Insurance | 989,034 | 607,363 | 622,403 |
| Subscription and dues | 565,201 | 398,287 | 293,271 |
| Trainings and seminars | 278,973 | 363,323 | 511,513 |
| Bank charges | 87,131 | 24,612 | 208,422 |
| Unrealized foreign exchange loss | – | 12,755 | – |
| Miscellaneous | 9,149,941 | 8,263,910 | 9,277,137 |
| | P67,497,660 | P43,908,728 | P42,720,211 |

Miscellaneous expense includes supervision, regulation, notarization and listing fees.

## 27. Retirement Benefits Costs

The Group has a funded non contributory retirement plan covering all regular and full time employees effective July 1, 2002 (anniversary date was amended to take effect every January 1, retroactive 2003). Contribution and cost are determined in accordance with the actuarial studies made for the plan.

The Group's annual contributions to their respective plans consist principally of payments covering the current service cost for the year and the required funding relative to the guaranteed minimum benefits as applicable. Actuarial valuations are made with sufficient regularity.

The principal actuarial assumptions used to determine retirement benefits were as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate, beginning of year | 5.66% | 6.71% |
| Discount rate, end of year | 5.03% | 5.66% |
| Expected rate of return on plan assets, beginning of year | 5.00% | 5.00% |
| Salary increase rate , beginning of year | 5.00% | 5.00% |
| Salary increase rate, end of year | 5.00% | 5.00% |

The amounts recognized in the consolidated statements of financial position as of December 31, 2013 and 2013 were determined as follows:

| | 2013 | 2012 (As restated) |
|---|---|---|
| Present value of funded retirement benefit obligations | P37,346,161 | P32,978,080 |
| Less fair value of plan assets | 18,512,239 | 15,149,701 |
| Underfunded obligation | 18,833,922 | 17,828,379 |
| Effect of the asset ceiling | – | 364 |
| Retirement liability recognized in consolidated statements of financial position | P18,833,922 | P17,828,743 |

The Group's plan assets are maintained by a trustee bank. The plan assets include cash and investment in shares of stocks. The carrying amount of the plan asset approximates the fair value of plan assets which is allocated as of December 31, 2013 as follows:

| | |
|---|---|
| Cash and cash equivalents | 70.65% |
| Equity instruments | 32.07% |
| Others (market gains (losses), accrued receivables, etc.) | (2.72% |
| | 100% |

The rollforward of present value of defined benefit obligation follows:

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | P32,978,080 | P19,525,249 |
| Actuarial loss on obligation | 997,560 | 13,648,029 |
| Current service cost | 2,094,588 | 2,002,062 |
| Interest cost | 1,863,262 | 1,309,553 |
| Benefits paid | (587,329) | (3,506,813) |
| Balance at end of year | P37,346,161 | P32,978,080 |

The rollforward of fair value of plan assets follows:

| | 2013 | 2012 |
|---|---|---|
| Balance at beginning of year | P15,149,701 | P15,124,761 |
| Contributions | 5,048,454 | 3,224,766 |
| Expected return on plan assets | 979,705 | 1,003,397 |
| Benefits paid | (587,329) | (3,506,813) |
| Actuarial loss on plan assets | (2,078,292) | (696,410) |
| Balance at end of year | P18,512,239 | P15,149,701 |

The overall expected rate of return on plan assets is determined based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled.

The Group's contributions to its retirement fund vary from year to year and cannot determine expected annual contribution for 2014.

The amounts recognized in the consolidated statements of income included in Personnel cost under General and administrative expenses in Note 26 were determined as follows:

| | 2013 | 2012 |
|---|---|---|
| Current service cost | P2,094,588 | P2,002,062 |
| Interest cost | 1,863,262 | 1,309,553 |
| Expected return on plan assets | (979,705) | (1,003,397) |
| Change in effect of asset ceiling | 20 | 8,066 |
| Amount recognized in the consolidated statements of income (Note 26) | P2,978,165 | P2,316,284 |

The movements of the net pension asset recognized in the consolidated statements of financial position are as follows:

| | 2013 | 2012 |
|---|---|---|
| Retirement liability at beginning of year | P17,828,743 | P4,520,703 |
| Expense recognized in the consolidated statements of income | 2,978,165 | 2,316,284 |
| Defined benefit cost recognized in the consolidated statements of comprehensive income | 3,075,468 | 14,216,522 |
| Actual contributions | (5,048,454) | (3,224,766) |
| Net pension liability at end of year | P18,833,922 | P17,828,743 |

Expected future benefit payments of the Group is shown below:

| Year | Expected benefit payment |
|---|---|
| Within one year | P22,603,258 |
| Within 2 to 5 years | 3,909,843 |
| Beyond 5 years | 5,845,526 |

Sensitivity analysis on the retirement benefit obligation is as follows:

| | Percentage increase (decrease) in retirement benefit obligation | Effect |
|---|---|---|
| 100 bps increase in discount rate | (2.08%) | (P296,971) |
| 100 bps decrease in discount rate | 2.23% | 296,058 |
| 100 bps increase in salary increase rate | 1.78% | 239,643 |
| 100 bps decrease in salary increase rate | (1.70%) | (223,251) |
| Increase in DBO, no attrition rates | 38.06% | 5,811,455 |

**28. Lease Agreement**

Group as a Lessor

The Group leased its various properties under operating lease with various lessees. The term of the lease agreements is for one to five years and is renewable upon mutual agreement of both parties. The agreements will expire in various dates up to 2014.

The agreements provide that the lessees shall pay for all major and minor repairs, business taxes, and charges for water, light, telephone and other utilities expense.

Estimated future minimum rental receipts follow:

| | 2013 | 2012 |
|---|---|---|
| Due within one year | P5,590,175 | P6,485,567 |
| Due beyond one year, not later than five years | 8,556,871 | 6,548,583 |
| | P14,147,046 | P13,034,150 |

Rental income under these operating leases which amounted to P6,447,917 in 2013, P6,604,501 in 2012 and P7,210,538 in 2011 are all from nonrelated parties.

Group as a Lessee

The Group entered into operating lease agreements with related and non related parties for its office space in Cagayan de Oro City and Metro Manila. The term of the lease agreements is for one year and is renewable upon the agreement of both parties.

Estimated future minimum rental payments which will be due in 2013 amounted to P866,093.

Breakdown of rent expense under general and administrative expenses (see Note 26) for lease of office space is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Related party (Note 20) | P431,164 | P381,795 | P1,771,873 |
| Nonrelated party | 485,597 | 324,613 | 1,842,019 |
| | P916,761 | P706,408 | P3,613,892 |

There are no other significant restrictions imposed by lease agreements such as those concerning dividends, additional debt and further leasing.

