Ever-Gotesco Resources and Holdings, Inc. and Subsidiary

Consolidated Financial Statements
December 31, 2012 and 2011
and Years Ended December 31, 2012, 2011 and 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Ever-Gotesco Resources and Holdings, Inc.

We have audited the accompanying consolidated financial statements of Ever-Gotesco Resources and Holdings, Inc. and its subsidiary, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ever-Gotesco Resources and Holdings, Inc. and its subsidiary as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which indicates that the ultimate outcome of the following matters cannot be presently determined: (a) the pending cases involving the annulment of foreclosure proceedings and the ex-parte petition for issuance of writ of possession of the land and commercial complex of the Company's wholly owned subsidiary, Gotesco Tyan Ming Development, Inc.; and (b) the pending case complaint filed by Bangko Sentral ng Pilipinas for the collection of its advances to the now defunct Orient Commercial Banking Corporation, an affiliate, where a notice of garnishment of lease payments has been issued against the Company, its subsidiary and certain affiliates and officers. Further, the Company and its subsidiary continued to have substantial working capital deficiency and deficit. No provision for any loss or liability, which includes the default charges billed by lender banks that may result, has been made in the consolidated financial statements. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty, which may cast significant doubt about the Company's and its subsidiary's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 1. We have performed audit procedures to evaluate management's plans for such future actions as to likelihood to improve the situation and as to feasibility under the circumstances.

SYCIP GORRES VELAYO & CO.

Catherine E. Lopez

Catherine E. Lopez
Partner
CPA Certificate No. 86447
SEC Accreditation No. 0468-AR-2 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-085-895
BIR Accreditation No. 08-001998-65-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669691, January 2, 2013, Makati City

April 4, 2013

EVER-GOTESCO RESOURCES AND HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash	**₱442,773**	₱281,492
Receivables (Notes 1, 4 and 18)	**900,015,154**	697,809,043
Creditable withholding taxes (Note 5)	**141,030,540**	125,841,505
Other current assets	**6,160,857**	2,584,168
Total Current Assets	**1,047,649,324**	826,516,208
Noncurrent Assets		
Property and equipment (Note 6)	**1,655,713**	2,273,493
Investment properties (Notes 7, 9 and 10)	**2,437,699,920**	2,593,996,452
Receivables from related parties - net of current portion (Note 18)	**1,143,141,762**	1,252,641,519
Other noncurrent assets (Note 8)	**47,704,068**	36,366,074
Total Noncurrent Assets	**3,630,201,463**	3,885,277,538
TOTAL ASSETS	**₱4,677,850,787**	₱4,711,793,746
LIABILITIES AND EQUITY		
Current Liabilities		
Bank loans (Notes 1 and 9)	**₱357,692,309**	₱357,692,309
Accounts payable and other liabilities (Notes 9, 10, 11 and 18)	**1,337,530,118**	1,259,982,964
Current portion of payables to banks (Note 10)	**186,777,767**	162,902,645
Customers' deposits (Note 17)	**105,228,060**	108,139,429
Operating lease payable (Note 16)	**30,875,520**	51,945,991
Provisions (Note 24)	**60,084,369**	60,084,369
Total Current Liabilities	**2,078,188,143**	2,000,747,707
Noncurrent Liabilities		
Payables to banks - net of current portion (Note 10)	**453,020,166**	639,817,118
Retirement benefits liability (Note 14)	**1,910,024**	1,634,225
Deferred income tax liabilities - net (Note 15)	**1,198,831**	1,855,211
Total Noncurrent Liabilities	**456,129,021**	643,306,554
Total Liabilities	**2,534,317,164**	2,644,054,261
Equity		
Capital stock - ₱1 par value		
Authorized and issued - 5,000,000,000 shares (held by 5804 and 5,868 equity holders in 2012 and 2011, respectively)	**5,000,000,000**	5,000,000,000
Deficit	**(2,856,466,377)**	(2,932,260,515)
Total Equity	**2,143,533,623**	2,067,739,485
TOTAL LIABILITIES AND EQUITY	**₱4,677,850,787**	₱4,711,793,746

See accompanying Notes to Consolidated Financial Statements.

EVER-GOTESCO RESOURCES AND HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2012	2011	2010
REVENUES (Note 7)			
Mall rental income (Notes 16 and 18)	**₱345,754,197**	₱347,780,473	₱357,485,792
Cinema ticket sales	**2,471,135**	3,338,402	3,881,183
	348,225,332	351,118,875	361,366,975
DIRECT COSTS AND EXPENSES (Notes 7 and 12)	**223,090,822**	238,228,150	243,148,228
GROSS PROFIT	**125,134,510**	112,890,725	118,218,747
General and administrative expenses (Note 13)	**(48,673,724)**	(53,138,259)	(46,496,295)
Accretion income (Note 18)	**78,890,332**	129,843,932	88,057,416
Interest expense (Notes 9 and 10)	**(94,958,612)**	(105,027,585)	(112,015,038)
Interest income and others - net (Note 16)	**16,945,325**	1,474,617	2,041,328
INCOME BEFORE INCOME TAX	**77,337,831**	86,043,430	49,806,158
PROVISION FOR INCOME TAX (Note 15)			
Current	**2,200,073**	3,316,885	2,988,605
Deferred	**(656,380)**	(2,555,779)	(414,991)
	1,543,693	761,106	2,573,614
NET INCOME/TOTAL COMPREHENSIVE INCOME (Note 25)	**₱75,794,138**	₱85,282,324	₱47,232,544
Basic/Diluted Earnings Per Share (Note 17)	₱0.015	₱0.017	₱0.009

See accompanying Notes to Consolidated Financial Statements.

EVER-GOTESCO RESOURCES AND HOLDINGS, INC.
AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

	Capital Stock	Deficit	Total
BALANCES AT DECEMBER 31, 2009	**₱5,000,000,000**	**(₱2,698,724,402)**	**₱2,301,275,598**
Total comprehensive income for the year	–	47,232,544	47,232,544
Excess of nominal amounts over the present values of loans granted to related parties during the year (Notes 4 and 18)	–	(344,192,253)	(344,192,253)
BALANCES AT DECEMBER 31, 2010	**5,000,000,000**	**(2,995,684,111)**	**2,004,315,889**
Total comprehensive income for the year	–	85,282,324	85,282,324
Excess of nominal amounts over the present values of loans granted to related parties during the year (Notes 4 and 18)	–	(21,858,728)	(21,858,728)
BALANCES AT DECEMBER 31, 2011	**5,000,000,000**	**(2,932,260,515)**	**2,067,739,485**
Total comprehensive income for the year	–	75,794,138	75,794,138
BALANCES AT DECEMBER 31, 2012	**₱5,000,000,000**	**(₱2,856,466,377)**	**₱2,143,533,623**

See accompanying Notes to Consolidated Financial Statements.

EVER-GOTESCO RESOURCES AND HOLDINGS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱77,337,831**	₱86,043,430	₱49,806,158
Adjustments for:			
Depreciation and amortization (Notes 6 and 7)	**159,474,264**	164,028,955	163,862,230
Interest expense (Notes 9 and 10)	**94,958,612**	105,027,585	112,015,038
Accretion income (Note 18)	**(78,890,332)**	(129,843,932)	(88,057,416)
Interest income	**(20,849)**	(191,159)	(107,884)
Retirement benefits costs (Note 14)	**275,799**	164,702	164,323
Operating income before working capital changes	**253,135,325**	225,229,581	237,682,449
Decrease (increase) in:			
Receivables	**74,621,492**	(6,268,848)	(59,521,140)
Other current assets	**(3,575,521)**	(50,793)	(457,713)
Increase (decrease) in:			
Accounts payable and other liabilities	**41,543,793**	90,508,161	61,558,177
Operating lease payable	**(21,070,471)**	(5,198,748)	(3,491,144)
Customers' deposits	**(2,911,369)**	(11,753,563)	8,429,777
Cash generated from operations	**341,743,249**	292,465,790	244,200,406
Income taxes paid, including creditable taxes withheld and final taxes	**(17,389,108)**	(12,101,673)	(14,145,617)
Interest received	**20,849**	191,159	107,884
Net cash from operating activities	**324,374,990**	280,555,276	230,162,673
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Receivables from related parties (Note 18)	**(88,438,681)**	(82,861,191)	(71,168,758)
Deposits and other noncurrent assets (Note 8)	**(11,337,994)**	(9,089,671)	(8,223,633)
Additions to:			
Investment properties (Notes 7, 8 and 23)	**(2,447,408)**	(2,460,380)	(836,693)
Property and equipment (Note 6)	**(112,545)**	(240,064)	(995,253)
Net cash used in investing activities	**(102,336,628)**	(94,651,306)	(81,224,337)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments to banks (Notes 9 and 10)	**(162,921,830)**	(95,124,864)	(86,546,029)
Interest paid (Note 10)	**(58,955,251)**	(90,971,024)	(84,586,837)
Cash used in financing activities	**(221,877,081)**	(186,095,888)	(171,132,866)
NET INCREASE (DECREASE) IN CASH	**161,281**	(191,918)	(22,194,530)
CASH AT BEGINNING OF YEAR	**281,492**	473,410	22,667,940
CASH AT END OF YEAR	**₱442,773**	₱281,492	₱473,410

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information, Authorization for Issue of the Financial Statements, Status of Operations and Risks and Uncertainties**

Corporate Information
Ever-Gotesco Resources and Holdings, Inc. (the Company) and its wholly owned subsidiary, Gotesco Tyan Ming Development, Inc. (GTMDI), (together referred to hereafter as the "Group") were incorporated in the Philippines primarily to engage in the business of building shopping malls and leasing out to commercial tenants. The Company and GTMDI were registered in the Philippine Securities and Exchange Commission (SEC) on September 27, 1994 and September 21, 1994, respectively. The Company is a 57.32%-owned subsidiary of Gotesco Properties, Inc., which was also incorporated in the Philippines.

