# 8990 Holdings, Inc.

*(incorporated in the Republic of the Philippines)*

**₱5,000,000,000.00 with an Oversubscription Option of up to**

**₱4,000,000,000.00**

**6.2080% p.a. Series A Bonds Due 2020**

**6.1310% p.a. Series B Bonds Due 2022**

**6.8666% p.a. Series C Bonds Due 2025**

**Offer Price: 100% of Face Value**

***Joint Issue Managers***

***Joint Lead Underwriters and Joint Bookrunners[1]***

BDO Capital & Investment Corporation
China Banking Corporation
First Metro Investment Corporation
SB Capital Investment Corporation

***Co-Lead Underwriters[2]***

Development Bank of the Philippines
Maybank ATR Kim Eng Capital Partners, Inc.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**The date of this Prospectus is June 25, 2015**

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[1] The Joint Lead Underwriters are subsidiaries of_BDO, Unibank Inc., China Banking Corporation, Metropolitan Bank and Trust Company, and Security Bank Corporation, respectively, which are among the lenders of the loans that will be repaid with the proceeds of this Offer.

[2] Maybank ATR Kim Eng Capital Partners, Inc. is affiliated with Maybank Philippines, Inc. which is among the lenders of the loans that will be repaid with the proceeds of this Offer.

**8990 Holdings, Inc.**
11th Floor, Liberty Center,
104 H.V. dela Costa Street,
Salcedo Village, Makati City, Metro Manila
Philippines
Telephone Number: +63-2-478-96-59
Fax Number: +63-2-478-96-59
Corporate Website: www.8990holdings.com

This Prospectus relates to the public offering (the "Offer") by 8990 Holdings, Inc. ("8990", the "Company", or the "Issuer") of Unsecured Fixed-Rate Peso Bonds with an aggregate principal amount of ₱5,000,000,000.00, with an oversubscription option of up to ₱4,000,000,000.00 (the "Bonds"). The Offer comprises the following series of the Bonds: (i) 6.2080% p.a. five-year and three months fixed-rate bonds due 2020 ("Series A Bonds"), (ii) 6.1310% p.a. seven-year fixed-rate bonds due 2022 ("Series B Bonds"), and (iii) 6.8666% p.a. ten-year fixed-rate bonds due 2025 ("Series C Bonds"), all of which shall be issued by the Company simultaneously on July 16, 2015 (the "Issue Date") pursuant to the terms and conditions of the Bonds.

Interest on the Bonds shall be payable quarterly in arrears starting on October 16, 2015 for the first Interest Payment Date and on January 16, April 16, July 16, and October 16 of each year for each subsequent Interest Payment Date at which the Bonds are outstanding or the subsequent Banking Day, without adjustment, if such Interest Payment Date is not a Banking Day.

The Bonds shall be repaid at par (or 100% of face value), plus any outstanding interest, on the relevant maturity date of each series or on October 16, 2020 for the Series A Bonds, on July 16, 2022 for the Series B Bonds, and on July 16, 2025 for the Series C Bonds, unless the Company exercises its early redemption option for the Series B or Series C Bonds on the Early Redemption Option dates according to the conditions therefor (see "Description of the Bonds" – "Redemption and Purchase").

The Bonds have been rated by the Credit Rating and Investors Services Philippines, Inc. ("CRISP") on March 27, 2015.

Upon their issuance, the Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Company and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of 8990, other than obligations preferred by law. The Bonds shall effectively be subordinated in right of payment to, among others, all of 8990's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines executed prior to the Trust Indenture Agreement (see "Description of the Bonds").

The Bonds are offered to the public at face value through the Joint Lead Underwriters and Joint Bookrunners named herein with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Bonds. It is intended that upon issuance, the Bonds shall be issued in scripless form, with PDTC maintaining the scripless Electronic Registry of the Bondholders. The Bonds are intended to be listed on the Philippine Dealing & Exchange Corp. ("PDEx"). The Bonds shall be issued in minimum principal denominations of ₱50,000.00 each, and in integral multiples of ₱10,000.00 thereafter. The Bonds shall be traded in denominations of ₱10,000.00 in the secondary market.

8990 expects to raise gross proceeds amounting to ₱5,000,000,000.00, and up to a maximum of ₱9,000,000,000.00, if the oversubscription option is fully exercised. Without exercising such oversubscription option, the net proceeds are estimated to be approximately ₱4,895,675,149.00, after deducting fees, commissions, and expenses relating to the issuance of the Bonds. If the oversubscription option is fully exercised, the net proceeds are estimated to be approximately ₱8,875,675,149.00, after deducting fees, commissions, and expenses relating to the issuance of the Bonds. Proceeds of the Offer shall be used to refinance existing debt obligations of the Issuer and its Subsidiaries which is discussed further in the section entitled "Use of Proceeds" on page 41 of this Prospectus. The Joint Lead Underwriters and Joint Bookrunners shall receive a fee of up to 0.30% on the final aggregate nominal principal amount of the Bonds issued.

On April 10, 2015, the Company filed a Registration Statement with the Securities and Exchange Commission ("SEC"), in connection with the offer and sale to the public of debt securities with an aggregate principal amount of ₱5,000,000,000.00 with an oversubscription option of up to ₱4,000,000,000.00, constituting the Bonds.

There can be no assurance in respect of: (i) whether 8990 would issue such debt securities at all; (ii) the size or timing of any individual issuance or the total issuance of such debt securities; or (iii) the specific terms and conditions of any such issuance. Any decision by 8990 to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within the Company's control, including but not limited to: prevailing interest rates, the financing requirements of the Company's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

Holders of the Bonds shall not be entitled to any dividends from the Issuer, the Bonds being a debt issue. Nevertheless, 8990's dividend policy is discussed further in the section "Market Price of and Dividends on the Company's Common Equity and Related Stockholder Matters" on page 100 of this Prospectus.

8990 confirms that this Prospectus contains all material information relating to the Company, its affiliates and Subsidiaries, as well as all material information on the issue and offering of the Bonds as may be required by the applicable laws of the Republic of the Philippines. No facts have been omitted that would make any statement in this Prospectus misleading in any material respect. 8990 confirms that it has made all reasonable inquiries with respect to any information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into this Prospectus. 8990, however, has not independently verified any or all such publicly available information, data or analysis(ses).

The price of securities can and does fluctuate. Any individual security may experience upward or downward movements, and may lose all or part of its value over time. The future performance of a security may defy the trends of its past performance, and there may be a significant difference between the buying price and the selling price of any security. As such, there is an inherent risk that losses may be incurred, rather than profit made, as a result of buying and selling securities. Thus, an investment in the Bonds described in this Prospectus involves a certain degree of risk. In deciding whether to invest in the Bonds, a prospective purchaser of the Bonds ("Prospective Bondholder") should carefully consider several factors both internal and external to the Company (detailed in "Risk Factors and Other Considerations" section of this Prospectus), in addition to the other information provided in this Prospectus.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstance, create any implication that the information contained or referred to in this Prospectus is accurate as of any time subsequent to the date hereof. The Joint Issue Managers and the Joint Lead Underwriters and Joint Bookrunners do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each Prospective Bondholder receiving a copy of this Prospectus acknowledges that he has not relied on the Joint Lead Underwriters and Joint Bookrunners in his investigation of the accuracy of any information found in this Prospectus or in his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of the purchase of the Bonds, among others. It bears emphasis that investing in the Bonds involves certain risks. It is best to refer again to the section on "Risk Factors and Other Considerations" for a discussion of certain considerations with respect to an investment in the Bonds.

No dealer, salesman or other person has been authorized by 8990 or the Joint Lead Underwriters and Joint Bookrunners to give any information or to make any representation concerning the Bonds other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by 8990 or the Joint Lead Underwriters and Joint Bookrunners. Further, the Offer is being conducted exclusively in the Philippines and pursuant to requirements under Philippines laws, rules and regulations that may be different from those of certain other countries and jurisdictions. No action has been or will be taken by the Issuer or any person on behalf of the Issuer to permit an offering of the Bonds in any jurisdiction other than the Philippines, where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, nor may any offering material relating to the Bonds be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws, rules and regulations of any such country or jurisdiction.

8990 is organized under the laws of the Philippines with principal office address at the 11th Floor, Liberty Center, 104 H.V. dela Costa Street, Salcedo Village, Makati City, Philippines with telephone number: (+632) 478 9659. The Company has been listed on the Philippine Stock Exchange ("PSE") since 2010 under ticker symbol "HOUSE." Its corporate website is http://www. www.8990holdings.com. The information in the website is not incorporated by reference into this Prospectus.

**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED THEREIN IS TRUE AND CURRENT.**

**8990 HOLDINGS, INC.**

By:

[ORIGINAL SIGNED]
**JANUARIO JESUS GREGORIO III B. ATENCIO**
President and CEO

REPUBLIC OF THE PHILIPPINES)
CITY OF MAKATI ) S.S.

Before me, a notary public for and in the city named above, personally appeared Januario Jesus Gregorio III B. Atencio, with Passport No. EB4984285 issued at DFA Manila on 21 March 2012, who was identified by me through competent evidence of identity to be the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this _________ day of ___________ 2015 at Makati City.

Doc No. ___;
Page No. ___;
Book No. ___;
Series of 2015.

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# FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from expected future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies, the environment in which the Company will operate in the future and current expectations and projections about future events and financial trends affecting its business. Words or phrases such as "believes," "expects," "anticipates," "intends," "plans," "foresees" or other words or phrases of similar import are intended to identify forward-looking statements. Similarly, statements that describe 8990's objectives, plans or goals are also forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated in the relevant forward-looking statements. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- the Company's ability to successfully manage its in-house financing activities
- the Company's ability to successfully implement its current and future strategies;
- the Company's ability to successfully manage aggressive growth;
- changes in the Philippine housing market and the demand for the Company's housing and land developments;
- the Company's ability to maintain its reputation for on-time project completion;
- any future political instability in the Philippines;
- the condition of and changes in the Philippine, Asian or global economies;
- changes in interest rates, inflation rates and the value of the Peso against the U.S. dollar and other currencies;
- changes to the laws, including tax laws, regulations, policies and licenses applicable to or affecting the Company; and
- competition in the Philippine housing industry.

Additional factors that could cause the Company's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "Risk Factors" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. The Company and the Joint Lead Underwriters and Joint Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based. The Company does not intend to update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise, unless material within the purview of the Securities Regulation Code ("SRC") and other applicable laws, the mandate of which is to enforce investor protection. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way the Company expects, or at all. Investors should not place undue reliance on any forward-looking information.

The Joint Lead Underwriters and Joint Bookrunners do not take any responsibility for, or give any representation, warranty or undertaking in relation to, any such forward-looking statement.

## GLOSSARY OF TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set forth below.

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| **8990 Davao** | 8990 Davao Housing Development Corporation |
| **8990 Housing** | 8990 Housing Development Corporation |
| **8990 Leisure** | 8990 Leisure and Resorts Corporation |
| **8990 Luzon** | 8990 Luzon Housing Development Corporation |
| **8990 Mindanao** | 8990 Mindanao Housing Development Corporation |
| **8990 Majority Shareholders** | collectively IHoldings, Inc.; Januarius Resources Realty Corporation; Kwantlen Development Corporation; Luis. N. Yu, Jr.; Mariano D. Martinez, Jr.; and Januario Jesus Gregorio III B. Atencio |
| **8990 Related Companies** | companies that are outside of the Company and owned by any of the 8990 Majority Shareholders |
| **Application to Purchase** | the documents to be executed and/or submitted by any Person or entity qualified to become a Bondholder offering to purchase the Bonds. |
| **Banking Day** | a day on which commercial banks are open for business in Makati City, Metro Manila |
| **BDO Capital** | BDO Capital & Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 20th Floor, South Tower, BDO Corporate Center, 7899 Makati Avenue, Makati City. |
| **Beneficial Owner** | any person (and "Beneficial Ownership" shall mean ownership by any person) who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting of such security; and/or investment returns or power in respect of any security, which includes the power to dispose of, or to direct the disposition of, such security; provided, however, that a person shall be deemed to have an indirect beneficial ownership interest in any security which is held by:<br><br>i. members of his immediate family sharing the same household;<br>ii. a partnership in which he is a general partner;<br>iii. a corporation of which he is a controlling shareholder; or<br>iv. subject to any contract, arrangement or understanding, which gives him voting power investment or power with respect to such securities; provided, however, that the following persons or institutions shall not be deemed to be beneficial owners of securities held by them for the benefit of third parties or in customer or fiduciary accounts in the ordinary course of business, so long as such securities were acquired by such persons or institutions without the purpose or effect of changing or influencing control of the issuer:<br>a. A broker dealer;<br>b. An investment house registered under the Investment Houses Law;<br>c. A bank authorized to operate as such by the BSP;<br>d. An insurance company subject to the supervision of the Office of the Insurance Commission;<br>e. An investment company registered under the Investment Company Act;<br>f. A pension plan subject to regulation and supervision by the Bureau of Internal Revenue and/or the Securities and Exchange Commission or relevant authority; and<br>g. A group in which all of the members are persons specified above |

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| **BIR** | Bureau of Internal Revenue |
| **Board of Directors or Board** | the Board of Directors of the Company |
| **BOI** | Board of Investments |
| **Bonds** | SEC-registered fixed-rate Peso-denominated bonds, comprising of the Series A, Series B, and Series C Bonds, with an aggregate principal amount of ₱5,000,000,000.00, with an oversubscription option of up to ₱4,000,000,000.00, which shall be issued by 8990 on the Issue Date. |
| **Bond Agreements** | the Trust Indenture Agreement, the Registry and Paying Agency Agreement, the Underwriting Agreement, the Master Bond Certificates (inclusive of the Terms and Conditions) or any document, certificate or writing contemplated thereby. |
| **Bondholder** | a Person whose name appears, at any time, as a holder of the Bonds in the Electronic Registry of Bondholders. |
| **B.P. 220** | Batas Pambansa Blg. 220, a Philippine statute regulating the standards and technical requirements for economic and socialized housing projects in urban and rural areas |
| **BSP** | *Bangko Sentral ng Pilipinas*, the central bank of the Philippines |
| **Common Shares** | common shares of the Company with a par value of ₱1.00 per share |
| **Company, Issuer, 8990** | 8990 Holdings, Inc. |
| **Congress** | The Congress of the Philippines, which comprises the House of Representatives and the Senate |
| **Constitution** | The 1987 Philippine Constitution |
| **Corporate Reorganization** | a series of transactions between the 8990 Majority Shareholders and the Company whereby, among other things, the 8990 Majority Shareholders acquired an 88.2% ownership interest in the Company, the Company increased its authorized capital stock, changed its primary purpose and principal place of business, and the Subsidiaries were reorganized under the Company; see "Business – History and Corporate Reorganization – Corporate Reorganization" |
| **CRC** | Center for Research and Communication of the University of Asia and the Pacific, a private academic institution that conducts economic and social research |
| **Corporation Code** | Batas Pambansa Blg. 68, otherwise known as "The Corporation Code of the Philippines." |
| **CRISP** | Credit Rating and Investors Services Philippines, Inc. |
| **CTS** | contract to sell, a contract generally entered into by the Company and its customers for the sale and purchase of a Mass Housing unit, the ownership of which remains with the Company until the full purchase price is paid by the customer |
| **CTS Gold** | general term used to refer to the Company's in-house financing products |
| **CTS Gold Convertible** | one of the Company's in-house financing products, which carries a rate of 8.5% per annum (fixed for the first four years) and is intended for Pag-IBIG take-up |
| **CTS Gold Straight** | one of the Company's in-house financing products, which carries a rate of 11.5% per annum and is not intended for Pag-IBIG take-up |
| **Debt-to-Equity Ratio** | is computed as total Financial Indebtedness divided by total equity |

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| **DBP** | Development Bank of the Philippines is a 100% government-owned financial institution with a mandate to provide medium and long-term credit facilities for the growth and expansion of the agricultural and industrial sectors, as well as public utilities with address at the Sen. Gil Puyat J. Avenue, corner Makati Avenue, Makati City, Philippines |
| **Economic Housing** | housing and land units priced from ₱450,001to ₱1,250,000, as categorized by the SHDA and HUDCC |
| **Electronic Registry of Bondholders** | the electronic registry book of the Registrar and Paying Agent containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon. |
| **FMIC** | First Metro Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 45th Floor, GT Tower International, Ayala Avenue corner H.V. dela Costa St., Makati City |
| **Fog Horn** | Fog Horn, Inc. |
| **Government** | the national government of the Republic of the Philippines |
| **Gross Margin** | the Company's gross income divided by sales as described in the Consolidated Financial Statements included in this Prospectus |
| **GSIS** | Government Service Insurance System |
| **HLURB** | Housing and Land Use Regulatory Board |
| **House of Representatives** | the House of Representatives of the Philippines, one of the two branches of the Congress |
| **HUDCC** | Housing and Urban Development Coordinating Council |
| **IEI** | IPVG Employees, Inc. |
| **IHoldings** | IHoldings, Inc. |
| **Interest Payment Date** | October 16, 2015 for the first Interest Payment Date and January 16, April 16, July 16, and October 16 of each year, for as long as the Bonds remain outstanding |
| **Interest Rate** | 6.2080% p.a. for the Series A Bonds<br>6.1310 % p.a. for the Series B Bonds<br>6.8666 % p.a. for the Series C Bonds |
| **Issue Date** | July 16, 2015 or such date on which the Bonds shall be issued by 8990 to the Bondholders |
| **IPCDSI** | IP Converge Data Services, Inc. |
| **IPP** | Investment Priorities Plan |
| **IPVI** | IP Ventures, Inc. |
| **IRO** | Investor Relations Officer |
| **IRRs** | Implementing Rules and Regulations of the SRC, as amended |
| **Januarius** | Januarius Resources Realty Corporation |
| **Joint Issue Managers** | BDO Capital & Investment Corporation, First Metro Investment Corporation and SB Capital Investment Corporation |