## 29. Income Taxes

a. The current income tax expense is composed of MCIT and regular corporate income tax. Components of current income tax reported in the consolidated statements of income follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Regular corporate income tax | P11,219,303 | P29,731,334 | P205,660 |
| MCIT | 242,134 | 233,890 | 247,441 |
| | P11,461,437 | P29,965,224 | P453,101 |

b. The components of deferred tax accounts represent the future tax consequence of the following:

| | 2013 | 2012 |
|---|---|---|
| Deferred tax assets | | |
| Tax effects of: | | |
| NOLCO | P37,910,495 | P23,314,707 |
| Allowance for impairment losses on investment properties | 4,585,800 | 4,127,220 |
| Unamortized past service cost | 2,413,299 | 1,848,404 |
| Allowance for doubtful accounts | 135,968 | 135,968 |
| Accrued retirement liability | – | 62,412 |
| Others | 10,045,834 | 10,048,551 |
| MCIT | 723,353 | 846,087 |
| | P55,814,749 | P40,383,349 |

| | 2013 | 2012 |
|---|---|---|
| Deferred tax liabilities | | |
| Tax effects of: | | |
| Deferred income on sale of real estate | P84,838,507 | P78,146,932 |
| Deferred rental income | 120,153 | 137,727 |
| Unrealized foreign exchange gain | 8,077 | – |
| | P84,966,737 | P78,284,659 |

The Group did not recognize the deferred income tax asset on NOLCO amounting to P417,862 as of December 31, 2013 since management believes that this could not be utilized prior to its expiration. NOLCO amounting to P78.2 million as of December 31, 2013, can be carried forward and claimed as deduction against regular taxable income for the next three (3) years as follows:

| Date Incurred | Amount | Expired/Applied | Balance | Expiry Date |
|---|---|---|---|---|
| December 31, 2010 | P2,694,139 | (P2,694,139) | P– | December 31, 2013 |
| December 31, 2011 | 26,659,064 | – | 26,659,064 | December 31, 2014 |
| December 31, 2012 | 48,809,755 | – | 48,809,755 | December 31, 2015 |
| December 31, 2013 | 51,317,358 | – | 51,317,358 | Expired |
| | P129,480,316 | (P2,694,139) | P126,786,177 | |

The carry forward benefits of MCIT totaling P0.7 million as of December 31, 2013, can be claimed as deduction from regular corporate income tax for the next three (3) years as follows:

| Date Incurred | Amount | Expired/Applied | Balance | Expiry Date |
|---|---|---|---|---|
| December 31, 2010 | ₱364,868 | (₱364,868) | ₱– | December 31, 2013 |
| December 31, 2011 | 247,441 | – | 247,441 | December 31, 2014 |
| December 31, 2012 | 233,890 | – | 233,890 | December 31, 2015 |
| December 31, 2013 | 242,134 | – | 242,134 | Expired |
| | ₱1,088,333 | (₱364,868) | ₱723,465 | |

The Group did not recognize the carry forward benefits of MCIT amounting to P112 since management believes that this could not be utilized prior to its expiration.

a. The reconciliation between the income tax expense computed at the statutory tax rate and the income tax expense (benefit) shown in consolidated statements of income follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Income tax expense computed at statutory tax rate | ₱ 2,041,247 | ₱ 31,231,529 | ₱ 12,139,464 |
| Income tax effects of: | | | |
| Interest income subjected to final tax | (2,428,585) | (1,898,678) | (262,036) |
| Amortization of discount on loads | 1,254,811 | 269,267 | |
| Non deductible interest expense | 897,043 | 735,083 | 98,836 |
| Excess of contribution over provision on plan asset | (663,148) | (69,468) | |
| Accounts written off | 354,130 | | 119,664 |
| Non deductible taxes and other expenses | 333,342 | 1,264,608 | 1,634,862 |
| Equity in net loss of an associate | 241,357 | 1,446,547 | 332,301 |
| Capital gains tax paid | 16,175 | 242,549 | 324,320 |
| Non deductible representation and entertainment expense | 5,956 | 1,343,737 | |
| Dividend income | (1,600) | | (735) |
| Discount on loans payable | | (15,890,675) | |
| Write off of expired NOLCO and other deferred tax assets | | 2,033,729 | 2,213,263 |
| Discount on notes receivable | | 214,526 | |
| Unrecognized NOLCO | | 44,691 | 55,276 |
| Losses subjected to income tax holiday | | | 1,415,904 |
| Excess of provision over contribution on plan asset | | | 85,139 |
| Others | | 46,483 | |
| Applied and Expired MCIT | (8,195,194) | 9,069,098 | 288,174 |
| | ₱ (6,144,466) | ₱ 30,083,026 | ₱ 18,444,332 |

The Group opted for the itemized deduction scheme for its income tax reporting in 2013, 2012 and 2011.

## 30. Earnings per Share (EPS)

Basic EPS is computed as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Net income attributable to equity holders of Parent Company | ₱ 3,555,644 | ₱ 70,761,417 | ₱ 22,555,795 |
| Divided by weighted average number of shares outstanding | 1,732,865,522 | 1,177,146,587 | 1,136,296,109 |
| Basic earnings per share | ₱ 0.00205 | ₱ 0.06011 | ₱ 0.01985 |

The Group has no dilutive potential shares as of December 31, 2013, 2012 and 2011 (see Note 21).

**31. Financial Instruments**

Set out below is a comparison by category of carrying values and estimated fair values of Group's financial instruments as of December 31, 2013 and 2012:

| | 2013 | |
|---|---|---|
| | Carrying value | Fair value |
| Financial assets: | | |
| Cash and cash equivalents | ₱131,124,390 | ₱131,124,390 |
| Accounts receivable* | 499,350,851 | 499,350,851 |
| Notes receivable | 6,632,828 | 6,632,828 |
| Refundable deposits | 26,719,819 | 26,719,819 |
| AFS investments | 914,260,817 | 914,260,817 |
| | ₱1,578,088,705 | ₱1,578,088,705 |
| Financial liabilities: | | |
| Short term debt | ₱220,000,000 | ₱220,000,000 |
| Long term debt | 1,601,800,492 | 1,601,800,492 |
| Accounts payable and accrued expenses** | 272,158,256 | 272,158,256 |
| Subscription payable | 84,550,742 | 84,550,742 |
| | ₱2,178,509,490 | ₱2,178,509,490 |

| | 2012 | |
|---|---|---|
| | Carrying value | Fair value |
| Financial assets: | | |
| Cash and cash equivalents | ₱995,259,528 | ₱995,259,528 |
| Accounts receivable* | 566,472,772 | 566,472,772 |
| Notes receivable | 6,284,916 | 6,284,916 |
| Refundable deposits | 55,373,170 | 55,373,170 |
| AFS investments | 707,002,512 | 707,002,512 |
| | ₱2,330,392,898 | ₱2,330,392,898 |

| | 2012 | |
|---|---|---|
| | Carrying value | Carrying value |
| Financial liabilities: | | |
| Short term debt | ₱170,000,000 | ₱170,000,000 |
| Long term debt | 1,555,866,485 | 1,555,866,485 |
| Accounts payable and accrued expenses** | 336,477,377 | 336,477,377 |
| Dividends payable | 2,420,541 | 2,420,541 |
| Subscription payable | 114,550,663 | 114,550,663 |
| | ₱2,179,315,066 | ₱2,179,315,066 |