The Philippine SEC authorized the offering/sale of the Company's 5.0 billion common shares with par value of ₱1.0 each on September 16, 1996. The Company's common shares were held by 5,804 and 5,868 shareholders as of December 31, 2012 and 2011, respectively.

The registered office address of the Company is Ever-Gotesco Corporate Center, 1958 Claro M. Recto Avenue, Manila, while GTMDI's registered office address is Ever-Gotesco Ortigas Complex, Ortigas Avenue, Pasig City.

Authorization for Issue of the Financial Statements
The consolidated financial statements of the Company were authorized for issue in accordance with a resolution of the Board of Directors (BOD) on April 4, 2013.

Status of Operations
The Group continued to experience financial weakness and unstable financial performance. The net income of ₱78.5 million in 2012, ₱85.3 million in 2011 and ₱47.2 million in 2010, substantially pertains to the accretion income from receivables from related parties (see Note 18). The Group remains to have a substantial working capital deficiency of ₱1.2 billion and an accumulated deficit of ₱2.8 billion as of December 31, 2012.

Further, the Group continues to face significant risks arising from unresolved foreclosure proceedings against both its properties and future mall revenue. GTMDI's land, including the commercial complex situated thereon, was foreclosed in 1999 by lender banks following GTMDI's loan default. These banks, however, have not been able to take possession of the properties pending the decision on the case by the Regional Trial Court of Pasig (RTC-Pasig).

Also, in 2000, the Group was impleaded to the civil case between the Bangko Sentral ng Pilipinas (BSP), as plaintiff, and the now defunct Orient Commercial Banking Corporation (Orient Bank) and some of its officers and employees, as defendants. In 2003, the parties to the civil case entered into a compromise agreement, which was approved by the Regional Trial Court of Manila (RTC-Manila). Under the terms of the compromise agreement, the rentals and all other income and revenue of the malls, which include those of the companies that are owned and operated by the defendants, shall continue to guarantee the stipulated amortizations due from the defendants. The Group along with the other defendants submitted an amortization schedule to BSP which the latter rejected. BSP sought to impose upon the defendants its own amortization schedule which the Group believes is way beyond the defendants' financial capacity. Despite several entreaties to come up with a compromise amortization schedule, no agreement has been reached. Thus, a deadlock in the negotiation ensued. RTC-Manila issued a Writ of Garnishment on lease rental receivables to the defendants.

The Company and its subsidiary, along with the other defendants assailed the Order of RTC-Manila granting the writ of execution before the Court of Appeals via a Petition for Certiorari. After the submission of the pertinent pleadings by the parties, the petition was submitted for resolution which is still pending as of April 4, 2013.

Management's plans to address these risks and uncertainties include the following:

a. Negotiations with the lender banks and other creditors for the restructuring of outstanding debts into more serviceable terms;

b. Continuous development and implementation of cost reduction measures;

c. Search for external financing either through new creditors or investors; and,

d. Intensive collection efforts to reduce the outstanding receivables and curtailment of additional advances.

The consolidated financial statements have been prepared assuming that the Group will continue as a going concern. The Group's continuing financial difficulties and the uncertainties over the ultimate outcome of the Group's negotiations with the lender banks and other creditors on the collateralized liabilities and its compliance with the compromise agreement with the concerned parties indicate a material uncertainty on the Group's ability to continue operating as a going concern. The outcome of these uncertainties cannot be determined at the present time. No provision for any loss or liability, including the default charges, billed by lender banks that may result has been made in the consolidated financial statements (see Note 9). The effects of these uncertainties will be reported in the consolidated financial statements as they become known and estimable.

<u>Risks and Uncertainties</u>
The Group's future results of operations involve a number of risks and uncertainties. Factors that could affect its operating results and ability to continue operating as a going concern include but are not limited to the following:

a. Garnishment of Lease Payments

   The Group was impleaded to a civil case between BSP and Orient Bank. On December 22, 2003, BSP entered into a compromise agreement with the defunct Orient Bank, the Company, its subsidiary, officers and certain affiliates (the defendants). The compromise agreement provides, among others, the guarantee of the amortizations to be agreed upon by the parties. Rentals and all other income and revenues of the malls owned and operated by the defendants shall continue to guarantee the stipulated amortizations due from the defendants. Also, the properties of Evercrest Golf Club Resort, Inc., a related party and of another related party shall be subject to a writ of attachment until the amortizations have been fully paid.

   As the parties have not agreed on the amortization schedule, the BSP filed a motion of execution anchored on the compromise agreement. While the RTC-Manila initially denied such motion, it eventually granted the same via a motion for execution. As a result thereof, Writ of Garnishment on lease rental receivables was issued.

In July 2010, a Notice of Garnishment on lease rental receivables was issued by the RTC-Manila against the Company, its subsidiary, officers and certain affiliates. The Notice of Garnishment directed the various tenants that all rental and lease payments to the defendants or funds in the possession of various tenants payable to the defendants are henceforth considered in the Custody of the Court and the various tenants should not deliver, pay or transfer, or otherwise dispose or encumber such rental or lease payments to the defendants or to any other person except to the Ex-Officio Sheriff of Manila or his/her Deputy under penalty of the law.

This has substantially impaired collection effort on lease rental receivables and added to the Company's and its subsidiary's cash flow problems. The Garnishment Notice limited the Company's and its subsidiary's collections to tenants' utility dues and other assessments, which were exempted from the Garnishment. Cash flows from these collections, however, allow the continuity of the mall operations.

The net decrease in lease rental receivables amounted to ₱19.3 million in 2012 and ₱29.6 million in 2011 (see Note 4). Collections of lease rental receivables under the Custody of the Court classified as "Other noncurrent assets" in the consolidated balance sheets amounted to ₱16.5 million and ₱10.5 million as of December 31, 2012 and 2011, respectively (see Note 8).

b. Foreclosure of Mortgaged Properties

In 1998, Philippine National Bank (PNB), a trustee under the Mortgage Trust Indenture (MTI), issued a letter to GTMDI declaring it in default for failure to pay its obligations secured under the MTI (see Note 9). This eventually led to the foreclosure of its land in Pasig and the Ever Pasig Mall in 1999. GTMDI was not able to redeem the property within the one-year redemption period. PNB, as the trustee, foreclosed the mortgaged property subject of MTI, and together with the other creditor banks, were subsequently issued a Transfer Certificate of Title.

In 2000, GTMDI filed a complaint against PNB with the RTC-Pasig for Annulment of Foreclosure Proceedings, Specific Performance and Damages with prayer of Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction (Civil case). GTMDI had maintained that the foreclosure was illegal and that it is the rightful owner of the parcels of land and the Ever Pasig Mall, which it continues to physically possess, operate and enjoy the rental income therefrom and other benefits of ownership without any encumbrance. Accordingly, GTMDI continues to carry in its books the parcels of land and the Ever Pasig Mall, and the corresponding bank loans and accrued interest.

Consequently, PNB filed an Ex-parte Petition for Issuance of Writ of Possession (WOP case) with the RTC-Pasig. However, upon motion of GTMDI, the WOP case was consolidated with the Civil case with the RTC-Pasig. PNB questioned the consolidation of the WOP case and the Civil case in RTC-Pasig before the Supreme Court (Certiorari case).

In a resolution promulgated on April 20, 2009 on the Certiorari case, the Supreme Court issued a TRO enjoining RTC-Pasig from proceeding with the joint hearing of the WOP case and Civil case. On April 23, 2009, RTC-Pasig held in abeyance the proceedings of the WOP and Civil cases.

Meanwhile, on June 17, 2009, GTMDI and PNB, under the terms of their compromise agreement, agreed to arrive at a reasonable settlement of the WOP, Civil and Certiorari cases and to avoid further litigation between them, subject to the terms and conditions set in their underlying compromise agreement, which was approved by the RTC-Pasig on August 14, 2009. Under the compromise agreement, GTMDI shall pay PNB an amount of ₱565.0 million, of which ₱80.0 million shall be paid upon the execution of the compromise agreement (see Note 10) for PNB's 50% undivided interest over the mortgaged parcels of land and Ever Pasig Mall. The remaining amount payable to PNB shall be settled within seven years, in fixed monthly principal amortization of ₱2.0 million for the first three years and in fixed monthly principal amortization of ₱10.1 million for the remaining four years at 8% interest per annum (see Note 9). The compromise agreement also provides that GTMDI shall shoulder certain expenses resulting from and incidental to the compromise agreement.

Upon execution of the compromise agreement, the parties shall file a joint motion on the cases for the RTC-Pasig to render judgment on the basis of this compromise agreement. The compromise agreement provides that upon GTMDI's full payment of the compromise amount and all advances, taxes, fees and expenses, and both parties' compliance with all their respective obligations under the compromise agreement, each party shall release and discharge the other party, their directors, officers, agents and employees from any and all claims arising from PNB's foreclosure and consolidation of the property subject of MTI.

The resolution of the WOP, Civil and Certiorari cases is dependent on GTMDI's fulfillment of its obligations under the compromise agreement with PNB.

Meanwhile, the other creditor banks continue to hold their respective proportionate undivided interests over the subject parcels of land and the Ever Pasig Mall.

c. Additional Financing Requirements

Management believes that in order for the Group to settle its debts, it will also need external financing within the next few years. While management believes that it will be able to raise the necessary capital, there is no assurance as to its exact timetable. The failure to raise such financing would have a material adverse effect on the Group's future working capital requirements.

2. Summary of Significant Accounting and Financial Reporting Policies

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

<u>Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

<u>Basis of Consolidation</u>
The consolidated financial statements comprise the financial statements of the Company and its subsidiary as of December 31 of each year. The financial statements of the subsidiary are prepared for the same financial reporting year as the Company using consistent accounting policies.

Subsidiary
A subsidiary is an entity over which the parent company has the power to govern the financial and operating policies of the entity, or generally has an interest of more than one half of the voting rights of the entity. A subsidiary is fully consolidated from the date on which control is transferred to the Group or parent company either directly or through holding companies and continues to be consolidated until the date such control ceases. Control is achieved where the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended standards which were adopted on January 1, 2012.