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| **Joint Lead Underwriters and Joint Bookrunners** | BDO Capital & Investment Corporation, First Metro Investment Corporation, SB Capital Investment Corporation, and China Banking Corporation |
| **Kwantlen** | Kwantlen Development Corporation |
| **KYC** | "Know-Your-Customer" |
| **Lien** | Lien means, with respect to any property or asset of any Person, any mortgage, lien, pledge, charge, security interest, encumbrance, constituted for the purpose of securing the obligations of such Person or another Person's obligations. |
| **Low-cost Housing** | housing and land units priced from ₱1,250,001 to ₱3,000,000, as categorized by the SHDA and HUDCC |
| **Maceda Law** | Republic Act No. 6552, or An Act to Provide Protection to Buyers of Real Estate on Installment Payments |
| **Majority Bondholders** | Majority Bondholders shall mean, at any time, the Bondholder or Bondholders who hold, represent or account for more than fifty percent (50%) of the aggregate outstanding principal amount of the Bonds; provided, that, in respect of any matter pertaining to the interest rate or tenor of the Bonds and affecting only the holders of a specific series of the Bonds exclusively, only the concerned Bondholders will be considered for quorum and approval purposes in any meeting in which any such matter is presented for resolution. |
| **Mass Housing** | housing units and land priced up to ₱3,000,000; this term comprises the Socialized Housing, Economic Housing and Low-cost Housing categories as defined by the SHDA and HUDCC |
| **Master Bond Certificates** | the certificates to be issued by 8990 and delivered to the Trustee representing each of the Series A, Series B, and Series C Bonds and evidencing and covering the aggregate principal amount of the Bonds issued on Issue Date |
| **Maturity Date** | October 16, 2020 for the Series A Bonds<br>July 16, 2022 for the Series B Bonds<br>July 16, 2025 for the Series C Bonds |
| **Maybank ATRKE** | Maybank ATR Kim Eng Capital Partners, Inc., a corporation duly licensed and authorized to operate in the Philippines with address at 9th Floor Tower One 7 Exchange Plaza, Ayala Triangle, Ayala Avenue, Makati City |
| **MPO** | minimum public ownership |
| **MRB** | medium-rise building, a walk-up building generally four to five stories or an elevator-equipped building of eight to 12 stories |
| **Net Income Margin** | the Company's net income divided by sales as described in the consolidated financial statements included in this Prospectus |
| **NHMFC** | National Home Mortgage Finance Corporation |
| **Offer** | the offer for sale, distribution, and issuance of Bonds by the Company under the conditions as herein contained |
| **Offer Period** | the period when the Bonds are offered for sale, distribution, and issuance by the Issuer to the Bondholders commencing at June 26, 2015 and ending at July 9, 2015, or such other dates as may be determined by the Issuer and the Joint Issue Managers |
| **Offer Price** | 100% of the face value for the Series A, Series B, and Series C Bonds |
| **OFs** | OFWs and Filipino expatriates |

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| **OFWs** | Overseas Filipino workers |
| **Pag-IBIG or HDMF** | the Home Development Mutual Fund, also known as the Pag-IBIG Fund, the primary government housing financial assistance program in the Philippines, with a statutory mandate to provide Government assistance for the housing requirements of its members and allot not less than 70% of its available funding for deployment of housing loans to its qualified buyers |
| **Paying Agent** | PDTC, as Paying Agent of the Bonds, and includes its successor entity, or any other party appointed by the Issuer from time to time as such, which shall shall perform the functions and duties of the paying agent pursuant to the Registry and Paying Agency Agreement, including, the receipt of funds from 8990 for payment of principal, interest and other amounts due on the Bonds and the remittance of the funds to the Bondholders based on the records shown in the Electronic Registry of Bondholders |
| **PCD Nominee** | PCD Nominee Corporation, a corporation wholly owned by the PDTC |
| **PDEx** | Philippine Dealing & Exchange Corp. |
| **PDTC** | the Philippine Depositary & Trust Corporation |
| **PDTC Rules** | SEC-approved rules of the PDTC, including the PDTC Operating Procedures and PDTC Operating Manual, as may be amended, supplemented, or modified from time to time |
| **Person** | Individuals, juridical persons such as corporation, partnership, joint venture, unincorporated association, trust or other juridical entities, or any governmental authority |
| **Pesos, Philippine Pesos, Php, ₱ and Philippine currency** | the legal currency of the Republic of the Philippines |
| **PFRS** | Philippine Financial Reporting Standards |
| **PSE** | the Philippine Stock Exchange, Inc. |
| **Registrar** | PDTC, as the Registrar of the Bonds and includes its successor entity, or any other party appointed by the Issuer from time to time as such, which shall perform the functions and duties of the paying agent pursuant to the Registry and Paying Agency Agreement, including maintaining the Electronic Registry of Bondholders |
| **REM** | real estate mortgage |
| **Registry and Paying Agency Agreement** | means the registry and paying agency agreement in the agreed form dated on or about June 25, 2015 between the Issuer and the Registrar and Paying Agent, as may be amended or supplemented from time to time |
| **SB Capital** | SB Capital Investment Corporation, a corporation duly licensed and authorized to operate in the Philippines, with address at the 18th Floor, Security Bank Centre, 6776 Ayala Avenue , Makati City |
| **SEC** | Philippine Securities and Exchange Commission |
| **SEC Permit to Sell** | Permit to Sell Securities issued by the SEC in connection with the Offer |
| **Security Interest** | any mortgage, pledge, lien or encumbrance constituted on any of the Issuer's properties |
| **Series A Bonds** | Bonds which shall have a term of five years and three months from the Issue Date |

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| **Series B Bonds** | Bonds which shall have a term of seven years from the Issue Date |
| **Series C Bonds** | Bonds which shall have a term of ten years from the Issue Date |
| **SHDA** | Subdivision and Housing Developers Association, the largest industry organization of subdivision and housing developers in the Philippines with over 200 members |
| **SHDA/CRC Report** | "The Housing Industry Road Map of the Philippines: 2012-2030," a publicly available report prepared by the SHDA in partnership with the CRC |
| **Socialized Housing** | housing and land units priced up to ₱450,000.00 as categorized by the SHDA and HUDCC |
| **SRC** | Republic Act No. 8799, also known as the Securities Regulation Code of the Philippines, and any of its amendments |
| **SSS** | the Republic of the Philippines Social Security System |
| **Subsidiary/ies** | with respect to the Company, 8990 Davao, 8990 Housing, 8990 Leisure, 8990 Luzon, 8990 Mindanao and Fog Horn |
| **Tax Code** | Philippine National Internal Revenue Code of 1997, as amended |
| **Taxes** | any present or future taxes, including, but not limited to, documentary stamp tax, levies, imposts, filing and other fees or charges imposed by the Republic of the Philippines or any political subdivision or taxing authority thereof, including surcharges, penalties and interests on said taxes, but excluding final withholding tax, gross receipts tax, taxes on the overall income of the underwriters or of the Bondholders (which for the avoidance of doubt includes any creditable withholding tax), value added tax, and taxes on any gains realized from the sale of the Bonds |
| **Tax Exempt/Treaty Documents** | collectively, (i) a BIR-certified true copy of the current and valid tax exemption certificate, ruling or opinion issued by the BIR addressed to the relevant Applicant or Bondholder confirming its exemption, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto; (ii) a duly notarized undertaking, in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative of such Applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and (iii) such other documentary requirements as may be reasonably required by the Issuer and/or the Registrar and Paying Agent or under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, which shall include a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under BIR Revenue Memorandum Order No. 72-2010; including any clarification, supplement or amendment thereto; |
| **Terms and Conditions** | Terms and conditions of the issuance of the Bonds as appended to the Master Bond Certificates and set forth in the Trust Indenture Agreement |
| **Trust Indenture Agreement** | means the trust indenture agreement in the agreed form dated on or about June 25, 2015 between the Issuer and the Trustee, as may be amended or supplemented from time to time |

| | |
|---|---|
| **Trustee** | BDO Unibank, Inc. – Trust and Investments Group, the entity appointed by the Issuer which will act as the legal title holder of the Bonds and shall monitor compliance and observance of all covenants of and performance by the Issuer of its obligations under the Bonds and enforce all possible remedies pursuant to such mandate. |
| **Underwriting Agreement** | means the Issue Management and Underwriting Agreement in the agreed form dated on or about June 25, 2015 between the Issuer, the Joint Issue Managers and the Joint Lead Underwriters and Joint Bookrunners, as may be amended or supplemented from time to time |

Titles of sections, subsections and clauses in this Prospectus are used for convenience of reference only and do not limit or affect the interpretation of the sections and subsections hereof. In case of conflict between the provisions of this Prospectus and the Bond Agreements, the provisions of the Bond Agreements shall prevail.

# SUMMARY

*The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Prospectus, including the Company's audited consolidated financial statements and related notes included elsewhere in this Prospectus. Capitalized terms not defined in this summary are defined in the "Glossary of Terms," "Risk Factors," "Business" or elsewhere in this Prospectus.*

**Overview**

The Company is the largest Mass Housing developer in the Philippines in terms of units licensed under B.P. 220 from 2011 to 2013, according to HLURB. The Company has been developing Mass Housing Projects in high-growth areas across the Visayas, Mindanao and Luzon since 2003. In doing so, the Company has benefited significantly from the industry experience of its principals who, prior to the establishment of the Company's Subsidiaries and through certain 8990 Related Companies, developed their first Mass Housing project in 1991 in Cagayan de Oro. The Company has built a reputation of providing quality and affordable homes to consumers in the fast-growing Philippine Mass Housing market. The Company's DECA Homes and Urban DECA Homes brands have also gained a strong reputation in the market, resulting in the Company garnering numerous awards such as Q Asia Magazine's Best Housing Developer for 2012 to 2013. As of March 31, 2015, the Company has completed 27 Mass Housing projects and is developing another ten Mass Housing and MRB projects. Across these completed and ongoing projects, the Company has, since 2003, sold more than 29,800 units, with approximately 19,000 additional units available for development and sale from ongoing projects. The Company also has an identified pipeline of eight projects with an existing and available landbank, which projects are scheduled to commence between 2015 and 2019 and which in total are expected to provide approximately 64,000 units available for sale.

The Company believes that its industry experience has equipped it with the ability to understand the needs, preferences, means and circumstances of consumers in the Philippine Mass Housing market. The Company offers an affordable pricing and payment model, and has developed its CTS Gold in-house financing program to cater to Mass Housing market Filipino consumers who do not have the accumulated savings to pay high down payments for homes but have sufficient recurring income to support monthly amortization payments. Under this program, customers only pay a minimal down payment and can quickly move into their chosen homes. The Company retains ownership of such homes until full payment is made by the customer. The CTS Gold program is further strengthened by the Company's strong relationship with Pag-IBIG, the primary Government agency providing housing financial assistance to Filipinos through the long-established Pag-IBIG housing loan program. The Company has structured the CTS Gold program, in particular the CTS Gold Convertible product, such that the requirements for such product generally mirror the requirements for availing of a Pag-IBIG home loan. This essentially facilitates the take-up by Pag-IBIG of such loans upon application for by customers, converting receivables of the Company into cash and lessening the financing and other risks appurtenant to potential buyer defaults.

Consistent with the Company's thrust of providing quality and affordable housing units to its customers, the Company also introduced a pre-cast construction process which enables it to construct and complete residences ready for move-in much faster than under the conventional concrete cinder block method. Through this process, the Company is able to construct townhouses and single-storey attached units in just eight to 10 days, with an additional five days for single-storey houses with lofts. The use of this process also allows the Company to realize significant cost savings and enables it to turn over units to its customers in a fast and efficient way.

In addition to horizontal Mass Housing subdivision projects, the Company also develops MRB condominium projects. The Company began development of its first MRB Mass Housing project in Cebu in 2012, and plans to develop similar MRB projects in Metro Manila and other urban areas. In 2012, 2013, and 2014, the Company recorded consolidated revenues amounting to ₱3,877.6 million, ₱5,433.1 million, and ₱7,792.5 million respectively, with resulting net income of ₱1,704.5 million, ₱2,182.3 million, and ₱3,307.0 million respectively.

*Competitive Strengths*

The Company considers the following to be its principal competitive strengths:

- Favorable market and industry demographics of the Mass Housing Sector.
- Leading Mass Housing developer with established track record and brands for the underserved Mass Housing segment.
- Customer-focused product and payment scheme best suited for the Mass Housing market, coupled with effective collection and risk management policies.
- Market innovations with respect to construction processes, which translates into efficiencies and cost-savings.

- Strong relationships with key housing and shelter agencies.
- Experienced management team with extensive expertise in Mass Housing development.

*Key Strategies*

The Company's overall business strategy, and the key to its current and past success in the Mass Housing industry, is to deliver with speed and quality the right products (a DECA Homes house or Urban DECA Homes MRB unit) to its target customers, mainly comprising low to middle income earners able to afford a monthly amortization payment of approximately ₱2,800 (the estimated amortization for a ₱450,000 loan for a Socialized Housing unit with 6% annual interest rate for the first year and a 25-year amortization schedule) to ₱10,000 (the estimated amortization for a ₱1,250,000 loan with 8.5% annual interest rate and a 25-year amortization schedule) under the Company's in-house financing program, at the right price range (the estimated amortization for a ₱450,000 to ₱1.25 million per housing/condominium unit).

To further build on its competitive strengths and allow further expansion of its business, the Company is looking to undertake the following:

- Increase existing coverage and expand geographically.
- Continue to support Mass Housing home ownership via innovative financing products.
- Continue to replenish land bank for development.
- Continue to diversify into new product types.
- Attain increased efficiencies in all facets of its operations and processes.

**Corporate Information**

The Company is a Philippine corporation with its registered office and principal executive offices located at 11th Floor, Liberty Center, 104 H.V. dela Costa Street, Salcedo Village, Makati City, Metro Manila. The Company's telephone number is (+632) 478 9659 and its fax numbers are (+632) 478 9659 and (+632) 478 8987. Its corporate website is www.8990holdings.com. The information on the Company's website is not incorporated by reference into, and does not constitute part of, this Prospectus.

***Investor Relations Office and Compliance Office***

The Investor Relations Office is tasked with (a) the creation and implementation of an investor relations program that reaches out to all shareholders and informs them of corporate activities and (b) the formulation of a clear policy for accurately, effectively and sufficiently communicating and relating relevant information to the Company's stakeholders as well as to the broader investor community.

Mr. Mohammad Taha S. Basman II, the Company's Investor Relations Officer ("IRO"), serves as the Company's designated investor relations manager and heads the Company's Investor Relations Office. The IRO is responsible for ensuring that Company's shareholders have timely and uniform access to official announcements, disclosures and market-sensitive information relating to the Company. As the Company's officially designated spokesperson, the IRO is responsible for receiving and responding to investor and shareholder queries. In addition, the IRO oversees most aspects of the Company's shareholder meetings, press conferences, investor briefings, management of the investor relations portion of the Company's website and the preparation of its annual reports. The IRO is also responsible for conveying information such as the Company's policy on corporate governance and corporate social responsibility, as well as other qualitative aspects of the Company's operations and performance.

Ms. Teresa C. Secuya currently serves as the Company's Compliance Officer to ensure that the Company complies with, and files on a timely basis, all required disclosures and continuing requirements of the Philippine SEC and the PSE.

The Company's Investor Relations Office is located at 11th Floor, Liberty Center, 104 H.V. dela Costa Street, Salcedo Village, Makati City, Metro Manila.

**Recent Land Acquisition**

On January 25, 2015, the Company, through 8990 Housing, entered into a contract with RLC Coastal Estates, Inc. to purchase a block of land (including improvements thereon) with an aggregate area of 307,629 sq. m. located in Cebu City for a total contract price of ₱769,072,500. On the same date, the Company paid a down payment representing 30.0% of the total contract price. The Company will pay the remaining 70.0% of the contract price in 24 equal monthly amortizations.

***Sale of Timeshare Business***

On August 1, 2014, the Company ceased timeshare selling as the property related to the timeshare business has been sold to Azalea Leisure Residences Corporation (ALRC). In turn, the Company purchased all preferred shares of ALRC, which it intends to sell in the secondary market pending the necessary approval from the Securities and Exchange Commission, in lieu of timeshare. The holders of the preferred shares have a perpetual right to occupy one unit of ALRC's vacation hotel for a specific number of days in a year, the same rights under the timeshare previously sold by the Company.