*Receivables exclude advances to suppliers and contractors as of December 31, 2013 and 2012.
**Accounts payable and accrued expenses exclude statutory payables as of December 31, 2013 and 2012.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities. Certain available for sale investments in listed companies with a carrying value of P128.6 million and P131.1 million as of December 31, 2013 and 2012, respectively, are valued based on published prices (see Note 11).

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group has no financial assets that fall under level 2 and 3 as of December 31, 2013 and 2012.

## 32. Financial Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks, which resulted from its operating, investing and financing activities. The Group's principal financial instruments comprise of cash and cash equivalents, receivables, investment in equity securities, and bank loans. The main purpose of investing these financial instruments (assets) is to maximize interest yield and for capital appreciation. The main purpose of bank loans is to finance the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade payables and accrued liabilities, which arise directly from operations. The Group's policies and guidelines cover credit risk, liquidity risk and interest rate risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's results and financial position. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

The main risks arising from the use of financial instruments are credit risk, liquidity risk, interest rate risk, equity price risk and foreign currency risk. The Group's Board of Directors reviews and agrees with policies for managing each of these risks. These are summarized below:

- *Credit risk*

Credit risk refers to the risk that a counterparty will default and/or fail to honor its financial or contractual obligations, resulting in financial loss to the Group. The Group only transacts with recognized and creditworthy counterparties, like investing in creditworthy equities such as those listed in the Philippine Stock Exchange. Moreover, the Group follows strict credit policies and procedures in granting of credit to customers, which are regularly reviewed and updated to reflect changing risk conditions, which includes credit evaluation, administration, monitoring and collection guidelines. The Group, likewise, monitors exposures through continuing assessment of creditworthiness of customers, and monitoring of the aged schedules of receivables.

Real estate buyers are subject to standard credit check procedures, which are calibrated based on payment scheme offered.

Generally, the maximum credit risk exposure of the financial assets is the carrying amounts of the Group's financial assets as summarized below:

| | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | ₱131,124,390 | ₱995,259,528 |
| Accounts receivable | 499,350,851 | 566,472,772 |
| Notes receivable | 6,632,828 | 6,284,916 |
| Refundable deposits | 26,719,819 | 55,373,170 |
| Available for sale investments | 914,260,817 | 707,002,512 |
| | ₱1,578,088,705 | ₱2,330,392,898 |

The Group's cash and cash equivalents have been invested with various creditworthy banks, thus limiting exposure to credit risk, in regard to its liquid assets. The Parent Company's contract receivable consists of significant number and various customers/lot buyers. Customers of the Group have been subjected to credit evaluation prior to sale. Moreover, ownership of the shares and title of the real estate sold on installment to various customers/lot buyers are only transferred, upon full payment of the agreed total contract price.

Available for sale investments include investment in shares that are actively traded in the stock market. The Group uses other publicly available financial information to monitor its investments.

With respect to credit risk arising from other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

With respect to credit risk arising from other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

Below is the credit quality by class of financial assets as of December 31, 2013 and 2012, gross of allowance for impairment losses.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | |
| | High Grade | Standard Grade | Substandard Grade | Past due but not impaired | Impaired | Total |
| Loans and receivable | | | | | | |
| Cash and cash equivalents | P131,124,390 | P– | P– | P– | P– | P131,124,390 |
| Accounts receivable (Note 7) | 347,464,468 | 97,863,203 | 20,300,919 | 33,722,261 | 596,117 | 499,946,968 |
| Loans receivable | 6,632,828 | | | | | 6,632,828 |
| Refundable deposits | 26,719,819 | | | | | 26,719,819 |
| Total loans and receivables | 511,941,505 | 97,863,203 | 20,300,919 | 33,722,261 | 596,117 | 664,423,005 |
| AFS investments (Note 11) | | | | | | |
| Equity securities | 914,260,817 | | | | | 914,260,817 |
| | P1,426,202,322 | P97,863,203 | P20,300,919 | P33,722,261 | P596,117 | P1,578,683,822 |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | |
| | High Grade | Standard Grade | Substandard Grade | Past due but not impaired | Impaired | Total |
| Loans and receivable | | | | | | |
| Cash and cash equivalents | P995,259,528 | P– | P– | – | P– | P995,259,528 |
| Accounts receivable (Note 7) | 432,368,001 | 72,599,530 | 22,123,805 | 39,381,436 | 596,609 | 567,069,381 |
| Loans receivable | 6,284,916 | – | – | – | – | 6,284,916 |
| Refundable deposits | 55,373,170 | – | – | – | – | 55,373,170 |
| Total loans and receivables | 1,489,285,615 | 72,599,530 | 22,123,805 | 39,381,436 | 596,609 | 1,623,986,995 |
| AFS investments (Note 11) | | | | | | |
| Equity securities | 707,002,512 | | | | | 707,002,512 |
| | P2,196,288,127 | P72,599,530 | P22,123,805 | P39,381,436 | P596,609 | P2,330,989,507 |

High grade cash and cash equivalents are short term placements and working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability.

Other high grade accounts are accounts considered to be high value. The counterparties have a very remote likelihood of default and have consistently exhibited good paying habits. Standard grade accounts are active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues. These accounts are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly. Substandard grade accounts are accounts which have a probability of impairment based on historical trend. These accounts show propensity to default in payment despite regular follow up and extended payment terms.

Below is the aging analysis of past due but not impaired receivables:

| | 2013 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 to 60 days | More than 60 days | Total |
| Accounts receivable | P3,511,678 | P2,487,272 | P27,723,311 | P33,722,261 |

| | 2012 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 to 60 days | More than 60 days | Total |
| Accounts receivable | P16,074,940 | P5,366,782 | P17,939,714 | P39,381,436 |

As of December 31, 2013 and 2012, accounts receivable with nominal value of P0.6 million were impaired and were fully provided for with allowance for doubtful accounts (see Note 7).