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

- Amendments to PAS 12, *Income Taxes*, clarify the determination of deferred tax on investment property measured at fair value. The amendments introduce a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, should always be measured on a sale basis of the asset. The Group does not expect that adoption of these amendments will have an impact to the consolidated financial statements since the Group does not have investment property measured at fair value and property and equipment carried under the revaluation model.

New Accounting Standards, Interpretations, and Amendments
to existing Standards Effective Subsequent to December 31, 2012
The Group will adopt the new and amended standards and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations enumerated below when these become effective. The Group continues to assess the impact of the following new and amended accounting standards and interpretations. Except as otherwise indicated, the Group does not expect the adoption of these changes in the standards to have a significant impact on the financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2013

- Amendments to PFRS 7, *Financial Instruments: Disclosures*, 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 PAS 32, *Financial Instrument: 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 balance sheet;
c) The net amounts presented in the 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 to PFRS 7 are to be retrospectively applied and are effective for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*, replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, and addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers* and removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- PFRS 12, *Disclosure of Interests in Other Entities*, includes all of the disclosures related to financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013. The adoption of PFRS 12 will affect disclosures only and have no impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

- Amendments to PAS 1, *Presentation of Financial Statements*, change the grouping of items presented in Other Comprehensive Income (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 amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments become effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI.

- Amendments to PAS 19, *Employee Benefits*, range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013.

  The Group reviewed its existing employee benefits and the impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The estimated impact to the financial statements of the Group is detailed below:

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in Balance Sheets:		
Accrued retirement obligation	₱457,476	(₱512,300)
Deferred income tax asset	137,243	(153,690)
Other comprehensive income, net of income tax effect	647,273	–
Deficit	(327,040)	(358,610)*

**Other comprehensive income will be closed to Deficit at transition date. Subsequent to January 1, 2013, other comprehensive income shall be separately presented.*

	2012	2011
Increase (decrease) in Statement of Comprehensive Income:		
Net benefit cost	₱45,100	(₱788,100)
Provision for income tax	13,530	(236,430)
Net income for the year	(31,570)	(551,670)
Other comprehensive income, net of deferred income tax	647,273	–

- Amendments to PAS 27, *Separate Financial Statements*, are limited to accounting for subsidiaries, jointly controlled entities and associates in the separate financial statements as a consequence of the issuance of the new PFRS 10 and PFRS 12. The amendments become effective for annual periods beginning on or after January 1, 2013.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, describe the application of the equity method to investments in joint ventures in addition to associates as a consequence of the issuance of the new PFRS 11 and has been renamed PAS 28, *Investments in Associates and Joint Ventures*. The amendments become effective for annual periods beginning on or after January 1, 2013.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal (stripping) costs incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation is not relevant to the Group as the Group is not involved in any mining activities.

Annual Improvements to PFRS (2009-2011 cycle)
The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. The adoption of the following amendments will not have significant impact on the financial statements of the Group.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs,* 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 statement of financial position 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 Information*, clarifies 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 (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.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*, 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.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*, 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.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*, clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment.

Effective in 2014

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarify the meaning of "currently has a legally enforceable right to set-off" and also 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 to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

Effective in 2015

- PFRS 9, *Financial Instruments - Classification and Measurement*, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in 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 into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

  The Group has made an evaluation of the impact of the adoption of this standard. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the financial statements as at and for the years ended December 31, 2012 and 2011 do not reflect the impact of the said standard. Based on this evaluation, loans and receivables and other financial liabilities will not be significantly affected. Upon adoption, the Group's loans and receivables and other financial liabilities will continue to be carried at amortized cost. Thus, no significant impact is expected to the Group's financial position and performance.

Effectivity date to be determined

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

Cash
Cash includes cash on hand and in banks.

Financial Instruments
Date of recognition
The Group recognizes a financial asset or a financial liability in the consolidated balance sheet 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 and classification of financial instruments
Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Financial assets are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, or available-for-sale (AFS) financial assets. Financial liabilities on the other hand, are classified as financial liabilities at FVPL or other financial liabilities. The Group determines the classification at initial recognition and, where allowed and appropriate, reevaluates this designation at every balance sheet date.

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

As of December 31, 2012 and 2011, the Group has no financial assets and financial liabilities at FVPL, HTM investments and AFS financial assets.

Determination of fair value
The fair value of financial instruments traded in organized financial markets at balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Day 1 gain or loss
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 gain or loss) in profit or loss unless it qualifies for recognition as some other type of asset. The Group recognizes the Day 1 gain or loss on loans to entities that are under common control with the Group directly in equity.

In cases where data used is not observable, the difference between the transaction price and model value is recognized only when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 gain or loss.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables (or portions of loans and receivables) are included in current assets if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of December 31, 2012 and 2011, the Group's loans and receivables include receivables and receivables from related parties.

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 or borrowings. These 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. Other financial liabilities (or portions of other financial liabilities) are included in current liabilities when they are expected to be settled within 12 months from the balance sheet date or the Group does not have an unconditional right to defer settlement of the liabilities for at least 12 months from the balance sheet date.

As of December 31, 2012 and 2011, the Group's other financial liabilities include bank loans, payables to banks, accounts payable and other liabilities and customers' deposits.

<u>Impairment of Financial Assets</u>
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Loans and receivables
The Group first assesses whether an 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 assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If 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 the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in profit or loss. Any subsequent reversal of an impairment loss is recognized in profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

In relation to receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Derecognition of Financial Assets and Financial Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or,
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all 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 from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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 balance sheet.

Creditable Withholding Tax
Creditable withholding tax represents the amount withheld from income payments and is deducted from income tax payable on the same year the revenue was recognized. Unused creditable withholding taxes can be carried forward to the ensuing years. The balance of creditable withholding tax is reviewed at each balance sheet date to determine if an objective evidence exists that amounts are no longer recoverable and reduced to the amount the Group expects to recover.

Property and Equipment
The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use and any estimated cost of dismantling and removing the property and equipment item and restoring the site on which it is located to the extent that the Group had recognized the obligation of that cost. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is recognized in profit or loss.

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

	Number of Years
Furniture, fixtures and equipment	5
Cinema furniture and equipment	5
Transportation equipment	5 to 10
Other equipment	5

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

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The cost of investment properties is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of PFRS. Accordingly, investment properties acquired under the asset-for-share swap agreement in 1995 were initially measured at the assigned values as approved by the Philippine SEC. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and amortization, and any impairment losses. Land is carried at cost less any impairment in value. Interests on funds borrowed to partially finance the investment property during the construction period are capitalized to the respective property accounts.

The Group assesses if an item of property other than a piece of land or a building is regarded as part of an investment property. If an item is an integral part of an investment property, is being leased to the lessee together with the land and building as a whole and the entire group of assets is generating the income stream from the lease contract, the item is included as part of investment property.

Depreciation and amortization of investment properties is computed using the straight-line method over the following useful lives of the assets, regardless of utilization:

	Number of Years
Commercial complex and improvements	25
Machinery and equipment	10
Cinema furniture and equipment	5

Investment properties and improvements located in leased parcels of land are depreciated and amortized using the straight-line method over their useful lives, or the term of the lease, whichever is shorter.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

Investment properties are derecognized when they have been either disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Impairment of Nonfinancial Assets
The carrying values of property and equipment, investment properties and other current and noncurrent 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 where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of property and equipment, investment properties and other current and noncurrent assets is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax 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 inflows, the recoverable amount is determined for the CGU to which the asset belongs. Any impairment loss is recognized in profit or loss.

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

Value-added tax (VAT)
Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

VAT payable - net of input tax is included under "Accounts payable and other liabilities" account in the consolidated balance sheet.

Customers' Deposits
Customers' deposits are recognized upon receipt of advance rental payments from new tenants, which can be applied to unpaid rental receivables upon termination of the tenant's contract.

Capital Stock
The proceeds from the issuance of ordinary or common shares are presented in equity as capital stock to the extent of the par value of the issued and outstanding shares and any excess of the proceeds over the par value of shares issued, less any incremental costs directly attributable to the issuance, net of tax, is presented in equity as "Additional paid-in capital".

Retained Earnings (Deficit)
Retained earnings represent the cumulative balance of periodic total comprehensive income or loss, dividend distributions, correction of prior year's errors, effect of changes in accounting policy and other capital adjustments. When retained earnings account has a debit balance, it is called a "deficit". A deficit is not an asset but a deduction from shareholder's equity.

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

The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Mall rental income
Rent income from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature. Rent income from fixed tenants is generally recognized on a straight-line basis over the lease term. Rental income from percentage tenants is recognized based on a minimum agreed rental or certain percentage of the tenant's gross sales, whichever is higher.

Cinema ticket sales
Revenue from cinema ticket sales is recognized upon receipt of cash from the customers.

Interest income
Interest income is recognized as it accrues, using the effective interest rate method.

<u>Direct Costs and Expenses</u>
Direct costs and expenses are expenses directly related to the performance of services, which are recognized as incurred.

<u>General and Administrative Expenses</u>
General and administrative expenses include costs of administering the business, which are recognized as incurred.

<u>Borrowing Costs</u>
Borrowing costs are capitalized if they are directly attributable to the acquisition and development of qualifying assets as part of the cost of such assets. Capitalization of borrowing cost commences when the activities to prepare the assets for their intended use are in progress and expenditures and borrowing costs are being incurred; is suspended during extended periods in which active development is interrupted; and, ceases when substantially all the activities necessary to prepare the assets for their intended use are complete. All other borrowing costs are expensed as incurred.

<u>Retirement Benefits Costs</u>
Retirement benefits costs are actuarially determined using the projected unit credit method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefits entitlement and measures each unit separately to build up the final obligation. Upon introduction of a new plan or improvement of an existing plan, past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed. Actuarial gains or losses are recognized in profit or loss when the cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the present value of 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.