Since all preferred shares of ALRC have been purchased by the Company, this allows the Company to continue its hotel operations until such time that all preferred shares have been sold to secondary purchasers.

# SUMMARY OF THE OFFER

*The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus.*

| | |
|---|---|
| ***Issuer*** | 8990 Holdings, Inc. |
| ***Issue*** | Fixed rate bonds (the "Bonds") constituting the direct, unconditional, unsecured and unsubordinated obligations of the Issuer |
| ***Issue Amount*** | ₱5,000,000,000.00 |
| **Oversubscription Option** | The Joint Lead Underwriters and Joint Bookrunners shall have the option, with the consent and approval of the Issuer, to increase the Issue Amount by up to ₱4,000,000,000.00 in the event of oversubscription. |
| ***Manner of Distribution*** | Public Offering |
| ***Use of Proceeds*** | To refinance existing debt obligations of the Issuer and its Subsidiaries. |
| ***Form and Denomination*** | The Bonds are in scripless form, and shall be issued in denominations of ₱50,000.00 each as a minimum and in integral multiples of ₱ 10,000.00 thereafter and traded in denominations of ₱10,000.00 in the secondary market.. |
| ***Issue Price*** | At par (or 100% of face value) |
| ***Offer Period*** | The Offer shall commence at 9 a.m. of June 26, 2015 and end at 12 noon of July 9, 2015. |
| ***Issue Date*** | The Bonds are expected to be issued on July 16, 2015. |
| ***Maturity Date*** | **Series A:** October 16, 2020 or Five (5) years and Three (3) months from Issue Date unless otherwise earlier redeemed by the Issuer;<br><br>**Series B:** July 16, 2022 or Seven (7) years from Issue Date unless otherwise earlier redeemed by the Issuer; and/or<br><br>**Series C:** July 16, 2025 or Ten (10) years from Issue Date unless otherwise earlier redeemed by the Issuer.<br><br>Provided that, if such date is declared to be a non-Banking Day, the Maturity Date shall be the next succeeding Banking Day.<br><br>The Issuer has the ability to repurchase any Bonds from the secondary market on a purely voluntary basis, at any time. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. |
| ***Interest Rate*** | **Series A:** Fixed interest rate of 6.2080% per annum<br><br>**Series B:** Fixed interest rate of 6.1310% per annum<br><br>**Series C:** Fixed interest rate of 6.8666% per annum |
| ***Interest Payment*** | Interest on the Bonds shall be calculated on a 30/360-day count basis and shall be paid quarterly in arrears |
| ***Early Redemption Option*** | Prior to the relevant Maturity Dates, the Issuer has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Series B or Series C Bonds on Early Redemption Option Dates or the immediately succeeding Banking Day if such date is not a Banking Day, beginning on (i) **For Series B:** the third (3rd) month after the fifth (5th) anniversary of Issue Date and the Sixth (6th) anniversary of the Issue Date; and (ii) **For Series C:** |

<table>
<tr><td></td><td>the seventh (7th) anniversary of Issue Date and each anniversary of the Issue Date thereafter (each such dates an “Early Redemption Option Date” and collectively, the relevant Early Redemption Option Dates).<br><br>The amount payable to the Bondholders in respect of the exercise of the Early Redemption Option shall be calculated based on the principal amount of the Bonds being redeemed as the sum of the: (i) accrued interest computed up to the relevant Early Redemption Option Date, and (ii) the product of the principal amount and the applicable Early Redemption Option Price (except in case of Redemption for Tax Reasons and Change in Law or Circumstance (see “Description of the Bonds - Change in Law or Circumstance and Redemption for Tax Reasons”) as set forth in the following schedule:<br><br>
<table>
<tr><th></th><th>Early Redemption Option Dates</th><th>Early Redemption Option Price</th></tr>
<tr><td rowspan="2">Series B</td><td>Third (3rd) month after the Fifth (5th) anniversary of Issue Date</td><td>102.0%</td></tr>
<tr><td>Sixth (6th) anniversary of Issue Date</td><td>101.5%</td></tr>
<tr><td rowspan="3">Series C</td><td>Seventh (7th) anniversary of Issue Date</td><td>102.5%</td></tr>
<tr><td>Eighth (8th) anniversary of Issue Date</td><td>102.0%</td></tr>
<tr><td>Ninth (9th) anniversary of Issue Date</td><td>101.5%</td></tr>
</table>
<br>The Issuer shall give no less than 30 days nor more than 60 days prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption of the Bonds on the Early Redemption Option Date stated in such notice.</td></tr>
<tr><td>Final Redemption</td><td>Except when the Early Redemption Option is exercised, the Bonds will be redeemed at par or 100% of face value on Maturity Date.</td></tr>
<tr><td>Purchase and Cancellation</td><td>The Issuer may at any time purchase any of the Bonds in the open market or by tender or by contract in accordance with the PDEx Rules, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. Upon listing of the Bonds on PDEx, the Issuer shall disclose any such transactions in accordance with the applicable PDEx disclosure rules.</td></tr>
<tr><td>Status of the Bonds</td><td>The Bonds shall constitute the direct, unconditional, unsubordinated, and unsecured obligations of the Issuer and shall at all times rank pari passu and ratably without any preference or priority amongst themselves and at least pari passu with all other present and future unsubordinated unsecured obligations of the Issuer other than obligations preferred by law.</td></tr>
<tr><td>Bond Rating</td><td>The Bonds have been rated AA+ by CRISP on March 27,2015</td></tr>
<tr><td>Bond Listing</td><td>The Bonds are intended to be listed at the Philippine Dealing & Exchange Corp. or such other securities exchange licensed as such by the SEC on which the trading of debt securities in significant volume occurs.</td></tr>
<tr><td>Negative Pledge</td><td>The Bonds will have the benefit of a negative pledge on all existing and future assets of the Issuer and its Subsidiaries, subject to the exceptions provided for in the Trust Indenture Agreement.</td></tr>
<tr><td>Governing Law</td><td>Republic of the Philippines</td></tr>
</table>

**PARTIES TO THE TRANSACTION**

| | |
|---|---|
| ***Issuer*** | 8990 Holdings, Inc. |
| ***Joint Issue Managers*** | BDO Capital & Investment Corporation, First Metro Investment Corporation, and SB Capital Investment Corporation |
| ***Joint Lead Underwriters and Joint Bookrunners*** | BDO Capital & Investment Corporation<br>China Banking Corporation<br>First Metro Investment Corporation<br>SB Capital Investment Corporation |
| ***Trustee*** | BDO Unibank, Inc. – Trust and Investments Group |
| ***Registrar and Paying Agent*** | Philippine Depository and Trust Corporation |
| ***Counsel to the Issuer*** | Picazo Buyco Tan Fider & Santos Law Offices |
| ***Counsel to the Joint Issue Managers and the Joint Lead Underwriters and Joint Bookrunners*** | Angara Abello Concepcion Regala & Cruz Law Offices |
| ***Independent Auditor*** | SyCip Gorres Velayo & Co. ("SGV & Co.") |

## SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables set forth summary consolidated financial information for the Company and should be read in conjunction with the independent auditors' reports and the Company's audited consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary consolidated financial information as at and for the years ended December 31, 2012, 2013, and 2014 were derived from the Company's audited consolidated financial statements, which were prepared in accordance with PFRS and were audited by SGV & Co. in accordance with the Philippine Standards on Auditing ("PSA"). The summary consolidated financial information below is not necessarily indicative of the results of future operations.

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | **(Audited)** | **(Audited)** | **(Audited)** |
| | | *(millions)* | |
| Revenue | ₱3,877.6 | ₱5,433.1 | ₱7,792.5 |
| Cost of Sales and Services | (1,464.9) | (1,988.6) | (3,134.8) |
| **Gross Income** | 2,412.7 | 3,444.5 | 4,657.7 |
| Operating Expenses | (677.9) | (1,155.3) | (1,580.9) |
| **Net Operating Income** | 1,734.8 | 2,289.2 | 3,076.8 |
| Finance Costs | (216.3) | (406.5) | (396.3) |
| Other Income | 235.2 | 558.8 | 933.3 |
| **Income before Income Tax** | 1,753.7 | 2,441.5 | 3,613.8 |
| Provision for Income Tax | (49.2) | (257.8) | (304.7) |
| **Net Income** | 1,704.5 | 2,183.7 | 3,309.1 |
| Other Comprehensive Loss | - | (1.4) | (2.1) |
| **Total Comprehensive Income** | ₱1,704.5 | ₱2,182.3 | ₱3,307.0 |

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | As of December 31, | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | **(Audited)** | **(Audited)** | **(Audited)** |
| | | *(millions)* | |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash on Hand and in Banks | ₱180.3 | ₱249.0 | ₱605.1 |
| Current Portion of Trade and Other Receivables | 537.2 | 537.1 | 947.6 |
| Inventories | 2,040.5 | 2,243.6 | 3,078.1 |
| Available-for-sale securities | - | - | 1,155.1 |
| Due from Related Parties | 147.4 | 517.5 | 133.4 |
| Current Portion of Long-Term Investments | 3.0 | - | - |
| Other Current Assets | 137.1 | 342.1 | 572.9 |
| **Total Current Assets** | 3,045.5 | 3,889.3 | 6,492.2 |

| | | | |
|---|---|---|---|
| **Noncurrent Assets** | | | |
| Trade and Other Receivables – Net of Current Portion | 4,421.0 | 9,473.8 | 13,477.1 |
| Land Held for Future Development | 1,010.5 | 3,784.7 | 6,527.0 |
| Property and Equipment | 146.9 | 208.9 | 227.1 |
| Investment Properties | 142.4 | 141.9 | 296.3 |
| Other Noncurrent Assets | 81.6 | 117.0 | 127.0 |
| **Total Noncurrent Assets** | 5,802.4 | 13,726.3 | 20,654.5 |
| **Total Assets** | ₱8,847.9 | ₱17,615.6 | ₱27,146.7 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Current Portion of Trade and Other Payables | 617.7 | 2,937.7 | 2,225.8 |
| Current Portion of Loans Payable | 1,257.7 | 3,332.3 | 2,380.8 |
| Deposits from Customers | 104.9 | 47.7 | 274.4 |
| Due to Related Parties | 57.2 | 172.8 | 369.0 |
| Income Tax Payable | 13.9 | 31.2 | 137.3 |
| **Total Current Liabilities** | 2,051.4 | 6,521.7 | 5,387.3 |
| **Noncurrent Liabilities** | | | |
| Trade and Other Payables - Net of Current Portion | 499.9 | 263.1 | 18.3 |
| Loans Payable - Net of Current Portion | 2,316.8 | 3,980.6 | 6,453.1 |
| Deferred Tax Liability | 31.8 | 254.3 | 398.8 |
| **Total Noncurrent Liabilities** | 2,848.5 | 4,498.0 | 6,870.2 |
| **Total Liabilities** | 4,899.9 | 11,019.7 | 12,257.5 |
| **Equity** | | | |
| Capital Stock | 221.9 | 4,655.8 | 5,518.0 |
| Additional Paid-in Capital | 190.7 | - | 4,400.1 |
| Equity Reserve | 3,024.3 | - | - |
| Remeasurement Loss on Pension Plan | - | (1.4) | (3.6) |
| Retained Earnings | 511.1 | 1,941.5 | 4,974.7 |
| **Total Equity** | 3,948.0 | 6,595.8 | 14,889.2 |
| **Total Liabilities and Equity** | ₱8,847.9 | ₱17,615.6 | ₱27,146.7 |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | **(Audited)** | **(Audited)** | **(Audited)** |
| | | *(millions)* | |
| Net Cash Used in Operating Activities | ₱ (1,504.7) | ₱ (1,985.3) | (2,159.8) |
| Net Cash Used in Investing Activities | (377.8) | (1,266.2) | (4,120.8) |
| Net Cash Provided by Financing Activities | 1,812.1 | 3,320.2 | 6,636.7 |
| Net Increase (Decrease) in Cash on Hand and in Banks | (70.4) | 68.7 | 356.1 |
| Cash on Hand and in Banks at Beginning of Year | 250.7 | 180.3 | 249.0 |
| Cash on Hand and in Banks at End of Year | ₱180.3 | ₱249.0 | ₱605.1 |

**KEY PERFORMANCE INDICATORS**

| Key Performance Indicators | As of December 31, 2014 Audited | As of December 31, 2013 Audited |
|---|---|---|
| Current Ratio[(1)] | 1.21 | 0.60 |
| Book Value Per Share[(2)] | 2.70 | 1.42 |
| Debt to equity ratio[(3)] | 1.02 | 1.67 |
| Debt Service Coverage Ratio | 2.98 | 1.64 |
| Asset to Equity Ratio[(4)] | 1.82 | 2.67 |
| Asset to Debt Ratio[(5)] | 2.21 | 1.60 |
| Interest Coverage Ratio[(6)] | 10.12 | 7.01 |
| Gross Income[(7)] | 59.77% | 63.40% |
| EBITDA Margin[(8)] | 51.93% | 52.83% |
| Net Income Margin[(9)] | 42.46% | 40.19% |

*Notes:*

*(1) Current ratio: Current asset over current liabilities*

*(2) Book value per share: Total equity over outstanding common shares*

*(3) Debt to equity ratio: Total debt over total equity; After the Issue Date, the Debt to Equity Ratio shall remain at 1.02 since the proceeds of the Bonds would be used to refinance existing debt.*

*(4) Asset to equity ratio: Total asset/total equity*

*(5)Asset to Debt Ratio: Total Asset/total debt*

*(6) Interest Coverage Ratio: Earnings before interest and taxes over interest expense*

*(7) Gross Income: Gross Income/Revenue*

*(8) EBITDA Margin: Earnings before interest, taxes and depreciation over revenue*

*(9) Net Income margin: Net income over revenue*

# RISK FACTORS

*An investment in the Bonds involves a number of risks. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not indicative of future performance and results, and there may be a large difference between the buying price and the selling price of any security. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Bonds. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the Company's business, financial condition and results of operations and cause the market price of the Bonds to decline. All or part of an investment in the Bonds could be lost.*

*The means by which the Company intends to address the risk factors discussed herein are principally presented under the captions "Business," particularly under "Competitive Strengths" "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Industry," and "Board of Directors and Senior Management—Corporate Governance" of this Prospectus. This risk factor discussion does not purport to disclose all of the risks and other significant aspects of investing in the Bonds. Investors should undertake independent research and study the trading of securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in the trading of securities, and specifically those of high-risk securities. Investors may request publicly available information on the Bonds and the Company from the SEC. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.*

## RISKS RELATING TO THE COMPANY'S BUSINESS

***All of the Company's business activities are conducted in the Philippines, which exposes the Company to risks associated with the Philippines, including the performance of the Philippine economy.***

Historically, the Company has derived primarily all of its revenue from the sale of real estate assets in the Philippines and its business is highly dependent on the state of the Philippine economy. Demand for, and prevailing prices of real estate assets are directly related to the strength of the Philippine economy (including overall growth levels and interest rates), the overall levels of business activity in the Philippines, the overall employment levels in the Philippines and the amount of remittances received from OFs. Historically, the Philippines has periodically experienced economic downturns. For example, the general slowdown of the global economy in 2008 and 2009 had a negative effect on the Philippine economy, which in turn had a negative effect on the Philippine property market as property sales declined.

There is no assurance that there will not be a recurrence of an economic slowdown in the Philippines. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activity in the Philippines or in the global market;
- decreases in the amount of remittances received from Ofs;
- decreases in or changes in consumption habits in the Philippines;
- decreases in property values;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines or in the global market;
- the sovereign credit ratings of the Philippines;
- exchange rate fluctuations;
- a prolonged period of inflation or increase in interest rates;
- changes in the Government's taxation policies;
- natural disasters, including typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, political or economic developments in or affecting the Philippines.

There is a degree of uncertainty regarding the economic and political situation in the Philippines. This uncertainty could have adverse effects on the revenues from the Company's business. See "Risks Relating to the Philippines."

To mitigate this risk, the Company intends to further grow its existing Mass Housing revenue base; promote increased home ownership in the Mass Housing segment through the development of financing projects tailored to specific needs, requirements and financial situation of its Mass Housing customers; diversify into new product types to supplement its subdivision and MRB offerings; and increase efficiencies in all facets of its operations and processes. For further discussion, please see page 75, "Key Strategies".

***The Company is exposed to risks associated with its in-house financing activities, including the risk of customer default, and it may not be able to sustain its in-house financing program.***

The Company provides a substantial amount of in-house financing to its customers via its CTS Gold program. As a result, and particularly during periods when the unemployment rate rises or when the overall level of overseas remittances decline, the Company faces the risk that a greater number of customers who utilize the Company's in-house financing facilities will default on their payment obligations, which would require the Company to incur expenses such as those relating to sales cancellations and eviction of occupants, additional expenses caused by delinquent accounts, a disruption in cash inflows, risk of holding additional inventory in its balance sheets and reduced finance income.