- *Liquidity risk*

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due. The Group ensures that investments have ample liquidity to finance operations and capital requirements and yield good returns. The Group manages liquidity by maintaining adequate reserves. Moreover, banking facilities and reserve bank lines and facilities are secured to fill in temporary mismatch of funds for new investments or projects.

As of December 31, 2013 and 2012, the available credit lines with banks and outstanding balances are as follows:

| | 2013 | | |
|---|---|---|---|
| | Available credit line | Drawable line | Unpaid |
| UCPB | ₱420,000,000 | ₱ | ₱374,242,824 |
| CBC | 400,000,000 | – | 400,000,000 |
| BPIF | 275,983,414 | – | 274,610,126 |
| BPI | 224,000,000 | 180,000,000 | 210,500,000 |
| UBP | 400,000,000 | – | 396,056,200 |
| AUB | 265,000,000 | – | 85,000,000 |
| | ₱1,984,983,414 | ₱180,000,000 | ₱1,740,409,150 |

| | 2012 | | |
|---|---|---|---|
| | Available credit line | Drawable line | Unpaid |
| UCPB | ₱400,047,720 | ₱20,000,000 | ₱380,047,720 |
| CBC | 370,000,000 | – | 370,000,000 |
| BPIF | 274,610,126 | – | 274,610,126 |
| BPI | 224,000,000 | – | 224,000,000 |
| UBP | 400,000,000 | – | 400,000,000 |
| | ₱1,668,657,846 | ₱20,000,000 | ₱1,648,657,846 |

Furthermore, long term debts are used for financing when the business requirement calls for it to ensure adequate liquidity for its operations. Additional funding requirements may be obtained from related parties.

The following table presents the Group's non derivative financial assets and liabilities by contractual maturity and settlement dates as of December 31, 2012 and 2011. These have been based on the undiscounted cash flows and on the earliest date on which the Group will earn and/or will be required to pay.

The following table presents the Group's non derivative financial assets and liabilities by contractual maturity and settlement dates as of December 31, 2012 and 2011. These have been based on the undiscounted cash flows and on the earliest date on which the Group will earn and/or will be required to pay.

| | 2013 | | |
|---|---|---|---|
| | Due within one year | Due beyond one year | Total |
| Financial assets: | | | |
| Cash and cash equivalents | ₱131,124,390 | ₱– | ₱131,124,390 |
| Accounts receivable | 294,256,978 | 205,093,873 | 499,350,851 |
| Notes receivable | 6,632,828 | – | 6,632,828 |
| Refundable deposits | 26,719,819 | – | 26,719,819 |
| AFS investments | – | 914,260,817 | 914,260,817 |
| | ₱458,734,015 | ₱1,119,354,690 | ₱1,578,088,705 |
| Financial liabilities: | | | |
| Short term debt | ₱220,000,000 | ₱– | ₱220,000,000 |
| Long term debt | 110,905,259 | 1,490,895,233 | 1,601,800,492 |
| Accounts payable and accrued expenses* | 272,158,256 | | 272,158,256 |
| Subscription payable | 84,550,742 | | 84,550,742 |
| | ₱687,614,257 | ₱1,490,895,233 | ₱2,178,509,490 |

| | 2012 | | |
|---|---|---|---|
| | Due within one year | Due beyond one year | Total |
| Financial assets: | | | |
| Cash and cash equivalents | ₱995,259,528 | ₱– | ₱995,259,528 |
| Accounts receivable | 263,556,519 | 302,916,253 | 566,472,772 |
| Notes receivable | 6,284,916 | – | 6,284,916 |
| Refundable deposits | 55,373,170 | – | 55,373,170 |
| AFS investments | – | 707,002,512 | 707,002,512 |
| | ₱1,320,474,133 | ₱1,009,918,765 | ₱2,330,392,898 |
| Financial liabilities: | | | |
| Short term debt | ₱170,000,000 | ₱– | ₱170,000,000 |
| Long term debt | 22,875,000 | 1,532,991,485 | 1,555,866,485 |
| Accounts payable and accrued expenses* | 336,477,377 | – | 336,477,377 |
| Dividends payable | 2,420,541 | – | 2,420,541 |
| Subscription payable | 114,550,663 | – | 114,550,663 |
| | ₱646,323,581 | ₱1,532,991,485 | ₱2,179,315,066 |

*Accounts payable and accrued expenses excludes statutory payables as of December 31, 2013 and 2012.

- *Agricultural production risk*

Agricultural production risks include all factors that affect the productivity of crop which affects the profitability of the related biological assets. Due to the high dependence on biological processes, external events such as drought, flooding, pests and diseases are major sources of agricultural production risk.

The Group reduces this risk by good farm management practices and access to agricultural support services. The Group ensures that proper selection of planting sites has been performed.

- *Interest rate risk*

The Group is exposed to interest rate fluctuations on their cash in bank and cash equivalents, contract receivables on sale of real estate and short term and long term debt. Other financial assets and liabilities which principally arise in the ordinary course of its operations, are generally short term and noninterest bearing.

Historically, the rate of fluctuations relative to its cash in bank and cash equivalents are minimal. Interest rates in 2013 and 2012 ranged from 0.25% to 3.0%.

The contract receivables on sale of real estate are managed within the parameters approved by management. Currently, these have been offered at approved fixed rates. Interest rates, which are highly controllable by the Parent Company, ranged from less than 0% to 15% in 2013 and 2012, depending on the terms and length of payment in years. Any changes in the interest rate have been subjected to thorough review and approval of the management.

Long term debt carries fixed interest rates of 1.00% to 7.33% in 2013 and 2012.

- *Equity Price Risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. Changes in fair value of Available for sale equity instruments due to a reasonably possible change in equity indices, with all other variables held constant will increase equity by P27.3 million as of December 31, 2013, if equity prices will increase by 3%. An equal change in the opposite direction would have decreased equity by the same amount.

- *Foreign Currency Risk*

The Group's exposure to foreign currency risk is very minimal.

The Group's policy is to maintain a level of foreign currency denominated cash in bank that would not significantly affect the Group's financial position and results of operations due to movements in foreign exchange rates.