The defined retirement benefits liability is the aggregate of the present value of the defined benefits obligation and unrecognized actuarial gains and losses reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate amount is negative, the asset is measured at the lower of such aggregate amount or the aggregate 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.

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

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

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

The Group determines whether arrangements contain a lease to which lease accounting must be applied. The costs of the agreements that do not take the legal form of a lease but convey the right to use an asset are separated into lease payments if the entity has the control of the use or access to the asset, or takes essentially all of the outputs of the asset. The said lease component for these arrangements is then accounted for as finance or operating lease.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as a lessee
Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement.

Operating lease expense is recognized in the profit or loss on a straight-line basis over the lease term.

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

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

Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused net operating loss carryover (NOLCO) and excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carry forward benefits of unused NOLCO and excess of MCIT over RCIT can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

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

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

Basic/Diluted Earnings Per Share
Basic earnings per share is computed by dividing net income for the year by the weighted average number of shares outstanding during the year.

Diluted earnings per share is calculated by dividing the income for the year attributable to stockholders by the weighted average number of shares outstanding during the year, excluding treasury shares and adjusted for the effects of all potential dilutive shares, if any.

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

Provisions and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and the amount of obligation can be reliably estimated.

Contingent liabilities are not recognized in the consolidated financial statements but disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date
Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Events after the balance sheet date that are not adjusting events are disclosed when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances that are believed to be reasonable at the balance sheet date. Actual results could differ from such estimates used.

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

Classification of leases
The Group has entered into property leases, where it has determined that all the risks and rewards incidental and related to the underlying properties are substantially retained by the lessors since there is no transfer of ownership of the leased properties. Also, the Group has entered into property leases, where it has determined that all the risks and rewards incidental and related to its investment properties are substantially retained by the Group since there is no transfer of ownership of the leased properties. As such, these lease agreements are accounted for as operating leases (see Note 16).

Classification of financial instruments
The Group classifies a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet. The Group classifies its receivables, advances to subsidiary, and receivable from related parties as loans and receivables while bank loans, payables to banks, and other liabilities as other financial liabilities.

Fair values of financial instruments
The fair values of financial instruments are determined using valuation techniques. To the extent practicable, observable data are used on the valuation models, except for areas that require management to make estimates, such as credit risk, volatilities and correlations (see Note 21).

Determination of investment property
An item other than a piece of land or a building should be regarded by a lessor as part of an investment property if that item is an integral part of the investment property. The determination of whether or not an item constitutes an integral part of an investment property requires judgment and will depend on the particular facts and circumstances. Considering that the cinema furniture and equipment are leased together with the cinema space in the Group's commercial complex and that these group of assets generate lease income from a lease contract, cinema furniture and equipment are classified as investment property as of December 31, 2012 and 2011. As of these dates, the carrying amount of cinema furniture and equipment classified as investment property amounted to ₱37.6 thousand and ₱97.0 thousand, respectively (see Note 7).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of allowance for doubtful accounts and probable losses

Provisions are made for accounts specifically identified to be doubtful of collection. The level of this allowance is evaluated by management on the basis of factors that affect the collectability or realizability of the accounts. These factors include but are not limited to the length of the Group's relationship with the other party, the other party's payment behavior and known market factors. Specific accounts are evaluated based on best available facts and circumstances such as information that certain customers may be unable to meet their financial obligations. In the case of creditable withholding taxes, management considers among others, the availability of future tax payable against which creditable withholding taxes may be utilized. These specific reserves are reevaluated and adjusted as additional information received impacts the amounts estimated.

As of December 31, 2012 and 2011, the allowances for doubtful accounts and probable losses consisted respectively of third party receivables amounting to ₱38.5 million and ₱39.8 in 2012 and 2011, respectively (see Note 4), receivables from related parties amounting to ₱60.9 million in 2012 and 2011 (see Notes 4 and 18), creditable withholding taxes amounting to ₱28.6 million in 2012 and 2011 (see Note 5) and other noncurrent assets amounting to ₱0.5 million in both years (see Note 8).

Recognition of deferred income tax assets

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

The Company has not recognized deferred income tax assets in both years as management believes that sufficient future taxable profits will not be available against which the deductible temporary differences can be utilized. Meanwhile, GTMDI has recognized deferred income tax assets on advanced rentals and portions of carryforward benefits of unused NOLCO and excess MCIT over RCIT amounting to ₱6.1 million and ₱7.9 million as of December 31, 2012 and 2011, respectively (see Note 15).

Impairment of noncurrent nonfinancial assets

The Group determines whether its property and equipment, investment properties and other noncurrent assets are impaired when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considered important which could trigger an impairment review include the following:

- significant adverse changes in the market, or economic environment where the Group operates;
- significant decrease in the market value of an asset;
- significant increase in the discount rate used for the value-in-use calculations;
- evidence of obsolescence and physical damage;
- significant changes in the manner in which an asset is used or expected to be used;
- plans to restructure or discontinue an operation;
- significant decrease in the capacity utilization of an asset; or,
- evidence is available from internal reporting that the economic performance of an asset is, or will be, worse than expected.

Management believes that there is no indication of impairment as of December 31, 2012 and 2011. The aggregate carrying values of property and equipment, investment properties and other noncurrent assets amounted to ₱2.5 billion and ₱2.6 billion as of December 31, 2012 and 2011, respectively (see Notes 6, 7 and 8).

Estimation of useful lives of property and equipment and investment properties
The useful lives of property and equipment and investment properties are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. There is no change in the estimated useful lives of property and equipment and investment properties as of December 31, 2012 and 2011. The estimated useful lives of property and equipment and investment properties are discussed in Note 2 to the consolidated financial statements. The aggregate carrying values of property and equipment and investment properties amounted to ₱2.4 billion and ₱2.6 billion as of December 31, 2012 and 2011, respectively (see Notes 6 and 7).

Estimation of retirement benefits liability
The determination of the Group's retirement obligation and retirement benefits costs is dependent on management's selection of certain assumptions used by the actuary in calculating such amounts. The assumptions for retirement benefits costs are described in Note 14 and include among others, discount rates and rates of salary increase. Actual results that differ from 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 retirement obligations. Retirement benefits liability as of December 31, 2012 and 2011 amounted to ₱1.9 million and ₱1.6 million, respectively. Retirement benefits costs for the years ended December 31, 2012, 2011 and 2010 amounted to ₱0.3 million, ₱0.2 million and ₱0.2 million, respectively (see Note 14).

Provisions and contingencies
The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle the said obligations. An estimate of the provision is based on known information at the balance sheet date, net of any estimated amount that may be reimbursed to the Group. The amount of provision is being reassessed at least on an annual basis to consider new relevant information. There were no changes made to the total provision in 2012. Total provision for losses amounted to ₱60.1 million as of December 31, 2012 and 2011 (see Note 24).

4. **Receivables**

	2012	2011
Trade:		
Related parties (Notes 16, 18, 19 and 21)	**₱579,533,901**	₱627,525,370
Third parties (Notes 16, 19 and 21)	**167,945,248**	139,237,620
Others:		
Related parties (Notes 18, 19 and 21)	**950,280,430**	673,451,660
Third parties (Notes 19 and 21)	**42,452,009**	96,656,352
	1,740,211,588	1,536,871,002
Less allowance for doubtful accounts	**840,196,434**	839,061,959
	₱900,015,154	₱697,809,043

Trade receivables are non-interest bearing and are generally on 30 days' term. Trade receivable includes lease rental receivables subjected to garnishment as mentioned in Note 1.

There were no movements in allowance for doubtful accounts in 2011. Movements in and details of the allowance for doubtful accounts in 2012 follow:

	Trade receivables from:		Other receivables from:		
	Related parties	Third parties	Related parties	Third parties	Total
December 31, 2011	₱369,068,309	₱39,685,213	₱430,158,012	₱150,425	₱839,061,959
Provision (reversal) during the year (Note 13)	–	(1,365,524)	2,500,000	–	1,134,476
December 31, 2012	₱369,068,309	₱38,319,689	₱432,658,012	₱150,425	₱840,196,435

Provisions are made for doubtful accounts specifically identified as doubtful of collection.

5. **Creditable Withholding Taxes**

	2012	2011
Creditable withholding taxes	**₱169,671,240**	₱154,482,205
Less allowance for probable losses	**28,640,700**	28,640,700
	₱141,030,540	₱125,841,505

6. **Property and Equipment**

	2012				
	Furniture, Fixtures and Equipment	**Cinema Furniture and Equipment**	**Transportation Equipment**	**Other Equipment**	**Total**
Cost					
January 1	**₱9,847,282**	**₱16,183,270**	**₱2,816,492**	**₱10,098,068**	**₱38,945,112**
Additions	**112,545**	–	–	–	**112,545**
Disposals	**(193,728)**	–	**(1,269,403)**	**(1,062,453)**	**(2,525,584)**
December 31	**9,766,099**	**16,183,270**	**1,547,089**	**9,035,615**	**36,532,073**
Accumulated Depreciation					
January 1	**8,081,046**	**16,183,270**	**2,816,492**	**9,590,811**	**36,671,619**
Depreciation for the year (Notes 12 and 13)	**453,786**	–	–	**276,538**	**730,324**
Disposals	**(239,690)**	–	**(1,269,403)**	**(1,016,490)**	**(2,525,583)**
December 31	**8,295,142**	**16,183,270**	**1,547,089**	**8,850,859**	**34,876,360**
Net Book Values	**₱1,470,957**	**₱–**	**₱–**	**₱184,756**	**₱1,655,713**

	2011				
	Furniture, Fixtures and Equipment	Cinema Furniture and Equipment	Transportation Equipment	Other Equipment	Total
Cost					
January 1	₱9,631,861	₱16,183,270	₱2,816,492	₱10,991,584	₱39,623,207
Additions	245,064	–	–	–	245,064
Reclassifications	(29,643)	–	–	(893,516)	(923,159)
December 31	9,847,282	16,183,270	2,816,492	10,098,068	38,945,112
Accumulated Depreciation					
January 1	7,589,732	16,183,270	2,816,492	9,804,026	36,393,520
Depreciation for the year (Notes 12 and 13)	493,844	–	–	680,235	1,174,079
Reclassifications	(2,530)	–	–	(893,450)	(895,980)
December 31	8,081,046	16,183,270	2,816,492	9,590,811	36,671,619
Net Book Values	₱1,766,236	₱–	₱–	₱507,257	₱2,273,493

The cost of fully depreciated property and equipment still used in operations amounted to ₱23.6 million and ₱25.7 million as of December 31, 2012 and 2011, respectively.