In addition, in instances where various customer receivables have been given as collateral for the Company's financing arrangements with banks or in instances where sales of receivables are made with recourse to the Company, a default in these receivables would require the Company to either pay down the corresponding balance on the loan, or replace the defaulting receivable with another from its portfolio. There can be no guarantee that the Company will not be asked to pay cash for these defaulting obligations in the future. In such an event, the defaulting receivable would also be assigned back to the Company, and there can also be no guarantee that the Company will be able to resell the Mass Housing unit underlying the receivable easily or at all. If the number of and amount involved in any defaults are significant, the Company's financial position and liquidity may be adversely affected.

Furthermore, the Company's current financing arrangements with banks with respect to CTS Gold loans generally have a tenor of one to five years. If this timeframe expires and the corresponding loan is not taken up by Pag-IBIG, the Company may need to either pay down the balance on the loan, arrange for extensions to the loan, or finance the loan from another source. There can also be no guarantee that the Company will be able to arrange for replacement financing easily or at all. If the number of and amount involved in the loans not taken up by Pag-IBIG are significant, the Company's financial position and liquidity may be adversely affected.

Moreover, other cheaper financing options may become available and if customers choose to obtain financing from other sources, such as banks and other financial institutions, this would result in a decline in the income the Company derives from interest due on in-house financing.

The inability of the Company to sustain its in-house financing activities could have a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk, the Company relies on its industry experience and in-depth knowledge and understanding of the needs, preferences, means and constraints of the Mass Housing segment customer base. The Company has developed a comprehensive collection platform comprising policies, structures, systems, organizations and mechanisms focused on collection efficiency and the mitigation of payment delinquency. For further discussion, please see page 73 on "Competitive Strengths – Customer-focused product and payment scheme best suited for the Mass Housing market, coupled with effective collection and risk management policies."

***The Company's liquidity and financial results are affected by the willingness of various financial institutions, including Pag-IBIG, to process loan take-ups and the expediency by which such financial institutions process these take-ups.***

Under its business and operating model, the Company typically provides in-house financing to its customers via its CTS Gold financing team upon the initial purchase of a potential home. From time to time, the Company requires the prospective purchaser to apply with Pag-IBIG for take-up of the loan obligation. The Company may also transfer loan portfolios directly to Pag-IBIG on behalf of its customers. Should Pag-IBIG grant the prospective buyer's application, it would then grant a home loan to the prospective buyer (to pay for the purchase price of the Mass Housing unit) and transfer the loan amount to the Company or the subsequent owner of the relevant receivable. However, due to the number of applications pending with Pag-IBIG at any one time, there are often delays in the processing of these loan take-ups. Furthermore, Pag-IBIG may also deny loans for various reasons, such as incomplete documents and insufficient equity ownership (through prior payment of principal), among others. In addition, other factors, such as review of titles by banks that purchase receivables from the Company, may also delay the financing process. Furthermore, if the loans are held as collateral by banks, then the banks need time to pass the titles, which could cause delays. Depending on the degree of any such delays or denials, and the amounts of the loans and number of customers involved, these could have a material adverse effect on the Company's liquidity because the home buyer loans would be retained on the Company's books as receivables and delay its cashflow. Moreover, in the event that Pag-IBIG completely ceases the take-up of these loans, the Company would have to keep these loans for a significant portion of time and may encounter difficulty in selling these loans to other financial institutions. Any of these events may have a material adverse effect on the Company's financial condition and results of operations. See "– The Company is exposed to risks associated with its in-house financing activities, including the risk of customer default, and it may not be able to sustain its in-house financing program."

In addition to having its CTS loans taken up by Pag-IBIG and borrowing from banks using the CTS loans as collateral, the Company also from time to time transfers its CTS loans to banks, typically going through a similar procedure as described above for Pag-IBIG. Similarly, there may be delays in the efficient and timely processing of these loan take-ups and the banks may also deny these loans for various reasons. Depending on the degree of any such delays or denials, and the amounts of the loans and number of customers involved, these could have a material adverse effect on the Company's liquidity because the home buyer loans would be retained on the Company's books as receivables and delay its cashflow.

To mitigate this risk the Company maintains strong relationships with key housing and shelter agencies. For further discussion please see page 74 on "Strong relationships with key housing and shelter agencies".

***The Company's liquidity and financial results are dependent on the implementation and success of various measures to manage its liquidity risk.***

The Company adopts various measures to manage its liquidity risk. For example, the Company developed a comprehensive collection platform comprising policies, structures, systems, organizations and mechanisms focused on collection efficiency and the mitigation of payment delinquency. Also, the Company enters into take-up arrangements with institutions such as Pag-IBIG to monetize its receivables. From time to time, the Company enters into loan arrangements with banks against its receivables portfolio as collateral. The Company sells its receivables to certain banks with recourse. Typically under such arrangements, if take-up by Pag-IBIG does not occur within one to five years of the sale of the receivables, the Company is required to either extend the term or repurchase the receivables. Furthermore, the Company has begun to explore possible securitization transactions with respect to a portion of its receivables portfolio. The Company may be left with the riskiest tranche of its receivables portfolio due to this securitization. In addition, the Company is also considering the sale of its receivables to banks and other financial institutions on a non-recourse basis. As the Company has not completed the aforementioned securitization transactions and non-recourse sale of receivables, there can be no guarantee that such transactions or sale will materialize. The Company might not always successfully manage its receivables. The inability to manage its receivables portfolio could lead to a situation where the Company does not have sufficient cash to pay its obligations as they come due or insufficient cash to meet its expansion strategy. If any of the Company's means of managing its liquidity risks are unsuccessful, the result could have a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk, the Company relies on its experienced management team with extensive expertise in Mass Housing development.

***The Company is currently in the process of updating its accounting systems and other internal controls.***

As an organization which recently underwent a corporate reorganization and that is now subject to the reporting requirements for listed companies, the Company is currently updating and streamlining its overall operational systems and internal controls. Notably, the Company is implementing upgrades to its management information systems and processes with respect to accounting controls, documentation and internal reporting. The Company has recently purchased a new accounting system and its users would be trained to use the system. As such, the Company may experience difficulties in the implementation of these new systems and processes organization-wide, and may not be able to effectively integrate these upgrades and new systems across its Subsidiaries and divisions within its Subsidiaries. In addition, there can be no assurance that the implementation of these system upgrades will produce the desired improvements in timeliness and quality of the Company's reporting and internal controls. Any failure of the Company to properly upgrade and implement these systems, or to effectively integrate these changes across the entire organization, may not produce the desired efficiencies or may result in imprecise reporting of the Company's accounts and results, which may in turn have a material adverse effect on its results of operation and financial condition.

Moreover, there can be no assurances that the Company's accounting systems, documentation processes and other internal controls that were in place prior to the corporate reorganization were sufficient to ensure accurate general record keeping and substantiate proper financial reporting. As a particular example, this lack of sufficient documentation processes is likely to result in discrepancies between the accounting treatment of various items in the Company's financial statements prepared prior to the corporate reorganization as compared to if the same financial statements were prepared using the Company's improved systems or if a different auditor had audited the financial statements prior to the corporate reorganization. Investors are therefore cautioned to not place undue reliance on such financial statements.

To mitigate this risk, the Company relies on its experienced Management Team and the expert advice of consultants, including but not limited to its external auditor, to assist in the process of updating its accounting systems and other internal controls.

***The real estate industry in the Philippines is capital intensive, and the Company may be unable to readily raise necessary amounts of funding to acquire new land or complete existing projects.***

The real estate industry in the Philippines is capital intensive, and market players are required to incur significant expenditures to acquire land for development, complete existing projects and commence construction on new developments. For the years 2012, 2013 and 2014, the Company spent ₱397 million, ₱1,185 million and ₱3,619 million, respectively, for land banking expenditures for its real estate development projects.

Historically, the Company has funded a significant portion of its capital expenditure requirements as well as steady growth from external sources of financing; however, it may also fund such requirements through other means, such as equity sales, among others, in the future. There can be no assurance that, to complete its planned projects or satisfy its other liquidity and capital resources requirements, the Company will be able to obtain sufficient funds at acceptable rates to fund its capital expenditure requirements, or that it will be able to obtain sufficient funds at all. Failure to obtain the requisite funds could delay or prevent the acquisition of land, completion of old projects or commencement of new projects and materially and adversely affect the Company's business, financial condition and results of operations.

To mitigate this risk, the Company maintains strong relationships with key housing and shelter agencies. It may also obtain financing from capital markets.

***A portion of demand for the Company's products is from OFWs, which exposes the Company to risks relating to the performance of the economies of the countries where these potential customers are located.***

Sales to Ofs, including OFWs and Filipino expatriates, generate a portion of the demand for the Company's housing and land development projects. In addition, unnamed OFWs may provide financial support to named buyers who are located in the Philippines. A number of factors could lead to, among other effects, reduced remittances from OFWs, a reduction in the number of Ofs or a reduction in the purchasing power of Ofs. These include:

- an appreciation of the Philippine peso, which would result in decreased value of the other currencies transmitted by Ofs;
- any difficulties in the repatriation of funds;
- a downturn in the economic performance of the countries and regions where a significant number of these potential customers and supporters are located, such as the United States, the Middle East, Italy, the United Kingdom, Singapore, Hong Kong and Japan;
- a change in Government regulations that currently exempt the income of OFWs from taxation in the Philippines;
- the imposition of restrictions by the Government on the deployment of OFWs to particular countries or regions, such as the Middle East; and restrictions imposed by other countries on the entry or the continued employment of foreign workers.

As an example, the Company believes that the global economic downturn of 2008 resulted in OFW remittances tending to be used for basic family expenses or savings and bank deposits rather than for investing in or purchasing real estate. In addition, recent turmoil in the Middle East and North Africa have resulted in Ofs being repatriated from these regions and losing their steady sources of income. Any of these events could adversely affect demand for the Company's projects from Ofs, which could have a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk the Company relies on Management's extensive experience and in-depth knowledge of the real estate business, particularly in the Mass Housing market. The Company has also adopted strategies, among others, to increase its existing coverage and grow geographically.

***The Company's focus on residential housing and land development exposes it to sector-specific risks, including competition in the Philippine residential real estate industry.***

The housing market involves significant risks distinct from those involved in the ownership and operation of established properties, including the risk that the Company may invest significant time and money in a project that may not attract sufficient levels of demand in terms of anticipated sales and which may not be commercially viable. The Company's results of operations are therefore dependent, and are expected to continue to be dependent, on the continued success of its residential and land development projects.

Additionally, the Philippine residential real estate industry is highly competitive. The Company's income from, and market values of, its real estate projects are largely dependent on these projects' popularity when compared to similar types of projects in their areas, as well as on the ability of the Company to correctly gauge the market for its projects. Important factors that could affect the Company's ability to effectively compete include a project's relative location versus that of its competitors, particularly to transportation facilities and commercial centers, the quality of the housing and related facilities offered by the Company, price and payment terms of the project, available financing for the homebuyer and the overall attractiveness of the project. The time and costs involved in commencing or completing the development and construction of residential projects can be affected by many factors, including shortages of materials, equipment and labor, adverse weather conditions, natural disasters, labor disputes with contractors and subcontractors, timing of required approvals and the occurrence of other unforeseeable circumstances. Any of these factors could result in project delays and cost overruns, which could negatively affect the Company's revenues and margins. Moreover, failure by the Company to complete construction of a project to its planned specification or schedule may result in contractual liabilities to purchasers and lower returns, all of which could have a material adverse effect on the Company's business, financial condition and results of operations.

For information on how the Company mitigates this risk, please see discussion on Competitive Strengths and Key Strategies on pages 73-76.

***Historically low interest rates, expansion in overall liquidity, extensive construction of housing units and other factors could lead to the risk of formation of asset bubbles in real estate.***

For the past several years central banks globally, including the BSP, have kept overall interest rates at historically low levels for an extended period of time. This has occurred in conjunction with recent high levels of liquidity in the Philippines owing to strong and growing remittances from OFWs, the expansion of consumer credit provided by banks, the expiry of the BSP's requirement for banks to maintain special deposit accounts and strong inflows of foreign investments, among other factors. In addition, the pace of real estate construction, particularly for housing in and surrounding Metro Manila and other urban areas, has likewise been strong by historical standards. All these have increased the risk that rising prices may not be sustainable, particularly in the real estate sector. If rising prices are not sustained, the result could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is confident in the efforts of the Bangko Sentral ng Pilipinas to control inflation and prevent the formation of asset bubbles in real estate. The Company believes that the Mass Housing sector has shown favorable market demographics in recent years and will continue to do so in the medium- to long-term. Consistent with steadily expanding GDP and rising consumption and spending domestically, the Company believes that the growing Philippine workforce is primarily comprised of young individuals with regular cash flows, which will drive continued expansion and growth in the Philippine housing sector.

***Competition for the acquisition of land for new projects and risks relating to the management of its land bank, including fluctuations in demand and prices, may adversely affect the Company's business.***

The Company's future growth and development are dependent, in part, on its ability to acquire additional tracts of land suitable for the Company's future real estate projects. When the Company attempts to locate sites for development, it may experience difficulty locating parcels of land of suitable size in locations and at prices acceptable to the Company, particularly parcels of land located in areas surrounding Metro Manila and in other urban areas throughout the Philippines. Furthermore, land acquired by the Company may have pre-existing tenets or obligations that prevent immediate commencement of new developments. In the event the Company is unable to acquire suitable land at prices and in locations that could translate into reasonable returns, or at all, its growth prospects could be limited and its business and results of operations could be adversely affected.

In addition, the risks inherent in purchasing and developing land increase as consumer demand for residential real estate decreases. The market value of land, subdivision lots and housing inventories can fluctuate significantly as a result of changing market conditions. There can be no assurance that the measures the Company employs to manage land inventory risks will be successful. In the event of significant changes in economic, political, security or market conditions, the Company may have to sell subdivision lots and housing and condominium units at significantly lower margins or at a loss. Changes in economic or market conditions may also require the Company to defer the commencement of housing and land development projects. Any of the foregoing events would have a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk the Company relies on Management's extensive experience and a strategy of replenishing its land bank for future developments, selectively acquiring parcels and properties that meet its requirements for potential projects.

***There can be no assurance that the Company will not suffer from substantial sales cancellations. The Company faces certain risks related to the cancellation of sales involving its residential projects and, if the Company were to experience a material number of sales cancellations, the Company's historical revenue would be overstated.***

As a developer and seller of residential real estate, the Company's business, financial condition and results of operations could be adversely affected in the event a material number of horizontal subdivision, MRB unit or high-rise unit sales are cancelled.

The Company is subject to Republic Act No. 6552 (the "Maceda Law"), which applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units and horizontal residential units. Under the Maceda Law, buyers who have paid at least two years of installments are granted a grace period of one month for every year of paid installments to cure any payment default. If the contract is cancelled by the Company, the buyer is entitled to receive a refund of at least 50% of the total payments made by the buyer, with an additional 5% per annum in cases where at least five years of installments have been paid (but with the total not to exceed 90% of the total payments). Buyers who have paid less than two years of installments and who default on installment payments are given a 60-day grace period to pay all unpaid installments before the sale can be cancelled, but without right of refund.

While the Company historically has not experienced a material number of cancellations to which the Maceda Law has applied, there can be no assurance that it will not experience a material number of cancellations in the future, particularly during slowdowns or downturns in the Philippine economy. In the event the Company does experience a material number of cancellations, it may not have enough funds on hand to pay the necessary cash refunds to buyers or it may have to incur indebtedness in order to pay such cash refunds. The Company may also experience losses relating to these cancellations. In addition, particularly during an economic slowdown or downturn, there can be no assurance that the Company would be able to re-sell the same property or re-sell it at an acceptable price or at all. Any of the foregoing events would have a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, in the event the Company experiences a material number of sales cancellations, the Company's historical revenues would have been overstated because such historical revenue would not have accurately reflected subsequent customer defaults or sales cancellations. As a result, the Company's historical income statements are not necessarily accurate indicators of the Company's future revenue or profits.

To mitigate this risk, the Company relies on its customer-focused product and payment scheme that is best suited for the Mass Housing market, coupled with effective collection and risk management policies. The Company has also adopted a strategy to promote home ownership in the Mass Housing segment by continuing to develop financing products tailored to the specific needs, requirements and financial situation of Mass Housing customers.

***The Company may not be able to successfully manage its growth or expansion strategies.***

The Company intends to continue to pursue an aggressive growth strategy for its residential property business. To this end, the Company currently has 10 ongoing projects, as of 31 March 2015 and will start to develop eight new ones. The Company's growth strategy for its housing and land development business may require the Company to manage additional relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. This substantial growth in projects will also require significant capital expenditure, which may entail taking on additional debt or equity to finance housing and land development projects.

There can be no assurance that, in the course of implementing its growth strategy, the Company will not experience capital constraints, delays in obtaining relevant licenses and permits, construction delays, operational difficulties at new operational locations or difficulties in operating existing businesses and training personnel to manage and operate the expanded business. The Company may also experience delays resulting from its current strategy of engaging a limited number of contractors for its construction operations. See "- Independent contractors may not always be available, and once hired by the Company, may not be able to meet the Company's quality standards or to complete projects on time and within budget." Any inability or failure to adapt effectively to growth, including strains on management and logistics, could result in losses or development costs that are not recovered as quickly as anticipated, if at all. These problems could have a material adverse effect on the Company's reputation and on its business, results of operations or financial condition.