The following table demonstrates the sensitivity to a reasonable possible change in the Philippine Peso – US dollar exchange rate, with all variable held constant, the Group's income before tax and the Group's equity on December 31, 2013.

| Reasonably Possible Changes in US Dollar – Philippine Peso Exchange Rate | Effect on Income before tax | Effect on Equity |
|---|---|---|
| 1% | ₱30,287 | ₱21,200 |
| 1% | 30,287 | 21,200 |

The Group's exposures to foreign currency rates vary during the year depending on the dollar denominated cash deposited in banks. Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

## 33. Capital Management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and maintains healthy ratios in order to support its business and maximize shareholders' value.

The Group considers the following accounts as its capital:

| | 2013 | 2012 |
|---|---|---|
| Share capital | ₱1,732,865,522 | ₱1,386,293,229 |
| Additional paid in capital | 586,198,947 | 586,198,947 |
| Retained earnings | 334,760,364 | 687,777,013 |
| | ₱2,653,824,833 | ₱2,660,269,189 |

The Group manages capital on the basis of the debt to equity ratio which is calculated as total debt divided by total equity.

The debt to equity ratios as at December 31, 2013 and 2012 follow:

| | 2013 | 2012 |
|---|---|---|
| Total debt | ₱2,406,333,110 | ₱2,323,488,070 |
| Total equity | 2,784,321,171 | 2,785,909,602 |
| Debt to equity ratio | 0.86:1.00 | 0.83:1.00 |

The Group had not been subjected to externally imposed capital requirements in 2013 and 2012. No changes were made in the objectives, policies, and processes during the years ended December 31, 2013 and 2012.

## 34. Dividend Declaration

On June 7, 2013, the Parent Company declared stock dividends equivalent to 25% of outstanding capital stock of the Corporation for the shareholders record as of September 12, 2013 and distributed the shares to the stockholders on October 2013.

On December 2010, the Parent Company distributed 62,500,591 shares which is net of 4,609,685 shares representing the final tax due on the treasury shares.

On August 18, 2010, the Board of Directors has approved the declaration of a total of 63,120,433 of the Parent Company's treasury shares as property dividends to be reissued at P3.20 per share. Shareholders as of record date owning 16 shares shall be entitled to one treasury share. No fractional shares shall be issued. Since the property dividend shall be subject to regulatory approval of the SEC, the record date was set on November 3, 2010 and the distribution date was November 29, 2010 after an instruction was received from the SEC for the Board of Directors to set those pertinent dates.

On July 9, 2010, the Parent Company's Board of Directors, upon the recommendation of Management, declared a cash dividend of Twenty Centavos (P0.20) per share. Conformably with the rules of the Philippine Stock Exchange, the Record Date for the dividend shall be August 6, 2010 and Payment Date shall be on August 31, 2010.

On December 27, 2006, the BOD declared cash dividends equal to P0.05 per share or a total of P49,439,315 to shareholders of record as of January 15, 2007 payable on February 8, 2007. Relative to this, dividend payable of P45,852,178 (net of withholding tax) was recognized in the December 31, 2006 Parent Company statements of financial position. As of December 31, 2012 dividends payable amounted to P2,420,541. In 2013, P2.3 million of the unpaid dividends of the Parent Company was closed to other income and P.065 million was reclassified.

## 35. Business Segment Information

In identifying the operating segments, management generally follows the Group's principal activities or business operations, which represent the main products and services provided by the Group as follows:

| | |
|---|---|
| Real estate | Development of land into commercial and residential subdivision, sale of lots and residential houses and the provision of customer financing for sales |
| Quarry and Mining | Quarrying and mining of basalt rocks for production of construction aggregates or sand and gravel |
| Service/ Manufacturing /Trading | Providing water supply and servicing; Manufacturing of crude palm oil; Selling of goods on wholesale and retail basis |
| Hotel | Management of hotel operations |
| Agriculture | Development of land for palm oil production and sale of palm seedlings and sale of crude palm oil |
| Power | Operating of power plants and/or purchase, generation, production supply and sale of power. However, there was no commercial operations yet in 2013 and 2012. |
| Holding | Holding of properties of every kind and description |

The Group generally account for inter segment sales and transfers as if the sales and transfers were to third parties at current market prices.

The following tables regarding business segments presents assets and liabilities as of December 31 and revenue and profit information for each of the three years in the period ended December 31, 2013 (in thousands).

| | 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Information About Business Segments | | | | | | | | | |
| | Real estate | Quarry and Mining | Service/ Manufacturing/ Trading | Hotel | Agriculture | Power Operations | Holding | Total | Adjustments and eliminations | Consolidated |
| **Revenues** | | | | | | | | | | |
| External revenues | ₱366.289 | ₱13.458 | ₱74.068 | ₱8.856 | ₱8.000 | ₱– | ₱– | ₱471.571 | ₱– | ₱471.571 |
| Inter segment revenues | 11.335 | – | – | – | – | – | – | 11.335 | (11.335) | – |
| **Total revenues** | 377.624 | 13.458 | 74.068 | 8.856 | 8.000 | – | – | 482.996 | (11.335) | 471.571 |
| Operating expenses | 337.216 | 7.787 | 113.172 | 18.967 | 5.795 | 1.218 | 2.546 | 486.701 | (293) | 486.408 |
| **Operating profit (loss)** | 40.408 | 5.671 | (38.204) | (10.111) | 2.205 | (1.218) | (2.546) | (3.705) | (11.042) | (14.837) |
| Financial income | 30.315 | – | 231 | 122 | 1 | 359 | 519 | 31.547 | – | 31.547 |
| Financial expenses | (67.786) | – | – | (681) | – | – | – | (68.467) | – | (68.467) |
| Dividends income | 5 | – | – | – | – | – | – | 5 | – | 5 |
| Other income | 40.375 | 5 | 1.257 | (1.040) | – | – | – | 40.597 | – | 40.597 |
| Income tax expense (benefit) | (8.041) | – | 10.398 | 3.354 | (820) | 542 | 711 | 6.144 | – | 6.144 |
| **Net income** | ₱44.270 | ₱5.676 | (₱26.318) | (₱8.356) | ₱1.386 | (₱317) | (₱1.310) | ₱15.031 | (₱11.042) | ₱3.989 |
| Net income attributable to: | | | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | | | 3.556 |
| Noncontrolling interest | | | | | | | | | | 433 |
| | | | | | | | | | | 3.989 |
| **Other information** | | | | | | | | | | |
| Segment assets | ₱5.116.263 | ₱17.122 | ₱747.492 | ₱100.865 | ₱259.464 | ₱21.402 | ₱744.314 | ₱7.006.922 | (₱1.872.082) | ₱5.134.840 |
| Deferred tax assets | 16.995 | – | 19.118 | 6.551 | 11.577 | 627 | 947 | 55.815 | – | 55.815 |
| Total assets | 5.133.258 | 17.122 | 766.610 | 107.416 | 271.041 | 22.029 | 745.261 | 7.062.737 | (1.872.082) | 5.190.655 |
| Segment liabilities | 2.119.394 | 11.016 | 396.756 | 50.411 | 259.194 | 177 | 739.287 | 3.585.235 | (1.263.869) | 2.321.366 |
| Deferred tax liabilities | 84.967 | – | – | – | – | – | – | 84.967 | – | 84.967 |
| Total liabilities | 2.204.361 | 11.016 | 396.756 | 50.411 | 259.194 | 177 | 739.287 | 3.670.202 | (1.263.869) | 2.406.333 |
| Segment additions to property and equipment and investment properties | 12.380 | 1.706 | 92.272 | 20.352 | – | 2.147 | – | 137.857 | – | 137.857 |
| Depreciation and amortization | (14.440) | (170) | (7.320) | (2.245) | (3.288) | (88) | (3) | (27.572) | – | (27.572) |
| Impairment loss | (1.520) | – | – | – | – | – | – | (1.520) | – | (1.520) |