7. Investment Properties

	2012				
	Land	**Commercial Complex and Improvements**	**Machinery and Equipment**	**Cinema Furniture and Equipment**	**Total**
Cost					
January 1	**₱864,465,557**	**₱4,055,153,754**	**₱366,484,224**	**₱11,573,276**	**₱5,297,676,811**
Additions	**–**	**2,100,087**	**347,321**	**–**	**2,447,408**
Disposals	**–**	**(165,382)**	**(243,826)**	**(7,737)**	**(416,945)**
December 31	**864,465,557**	**4,057,088,459**	**366,587,719**	**11,565,539**	**5,299,707,274**
Accumulated Depreciation and Amortization					
January 1	**₱–**	**₱2,334,111,751**	**₱358,092,355**	**₱11,476,253**	**₱2,703,680,359**
Depreciation and amortization for the year (Notes 12 and 13)	**–**	**153,214,246**	**5,470,319**	**59,375**	**158,743,940**
Disposals	**–**	**(165,382)**	**(243,826)**	**(7,737)**	**(416,945)**
December 31	**–**	**2,487,160,615**	**363,318,848**	**11,527,891**	**2,862,007,354**
Net Book Values	**₱864,465,557**	**₱1,569,927,844**	**₱3,268,871**	**₱37,648**	**₱2,437,699,920**

	2011				
	Land	Commercial Complex and Improvements	Machinery and Equipment	Cinema Furniture and Equipment	Total
Cost					
January 1	₱864,465,557	₱4,055,392,773	₱364,215,024	₱11,573,276	₱5,295,646,630
Additions	–	–	2,460,380	–	2,460,380
Reclassifications	–	(239,019)	(138,725)	–	(377,744)
Disposal	–	–	(52,455)	–	(52,455)
December 31	864,465,557	4,055,153,754	366,484,224	11,573,276	5,297,676,811
Accumulated Depreciation and Amortization					
January 1	–	2,181,469,819	348,388,198	11,391,424	2,541,249,441
Depreciation and amortization for the year (Notes 12 and 13)	–	153,183,108	9,586,939	84,829	162,854,876
Reclassification	–	(541,176)	169,673	–	(371,503)
Disposal	–	–	(52,455)	–	(52,455)
December 31	–	2,334,111,751	358,092,355	11,476,253	2,703,680,359
Net Book Values	₱864,465,557	₱1,721,042,003	₱8,391,869	₱97,023	₱2,593,996,452

Land consists of GTMDI's property in Pasig City where the Ever Pasig Mall is situated, the Company's property in Dagupan City, Pangasinan, which is not used in business and certain parcels of land in Calamba, Laguna (see Note 9).

The commercial complex and improvements pertain to the Ever Commonwealth Commercial Complex (ECCC) located along Commonwealth Avenue in Quezon City, the Ever Pasig Mall and Ever Manila Plaza (EMP), which are being leased to several tenants (see Note 16).

As discussed in Notes 1 and 9, GTMDI's land and mall, which were used as collaterals for its bank loans, were foreclosed by lender banks in 1999. The lender banks, however, have not been able to take possession of these properties. Accordingly, the properties are still carried in the books of GTMDI. GTMDI continues to operate the said mall with a carrying value of ₱1.0 billion as of December 31, 2012 and 2011.

The table below shows the profit arising from investment properties.

	2012	2011	2010
Revenue generated from investment properties	**₱348,225,332**	₱351,118,875	₱361,366,975
Direct operating expenses (including repairs and maintenance) that generated rental income	**(220,014,664)**	(238,228,150)	(243,148,228)
Direct operating expenses (including repairs and maintenance) that did not generate rental income	**(3,076,158)**	–	–
	₱125,134,510	₱112,890,725	118,218,747

The absolute ownership of ECCC will automatically be transferred to the lessor without the need of any further act on the part of the Group after the expiration of the executed contract of lease.

There are no contractual obligations either to purchase, construct or develop investment properties or for repairs, maintenance and enhancements in the Group's investment property.

The estimated fair market value of the land not used in business, the malls' land and commercial complex and improvements, including machinery and equipment, amounted to ₱5.1 billion, which was based on the valuation performed by professionally qualified, independent appraisers. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm length transaction. The methods and significant assumptions applied in determining the fair value of investment property are as follows:

For the land properties, the valuation was performed using the market data approach where the value of the land was based on recorded sales and listings or asking prices of comparable properties registered within the vicinity of the subject land.

Due to lack of comparable data from observable transactions, given the nature of the Group's commercial complex and improvements, the fair value of these properties has been determined using the valuation model recommended by the Philippine Valuation Standards as prescribed by the Department of Finance.

The valuation of ECCC on January 21, 2008 was performed using the cost approach where the costs of reproducing a new replica property based on the costs of construction materials and labor, including reasonable contractor's profit and architects' fees at the time of valuation. The estimated economic life of ECCC at the time of valuation was 50 years while its effective age at that time was 13 years, based on the physical condition of ECCC observed by the appraiser.

The valuation of the Ever Pasig Mall on April 16, 2012 was performed using the weighted average of the cost approach and income capitalization approach. In applying the income capitalization approach, the vacancy rate and the capitalization rate used is 20.0% and 10.2%, respectively.

8. Other Noncurrent Assets

	2012	2011
Utilities deposits	**₱14,092,385**	₱15,125,918
Garnished collections (Note 1)	**16,449,529**	10,485,075
Advances to contractors	**4,754,730**	4,742,527
Others - net of allowance for probable losses of ₱468,422	**12,407,424**	6,012,554
	₱47,704,068	₱36,366,074

"Others" includes, among others, nonrefundable miscellaneous deposits to suppliers.

9. Bank Loans

Bank loans as of December 31, 2012 and 2011 consist of the balances of defaulted loans from:

Syndicate of local banks	₱307,692,309
Land Bank of the Philippines (LBP)	50,000,000
	₱357,692,309

a. Loans from Syndicate of Local Banks

These consist of GTMDI's bank loans that were obtained in April 1995 from a syndicate of four local banks led by PNB, the proceeds from which were used to partially finance the construction of the Ever Pasig Mall. The syndicated loans were secured by an MTI dated April 7, 1995, with PNB as trustee, covering GTMDI's land in Pasig, together with the improvements thereon and the assignment of future rental receivables from the said commercial complex. As of December 31, 2012 and 2011, the carrying value of the land and commercial complex and improvements amounted to ₱1.1 billion.

As discussed in Note 1, GTMDI defaulted on its debt obligations that led to the foreclosure of its land in Pasig and the Ever Pasig Mall in 1999. Prior to this default, the loan agreements originally provided, among others, the following:

i. Repayment of the loan principal in 13 equal and successive quarterly installments, which commenced at the end of the eighth quarter from the initial advance, payment of interest in arrears based on 91-day Treasury bill market rate plus three percent per annum;
ii. Maintenance of current and debt-to-equity ratios at agreed levels; and,
iii. Requirement of the lender banks' written consent for any change in the nature, ownership, and management of its present business, declaration or payment of cash dividends, sale, lease or disposal of a substantial portion of its properties and assets, incurrence of

additional loans or to act as surety on behalf of other parties, and the extension of loans and advances to affiliated companies and any of its directors, officers, or stockholders, except in the regular course of business.

As also discussed in Note 1, GTMDI and PNB entered into a compromise agreement on June 17, 2009. Accordingly, GTMDI derecognized portion of the loans payable to PNB amounting to ₱307.7 million representing 50% of the bank loans from syndicate of local banks and the related accrued interest payable, included under the "Accounts payable and other liabilities" account in the consolidated balance sheet, and recognized the total compromise amount of ₱565.0 million as "Payable to banks" in 2009 (see Note 10).

The Group accrued the related interest expense as part of the "Accrued liabilities" included under the "Accounts payable and other accrued liabilities" in the consolidated balance sheets, based on 8.0% interest rate in both years. Total interest expense recognized amounted to ₱24.7 million in each of the three years in the period ended December 31, 2012.

b. Loan from LBP

This represents a short-term loan by the Company from LBP which became due in December 1997 but was extended up to March 1998. However, such loan obligation was not settled on maturity date. The Company negotiated with the lender bank for restructuring of the loan but it did not prosper. In July 1999, the lender bank filed a civil case against the Company, demanding immediate payment of the principal and the corresponding default charges. In November 1999, the Company's lawyers filed their reply and submitted to the Regional Trial Court of Makati (RTC-Makati) among others, the ongoing negotiations for the settlement of the obligations, and hence, countered that the lender bank be ordered to sit down with the Company for the amicable settlement of the case. In November 2000, the RTC-Makati considered the Company's submission that it is ready to go into negotiation for the settlement of the case. The outcome of this civil case is not yet known. Pending final decision of the case, the default charges were not recognized in the consolidated financial statements since management believes that such charges are subject to negotiation and the final outcome of the case cannot be presently determined. The Company continues its negotiations for a solution that is acceptable to the lender bank.

The Group accrued the related interest expense as part of "Accrued liabilities" included under the "Accounts payable and other liabilities" in the consolidated balance sheets, based on 24.0% interest rate in both years. Total interest expense recognized in profit or loss amounted to ₱12.0 million in each of the three years in the period ended December 31, 2012.