Similarly, the Company intends to further pursue its strategy of expanding its MRB residential developments and high-rise building developments. To this end, the Company intends to construct more MRB developments and complete its first high-rise building developments. The Company's strategy to expand these businesses will require the Company to manage additional relationships with third parties such as potential retailers, suppliers and contractors. Moreover, high-rise building development will be a new line of business to the Company. As a result, the Company could encounter various issues that it does not have extensive experience dealing with associated with this business, such as applicable laws relating to commercial rental/tenancy laws and condominium construction and different construction, operational and marketing requirements, among others. There can be no assurance that the Company's continued expansion into MRB developments and new expansion into high-rise building developments will be successful. There can also be no assurance that there will be a market for the Company's high-rise building developments. As a result, the Company's decision to pursue such expansion could have a material adverse effect on the Company's reputation and its business.

The Company believes that its industry experience has equipped it and its management with in-depth knowledge and understanding of the needs, preferences, means and constraints of the Mass Housing segment customer base. The Company also has an experienced management team to mitigate this risk.

***Increased inflation, fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on the Company's and its customers' ability to obtain financing.***

Interest rates, and factors that affect interest rates, such as the Government's fiscal policy, could have a material adverse effect on the Company and on demand for its products. For example:

- Higher interest rates make it more expensive for the Company to borrow funds to finance ongoing projects or to obtain financing for new projects, due to the Company's loans being at variable interest rates.
- Because the Company believes that a substantial portion of its customers procure financing (either using the Company's in-house financing program or through banks) to fund their property purchases, higher interest rates make financing, and therefore purchases of real estate, more expensive, which could adversely affect demand for the Company's residential projects.
- If Pag-IBIG increases the rates at which it lends to customers, the Company would also need to increase the rates of its in-house financing program due to the in-house financing program's mirroring of Pag-IBIG requirements as part of the Company's strategy for easier off-take by Pag-IBIG.
- If the Government significantly increases its borrowing levels in the domestic currency market, this could increase the interest rates charged by banks and other financial institutions and also effectively reduce the amount of bank financing available to both prospective property purchasers and real estate developers, including the Company.
- The Company's access to capital and its cost of financing are also affected by restrictions, such as single borrower limits, imposed by the BSP on bank lending. If the Company were to reach the single borrower limit with respect to their current or preferred bank or banks, the Company may have difficulty-obtaining financing on the same or similar commercial terms from other banks.
- Increased inflation in the Philippines could result in an increase in raw materials costs, which the Company may not be able to pass on to its customers as increased prices or to its contractors by having the Company's contractors absorb raw material cost increases.

The occurrence of any of the foregoing events, or any combination of them, or of any similar events could have a material adverse effect on the Company's business, financial condition and results of operations.

To mitigate this risk, the Company relies on its Competitive Strengths and Key Strategies. For further discussion, please refer to pages 73-76.

***Titles over land owned by the Company may be contested by third parties.***

While the Philippines has adopted a system of land registration that is intended to conclusively confirm land ownership and is binding on all persons (including the Government), it is not uncommon for third parties to claim ownership of land that has already been registered and over which a title has been issued. There have also been cases where third parties have produced false or forged title certificates over land. The Company has occasionally had to defend itself against third parties who claim to be the rightful owners of land that has been either titled in the name of the persons selling the land to the Company or that has already been titled in the name of the Company. In the event a greater number of third-party claims are brought against the Company or any such claims involves land that is material to the Company's housing and land development projects, the Company's management may be required to devote significant time and incur significant costs in defending the Company against such claims. In addition, if any such claims are successful, the Company may have to either incur additional costs to settle such third-party claims or surrender title to land that may be material in the context of the Company's housing and land development projects. Any of the foregoing circumstances could have a material adverse effect on the Company's business, financial condition and results of operations, as well as on its business reputation.

To mitigate this risk, the Company undertakes due diligence in the acquisition of parcels of land.

***The Company faces risks relating to project cost and completion.***

Construction of property projects may take as long as a year or longer before generating positive net cash flow through sales. As a result, the Company's cash flows and results of operations may be significantly affected by its project development schedules and any changes to those schedules. Other factors that could adversely affect the time and the costs involved in completing the development and construction of the Company's projects include:

- natural catastrophes and adverse weather conditions;
- changes in market conditions, economic downturns, unemployment rate, and decreases in business and consumer sentiment in general;
- delays in obtaining government approvals and permits;
- delays in completion of its prior projects, which would create shortages of contractors and skilled labor due to the Company's regular use of a limited number of contractors (see "– Independent contractors may not always be available, and once hired by the Company, may not be able to meet the Company's quality standards or to complete projects on time and within budget.");
- changes in laws or in Government priorities;
- timing of commencement of the projects;
- relocation of existing residents and/or demolition of existing constructions;
- shortages of materials and equipment;
- labor disputes with contractors and subcontractors;
- construction accidents;
- errors in judgment on the selection and acquisition criteria for potential sites;
- lack of familiarity with high-rise projects; and
- other unforeseen problems or circumstances.

Any of these factors could result in project delays and cost overruns, which may harm the Company's reputation as a property developer or lead to cost overruns or loss of or delay in recognizing revenues and lower margins. This may also result in sales and resulting profits from a particular development not being recognized in the year in which it was originally expected to be recognized, which could adversely affect the Company's results of operations for that year. Furthermore, the failure by the Company to complete construction of a project to its planned specifications or schedule may result in contractual liabilities to purchasers and lower returns. The Company cannot provide any assurance that it will not experience any significant delays in completion or delivery of its projects in the future or that it will not be subject to any liabilities for any such delays.

To mitigate this risk, the Company seeks to improve its construction efficiencies in part by adding more mechanization and by standardizing the sizes of its building components.

***The Company's reputation will be adversely affected if projects are not completed on time or if projects do not meet customers' requirements.***

If any of the Company's projects experience construction or infrastructure failures, design flaws, significant project delays, quality control issues or otherwise, this could have a negative effect on the Company's reputation and make it more difficult to attract new customers to its new and existing housing and land development projects. Any negative effect on the Company's reputation or its brands could also affect the Company's ability to sell its housing and land development projects. This would impair the Company's ability to reduce its inventory and working capital requirements. The Company cannot provide any assurance that such events will not occur in a manner that would adversely affect its results of operations or financial condition.

To address this risk, the Company's overall business strategy is geared to deliver with speed and quality the right products (a DECA Homes house or Urban DECA Homes MRB unit) to its target customers.

***Independent contractors may not always be available, and once hired by the Company, may not be able to meet the Company's quality standards or to complete projects on time and within budget.***

The Company relies on independent contractors to provide various services, including land clearing, infrastructure development and various construction projects. In particular, the Company relies mainly on the Lasvazmun and Conmax groups of companies to complete the construction for substantially all of its projects. Should either of the contractors mentioned above become unable to perform with respect to their contracted scope of work, or are unable to expand at sufficiently quick paces needed to meet the Company's demands, there can be no assurance that the Company will be able to find or engage an independent contractor for any particular project or find a contractor that is willing to undertake a particular project within the Company's budget and schedule, which could result in costs increases or project delays.

Furthermore, although the Company's personnel actively supervise the work of such independent contractors, there can be no assurance that the services rendered by any of its independent contractors will always be satisfactory or match the Company's requirements for quality and timing. Contractors may also experience financial or other difficulties up to insolvency, and shortages or increases in the price of construction materials or labor may occur, any of which could delay the completion or increase the cost of certain housing and land development projects, and the Company may incur additional costs as a result thereof. Any of these factors could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company trains its contractors on the processes used in the construction of its projects. The Company also sends its engineers to oversee critical functions in project construction to ensure the quality of work of its contractors.

***The Company uses exclusive external third-party brokers to sell all of its residential housing and land development projects.***

The Company uses exclusive external third-party brokers to market and sell all of its residential housing and land development projects to potential customers. If these brokers do not meet their requisite sales targets, the Company's business, financial condition and results of operations could be adversely affected. Moreover, there is competition for the services of third-party brokers in the Philippines and many of the Company's competitors may attempt to recruit brokers away from the Company. If a large number of these third-party brokers were to cease selling for the Company, the Company would be required to seek other external brokers, and there can be no assurance that the Company could do so quickly or in sufficient numbers. Also, negative publicity on the Company's exclusive third-party brokers may spill over and have a negative effect on the Company's reputation. Furthermore, with the passage of R.A. No. 9646 or The Real Estate Service Act of the Philippines and its implementing rules, more stringent requirements are now being imposed in respect of the practice of real estate service, as well as the qualifications and licensing of real estate service practitioners. There can be no assurance that the imposition of these requirements will not affect the real estate service practice of the Company, or its ability to retain its existing third-party brokers or identify new third party brokers. These factors could disrupt the Company's business and negatively affect its financial condition, results of operations and prospects.

To mitigate this risk, all of the unit managers and the agents who constitute the marketing and distribution network of the Company are exclusively contracted to the Company. Furthermore, all unit managers are accredited licensed realtors. The Company trains its marketing teams monthly on topics including new Company policies, product information and terms and conditions of sale.

***The Company operates in a highly-regulated environment and it is affected by the development and application of regulations in the Philippines.***

The Philippines' housing market is highly regulated. The development of subdivision and other residential projects is subject to a wide range of government regulations, which, while varying from one locality to another, typically include zoning considerations as well as the requirement to procure a variety of environmental and construction-related permits. In addition, projects that are to be located on agricultural land must get clearance from the Philippine Department of

Agrarian Reform ("DAR") so that the land can be re-classified as non-agricultural land and, in certain cases, tenants occupying agricultural land may have to be relocated at the Company's expense.

Presidential Decree No. 957, as amended, ("P.D. 957") and B.P. 220 are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision. P.D. 957 and B.P. 220 cover subdivision projects for residential, commercial, industrial or recreational purposes and condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which enforces these statutes. Regulations applicable to the Company's operations include standards regarding:

- the suitability of the site;
- road access;
- necessary community facilities;
- open spaces;
- water supply;
- sewage disposal systems;
- electricity supply;
- lot sizes;
- the length of the housing blocks; and
- house construction.

All subdivision development plans are required to be filed with and approved by the local government unit with jurisdiction over the area where the project is located. Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities and donation of roadways to and other easements in favor of the relevant government agencies. Alterations of approved plans that affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the relevant government unit. There can be no assurance that the Company, its Subsidiaries or associates or partners will be able to obtain governmental approvals for its projects or that when given, such approvals will be in accordance with the Company's planned timing for the relevant project and will not be later revoked. Any non-receipt or delay in receipt of approvals could affect the Company's ability to complete projects on time or at all.

In addition, owners of or dealers in real estate projects are required to obtain licenses to sell before making sales or other dispositions of subdivision lots and housing and condominium units. Project permits and any license to sell may be suspended, cancelled or revoked by the HLURB based on its own findings or upon complaint from an interested party and there can be no assurance that the Company, its Subsidiaries, associates or partners will in all circumstances, receive the requisite approvals, permits or licenses or that such permits, approvals or licenses will not be cancelled or suspended. Any of the foregoing circumstances or events could affect the Company's ability to complete projects on time, within budget or at all, and could have a material adverse effect on its financial condition and results of operations.

To mitigate this risk, the Company adopts a strong compliance culture and maintains strong relationships with key housing and shelter agencies and positive relationships with regulatory agencies and local government agencies.

***Environmental laws applicable to the Company's projects could have a material adverse effect on its business, financial condition or results of operations.***

In general, developers of real estate projects are required to submit project descriptions to regional offices of the Philippine Department of Environment and Natural Resources ("DENR"). For environmentally-sensitive projects or at the discretion of the regional office of the DENR, a detailed Environmental Impact Assessment ("EIA") may be required and the developer will be required to obtain an Environmental Compliance Certificate ("ECC") to certify that the project will not have an unacceptable environmental impact. There can be no assurance that current or future environmental laws and regulations applicable to the Company will not increase the costs of conducting its business above currently projected levels or require future capital expenditures. In addition, if a violation of an ECC occurs or if environmental hazards on land where the Company's projects are located cause damage or injury to buyers or any third party, the Company may be required to pay a fine, to incur costs in order to cure the violation and to compensate its buyers and any affected third parties. The Company cannot predict what environmental legislation or regulations will be amended or enacted in the future, how existing or future laws or regulations will be enforced, administered or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introduction or inconsistent application of, or changes in, laws and regulations applicable to the Company's business could have a material adverse effect on its business, financial condition and results of operations.

To mitigate this risk, the Company adopts a strong compliance culture and maintains strong relationships with key housing and shelter agencies and positive relationships with regulatory agencies and local government agencies.

***The loss of certain tax exemptions and incentives will increase the Company's tax liability and decrease any profits the Company might have in the future.***

The Company benefits from provisions under Philippine law and regulations which exempt sales of residential lots with a gross selling price of ₱1.9 million or less and sales of residential houses and lots with a gross selling price of ₱3.2 million or less from the value-added tax ("VAT") of 12.0%. The threshold amounts were adjusted by the BIR in 2012, and may be further adjusted relative to changes in the Consumer Price Index released by the National Statistics Office of the Philippines. In the event these sales become subject to the VAT, the selling prices for the Company's subdivision lots and housing and condominium units will increase, which could adversely affect the Company's sales. Because taxes such as the VAT are expected to have indirect effects on the Company's results of operations by affecting general levels of spending in the Philippines and the prices of subdivision lots and houses, any adverse change in the Government's VAT-exemption policy could have an adverse effect on the Company's results of operations.

Furthermore, the accreditation of the Company's projects with unit price between ₱450,000 and ₱3,000,000 with the BOI as under the Investment Priorities Plan ("IPP") allows each accredited project to enjoy certain tax incentives. For each accredited project, the Company's sales of low cost subdivision lots and housing units are currently not subject to corporate income tax. Also, the Company's projects with unit price of ₱450,000 and under are considered socialized housing projects and enjoy income tax free status by virtue of Republic Act No. 7279. However, accreditation of certain projects was delayed in 2013. Also, the Legislative-Executive Development Advisory Council is recommending a bill concerning the rationalization of certain fiscal incentives that could have an effect in the Company should it be approved by Congress. This bill intends to remove the tax holiday given to low cost housing projects in the BOI's IPP and instead provide a government subsidy to buyers of the housing units. The Company's projects that qualify for the tax holiday are described in the notes to the Company's consolidated financial statements appearing elsewhere in this Prospectus. Should this bill be implemented it could have a material effect on the Company's overall level of profitability. Furthermore, there is no guarantee that the Company's future development projects will be able to benefit from the income tax holiday described above, or that accreditation to receive such benefit will not be delayed. In the event of delays, sales prior to receipt of approval may be taxed. The delay or absence of this income tax holiday on any of the Company's future development projects could have an adverse effect on the Company's results of operations.

Under R.A. 7279, the Company is required to construct a certain number of Socialized Housing units for each project that intends to receive BOI accreditation. This requirement is measured in the form of a ratio test between the number of Socialized Housing units for the project and the number of Economic Housing units for that same project. The Company does not have the same experience with developing Socialized Housing units as it does with developing Economic Housing units and may incur greater costs and/or not achieve comparable levels of success in its development of Socialized Housing units. Furthermore, Socialized Housing units have lower profit margins for the Company than Economic Housing units. If, due to regulatory changes, the Company is required to increase its ratio of Socialized Housing unit construction, then the Company's business, financial condition and results of operations may be adversely affected.

For information on how the Company mitigates this risk, please see discussion on Competitive Strengths and Key Strategies on pages 73-76.

***Natural or other catastrophes, including severe weather conditions, may materially disrupt the Company's operations, affect its ability to complete projects and result in losses not covered by its insurance.***

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. In October 2013, a 7.2 magnitude earthquake affected Cebu and the island of Bohol, and on November, 2013, Super Typhoon Haiyan (also known as Yolanda in the Philippines) caused destruction and casualties of an as yet undetermined amount, in Tacloban, certain parts of Samar, and certain parts of Cebu City, all of which are located in the Visayas, the southern part of the Philippines. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations. These factors, which are not within the Company's control, could potentially have significant effects on the Company's housing and land development projects, many of which are large, complex estates with infrastructure, such as buildings, roads and perimeter walls, which are susceptible to damage. Damage to these structures resulting from such natural catastrophes could also give rise to claims against the Company from third parties or from customers for physical injuries or loss of property. As a result, the occurrence of natural or other catastrophes or severe weather conditions may adversely affect the Company's business, financial condition and results of operations.

While the Company carries all-risks insurance during the project construction stage and requires all of its purchasers to carry fire insurance, the Company does not carry any insurance for certain catastrophic events, and there are losses for which the Company cannot obtain insurance at a reasonable cost or at all. Neither does the Company carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose all or a portion of the capital invested in a property, as well as the anticipated future turnover from such property, while remaining liable for any project construction costs or other financial obligations related to the property. Any material uninsured loss could materially and adversely affect the Company's business, financial condition and results of operations.