*(Amounts in Philippine Pesos)*

**2012 — Financial Information About Business Segments**

| | Real estate | Quarry and Mining | [illegible] | Hotel | Agriculture | Power Operations | Holding | Total | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| External revenues | ₱464.367 | ₱19.761 | ₱88.823 | ₱9.187 | ₱840 | ₱– | ₱– | ₱582.987 | ₱– | ₱582.987 |
| Inter segment revenues | 1.185 | 44 | – | 2.234 | 11.509 | – | – | 14.972 | (14.972) | – |
| **Total revenues** | 465.552 | 19.805 | 88.823 | 11.421 | 12.358 | – | – | 597.959 | (14.972) | 582.987 |
| Operating expenses | 407.937 | 15.285 | 113.615 | 18.738 | 33.939 | 376 | 4.837 | 594.667 | (10.444) | 584.223 |
| **Operating profit (loss)** | 57.615 | 4.520 | (24.792) | (7.317) | (21.581) | (376) | (4.837) | 3.292 | (4.528) | (1.236) |
| Financial income | 82.239 | – | 55 | 8.534 | 4 | 327 | 321 | 91.480 | (5.030) | 86.450 |
| Financial expenses | (54.581) | – | (5.029) | (113) | – | (1.018) | – | (60.741) | 5.030 | (55.711) |
| Other income | 64.839 | – | 5.741 | 336 | – | – | – | 70.916 | – | 70.916 |
| Income tax expense (benefit) | (42.469) | – | 4.831 | 2.050 | 5.324 | 73 | 108 | (30.083) | – | (30.083) |
| **Net income** | ₱107.643 | ₱4.520 | (₱19.134) | ₱3.400 | (₱16.253) | (₱994) | (₱4.408) | ₱74.864 | (₱4.528) | ₱70.336 |
| Net income attributable to: | | | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | | | 70.761 |
| Noncontrolling interest | | | | | | | | | | (425) |
| | | | | | | | | | | 70.336 |
| **Other information** | | | | | | | | | | |
| Segment assets | ₱5.097.492 | ₱17.122 | ₱673.423 | ₱85.441 | ₱259.898 | ₱41.930 | ₱190.508 | ₱6.365.814 | (₱1.296.799) | ₱5.069.015 |
| Deferred tax assets | 15.992 | – | 8.595 | 3.197 | 12.278 | 85 | 236 | 40.383 | – | 40.383 |
| Total assets | 5.113.484 | 17.122 | 682.018 | 88.638 | 272.176 | 42.015 | 190.744 | 6.406.197 | (1.296.799) | 5.109.398 |
| Segment liabilities | 2.151.056 | 10.122 | 286.555 | 32.100 | 201.007 | 10.846 | 183.454 | 2.944.830 | (699.627) | 2.245.203 |
| Deferred tax liabilities | 78.285 | – | – | – | – | – | – | 78.285 | – | 78.285 |
| Total liabilities | 2.229.341 | 10.122 | 286.555 | 32.100 | 201.007 | 10.846 | 183.454 | 3.023.115 | (699.627) | 2.323.488 |
| Segment additions to property and equipment and investment properties | 34.966 | 2.334 | 72.225 | 3.725 | 3.404 | – | – | 116.654 | – | 116.654 |
| Depreciation and amortization | (14.091) | (102) | (3.808) | (2.234) | (3.991) | (4) | (3) | (24.233) | – | (24.233) |
| Impairment loss | (1.520) | – | – | – | – | – | – | (1.520) | – | (1.520) |

**2011 — Financial Information About Business Segments**

| | Real estate | Quarry and Mining | [illegible] | Hotel | Agriculture | Power Operations | Holding | Total | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | |
| External revenues | ₱317.218 | ₱5.228 | ₱75.580 | ₱10.880 | ₱7.201 | ₱– | ₱– | ₱416.125 | ₱– | ₱416.125 |
| Inter segment revenues | 154 | 13 | | 3.025 | 4.167 | – | – | 7.359 | (7.359) | – |
| **Total revenues** | 317.372 | 5.241 | 75.580 | 13.914 | 11.368 | – | – | 423.484 | (7.359) | 416.125 |
| Operating expenses | 271.855 | 2.761 | 79.816 | 17.808 | 28.341 | 7.501 | 466 | 408.638 | (7.359) | 401.279 |
| **Operating profit (loss)** | 45.517 | 2.480 | (4.227) | (3.894) | (16.973) | (7.501) | (466) | 14.846 | – | 14.846 |
| Dividend income | 2 | – | – | – | – | – | – | 2 | – | 2 |
| Financial income | 36.859 | – | 14 | 10 | 8 | 55 | 3 | 36.949 | (8.568) | 28.381 |
| Financial expenses | (39.964) | – | (9.481) | – | – | – | – | (49.445) | 8.568 | (40.877) |
| Other income | 35.670 | – | 2.477 | 186 | – | – | – | 38.333 | – | 38.333 |
| Income tax expense (benefit) | (26.084) | – | 1.443 | 1.112 | 2.784 | 2.102 | 140 | (18.443) | – | (18.443) |
| **Net income** | ₱52.000 | ₱2.480 | (₱9.774) | (₱2.586) | (₱14.181) | (₱5.374) | (₱323) | ₱22.242 | – | ₱22.242 |
| Net income attributable to: | | | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | | | 22.556 |
| Noncontrolling interest | | | | | | | | | | (314) |
| | | | | | | | | | | 22.242 |
| **Other information** | | | | | | | | | | |
| Segment assets | ₱3.870.019 | ₱18.866 | ₱503.043 | ₱70.109 | ₱231.011 | ₱82.730 | ₱167.972 | ₱4.943.750 | (₱1.111.606) | ₱3.832.144 |
| Deferred tax assets | 37.056 | – | 3.530 | 1.148 | 6.954 | 2.177 | 197 | 51.062 | – | 51.062 |
| Total assets | 3.907.075 | 18.866 | 506.573 | 71.257 | 237.965 | 84.907 | 168.169 | 4.995.712 | (1.111.606) | 3.884.106 |
| Segment liabilities | 1.721.292 | 16.386 | 300.727 | 18.291 | 202.210 | 65.420 | 144.750 | 2.619.085 | (857.185) | 1.761.900 |
| Deferred tax liabilities | 87.512 | – | – | – | – | – | – | 87.512 | – | 87.512 |
| Total liabilities | 1.808.804 | 16.386 | 300.727 | 18.291 | 202.210 | 65.420 | 144.750 | 2.706.597 | (857.185) | 1.849.412 |
| Segment additions to property and equipment and investment properties | 7.062 | 26.020 | 52.084 | 9.928 | 11.034 | 50.871 | 1.482 | 159.081 | – | 159.081 |
| Depreciation and amortization | (10.993) | (19) | (2.653) | (2.234) | (2.722) | (379) | (2) | (19.002) | – | (19.002) |
| Impairment loss | (1.520) | – | – | – | – | – | – | (1.520) | – | (1.520) |