10. **Payables to Banks**

	2012	2011
PNB	**₱563,785,311**	₱671,500,000
Security Bank Corporation (SBC)	**74,434,519**	110,704,420
Development Bank of the Philippines (DBP)	**1,578,103**	20,515,343
	639,797,933	802,719,763
Less current portion	**186,777,767**	162,902,645
Noncurrent portion	**₱453,020,166**	₱639,817,118

a. Payables to DBP, PNB and SBC arising from the purchase by the Company of a parcel of land in Calamba, Laguna.

   In 2008 and 2009, the Company, entered into separate compromise agreements with DBP, PNB and SBC for the purchase of their respective 16.7%, 50.0% and 33.3% share in the undivided ownership/interest in the same parcel of land in Laguna which gave the Company the right to acquire the whole undivided ownership/interest over the subject parcel of land. The Company recorded the total purchase price amounting to ₱622.9 million as an addition to land, included as part of "Investment Properties" in the consolidated balance sheets (see Note 7) and correspondingly set up the payables to these banks.

   The remaining amount payable to PNB shall be settled within seven years, in fixed monthly principal amortizations of ₱1.0 million for the first two years and in fixed monthly principal amortizations of ₱4.3 million for the remaining five years at 8% interest per annum. The remaining amount payable to DBP and SBC shall be settled within five years in fixed monthly principal amortizations of ₱1.6 million and ₱3.6 million, respectively, both at 8% interest per annum. As of December 31, 2012 and 2011, amounts payable to PNB relating to this compromise agreement amounted to ₱195.5 million and ₱246.5 million, respectively.

   Total interest expense recognized on these payables to banks and charged to profit or loss amounted to ₱25.8 million in 2012, ₱33.2 million in 2011 and ₱38.2 million in 2010, while total accrued interest expense included as part of "Accrued liabilities" under the "Accounts payable and other liabilities" account in the consolidated balance sheets as of December 31, 2012 and 2011 amounted to ₱1.5 million and ₱2.1 million, respectively (see Note 11).

b. Payable to PNB arising from the compromise agreement entered into by GTMDI and PNB (see Note 9).

   As a result of the compromise agreement entered into between GTMDI and PNB on June 17, 2009, as discussed in Notes 1 and 9, GTMDI derecognized its bank loan from PNB and recognized a payable to PNB amounting to ₱565.0 million. The gain on derecognition of this bank loan amounting to ₱72.3 million was recognized in profit or loss in 2009. As of December 31, 2012 and 2011, amounts payable to PNB relating to this compromise agreement amounted to ₱368.3 million and ₱425.0 million, respectively.

   Total interest expense recognized on this payable to PNB and charged to profit or loss amounted to ₱32.5 million in 2012, ₱35.0 million in 2011 and ₱35.9 million in 2010, while total accrued interest expense as of December 31, 2012 amounted to ₱1.1 million which is included as part of "Accrued liabilities" under the "Accounts payable and other liabilities" account in the consolidated balance sheets (see Note 11).

11. Accounts Payable and Other Liabilities

	2012	2011
Trade	**₱30,521,597**	₱27,998,704
Accrued liabilities (Notes 9 and 10)	**1,049,323,414**	1,001,126,049
Value-added tax - net of input tax	**190,603,672**	165,401,984
Payable to related parties (Note 18)	**4,000,000**	4,000,000
Retention payable to contractors and suppliers	**43,969,435**	43,981,511
Others	**19,112,000**	17,474,716
	₱1,337,530,118	₱1,259,982,964

Accrued liabilities include the interest on bank loans amounting to ₱733.2 million and ₱696.5 million as of December 31, 2012 and 2011, respectively (see Note 9), and interest on payables to banks amounting to ₱2.6 million and ₱5.4 million as of December 31, 2012 and 2011, respectively (see Notes 9 and 10).

12. **Direct Costs and Expenses**

	2012	2011	2010
Depreciation and amortization (Notes 6 and 7)	**₱159,272,793**	₱163,657,912	₱163,593,196
Utilities	**29,233,437**	25,063,550	19,845,753
Taxes and licenses	**15,485,599**	27,158,324	24,339,597
Land lease (Note 16)	**14,892,685**	14,892,685	14,892,685
Security and janitorial	**928,795**	2,778,008	13,489,756
Film rentals	**796,346**	1,321,255	1,370,833
Management fees (Note 18)	**–**	–	4,294,049
Others	**2,481,167**	3,356,416	1,322,359
	₱223,090,822	₱238,228,150	₱243,148,228

13. **General and Administrative Expenses**

	2012	2011	2010
Salaries, wages and employee benefits (Note 14)	**₱14,806,451**	₱15,740,013	₱14,663,904
Entertainment, amusement and recreation	**7,088,297**	8,632,147	5,365,901
Insurance	**5,321,002**	6,173,016	6,513,272
Transportation and communication	**5,062,916**	6,601,976	5,847,549
Professional fees	**4,205,842**	5,268,036	1,057,000
Provision for doubtful accounts (Note 4)	**3,220,435**	–	967,554
Taxes and licenses	**2,385,505**	3,059,659	2,297,746
Advertising, promotions and marketing	**2,243,534**	1,971,534	2,440,038
Rent	**755,698**	744,146	444,150
Repairs and maintenance	**732,340**	783,324	608,314
Office supplies	**383,281**	573,595	599,418
Depreciation and amortization (Notes 6 and 7)	**201,472**	371,043	269,034
Others	**2,266,951**	3,219,770	5,422,415
	₱48,673,724	₱53,138,259	₱46,496,295

"Others" include, among others, outside services expenses.

14. **Retirement Benefits Liability**

The Group has an unfunded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on years of service and the employees' final covered compensation. Set in the following pages are the relevant details pertaining to the Group's retirement benefits. These are based on the actuarial valuation as of December 31, 2012, calculated using the projected unit credit method.

Retirement benefits costs recognized in profit or loss consist of the following:

	2012	2011	2010
Current service costs	**₱280,999**	₱112,973	₱86,027
Interest costs	**39,900**	51,729	78,296
Actuarial gain	**(45,100)**	–	–
	₱275,799	₱164,702	₱164,323

The retirement benefits liability as of December 31, 2012 and 2011 were derived as follows:

	2012	2011
Present value of defined benefits obligation	**₱2,367,500**	₱1,121,925
Unrecognized actuarial loss (gain)	**(457,476)**	512,300
Retirement benefits liability	**₱1,910,024**	₱1,634,225

Movements in the retirement benefits liability for the years ended December 31, 2012 and 2011 follow:

	2012	2011
January 1	**₱1,634,225**	₱1,469,523
Retirement benefits costs	**275,799**	164,702
December 31	**₱1,910,024**	₱1,634,225

Changes in the present value of defined benefit obligation follow:

	2012	2011
January 1	**₱1,121,925**	₱957,223
Current service costs	**280,999**	112,973
Interest costs on defined benefits obligation	**39,900**	51,729
Actuarial loss	**924,676**	–
December 31	**₱2,367,500**	₱1,121,925

The principal actuarial assumptions used by the Company and GTMDI to determine retirement benefits costs as of January 1 follow:

	2012	2011	2010
Company			
Discount rate	**5.83%**	3.52%	6.00%
Average annual salary rate increase	**10.00%**	5.00%	5.00%
GTMDI			
Discount rate	**5.67%**	4.09%	6.19%
Average annual salary rate increase	**10.00%**	5.00%	5.00%

Amounts for the current and previous four annual periods are as follows:

	2012	2011	2010	2009	2008
Present value of defined benefits obligation	**₱2,367,500**	₱1,121,925	₱957,223	792,900	₱638,100
Experience adjustments on defined benefits obligation	**213,876**	–	–	–	(542,800)
Changes in assumptions used	**140,200**	–	–	–	–

15. **Income Taxes**

a. The Group's provision for current income tax is as follows:

	2012	2011	2010
MCIT	**₱2,195,903**	₱3,278,653	₱2,967,028
Final tax	**4,170**	38,232	21,577
	₱2,200,073	₱3,316,885	₱2,988,605

b. The components of net deferred income tax liabilities represent GTMDI's recognized deferred taxes as follow:

	2012	2011
Deferred income tax liability on tax effect of capitalized interest	**₱7,278,350**	₱9,731,477
Deferred income tax assets on:		
Advance rentals (taxed upon collection)	**(2,567,548)**	(2,613,689)
Carryforward benefits of:		
Excess of MCIT over RCIT	**(3,219,384)**	(4,969,990)
NOLCO	**(292,587)**	(292,587)
	(6,079,519)	(7,876,266)
	₱1,198,831	₱1,855,211

c. Deferred income tax assets have not been recognized on the following items as management believes that it is more likely that the Group will not be able to realize the deductible temporary differences in the future prior to their expirations.

	2012	2011
Allowance for doubtful accounts and probable losses	**₱901,566,539**	₱900,432,063
Unamortized operating lease expense	**30,875,520**	51,945,991
Advanced rentals (taxed upon collection)	**7,611,622**	7,669,896
Retirement benefits liability	**1,910,024**	1,634,225
NOLCO	**70,610,944**	48,491,808
Excess of MCIT over RCIT	**4,035,521**	3,536,127

d. As of December 31, 2012, NOLCO and excess of MCIT over RCIT which can be claimed against future taxable income and RCIT payable, respectively, are as follows:

Year Incurred	Available Until	NOLCO	Excess of MCIT over RCIT
2010	2013	₱18,917,238	₱2,967,027
2011	2014	20,976,791	3,278,653
2012	2015	31,692,205	2,195,903
		₱71,586,234	₱8,441,583

e. The following are the movements in NOLCO and excess of MCIT over RCIT:

	2012	2011
NOLCO:		
January 1	**₱42,484,839**	₱21,508,048
Addition	**31,692,205**	20,976,791
Expiration	**(2,590,810)**	–
December 31	**₱71,586,234**	₱42,484,839

	2012	2011
Excess of MCIT over RCIT:		
January 1	**₱8,506,117**	₱7,241,808
Addition	**2,195,903**	3,278,653
Expiration	**(2,260,437)**	(2,014,344)
December 31	**₱8,441,583**	₱8,506,117

f. The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the consolidated statements of comprehensive income is as follows:

	2012	2011	2010
Provision for income tax at statutory income tax rate	**₱23,201,349**	₱25,813,029	₱14,941,666
Adjustments resulting from:			
Accretion income	**(23,667,100)**	(38,953,180)	(26,417,225)
Deductible temporary differences and carryforward benefit of NOLCO in current year for which no deferred income tax assets were recognized	**15,491,662**	7,856,082	5,236,688
Deductible temporary differences applied during the year for which no deferred income tax assets were recognized in prior year	**(17,436,848)**	(754,337)	5,634,885
Nondeductible expenses	**3,956,715**	6,818,628	3,188,388
Interest income already subjected to final tax	**(2,085)**	(19,116)	(10,788)
Provision for income tax	**₱1,543,693**	₱761,106	₱2,573,614

16. **Lease Commitments**

a. The Group has entered into short-term commercial property leases on its investment properties with lease terms ranging from one day to one year. These leases have terms of renewal and further leasing, but no provisions for purchase options, escalation clauses and imposed restrictions such as those concerning dividends or additional debt.