For information on how the Company mitigates this risk, please see discussion on Competitive Strengths and Key Strategies on pages 73-76.

***Construction defects and other building-related claims may be asserted against the Company, and the Company may be subject to liability for such claims.***

Philippine law provides that property developers, such as the Company, warrant the structural integrity of houses that were designed or built by them for a period of 15 years from the date of completion of the house. The Company may also be held responsible for hidden (i.e., latent or non-observable) defects in a house sold by it when such hidden defects render the house unfit for the use for which it was intended or when its fitness for such use is diminished to the extent that the buyer would not have acquired it or would have paid a lower price had the buyer been aware of the hidden defect. This warranty may be enforced within six months from the delivery of the house to the buyer. In addition, Republic Act No. 6541, as amended, or the National Building Code of the Philippines (the "Building Code"), which governs, among others, the design and construction of buildings, sets certain requirements and standards that must be complied with by the Company. The Company or its officials may be held liable for administrative fines or criminal penalties in case of any violation of the Building Code.

There can be no assurance that the Company will not be held liable for damages, the cost of repairs, and/or the expense of litigation surrounding possible claims or that claims will not arise out of uninsurable events, such as landslides or earthquakes, or circumstances not covered by the Company's insurance and not subject to effective indemnification agreements with the Company's contractors. Neither can there be any assurance that the contractors hired by the Company will be able to either correct any such defects or indemnify the Company for costs incurred by the Company to correct such defects. In the event a substantial number of claims arising from structural or construction defects arise, this could have a material adverse effect on the Company's reputation and on its business, financial condition and results of operations.

In the event that the Company becomes subject to defects and other building-related claims, it shall endeavor to amicably settle the legal proceedings and in the event of any adverse ruling or decision, exhaust all legal remedies available.

***The Company has a number of related-party transactions with affiliated companies.***

The companies controlled by the 8990 Majority Shareholders have a number of commercial transactions with the Company. The Company had entered into a number of transactions with its related parties, which primarily consist of advances and reimbursements of expenses and sale and purchase of real estate properties and development and installment contract receivables and related other assets and assumption of related liabilities.

The transactions referred to above are described under "Related Party Transactions" and the notes to the Company's consolidated financial statements appearing elsewhere in this Prospectus. The Company expects that it will continue to enter into transactions with companies directly or indirectly controlled by or associated with the 8990 Majority Shareholders. These transactions may involve potential conflicts of interest which could be detrimental to the Company and/or its stakeholders. Conflicts of interest may also arise between the Company and the 8990 Majority Shareholders in a number of other areas relating to its businesses, including:

- Major business combinations involving the Company and/or its Subsidiaries;
- Plans to develop the respective businesses of the Company and/or its Subsidiaries; and
- Business opportunities that may be attractive to the 8990 Majority Shareholders and the Company.

The Company can provide no assurance that its related-party transactions will not have a material adverse effect on its business or results of operations.

To mitigate this risk, the related-party transactions are made on arms-length basis.

***8990 is a holding company that depends on dividends and distributions from the Subsidiaries.***

8990 is a holding company and conducts no independent business operations other than providing certain corporate and other support services to the Subsidiaries. 8990 conducts substantially all of its operations through the Subsidiaries. Substantially all of its assets are held by, and substantially all of its earnings and cash flows are attributable to, the Subsidiaries. 8990's liquidity, ability to pay interest and expense, meet obligations, provide funds to its Subsidiaries and distribute dividends are dependent upon the flow of funds from the Subsidiaries. There can be no assurance that the Subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to 8990 to enable it to meet its own financial obligations.

The ability of the Subsidiaries to pay dividends is subject to applicable laws and restrictions contained in debt instruments of such Subsidiaries and may also be subject to deduction of taxes.. No assurance can be given that 8990 will have sufficient cash flow from dividends to satisfy its own financial obligations. Any shortfall would have to be made up from other sources of revenue, such as a sale of investments, or financing available to the Company, which could materially and adversely affect the Company's business, financial condition and results of operations.

For more information on how the Company intends to maintain the strong results of operations and financial position of the Company please see discussion on Competitive Strengths and Key Strategies on pages 73-76.

***The Company is highly dependent on the continued service of its directors, members of senior management and other key officers.***

The Company's directors, members of its senior management, and other key officers have been an integral part of its success, and the experience, knowledge, business relationships and expertise that would be lost should any such persons depart could be difficult to replace and may result in a decrease in the Company's operating efficiency and financial performance. Key executives and members of management of the Company include Luis N. Yu, Jr., Mariano D. Martinez, Jr., and Januario Jesus Gregorio III B. Atencio. If the Company loses the services of any such person and is unable to fill any vacant key executive or management positions with qualified candidates, or if the qualified individual takes time to learn the details of the Company, the Company's business and results of operations may be adversely affected.

The Company believes it maintains a positive relationship with its directors, members of senior management and other key officers.

***The Company may be unable to attract and retain skilled professionals, such as architects, engineers and third party contractors.***

The Company's ability to plan, design and execute current and future projects depends on its ability to attract, train, motivate and retain highly skilled personnel, particularly architects, engineers and third party contractors. The Company believes that there is significant demand for such personnel not only from its competitors but also from companies outside the Philippines, particularly companies operating in the Middle East. Any inability on the part of the Company in hiring and, more importantly, retaining qualified personnel could impair its ability to undertake project design, planning and execution activities in-house and could require the Company to incur additional costs by having to engage third parties to perform these activities.

***Third party use of the Company's brand names or marks or inability of the Company to use its brand names or marks would have a material adverse effect on the Company's business.***

The Company has filed applications to register "DECA Homes", "Urban DECA Homes" and "Urban DECA Towers" as brand names with the Intellectual Property Office. There can be no guarantee that these registrations will be granted in a timely manner or at all.

Furthermore, in 2013, the Company received a letter from a U.S. company asserting rights over the "Urban Homes" name and demanding that the Company discontinue its use of the "Urban Homes" name. In response, the Company changed the name of its various projects to "Urban DECA Homes." There can be no assurance that third parties will not assert rights in, or ownership of, the Company's name, trademarks and other intellectual property rights. Because the Company believes that the reputation and track record it has established under its brands is key to its future growth, the Company's business, financial condition and results of operations may be materially and adversely affected by the use of these names and of any associated trademarks by third parties or if the Company was restricted from using such trademarks.

To mitigate this risk, the Company has filed applications with the Intellectual Property Office to protect its brand names and trademarks. For more information, please see section on "Intellectual Property" on page 89.

***Any deterioration in the Company's employee relations could materially and adversely affect the Company's operations.***

The Company's success depends partially on the ability of the Company, its contractors and its third party marketing agents to maintain productive workforces. Any strikes, work stoppages, work slowdowns, grievances, complaints or claims of unfair practices or other deterioration in the Company's, its contractors' or its third party marketing agents' employee relations could have a material and adverse effect on the Company's financial condition and results of operations.

The Company believes it maintains a positive relationship with its employees.

***The Company may, from time to time, be involved in legal and other proceedings arising out of its operations.***

The Company may, from time to time, be involved in disputes with various parties involved in the construction and operation of its properties, including contractual disputes with contractors, suppliers, construction workers and homeowners or property damage or personal liability claims. Regardless of the outcome, these disputes may lead to legal or other proceedings and may result in substantial costs, delays in the Company's development schedule, and the diversion of resources and management's attention. The Company may also have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavorable decisions that result in penalties and/or delay the development of its projects. In such cases, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

To mitigate this risk, the Company shall endeavor to amicably settle the legal proceedings and exhaust all legal remedies available.

***Disruptions in the financial markets could adversely affect the Company's ability to refinance existing obligations or raise additional financing, including equity financing.***

Disruptions in the global financial markets in 20 08 and 2009 resulted in a tightening of credit markets worldwide, including in the Asia Pacific region. Liquidity in the global and regional credit markets severely contracted as a result of these market disruptions, making it difficult and costly to refinance existing obligations or raise additional financing, including equity financing. While liquidity has increased and credit markets have improved since then, there can be no assurance that such conditions will not reoccur. If such conditions reoccur, it may be difficult for the Company to obtain additional financing on acceptable terms or at all, which may prevent the Company from completing its existing projects and future development projects and have an adverse effect on the Company's results of operations and business plans. If due to general economic conditions, the Company is unable to obtain sufficient funding to complete its projects in a feasible manner, or if management decides to abandon certain projects, all or a portion of the Company's investments to date on its projects could be lost, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The incurrence of additional debt to finance the Company's planned development projects could impair the Company's financial condition, results of operations and cash flows. The Company may need to incur additional debt to finance its expansion projects and future development projects. This indebtedness could have important consequences for the Company. For example, it could:

- make it more difficult for the Company to satisfy its debt obligations as they become due;
- increase the Company's vulnerability to general adverse economic and industry conditions;
- impair the Company's ability to obtain additional financing in the future for working capital needs, capital expenditures, development projects, acquisitions or general corporate purposes;
- require the Company to dedicate a significant portion of its cash flow from operations to the payment of principal and interest on its debt, which would reduce the funds available for the Company's working capital needs, capital expenditures or dividend payments;
- limit the Company's flexibility in planning for, or reacting to, changes in the business and the industry in which the Company operates;
- require the Company to comply with financial and other covenants that could impose significant restrictions on the Company's existing and future businesses and operations;
- place the Company at a competitive disadvantage compared to competitors that have less debt; and

- subject the Company to higher interest expense in the event of increases in interest rates as a significant portion of the Company's debt is and may continue to be at variable rates of interest.

Any of the above could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

For information on how the Company intends to maintain its business, strong financial conditions, results of operations and cash flows, please see discussion on Competitive Strengths and Key Strategies on pages 73-76.

**RISKS RELATING TO THE PHILIPPINES**

***Any political instability in the Philippines may adversely affect the Company.***

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct by the previous administration.

On December 12, 2011, the House of Representatives initiated impeachment proceedings against Renato Corona, Chief Justice of the Supreme Court of the Philippines. The impeachment complaint accused Corona of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials. The trial of Chief Justice Corona began in January 2012 and ended in May 2012, with Corona found guilty with respect to his failure to disclose to the public his statement of assets, liabilities, and net worth, and was impeached. In July 2013, a major Philippine newspaper exposed a scam relating to the diversion and misuse of the Priority Assistance Development Fund by some members of Congress through pseudo-development organizations headed by Janet Lim Napoles. As a result of this exposé, a number of investigations, including one in the Senate, have been launched to determine the extent of the diversion of the Priority Assistance Development Fund and the Government officials and the private individuals responsible for the misappropriation of public funds. On September 16, 2013, cases of plunder and malversation of public funds were filed with the Office of the Ombudsman against Janet Lim Napoles, three Senators, a few members of the House of Representatives and other Government personnel.

No assurance can be given that the political environment in the Philippines will remain stable and any political instability in the future could reduce consumer demand, or result in inconsistent or sudden changes in regulations and policies that affect the Company's business operations, which could have an adverse effect on the results of operations and the financial condition of the Company.

***There is no guarantee that future events will not cause political instability in the Philippines. Such instability may disrupt the country and its economy, as well as commercial traffic into and out of the Philippines, which could materially and adversely affect the Company's business, financial condition and results of operations. Acts of terrorism, clashes with separatist groups and violent crimes could destabilize the country and could have a material adverse effect on the Company's business and financial condition.***

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. Moreover, isolated bombings and have taken place in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. On January 25, 2011, a bomb was detonated on a bus in the northern city of Makati, Metro Manila, killing five persons. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines ("AFP") have clashed with members of several separatist groups seeking greater autonomy, including the Moro Islamic Liberation Front ("MILF"), the Moro National Liberation Front ("MNLF") and the New People's Army.

On October 19, 2011, 19 AFP troops were killed in a firefight with MILF members in the southern Philippines. On December 16, 2011, five AFP soldiers were killed in a clash with New People's Army members. In August 2013, a series of bombings occurred in the cities of Cagayan de Oro and Cotabato City, as well as other areas in Maguindanao and North Cotabato provinces, all located in Mindanao, and in September 2013, armed clashes took place between the MNLF and the AFP in Zamboanga City in Mindanao, with a number of civilians being held hostage. On January 25, 2015, 44 members of the Special Action Force ("SAF") of the Philippine National Police ("PNP") were killed in a clash between the SAF and the MILF and Bangsamoro Islamic Freedom Fighters ("BIFF").

These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the AFP, which could destabilize parts of the country and adversely affect the country's economy. Any such destabilization could cause interruption to parts of the Company's business and materially and adversely affect its financial conditions, results of operations and prospects.

***Territorial and other disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.***

The Philippines, China and several Southeast Asian nations have been engaged in a series of long standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused one another of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal during the late spring and summer of 2012. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under the United Nations Convention on the Law of the Sea. China has rejected and returned the notice sent by the Philippines requesting arbitral proceedings. Chinese vessels have also recently confronted Philippine vessels in the area, and the Chinese government has warned the Philippines against what it calls provocative actions. Recent talks between the Government of the Philippines and the United States of America about increased American military presence in the country, particularly through possible American forays into and use of Philippine military installations, may further increase tensions.

In early March 2013, several hundred armed Filipino-Muslim followers of Sultan Jamalul Kiram III, the self-proclaimed Sultan of Sulu from the south of the Philippines, illegally entered Lahad Datu, Sabah, Malaysia in a bid to enforce the Sultan of Sulu's historical claim on the territory. As a result of the illegal entry, these followers engaged in a three-week standoff with the Malaysian armed forces, resulting in casualties on both sides. Clashes between the Malaysian authorities and followers of the Sultan of Sulu have killed at least 98 Filipino-Muslims and 10 Malaysian policemen army since March 1, 2013. In addition, about 4,000 Filipino-Muslims working in Sabah have reportedly returned to the southern Philippines.

On May 9, 2013, a Philippine Coast Guard ship opened fire on a Taiwanese fisherman's vessel in a disputed exclusive economic zone between Taiwan and the Philippines, killing a 65-year old Taiwanese fisherman. Although the Philippine government maintained that the loss of life was unintended, Taiwan imposed economic sanctions on the Philippines in the aftermath of the incident. Taiwan eventually lifted the sanctions in August 2013 after a formal apology was issued by the Government of the Philippines. However, the incident has raised tensions between the two countries in recent months.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Company's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or OFW permits. Any impact from these disputes in countries in which the Company has operations could materially and adversely affect the Company's business, financial condition and results of operations.

***Investors may face difficulties enforcing judgments against the Company.***

It may be difficult for investors to enforce judgments against the Company obtained outside of the Philippines. In addition, most of the directors and officers of the Company are residents of the Philippines, and all or a substantial portion of the assets of such resident directors and officers are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on the Enforcement and Recognition of Arbitral Awards, though it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a judgment or final order of a foreign court is, through the institution of an independent action, enforceable in the Philippines as a general matter, unless there is evidence that: (i) the foreign court rendering judgment did not have jurisdiction; (ii) the judgment is contrary to the laws, public policy, customs or public order of the Philippines; (iii) the party against whom enforcement is sought did not receive notice; or (iv) the rendering of the judgment entailed collusion, fraud, or a clear mistake of law or fact.

***The sovereign credit ratings of the Philippines may adversely affect the Company's business.***

Historically, the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. Although the Philippines' long-term foreign currency-denominated debt was recently upgraded by each of Standard & Poor's, Fitch Ratings and Moody's to investment-grade, no assurance can be given that Standard & Poor's, Fitch Ratings or Moody's or any other international credit rating agency will not downgrade the credit ratings of the Government in the future and, therefore, Philippine companies. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

***The occurrence of natural catastrophes could adversely affect the Company's business, financial condition or results of operations.***

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, floods, volcanic eruptions and earthquakes,that may materially disrupt and adversely affect the Company's business operations. In particular, damage caused by natural catastrophes could result in cancellation of flights, temporary closure of major roads and highways or other disruptions to transportation, which would prevent the Company from completing construction of its projects in a timely manner or at all. Moreover, such natural catastrophes could increase the costs of operating the Company's business. There can be no assurance that the Company is fully capable to deal with such natural catastrophes and that the insurance coverage it currently maintains will fully compensate it for all the damages and economic losses resulting from these catastrophes.

**RISKS RELATING TO THE BONDS**

***Substantial leverage and debt service obligations could adversely affect the Company's businesses and prevent the Company from fulfilling its obligations under the Bonds.***

Subject to limitations set forth in this Prospectus, the Company will be permitted to incur additional indebtedness in the future. The degree to which the Company will be leveraged in the future, on a consolidated basis, could have important consequences for the Bondholders, including, but not limited to:

- making it more difficult for the Company to satisfy its obligations with respect to the Bonds;
- increasing vulnerability to, and reducing the Company's flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of cash flow from operations to the payment of principal of, and interest on, the Company's consolidated indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, or other general corporate purposes;
- limiting flexibility in planning for, or reacting to, changes in the Company's businesses, the competitive environment and the industry in which the Company operates;
- placing 8990 at a competitive disadvantage compared to its competitors that are not as highly leveraged; and
- limiting the Company's ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could materially and adversely affect the Company's ability to satisfy debt obligations, including the Bonds.