The Group's external revenues as shown in the preceding tables are analyzed as follows for each major product and service category:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Real estate: | | | |
| Sale of lot – real estate held for sale | ₱348,599,461 | ₱465,969,218 | ₱315,358,517 |
| Management fees | 23,200,000 | – | |
| Rental – investment properties | 5,447,917 | 6,604,501 | 7,087,811 |
| | 377,247,378 | 472,573,719 | 322,446,328 |
| Service/Manufacturing and trading: | | | |
| Crude palm oil | 64,688,505 | 82,643,118 | 71,318,039 |
| Water service | 12,276,412 | 11,554,742 | 2,719,651 |
| Palm seedlings and kernel nuts | 2,114,196 | 5,674,997 | 1,386,893 |
| Crop | 8,000,000 | 849,467 | 7,201,494 |
| Fertilizer | 165,750 | 505,070 | 164,280 |
| | 87,244,863 | 101,227,394 | 82,790,357 |
| Hotel operations: | | | |
| Hotel operations | 7,078,305 | 9,187,558 | 10,766,361 |
| Rental | – | – | 122,727 |
| | 7,078,305 | 9,187,558 | 10,889,088 |
| | ₱471,570,546 | ₱582,988,671 | ₱416,125,773 |

Revenues from external customers have been identified based on the principal products and services. The Group's external revenues in each of the segment do not depend on a single customer.

### 36. Amendments to the Articles of Incorporation

In a Board of Directors meeting held on May 2, 2012 and the annual stockholders meeting on June 1, 2012, the Board of Directors and the shareholders representing 2/3 of the outstanding capital stock approved the following amendments in the Articles of Incorporation:

a. Amendment to paragraph 4: "That the term for which the Corporation is to exist is extended for another fifty (50) years from and after the date of the expiration of the original corporate term on 20 December 2016".

b. Amendment to paragraph 6: "That the number of directors of this Corporation shall be Nine (9)......"

c. Amendment to paragraph 7: "That the amount of the capital stock of this Corporation is One Billion Six Hundred Twenty Million Pesos (P1,620,000,000.00), Philippine Currency, and the said capital stock is divided into One Billion Six Hundred Twenty Million (1,620,000,000) shares with a par value of One Peso (P1.00) each, provided that, stockholders shall have no preemptive right to subscribe to unissued shares unless otherwise approved by the Board of Directors".

The SEC approved the said amendments on December 28, 2012.

The Board of Directors in its special meetings held on May 26 and June 10, 2008 approved the following amendments in its articles of incorporation. The amendments were confirmed by the shareholders representing not less than 2/3 of the outstanding capital stock in the annual shareholders' meeting on July 11, 2008.

a. Amendment to paragraph 3: "That the place where the principal office of the Corporation is to be established in Pasig City, Metro Manila".

The change in principal office was approved by SEC on March 3, 2010.

The Board of Directors, during their meeting held on November 28, 2011 and by the stockholders of the Parent Company holding at least two thirds (2/3) of the outstanding capital stock, amended the Articles of Incorporation, changing the principal office to Xavier Estates, Upper Balulang, Cagayan de Oro City. Amendment was approved by SEC on December 28, 2011.

b. Amendment to paragraph 7: "That the amount of the capital stock of this Corporation is P15,320,000,000 and the said capital stock is divided into 15,320,000,000 shares with the par value of P1.00 each, provided that shareholders shall have no preemptive right to subscribed unissued shares unless otherwise approved by the Board of Directors"

Pending approval from SEC for the increase in its capitalization, the Parent Company received a total of P187.8 million as of December 31, 2009, as deposits for future stock subscription. Additional deposits were received by the Parent Company in 2010 amounting to P3.8 million. Inasmuch, however, that the Parent Company no longer has use for the fresh capital intended to be raised in 2008, management has proposed that the increase in capital stock be cancelled which was subsequently approved by the BOD on its board meeting last September 16, 2010. The deposits made in consideration thereof have already been returned to the stockholders concerned in 2010.

Moreover, the Board of Directors on its meeting on March 26, 2007 and May 30, 2007, approved the following:

Amendment to paragraph 5 of the secondary purpose of the Articles of Incorporation, to read as follows:

"To engage in the power business, including but not limited to power generation, power trading and power supply, and for this purpose, to bid for or acquire power generation and power related assets, facilities, concessions and contracts, and to enter into other transactions or agreements relating to power, by itself or through joint ventures or partnerships, directly or through its subsidiaries or affiliates and to purchase, hold use, sell, transfer, mortgage, exchange, or dispose of real and personal properties of every kind and description, including all commercial papers and securities or obligations of domestic/foreign corporation or associations without being a stockholder or dealer and to pay or exchange therefore, stocks, bonds or other evidences of indebtedness or securities for this or any other corporation and to exercise any and all rights and obligations as owner or holder thereof, provided it shall not function as a trust corporation".

The foregoing amendments were confirmed by the stockholders representing not less than 2/3 of the outstanding capital stock in the annual stockholders' meeting on June 1, 2007.

On May 2, 2012, the BOD approved the cancellation of this amendment.