   The Group recognized rent income of ₱62.3 million in 2012, ₱59.9 million in 2011 and ₱30.9 million in 2010 based on certain percentages of tenants' sales. Total rent revenue, including fixed rent income from tenants, amounted to ₱345.8 million in 2012, ₱347.8 million in 2011 and ₱357.5 million in 2010.

   Customers' deposits relating to these leases amounted to ₱105.2 million and ₱108.1 million as of December 31, 2012 and 2011, respectively.

b. The Company leases from third parties the land where ECCC and EMP are located. The lease term for ECCC is for a period of 25 years or up to year 2017 at a monthly rate of ₱525,000, with a 5% annual escalation rate, while for EMP, the lease is for a period of 20 years up to 2014 at a monthly rate of ₱140,700 and escalates at a certain rate every two years. In addition, the Company leases its office space from a third party for a fixed monthly rate of ₱70,355 renewable every year.

   Future minimum lease payments under non-cancellable operating leases are as follows:

	2012	2011	2010
Within one year	**₱23,139,124**	₱22,338,321	₱15,253,382
After one year but not more than five years	**74,666,691**	80,912,434	88,498,792
After five years	–	16,893,381	37,481,280
	₱97,805,815	₱120,144,136	₱141,233,454

   Operating lease payable amounted to ₱30.9 million and ₱51.9 million as of December 31, 2012 and 2011, respectively. In 2012, the Group reversed operating lease payable amounting to ₱14.7 million, included in "Interest income and others-net" in the 2012 Consolidated Statement of Comprehensive Income, pertaining to the difference between lease expense previously recognized on a straight-line basis in accordance with PAS 17, *Leases*, and the amount paid.

17. **Basic/Diluted Earnings Per Share**

Basic/Diluted earnings per share amounts are calculated as follows:

	2012	2011	2010
Net income	**₱241,435,774**	₱85,282,324	₱47,232,544
Weighted average number of shares	**5,000,000,000**	5,000,000,000	5,000,000,000
Basic/Diluted earnings per share	**₱0.048**	₱0.017	₱0.009

The Group does not have potential dilutive shares as of December 31, 2012, 2011 and 2010. Therefore, the basic and diluted earnings per share are the same as of those dates.

18. **Related Party Transactions**

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

The Group has transacted with the following related parties:

Stockholders
Gotesco Properties, Inc. (GPI)
Jose C. Go (JCG)

Affiliates under common control
Ever Commonwealth Center, Inc. (ECCI)
Homeworks
United Doctors Services Corporation
Gotesco Land, Inc.
Dominion Properties Management, Inc.
Ever Shoppers, Inc. (ESI)
Nasugbu Resort, Inc.
Gulod Resort, Inc.
Gotesco Investment, Inc. (GII)
Majestic Plus Holdings International, Inc.
GMCC United Development Corp.

In the ordinary course of business, the Group has related party transactions and balances as follows:

	2012			
	Amount/Volume	Outstanding Asset (Liability)	Terms	Condition
Stockholder				
Advances to related parties	₱2,386,897	₱1,687,447,406	Payable in five years; non-interest bearing	Unsecured; fully impaired
Affiliates under common control				
Rental receivable	–	579,533,901	Payable in one month; non-interest bearing	Unsecured; partially impaired
Advances to related parties	86,051,784	837,926,859	Payable in five years; non-interest bearing	Unsecured; partially impaired
Payable to related party	–	(4,000,000)	Due and demandable	Unsecured

	2011			
	Amount/Volume	Outstanding Asset (Liability)	Terms	Condition
Stockholder				
Advances to related parties	₱13,900,000	₱1,685,060,509	Payable in five years; non-interest bearing	Unsecured; fully impaired
Affiliates under common control				
Rental receivable	–	627,525,370	Payable in one month; non-interest bearing	Unsecured; partially impaired
Advances to related parties	63,979,071	751,875,075	Payable in five years; non-interest bearing	Unsecured; partially impaired
Payable to related party	–	(4,000,000)	Due and demandable	Unsecured

a. Prior to 2011, the Group leases out mall spaces under one-year term commercial property leases to entities that are under common control. These leases have terms of renewal, but have no purchase options, escalation clauses and imposed restrictions such as additional debt or further leasing. Outstanding rent receivables from related parties are presented as part of "Receivables" in the balance sheets.

b. The Company has non-interest bearing advances to GTMDI amounting to ₱2.4 million in 2012 and ₱13.9 million in 2011. Non-interest bearing advances amounting to ₱184.0 million and ₱183.9 million as of December 31, 2012 and 2011, respectively, net of unamortized excess of nominal amounts over the present value of these receivables amounting to ₱38.4 million and ₱46.7 million as of December 31, 2012 and 2011, respectively, were fully eliminated in the consolidated financial statements. Accordingly, the related accretion recognized in profit or loss amounting to ₱8.3 million in 2012, ₱10.9 million in 2011 and ₱59.7 million in 2010 were also eliminated.

c. The Group grants non-interest bearing advances to entities that are under common control, to the parent and to its stockholder. These advances are payable in five years as approved by the BOD.

   The long-term non-interest bearing advances were initially recorded at fair value, based on discounted cash flows, and are subsequently carried at amortized cost. The excess of the nominal amounts over the present values of the noncurrent receivables from entities under common control are recognized directly in equity on the date of grant. Accretion of the difference between nominal amount and present value is recognized in profit or loss.

   The following table shows the rollforward of the unamortized portion of the excess of nominal amounts over the present values of noncurrent receivables from related parties:

	2012	2011
Beginning balance	**₱449,940,724**	₱557,389,525
Addition	–	22,395,131
Accretion	**(78,890,332)**	(129,843,932)
Ending balance	**₱371,050,392**	₱449,940,724

   Accretion income amounted to ₱78.9 million in 2012, ₱129.8 million in 2011 and ₱88.1 million in 2010.

d. Movements in and details of the allowance for doubtful accounts relating to receivables from related party follow:

	2012	2011
Beginning balance	**₱860,128,000**	₱860,128,000
Provision for the year	**2,500,000**	–
Ending balance	**₱862,628,000**	₱860,128,000

e. Receivables from related parties, net of current portion, arising from advances are as follows:

	2012	2011
Receivables from related parties	**₱2,525,374,265**	₱2,436,935,584
Less unamortized accretion income	**371,050,392**	449,940,724
	2,154,323,873	1,986,994,860
Less current portion (see Note 1)	**950,280,430**	673,451,660
	1,204,043,443	1,313,543,200
Less allowance for doubtful accounts - noncurrent	**60,901,681**	60,901,681
	₱1,143,141,762	₱1,252,641,519

f. The Company has non-interest bearing payables to entities that are under common control. Payables to related parties, included as part of "Accounts Payable and Other Liabilities" in the consolidated balances sheets amounted to ₱4.0 million as of December 31, 2012 and 2011.

g. The compensation of key management personnel representing short-term employee benefits amounted to ₱3.5 million in 2012, ₱3.3 million in 2011 and ₱3.7 million in 2010. Retirement benefits for key management personnel amounted to ₱0.3 million in 2012, ₱0.2 million in 2011 and ₱0.2 million in 2010 (see Note 14).

19. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash, receivables, bank loans and payables to banks. The Group has various other financial assets and financial liabilities such as accounts payable and other liabilities and customers' deposits which arise directly from its operations.

Financial risk management by the Group is governed by policies and guidelines approved by the BOD. Group policies and guidelines cover liquidity risk and credit 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 of operations and financial position.

Liquidity risk
The Group seeks to manage its liquid funds through cash planning. The Group uses historical figures and experiences as well as forecasts of its collections and disbursements in the management of its funds. The Group negotiates for extension of credit terms from its creditors for more manageable repayment terms.