***The Company is subject to restrictive debt covenants that may limit the Company's ability to finance the Company's future operations and capital needs and to pursue business opportunities and activities.***

The terms of the Bond as detailed in this Prospectus may, among other things, restrict the Company's ability to:

- incur or guarantee additional indebtedness;
- create or incur certain liens;

- prepay or redeem subordinated debt or equity;
- make certain investments and capital expenditures;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities; and
- consolidate or merge with other entities.

In addition, certain of the Company's other indebtedness provide for restrictions and limitations on the Company's ability to pay dividends or make other distributions on the occurrence of certain events.

All of these limitations will be subject to significant exceptions and qualifications. See "Description of the Bonds". These covenants could limit the Company's ability to finance its future operations and capital needs and their ability to pursue business opportunities and activities that may be in the Company's interest.

The Company has constantly taken a prudent stance in managing its debt obligations by ensuring that any corporate act, whether or not performed in the ordinary course of business, does not violate any existing debt covenants. In the event that any significant corporate act or business transaction is seen to potentially affect its debt covenants that would lead to accelerating the payment of existing debt, the Company shall endeavor to obtain the necessary waivers in accordance with relevant debt agreements.

***The Company will require a significant amount of cash to meet its obligations under its indebtedness and to sustain its operations, which the Company may not be able to generate or raise.***

The ability of the Company to make scheduled principal or interest payments on the Bonds and the Company's ability to make payments on the Company's indebtedness and the Company's contractual obligations, and to fund the Company's ongoing operations, will depend on the Company's future performance and the Company's ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this section, many of which are beyond the Company's control. If the Company's future cash flows from operations and other capital resources are insufficient to pay the Company's debt obligations, the Company's contractual obligations, or to fund the Company's other liquidity needs, the Company may be forced to sell assets or attempt to restructure or refinance the Company's existing indebtedness. No assurance can be given that the Company would be able to accomplish any of these measures on a timely basis or on satisfactory terms or at all.

***The Bonds will be effectively subordinated in right of payment to all secured debt of 8990 to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines executed prior to the Trust Indenture Agreement.***

Under Philippine law, in the event a borrower submits to insolvency or liquidation proceedings in which the borrower's assets are liquidated, unsecured debt evidenced by a public instrument, as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt not evidenced by a public instrument. Debt becomes evidenced by a public instrument when it has been acknowledged by the creditor and the debtor before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (a statement by one party of the circumstances in which an affidavit was made) may also be sufficient to make a document a public instrument. Accordingly, it may be possible for debt to become evidenced by a public instrument through the unilateral action of a creditor without the knowledge of the borrower.

As of December 31, 2014 the Company's consolidated indebtedness is ₱8,833.9 million of which ₱8,809.9 million is evidenced by public instruments. Any such debt may, by mandatory provision of law, rank ahead of the Bonds in the event of the insolvency or liquidation of 8990.

***The Bonds may not be a suitable investment for all investors.***

Each prospective investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each prospective investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Company and its businesses, the merits and risks of investing in the Bonds and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

- understand and be familiar with the behavior of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***Secondary trading of the Bonds are subject to various market factors including changes in interest rates prevailing in the market***

The Company plans to list the Bonds in the PDEx to provide price transparency and liquidity to the Bondholders. The Company cannot guarantee whether an active trading market for the Bonds will develop or if the liquidity of the Bonds will be sustained throughout its life. Even if the Bonds are listed on the PDEx, trading in securities such as the Bonds may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. As with other fixed income securities, the Bonds could trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Company's operations, and the overall market for debt securities, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment.

***Retention of Ratings Risk***

There is no assurance that the rating of the Bonds will be retained throughout the life of the Bonds. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

# PHILIPPINE TAXATION

*The following is a discussion of the material Philippine tax consequences of the acquisition, ownership and disposition of the Bonds. This general description does not purport to be a comprehensive description of the Philippine tax aspects of the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing of the Bonds under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the Bonds in such other jurisdictions. This discussion is based upon laws, regulations, rulings, and income tax conventions (treaties) in effect at the date of this Prospectus.*

*The tax treatment of a holder of Bonds may vary depending upon such holder's particular situation, and certain holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a Bondholder.*

***PROSPECTIVE BONDHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF THE OWNERSHIP AND DISPOSITION OF A BOND, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.***

*As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines," otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a non-Philippine corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business within the Philippines.*

## TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20%. Generally, interest on the Bonds received by non-resident foreign individuals engaged in trade or business in the Philippines is subject to a 20% withholding tax while that received by non-resident foreign individuals not engaged in trade or business is taxed at the rate of 25%. Interest income received by domestic corporations and resident foreign corporations is taxed at the rate of 20%. Interest income received by non-resident foreign corporations is subject to a 30% final withholding tax. The tax imposed on the interest is a final withholding tax which constitutes a final settlement of Philippine income tax liability with respect to such interest.

The foregoing rates may be subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident holder. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment. Availing of such reduced tax treaty rates will require confirmation of entitlement thereto from the BIR, as discussed below.

## TAX-EXEMPT STATUS

Bondholders who are exempt from or are not subject to final withholding tax on interest income may avail of such exemption by submitting Tax Exempt/Treaty Documents to the Joint Lead Underwriters and Joint Bookrunners during the Offer Period (together with their completed Application to Purchase) who shall then forward the same to the Registrar and Paying Agent at least three (3) Banking Days prior to an Interest Payment Date when such tax exemption is requested to be applied. Subject to acceptance and determination by the Issuer of such Tax Exempt/Treaty Documents as being sufficient in form and substance, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges. Notwithstanding the submission of documentary proof of the tax-exempt status of a Bondholder, the Issuer may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Bonds. Unless properly provided with satisfactory proof of the tax-exempt status of a Bondholder, the Registrar and Paying Agent may assume that such Bondholder is taxable and proceed to apply the tax due on the Bonds. Any question on such determination shall be referred to the Issuer.

Bondholders may transfer their Bonds at any time, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date, tax exempt entities trading with –non-tax exempt entities shall be treated as non-tax exempt entities for the interest period during which such transfer occurred. Transfers taking place in the Electronic Registry of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction provided the same are in accordance with the relevant rules, conventions and guidelines of PDEx.

**VALUE-ADDED TAX**

Gross receipts arising from the sale of the Bonds in the Philippines by Philippine-registered dealers in securities and lending investors shall be subject to a 12% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

**GROSS RECEIPTS TAX**

Bank and non-bank financial intermediaries are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

| | |
|---|---|
| Where Maturity period is five years or less | 5% |
| Where Maturity period is more than five years | 1% |

In case the maturity period referred to above is shortened through pre-termination or otherwise redeemed by the Issuer pursuant to the Terms and Conditions, then the maturity period shall be reckoned to end as of the date of pre-termination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds shall be taxed at 7%.

**DOCUMENTARY STAMP TAX**

A documentary stamp tax is imposed upon the issuance of debentures and certificates of indebtedness issued by Philippine companies, such as the Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the offer price of such debt instruments.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds.

**TAXATION ON SALE OR OTHER DISPOSITION OF THE BONDS**

**Income Tax**

The holder of the Bonds will recognize gain or loss upon the sale or other disposition (including a redemption at maturity) of the Bonds in an amount equal to the difference between the amount realized from such disposition and such holder's basis in the Bonds. Such gain or loss is likely to be deemed a capital gain or loss assuming that the holder has held Bonds as capital assets.

Under the Tax Code, any gain realized from the sale, exchange or retirement of securities, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such securities, debentures or other certificates of indebtedness) shall be excluded from gross income. As the Bonds have maturities of more than five years, any gains realized by a holder on the trading of Bonds shall not be subject to income tax.

In case of an individual taxpayer, only 50% of the capital gain or loss is recognized upon the sale or exchange of a capital asset if it has been held for more than 12 months.

**Estate and Donor's Tax**

The transfer by a deceased person, whether a Philippine resident or non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20%, if the net estate is over ₱200,000. A Bondholder shall be subject to donor's tax on the transfer of the Bonds by gift at either (i) 30%, where the donee or beneficiary is a stranger, or (ii) at progressive rates ranging from 2% to 15% if the net gifts made during the calendar year exceed ₱100,000 and where the donee or beneficiary is other than a stranger. For this purpose, a "stranger" is a person who is not a: (a) brother, sister (whether by whole or half-blood), spouse, ancestor and lineal descendant; or (b) relative by consanguinity in the collateral line within the fourth degree of relationship.

The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

# USE OF PROCEEDS

The net proceeds will be used to refinance existing debt obligations of the Issuer and its Subsidiaries. The net proceeds shall be distributed to the relevant subsidiaries through advances and/or equity infusion, as may be determined by the Board of Directors of the Company.

Further details on the proposed use of proceeds are set forth below:

| Use of Proceeds | Estimated Amounts | Percentage |
|---|---|---|
| Repayment of Existing Indebtedness....................................... | ₱9,000,010,000.00 | 100.0% |
| **Estimated Net Proceeds (assuming oversubscription)**........ | **8,875,675,149.00** | **98%** |

In the event that less than the estimated net proceeds are obtained, the use of the proceeds will still be for repayment of existing indebtedness in the order set forth below, with the balance to be repaid by the Company using internally generated funds.

The Company incurred significant expenditures to acquire land for development, complete existing projects and commence developments for new Mass Housing projects. To partially fund these activities, the Company obtained and secured financing, partial payment for which the Company intends to be funded from the net proceeds of the Offer. Details of the indebtedness that is expected to be repaid with the net proceeds of the Offer are as follows:

| Type | Amount (₱) | Interest | Maturity |
|---|---|---|---|
| Loans secured by Real Estate Mortgage* | 4,742,675,100.00 | 3.50%-5.50% | Up to 2019 |
| Loans secured by Assignment of Receivables* | 3,479,682,699.33 | 3.25%-5.50% | Up to 2018 |
| Unsecured Loans* | 639,966,123.67 | 3.25% | 2015 |
| **TOTAL** | **8,862,323,923.00** | | |

** The borrower for these loans are the following subsidiaries of the Company: 8990 Housing, 8990 Davao, 8990 Luzon, and Fog Horn*

BDO Unibank Inc. (“BDO”), China Banking Corporation (“CBC”), Metropolitan Bank and Trust Company (“Metrobank”), Philippine Business Bank (“PBB”), and Security Bank Corporation (“Security Bank”) are the lenders of the Loans secured by Real Estate Mortgage. Asia United Bank Corporation (“AUB”), BDO, Maybank Philippines Inc.(“Maybank”), MBTC, Philippine Bank of Communications (“PBCom”), Security Bank, and United Coconut Planters Bank (“UCPB”) are the lenders of the Loans Secured by Assignment of Receivables. BDO and MBTC are the lenders of the Unsecured Loans.

The Joint Lead Underwriters and Joint Bookrunners are subsidiaries of BDO, Unibank Inc., China Banking Corporation, Metropolitan Bank and Trust Company, and Security Bank Corporation, respectively, which are among the lenders of the loans that will be repaid with the net proceeds of this Offer, as discussed above.

Maybank ATRKE is affiliated with Maybank, which is one of the lenders of the loans that will be repaid with the net proceeds of this Offer, as discussed above.

The proceeds of the loans secured by real estate mortgages were used (a) to pay the ₱2.0 billion balance of the acquisition cost of a 13 hectare property located in Ortigas Avenue Extension, Pasig City; (b) to pay the ₱1.525 billion balance for the acquisition cost of Euson Realty and Development Corporation and Tondo Holdings, Inc. which own a combined 8 hectares of land in Vitas, Tondo, Manila; (c) to pay the balance of the acquisition cost of a 13 hectare property in Marilao, Bulacan; (d) to partly pay the ₱790 million balanced for the purchase of properties in Pavia and Sta. Barbara, Iloilo City with an aggregate land area of 150 hectares.

The proceeds of the loans secured by assignment of receivables as well as the unsecured loans were used to fund equipment acquisitions and working capital requirements for the following projects: Deca Clark Residences and Resort, Deca Homes Bella Vista, Deca Homes Marseilles, Urban Deca Homes Campville, Urban Deca Tower, Deca Homes Baywalk Talisay 2, Urban Deca Homes Tipolo, Urban Deca Homes Tisa, Deca Homes Pavia 2, Deca Homes Pavia Resort Residences, Deca Homes Resort Residences, Deca Homes Esperanza, and Deca Homes Indangan.

The proposed use of proceeds described above represents a best estimate of the use of the net proceeds of the Offer based on the Company's current plans and expenditures. The actual amount and timing of disbursement of the net proceeds from the Offer for the use stated above will depend on various factors. Once the Company receives the net proceeds from the Offer, it shall apply the same to settle its existing indebtedness as discussed above, but to the extent that such net proceeds from the Offer are not immediately applied to the above purpose, the Company will invest the net proceeds in interest-bearing short term demand deposits and/or money market instruments. Aside from underwriting and selling fees, neither the Joint Issue Managers nor the Joint Lead Underwriters and Joint Bookrunners will receive any of the net proceeds from the Offer.

In the event of any material deviation or/adjustment in the use of proceeds, the Company shall inform the SEC and the Bondholders within 30 days prior to its implementation.

The net proceeds from the issue of the Bonds, without the ooversubscription option, is approximately ₱4,895,675,149.00  Assuming the oversubscription option is fully exercised, the total net proceeds is estimated to be approximately ₱ 8,875,675,149.00.

The net proceeds from the Bonds are detailed as follows:

<u>For a ₱5.0 Billion Issuance</u>

| | | |
|---|---|---|
| Estimated Gross Proceeds from the sale of the Bonds | | ₱5,000,000,000 |
| Documentary Stamp Tax | ₱25,000,000 | |
| SEC Registration Fee, Legal Research and Publication Fees | 2,940,625 | |
| Underwriting and Other Professional Fees | 75,223,226 | |
| Registry and Paying Agency Fees | 450,000 | |
| Listing Fees | 336,000 | |
| Marketing, printing and publication expenses | 375,000 | 104,324,851 |
| Estimated Net Proceeds for a ₱5 Billion Issuance | | ₱4,895,675,149 |

<u>For the ₱4.0 Billion Oversubscription Option</u>

| | | |
|---|---|---|
| Estimated Gross Proceeds from the sale of the Bonds | | ₱4,000,000,000 |
| Less: Documentary Stamp Tax | ₱20,000,000 | |
| Estimated Net Proceeds for a ₱4 Billion Oversubscription Option | | ₱3,980,000,000 |
| Total Net Proceeds (inclusive of the Oversubscription Option) | | ₱8,875,675,149.00 |

Aside from the one-time costs enumerated above, the Company will be paying the following estimated annual expenses related to the Bonds:

| | | |
|---|---|---|
| 1. | Professional Fees | ₱ 560,000 |
| 2. | Trustee Fees | ₱ 150,000 |
| 3. | Registry Maintenance Fees | ₱ 250,000 per tranche |
| 4. | Paying Agency Fees | ₱ 270,000 |
| 5. | Listing Maintenance Fees | ₱ 150,000 per tranche |

## CAPITALIZATION AND INDEBTEDNESS

The following table sets out the Company's consolidated debt, shareholders' equity and capitalization as of December 31, 2014, and as adjusted to reflect the issue of the Bonds. The table should be read in conjunction with the Company's audited consolidated financial statements and the notes thereto, included in this Prospectus. There has been no material change in the figures as shown in the following table and the notes thereto since the date thereof except for the issue of the Bonds.

| | **Actual as of December 31, 2014** | **After Giving Effect to the Offer** |
|---|---|---|
| | **(₱ in millions)** | **(₱ in millions)** |
| | **(Audited)** | |
| **Total debt**[1]................................................. | 8,833.9 | 9,312.8 |
| **Equity:** | | |
| Capital stock ................................................ | 5,518.0 | 5,518.0 |
| Additional paid-in capital ............................ | 4,400.1 | 4,562.4 |
| Equity reserve .............................................. | - | - |
| Other comprehensive loss............................ | (3.6) | (1.4) |
| Retained earnings......................................... | 4,974.7 | 1,941.5 |
| **Total equity** ................................................ | 14,889.2 | 12,020.5 |
| **Total capitalization** .................................... | 23,723.1 | 21,333.3 |

*Note:*

(1) *Total debt comprises "Current portion of loans payable" and "Loans payable – net of current portion."*

# DETERMINATION OF THE OFFER PRICE

The Bonds shall be issued at 100% of principal amount or face value.

# PLAN OF DISTRIBUTION

**THE OFFER**

On April 10, 2015, the Company filed a Registration Statement with the SEC, in connection with the offer and sale to the public of the Bonds with an aggregate principal amount of ₱5,000,000,000.00, with an oversubscription option of up to ₱4,000,000,000.00. In the event the oversubscription option is not exercised, it shall be deemed cancelled and the filing fee thereof forfeited. The Bonds will be issued by the Company pursuant to the Terms and Conditions of the Bond on the Issue Date.