## 37. Other Matter

Impasug Ong and Kalabugao Plantations

ABERDI entered into a Development Contract (DC) with Kapunungan Sa Mga Mag uuma sa Kaanibungan (KASAMAKA) at the Municipality of Impasug ong, Bukidnon concerning the development of Oil Palm Commercial Plantation.

KASAMAKA had been granted with Community Based Forest Management Agreement (CBFMA) no. 55093, by the Department of Environment and National Resources (DENR) on December 22, 2000 covering an area of 2,510.80 hectares. Under the CBFMA, KASAMAKA is mandated to develop, manage and protect the allocated community forest project area. Moreover, it is allowed to enter into agreements or contracts with private or government entities for the development of the whole or portion of the CBFMA area.

The project's objectives are to establish approximately 894 hectares into a commercial palm plantation within 5 years (2006 2011). However, ABERDI may intercrop suitable agricultural crops in the plantation and raise livestock, the harvest and produce of which shall belong to ABERDI.

The responsibilities of KASAMAKA with regards to the project follow:

- To provide the land area of 894 hectares within CBFMA area for oil palm plantation.
- To provide manpower needs of the Company in all developmental activities such as land preparation, planting, weeding, fertilization, harvesting, maintenance and others.

On the other hand, the responsibility of ABERDI in regard to the project is to provide technical and financial resources to develop the 894 hectares into palm oil plantation for a period of 20 years up to 2026.

Relative to the agreement, the Group paid for leasehold rights on the land that are applicable up to year 2026 (see Note 17).

Opol Plantation

Nakeen entered into a Development Contract for the establishment of Palm Oil Plantation in Tingalan, Opol, Misamis Oriental with Kahugpongan sa mga Mag Uuma sa Barangay Tingalan (KMBT).

KMBT has been granted CBFMA No. 56297 by DENR on December 31, 2000 covering a total area of 1,000 hectares of forest lands located in Tingalan, Opol, Misamis Oriental to develop, manage and protect the allocated Community Forest Project Area.

The roles and responsibilities of KMBT under the Development Contract are as follows:

- Provide the land area within the CBFMA for oil plantation
- To provide manpower needs of Nakeen in all developmental activities such as land preparation, planting, weeding, fertilization, harvesting, maintenance and others.

On the other hand, the responsibility of Nakeen in regard to the project is to provide technical and financial resources to develop the covered area into palm oil plantation for a period of 25 years.

## 38. Litigation

Yulo Case

On December 15, 2008, the First Division of the Supreme Court issued a resolution, denying with finality the motion for reconsideration filed by the Parent Company on October 15, 2008 concerning the case involving a claim for sum of money, specific performance and damage by a certain individual in November 2001. As a result, the Parent Company recognized an estimated litigation loss of P34.4 million, inclusive of 12% legal interest computed from default until judgment is fully satisfied based on the Court of Appeals amended decision on July 23, 2008 and claimant.

On July 15, 2009, pursuant to the assailed Order of the trial court dated June 25, 2009, the Parent Company paid the claimant the amount of P22.4 million. The said payment was made with the intention of putting closure to the case. The difference between the amount of litigation liability and the amount of settlement has been recorded by the Parent Company as withholding tax on compensation pursuant to the BIR ruling that the nature of the claim is compensation income. In May 2010, the amount recorded by the Parent Company as withholding tax on compensation was released to the Court of Appeals until the decision is final.

The presiding judge who handled the case was eventually replaced.

In an Order dated April 15, 2010, the new presiding judge, reversed the order of the former presiding judge, declaring that the judgment award is not subject to income tax and, at the same time, eliminating the threshold date of 15 July 2009 set by the former presiding judge in the computation of the total amount payable to the claimant

The new presiding judge ruled that the company was "still obligated to pay the amount of P14, 075,521.24 as of April 15, 2010, subject to daily interest at the rate of P4,305.73 until judgment is fully satisfied."

The Parent Company moved for reconsideration of the said order but, to no avail. The matter is elevated to the Court of Appeals where it is now currently pending.

Lustre Case

The Parent Company filed with the trial court a case for recission with damages against defendants Home Industries Development Corporation ("HIDC") and/or Mr. Antonio Lustre. The instant case was brought about by the defendants non delivery of lots subject of a contract to sell. The amount involved in the instant case is Six Million Four Hundred Sixty Four Thousand Four Hundred Twenty Five Pesos (P6,464,425.00) [(cash actually paid by the Parent Company) P794,425.00 + (present value of shares of stock) P5,400,000.00 + (difference between value of the shares of stock at the date of the execution of the Contract to Sell and the present value of the shares of stock) P270,000.00]. The trial court ruled in favour of the Parent Company.

The Parent Company learned that the shares of stock forming part of the trial court's judgment award had been disposed and were no longer in the name of Defendants Home Industries Development Corporation ("HIDC") and/or Mr. Antonio Lustre. As such, the Parent Company filed an Omnibus Motion dated 18 April 2011 praying, among others, that Defendant HIDC pay the value of the shares of stock, in lieu of the actual return of the same, which regrettably was denied by the trial court.

Considering the trial court's denial of the above mentioned Omnibus Motion, the Parent Company filed with the Court of Appeals a Motion for Amendment and/or Clarification of Judgment Based on Supervening Events ("Motion") dated 22 February 2012. This Motion was subsequently denied in a Resolution dated 27 December 2012. Consequently, the Parent Company filed a Motion for Reconsideration (Of the Resolution dated 27 December 2012).

At present, the Motion is still pending with the Court of Appeals.

## 39. Treasury Shares

On June 1, 2010, the Parent Company acquired 300,000,000 treasury shares held by Baysfield Investments Limited (BIL) at the purchase price of P335,212,810, or about P1.12 per share.

On October 12, 2010, the Parent Company sold 63,865,705 common shares held in treasury at P3.01 per share resulting to additional paid in capital amounting to P120,873,766.

As discussed in Note 1, the Parent Company's Board of Directors (BOD) approved, during their meeting on October 5, 2012, the private placement of 250.0 million of its listed common shares consisting of 173.6 million treasury common shares and 76.4 million common shares owned by a shareholder. The Placement Shares, with a par value of P1 per share was sold at a price of P2.89 per share and crossed in the Exchange on October 8, 2012.

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**Transfer Agent**
Fidelity Stock Transfers, Inc.

*Effective April 1, 2014, the Professional Stock Transfers, Inc. (PSTI) will be ADCI's new stock transfer agent.*
*For transactions or inquiries, shareholders may contact PSTI via:*

*10th Floor Telecom Plaza Building,*
*316 Sen. Gil Puyat Avenue, Makati City*
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