The tables below summarize the maturities of the Group's financial liabilities based on contractual undiscounted payments and the estimated maturities of financial assets used to manage liquidity risk:

	2012			
	On demand	**Less than one year**	**More than one year**	**Total**
Cash in banks	**₱442,773**	**₱–**	**₱–**	**₱442,773**
Receivables:				
Trade:				
Related parties	**210,465,592**	**–**	**–**	**210,465,592**
Third parties	**129,625,559**	**–**	**–**	**129,625,559**
Others:				
Related parties	**517,622,418**	**–**	**–**	**517,622,418**
Third parties	**42,301,584**	**–**	**–**	**42,301,584**
Noncurrent receivables from related parties	**–**	**–**	**1,143,141,762**	**1,143,141,762**
	₱900,457,926	**₱–**	**₱1,143,141,762**	**₱2,043,599,688**
Bank loans	**₱357,692,309**	**₱–**	**₱–**	**₱357,692,309**
Payables to banks - principal	**–**	**186,777,767**	**453,020,166**	**639,797,933**
Interest payable	**–**	**45,327,901**	**46,333,361**	**91,661,262**
Accounts payable and other liabilities:				
Trade	**30,521,597**	**–**	**–**	**30,521,597**
Accrued liabilities	**1,049,323,414**	**–**	**–**	**1,049,323,414**
Payable to related party	**4,000,000**	**–**	**–**	**4,000,000**
Retention payable to contractors and suppliers	**43,969,435**	**–**	**–**	**43,969,435**
	₱1,485,506,755	**₱232,105,668**	**₱499,353,527**	**₱2,216,965,950**

	2011			
	On demand	Less than one year	More than one year	Total
Cash in banks	₱281,492	₱–	₱–	₱281,492
Receivables:				
Trade:				
Related parties	258,457,061	–	–	258,457,061
Third parties	99,552,407	–	–	99,552,407
Others:				
Related parties	243,293,648	–	–	243,293,648
Third parties	96,505,927	–	–	96,505,927
Noncurrent receivables from related parties	–	–	1,252,641,519	1,252,641,519
	₱698,090,535	₱–	₱1,252,641,519	₱1,950,732,054
Bank loans	₱357,692,309	₱–	₱–	₱357,692,309
Payables to banks - principal	–	162,902,645	639,817,118	802,719,763
Interest payable	–	58,955,251	91,661,262	150,616,513
Accounts payable and other liabilities:				
Trade	27,998,704	–	–	27,998,704
Accrued liabilities	1,001,126,049	–	–	1,001,126,049
Payable to related party	4,000,000	–	–	4,000,000
Retention payable to contractors and suppliers	43,981,511	–	–	43,981,511
	₱1,434,798,573	₱221,857,896	₱731,478,380	₱2,388,134,849

Credit risk
The Group deals with recognized creditworthy tenants. It is the Group's policy that all tenants who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to minimize the Group's exposure to bad

debts. The Group also limits the advances granted to related parties into manageable levels and exerts effort to collect from these related parties. Creditworthiness of the tenants and related parties is reassessed at least once or twice a year to determine sufficiency of any allowance for probable losses to be provided. The maximum credit risk exposure on receivables is equivalent to the carrying amount of receivables from tenants and related parties.

The Group's policy is to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk.

Out of the total trade receivables as of December 31, 2011 and 2010, 82% and 85%, respectively, comes from the Group's related parties. Moreover, out of the Group's receivables, 84% and 87% pertains to receivables from its related parties as of December 31, 2011 and 2010, respectively. Except for receivables from GII, GPI, JCG, ESI and ECCI which are provided with allowances, the collectibility of receivables from related parties are highly probable since these related parties have high levels of net income and consistent positive cash flows. The Group manages the concentration risk by extending advances to related parties engaged in different industries such as department stores, supermarket, school, hospital, resorts and golf courses.

The maximum exposure to credit risk for the Group's loans and receivables, without taking into account any collateral and other credit enhancements, is equal to their carrying amounts.

The following tables summarize the credit quality per class of the Group's loans and receivables:

	2012				
	Neither past due nor impaired		**Past due but not impaired**	**Past due and impaired**	**Total**
	High grade	**Standard grade**			
Cash in banks	**₱442,773**	**₱–**	**₱–**	**₱–**	**₱442,773**
Receivables:					
Trade:					
Related parties	**–**	**210,465,592**	**–**	**369,068,309**	**579,533,901**
Third parties	**–**	**98,351,130**	**31,274,429**	**38,319,689**	**167,945,248**
Others:					
Related parties	**–**	**517,622,418**	**–**	**432,658,012**	**950,280,430**
Third parties	**–**	**42,301,584**	**–**	**150,425**	**42,452,009**
Noncurrent receivables from related parties	**–**	**1,143,141,762**	**–**	**60,901,681**	**1,204,043,443**
	₱442,773	**₱2,011,882,486**	**₱31,274,429**	**₱901,098,116**	**₱2,944,697,804**

	2011				
	Neither past due nor impaired		Past due but not impaired	Past due and impaired	Total
	High grade	Standard grade			
Cash in banks	₱281,492	₱–	₱–	₱–	₱281,492
Receivables:					
Trade:					
Related parties	–	258,457,061	–	369,068,309	627,525,370
Third parties	–	47,757,327	51,795,080	39,685,213	139,237,620
Others:					
Related parties	–	243,293,648	–	430,158,012	673,451,660
Third parties	–	96,505,927	–	150,425	96,656,352
Noncurrent receivables from related parties	–	1,252,641,509	–	60,901,681	1,313,543,190
	₱281,492	₱1,898,655,472	₱51,795,080	₱899,963,640	₱2,850,695,684

The Group classifies loans and receivables as high or standard grade. "High grade" receivables pertain to those receivables from tenants who consistently pay before the maturity date. "Standard grade" includes receivables that are collected on their due dates even without collection effort made by the Group. Past due but not impaired receivables include those that have not been paid during their respective due dates but are still assessed as collectible by the Group's management. Meanwhile, impaired receivables pertain to those with the least likelihood of collection even after rigorous collection efforts made by the Group. Impaired receivables have been provided with allowance depending on the management's assessment of their collectibility. In assessing collectibility, management considers deposits and advances held by the Group as well as the experience from previous transactions with the tenants.

Cash in banks are classified as "High grade" since these are deposited and invested with reputable banks and can be withdrawn anytime.

The following tables summarize the aging analysis of past due but not impaired loans and receivables:

	2012	2011
Less than 30 days	**₱3,830,312**	₱–
31 to 60 days	**2,047,037**	–
61 to 90 days	**1,771,637**	3,937,859
More than 90 days	**23,625,443**	47,857,221
Total	**₱31,274,429**	₱51,795,080

20. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains sufficient working capital for its operations and safeguard the entity's ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011.

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

	2012	2011
Capital stock	**₱5,000,000,000**	₱5,000,000,000
Deficit	**(2,856,466,377)**	(2,932,260,515)
	₱2,143,533,623	₱2,067,739,485

21. Financial Instruments

Presented below is the comparison of the carrying values and estimated fair values of the Group's financial assets and financial liabilities:

	2012		2011	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets				
Loans and receivables:				
Cash in banks	**₱442,773**	**₱442,773**	₱281,492	₱281,492
Receivables:				
Trade:				
Related parties	**210,465,592**	**210,465,592**	258,457,061	258,457,061
Third parties	**129,625,559**	**128,325,944**	99,552,407	99,552,407
Others:				
Related parties	**517,622,418**	**517,622,418**	243,293,648	243,293,648
Third parties	**42,301,584**	**42,301,584**	96,505,927	96,505,927
Noncurrent receivables from related parties	**1,143,141,762**	**1,428,818,551**	1,252,641,519	1,324,705,002
	₱2,043,599,688	**₱2,327,976,862**	₱1,950,732,054	₱2,022,795,537
Financial Liabilities				
Other financial liabilities:				
Bank loans	**₱357,692,309**	**₱357,692,309**	₱357,692,309	₱357,692,309
Payables to banks (including current portion)	**639,797,933**	**639,797,933**	802,719,763	802,719,763
Accounts payable and other liabilities:				
Trade	**30,521,597**	**30,521,597**	27,998,704	27,998,704
Accrued liabilities	**1,049,323,414**	**1,049,323,414**	1,001,126,049	1,001,126,049
Payables to related parties	**4,000,000**	**4,000,000**	4,000,000	4,000,000
Retention payable to contractors and suppliers	**43,969,435**	**43,969,435**	43,981,511	43,981,511
	₱2,125,304,688	**₱2,125,304,688**	₱2,237,518,336	₱2,237,518,336

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

Cash in banks, receivables, bank loans and accounts payable and other liabilities
The carrying amounts of cash in banks, receivables, bank loans and accounts payable and other liabilities approximate their fair values due to the short-term maturities of the financial instruments.

Noncurrent receivables from related parties
Fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate of interest. Discount rates used ranged from 4.22% to 4.83% in 2012 and 6.4% to 7.9% in 2011.

Payables to banks
The carrying amounts of payables to banks approximate their fair values since interest rates are near market rates.

The Group determines and discloses the fair value of its financial instruments on the basis of the following hierarchy:

Level 1 : quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2 : other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and,
Level 3 : techniques which use inputs that are not based on observable market data which have a significant effect on the recorded fair value.

The receivables from related parties are carried at fair value determined using the market interest rate at the dates of the transactions (level 2).

The Group has no financial instruments measured at fair value using the level 1 and 3 valuation hierarchy. There were no transfers between the different hierarchy levels in 2012 and 2011.

22. **Operating Segments**

The Group is engaged in building shopping malls and leasing out to commercial tenants and considers such as its primary activity and only business segment. Management monitors the operating results (mall rental income) of the Group for the purpose of making decisions about resource allocation and performance assessment.

Mall rental income, total assets and total liabilities as of and for the years ended December 31, 2012, 2011 and 2010 are the same as reported elsewhere in the financial statements. Segment information for this reportable business segment is shown in the following table:

	2012	2011	2010
Mall rental income	**₱348,225,332**	₱347,780,473	₱357,485,792
Net income	**75,794,138**	85,282,324	47,232,544
Total assets	**4,677,850,787**	4,711,793,746	4,658,273,680
Total liabilities	**2,534,317,164**	2,644,054,261	2,653,957,791
Capital expenditures	**2,559,953**	2,705,444	1,359,740
Depreciation and amortization	**159,474,264**	164,028,955	163,862,230

24. **Provisions**

The Group is currently involved in certain legal, contractual and regulatory matters that require the recognition of provisions for related probable claims against the Group. Management and its legal counsel reassess its estimates on an annual basis to consider new relevant information. Total provision for losses amounted to ₱60.1 million as of December 31, 2012 and 2011. There were no probable losses that would require additional provision in 2012. The disclosure of additional details beyond the present disclosures may seriously prejudice the Group's position and negotiation strategies with respect to these matters. Thus, as allowed by PAS 37, only a general description is provided.

25. **Net Income/Total Comprehensive Income**

The Group's net income and total comprehensive income for the years ended December 31, 2012, 2011 and 2010 are the same since the Group does not have other comprehensive income.