The SEC is expected to issue an order rendering the Registration Statement effective and corresponding permit to offer securities for sale covering the Offering.

The Company plans to issue the Bonds on a lump-sum basis through its designated Joint Lead Underwriters and Joint Bookrunners.

**UNDERWRITING OBLIGATIONS OF THE JOINT LEAD UNDERWRITERS AND JOINT BOOKRUNNERS**

BDO Capital & Investment Corporation, China Banking Corporation, First Metro Investment Corporation, and SB Capital Investment Corporation, (each shall be referred to individually as "Joint Lead Underwriter and Joint Bookrunner", and collectively referred to as the "Joint Lead Underwriters and Joint Bookrunners") pursuant to an Issue Management and Underwriting Agreement executed on June 25, 2015, have agreed to act as the Joint Lead Underwriters and Joint Bookrunners for the Offer and as such, distribute and sell the Bonds at the Issue Price, and have committed to underwrite Five Billion Pesos (₱5,000,000,000.00) on a firm basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses.

BDO Capital & Investment Corporation, First Metro Investment Corporation, and SB Capital Investment Corporation are the Joint Issue Managers for this transaction.

Development Bank of the Philippines and Maybank ATR Kim Eng Capital Partners, Inc. have been engaged by the Joint Lead Underwriters and Joint Bookrunners as Co-Lead Underwriters.

The Joint Lead Underwriters and Joint Bookrunners are subsidiaries of BDO, Unibank Inc., China Banking Corporation, Metropolitan Bank and Trust Company, and Security Bank Corporation, respectively, which are among the lenders of the loans that will be repaid with the net proceeds of this Offer.

Maybank ATRKE is affiliated with Maybank, which is one of the lenders of the loans that will be repaid with the net proceeds of this Offer.

The Joint Lead Underwriters and Joint Bookrunners will receive a fee of up to 0.30% on the underwritten principal amount of the Bonds issued. Such fee shall be inclusive of underwriting and participation commissions.

The amounts of the commitments of the Joint Lead Underwriters and Joint Bookrunners are as follows:

| | |
|---|---:|
| BDO Capital & Investment Corporation | ₱ 1,250,000,000.00 |
| China Banking Corporation | 1,250,000,000.00 |
| First Metro Investment Corporation | 1,250,000,000.00 |
| SB Capital Investment Corporation | 1,250,000,000.00 |
| Total | ₱5,000,000,000.00 |

There is no arrangement for the Joint Lead Underwriters and Joint Bookrunners to return to the Company any unsold Bonds. The Underwriting Agreement may be terminated in certain circumstances prior to payment of the net proceeds of the Bonds being made to the Company.

The Joint Lead Underwriters and Joint Bookrunners are duly licensed by the SEC to engage in underwriting or distribution of the Bonds. The Joint Lead Underwriters and Joint Bookrunners may, from time to time, engage in transactions with and perform services in the ordinary course of its business for the Company or other members of the Company of which it forms a part.

The Joint Lead Underwriters and Joint Bookrunners have no direct relations with the Company in terms of ownership by either of their respective major stockholder/s.

None of the Joint Lead Underwriters and Joint Bookrunners has the right to designate or nominate a member of the Board of the Company.

**SALE AND DISTRIBUTION**

(a) The distribution and sale of the Bonds shall be undertaken by the Joint Lead Underwriters who shall sell and distribute the Bonds to third party buyers/investors. Nothing herein shall limit the rights of the Joint Lead Underwriters and Joint Bookrunners from purchasing the Bonds for their own respective accounts.

(b) The obligations of each of the Joint Lead Underwriters and Joint Bookrunners will be several, and not joint and solidary and nothing in the Underwriting Agreement shall be deemed to create a partnership or joint venture between and among any of the Joint Lead Underwriters and Joint Bookrunners. Unless otherwise expressly provided in the Underwriting Agreement, the failure by any of the Joint Lead Underwriters and Joint Bookrunners to carry out its obligations thereunder shall not relieve any other Joint Lead Underwriter of its obligations thereunder, nor shall any Joint Lead Underwriter be responsible for the obligations of any other Joint Lead Underwriter thereunder.

(c) There are no persons to whom the Bonds are allocated or designated. The Bonds shall be offered to the public at large and without preference.

Each Joint Lead Underwriter and Bookrunner may, under such terms and conditions not inconsistent with the provision of the Issue Management and Underwriting Agreement, enter into sub-underwriting agreements, participation agreements or other like agreements with other underwriters for the sale and distribution to the public of the Bonds.

**DESIGNATED SHARES AND ALLOCATIONS**

Each Joint Lead Underwriter may take on any portion of the Issue, as determined by the Company, but no obligation to do so over the amount set out on the previous page.

**TERM OF APPOINTMENT**

The engagements of the Joint Lead Underwriters and Joint Bookrunners, as well as the Joint Issue Managers shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated by the Company, the Joint Issue Managers or the Joint Lead Underwriters and Joint Bookrunners.

**MANNER OF DISTRIBUTION**

The Joint Lead Underwriters and Joint Bookrunners shall, at their discretion, determine the manner by which proposals for subscriptions to, and issuances of, Bonds shall be solicited, with the primary sale of Bonds to be effected only through the Joint Lead Underwriters and Joint Bookrunners.

## OFFER PERIOD

The Offer Period shall commence at 9 a.m. of June 26, 2015 and end at 12 noon of July 9, 2015.

## APPLICATION TO PURCHASE

Applicants may purchase the Bonds during the Offer Period by submitting to any of the Joint Lead Underwriters and Joint Bookrunners a properly completed Application to Purchase, together with two (2) duly accomplished signature cards containing specimen signatures of the applicant, (validated by its corporate secretary or by an equivalent officer(s) who is/are authorized signatory(ies), in case of Corporate applicants), any other documents as may be reasonably required by the Registrar in implementation of its internal policies regarding "knowing your customer" and anti-money laundering and the full payment of the purchase price of the Bonds in the manner provided therein. Corporate and institutional applicants must also submit, in addition to the foregoing, a certified true copy of their SEC Certificate of Registration of Articles of Incorporation and By-Laws, amended Articles of Incorporation, amended By-Laws, and the appropriate authorization by their respective boards of directors and/or committees or bodies authorizing the purchase of the Bonds and designating the authorized signatory(ies) thereof. Individual applicants must also submit, in addition to the foregoing, a valid identification documents bearing a recent photo, and which is not expired of any one of the following government issued identification cards ("ID"): tax identification number ("TIN"), passport/driver's license/postal ID, SSS/GSIS ID and/or Senior Citizen's ID.

A corporate and institutional investor who is exempt from or is not subject to withholding tax shall be required to submit the following requirements to the Registrar, subject to acceptance by the Company as being sufficient in form and substance: (i) a BIR-certified true copy of the current and valid tax exemption certificate, ruling or opinion issued by the BIR addressed to the applicant confirming the exemption, as required under BIR Revenue Memorandum Circular No. 8-2014 including any clarification, supplement or amendment thereto; (ii) a duly notarized undertaking, in the prescribed form, executed by (ii a) the Corporate Secretary or any authorized representative of such Applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Bonds for its account or (ii b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting the applicant's tax exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required by the Issuer and/or the Registrar and Paying Agent or under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, which shall include a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under BIR Revenue Memorandum Order No. 72-2010, including any clarification, supplement or amendment thereto provided further, that all sums payable by the applicant to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the applicant claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

Completed Applications to Purchase and corresponding payments must reach the Joint Lead Underwriters and Joint Bookrunners prior to the end of the Offer Period, or such earlier date as may be specified by the Joint Issue Managers. Acceptance by the Joint Issue Managers of the completed Application to Purchase shall be subject to the availability of the Bonds and the acceptance by the Company. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically canceled and any prior acceptance of the Application to Purchase is deemed revoked.

## MINIMUM PURCHASE

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum principal amount shall be in integral multiples of ₱ 10,000.00.

**ALLOTMENT OF THE BONDS**

If the Bonds are insufficient to satisfy all Applications to Purchase, the available Bonds shall be allotted in accordance with the chronological order of submission of properly completed Applications to Purchase on a first-come, first-served basis, subject to the Company's right of rejection.

**ACCEPTANCE OF APPLICATIONS**

The Company and the Joint Issue Managers reserve the right to accept or reject applications to subscribe in the Bonds, and in case of oversubscription, allocate the Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portions thereof will be returned without interest by the Joint Issue Managers.

**REFUNDS**

If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest to such applicant through the relevant Joint Lead Underwriter from whom such application to purchase the Bonds was made.

**PAYMENTS**

The Paying Agent shall open and maintain a Payment Account, which shall be operated solely and exclusively by said Paying Agent in accordance with the Registry and Paying Agency Agreement and the PDTC Rules, provided that beneficial ownership of the Payment Account shall always remain with the Bondholders. The Payment Account shall be used exclusively for the payment of the relevant interest and principal on each Payment Date.

The Paying Agent shall maintain the Payment Account for six months from the relevant Maturity Date or Early Redemption Option Date or date of early redemption other than the or Early Redemption Option Date. Upon closure of the Payment Account, any balance remaining in such Payment Account shall be returned to the Issuer and shall be held by the Issuer in trust and for the irrevocable benefit of the Bondholders with unclaimed interest and principal payments.

**UNCLAIMED PAYMENTS**

Any payment of interest on, or the principal of the Bonds which remain unclaimed after the same shall have become due and payable, shall be held in trust by the Paying Agent for the Bondholders at the latter's risk.

**PURCHASE AND CANCELLATION**

The Company may at any time purchase any of the Bonds in the open market or by tender or by contract in accordance with the PDEx Rules, without any obligation to purchase Bonds pro-rata from all Bondholders and the Bondholders shall not be obliged to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

**SECONDARY MARKET**

The Company intends to list the Bonds in the PDEx. The Company may purchase the Bonds at any time without any obligation to make pro-rata purchases of Bonds from all Bondholders.

**REGISTRY OF BONDHOLDERS**

The Bonds shall be issued in scripless form and shall be registered in the scripless Electronic Registry of Bondholders maintained by the Registrar. A Master Bond Certificate representing the Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Bonds shall be shown in the Electronic Registry of Bondholders to be maintained by the Registrar. Initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time. The Company will cause the Electronic Registry of Bondholders to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of Bonds shall be entered into the Electronic Registry of Bondholders.

**EXPENSES**

All out-of-pocket expenses, including but not limited to, registration with the SEC, credit rating, printing, publicity, communication and signing expenses incurred by the Joint Issue Manager and the Joint Lead Underwriters and Joint Bookrunners in the negotiation and execution of the transaction will be for the Company's account irrespective of whether the transaction contemplated herein is completed.  Such expenses are to be reimbursed upon presentation of a composite statement of account.

# DESCRIPTION OF THE BONDS

*The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Company, the information contained in this Prospectus, the Bond Agreements and other agreements relevant to the Offer. Prospective Bondholders are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Bonds.*

The issuance of the Bonds in an aggregate principal amount of ₱5,000,000,000.00 with an oversubscription option of up to ₱4,000,000,000.00, for public distribution and sale in the Philippines was authorized by a resolution of the Board of Directors of the Company on February 17, 2015. The Bonds are comprised of 6.2080% per annum Series A Bonds, 6.1310% per annum Series B Bonds and 6.8666% per annum Series C Bonds. The Bonds will be issued by the Company pursuant to the Terms and Conditions of the Bonds on the Issue Date.

A Trust Indenture Agreement in relation to the Bonds was executed on June 25, 2015 and entered into between the Company and BDO Unibank, Inc. – Trust and Investments Group, as trustee, (the "Trustee", which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture Agreement). The Trustee has no interest in or relation to the Company which may conflict with the performance of its functions. The description of the Terms and Conditions of the Bonds set out below is only a summary and is subject to the detailed provisions of the Trust Indenture Agreement.

A Registry and Paying Agency Agreement in relation to the Bonds was executed on June 25, 2015 and entered into between the Company and the Philippine Depositary and Trust Corp. as Registrar and Paying Agent. The Registrar and Paying Agent has no interest in or relation with 8990 Holdings, which may conflict with its role as Paying Agent and as Registrar for the Offer. 8990 Holdings has no ability to control or direct the affairs of the Registrar and Paying Agent.

The Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of ₱50,000.00 and in multiples of ₱10,000.00 thereafter, and traded in denominations of ₱10,000.00 in the secondary market.

The Bonds will be repaid at par or 100% of Face Value on the respective Maturity Dates of the Series A, Series B and Series C Bonds, unless the Company exercises its early redemption option according to the conditions therefor. See *"Description of the Bonds — Redemption and Purchase*".

Copies of the Trust Indenture Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee and Registrar respectively. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

## 1. Form, Denomination and Title

(a) *Form and Denomination*

The Bonds are in scripless form, and shall be issued in denominations of ₱50,000.00 each as a minimum and in integral multiples of ₱10,000.00 thereafter and traded in denominations of ₱10,000.00 in the secondary market.

(b) *Title*

Legal title to the Bonds shall be shown in the Electronic Registry of Bondholders maintained by the Registrar pursuant to the Registry and Paying Agency Agreement. A notice confirming the principal amount of the Bonds purchased by each applicant in the Offer shall be issued by the Registrar to all Bondholders no later than 7 Banking Days following the Issue Date. The Bondholders shall have 1 Banking Day from the date indicated in the registry confirmation to request the Registrar for amendment, correction or completion of the relevant information in the Electronic Registry of Bondholders. The Bondholders shall, within such period, request the Registrar, through the Joint Lead Underwriters from whom the Bonds were purchased, to amend the entries in the Registry by issuing an Affidavit of Correction duly endorsed by the Joint Issue Managers and the Joint Lead Underwriters and Joint Bookrunners. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the Electronic Registry of Bondholders maintained by the Registrar. Settlement with respect to such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

(c) *Bond Rating*

The Bonds have been rated AA+ by the CRISP on March 27, 2015. CRISP considered the following factors: the Company's business plans, growth prospects and cash flow.

The ratings reflect the Company's very strong capacity to repay debt obligations with adequate resources that can serve as a buffer to changes in economic conditions, industry shifts and business circumstances.

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds are outstanding. The rating may be changed at any time should CRISP determine that circumstances warrant a change. CRISP is a credit rating agency accredited by the SEC for bond issuance purposes but yet to be recognized by the BSP for bank supervisory purposes. After Issue Date, the Trustee shall likewise monitor compliance by the Company with certain covenants in relation to the Bonds through regular annual reviews.

**2. Transfer of Bonds**

(a) *Electronic Registry of Bondholders*

The Company shall cause the Registry of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers of the Bonds shall be entered in the Electronic Registry of Bondholders, subject to the Registry and Paying Agency Agreement. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings at least quarterly (at the cost of the Company), and a written advice confirming every receipt or transfer of the Bonds that is effected in the Electronic Registry of Bondholders (at the cost of the Company). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any and all requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder.

(b) *Transfers; Tax Status*

Except as provided herein and in the section on *"Interest Payment Dates"*, Bondholders may transfer their Bonds at any time, whether the tax status of the transferor and the transferee are the same or different. Before the Bonds are listed in PDEx, should a transfer between Bondholders of different tax status occur on a day which is not an Interest Payment Date (provided that the Interest Payment Date is a Banking Day) and on an Issue Date, tax-exempt Bondholders trading with non-tax exempt Bondholders shall be treated as non-tax exempt Bondholders for the interest period within which such transfer occurred. After the Bonds are listed in PDEx, transfers taking place in the Electronic Registry of Bondholders shall be allowed between non-tax exempt and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified below under *"Payment of Additional Amounts; Taxation"*, before such transfer, and such tax-exempt status shall be accepted and approved by the Company, acting through the Trustee. The determination and resolution of any tax-related issues including the tax status of the Bondholders shall be determined solely by 8990.

(c) *Secondary Trading of the Bonds*

The Issuer intends to list the Bonds in PDEx for secondary market trading. The Bonds will be traded in a minimum board lot size of ₱10,000.00, and in multiples of ₱10,000.00 in excess thereof for as long as any of the Bonds are listed in PDEx. Secondary market trading and settlement in PDEx shall follow the applicable PDEx rules, conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEx and PDTC, all of which shall be for the account of the Bondholders.

## 3. Ranking

The Bonds constitute direct, unconditional, unsubordinated, and unsecured obligations of the Company and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Company, other than obligations preferred by the law.

## 4. Interest

(a) *Interest Payment Dates*

*Series A Bonds*

The Series A Bonds bear interest on its principal amount from and including Issue Date and up to and including the Series A Bonds Maturity Date at the rate of 6.2080% p.a., payable quarterly in arrears, commencing on October 16, 2015, for the first Interest Payment Date and January 16, April 16, July 16 and October 16 of each year or the subsequent Banking Day without adjustment to the amount of interest to be paid, if such Interest Payment Date is not a Banking Day.

For purposes of clarity, the last Interest Payment Date on the Series A Bonds shall fall on the Maturity Date or October 16, 2020 or five (5) years and three (3) months from the Issue Date.

*Series B Bonds*

The Series B Bonds bear interest on its principal amount from and including Issue Date and up to and including the Series B Bonds Maturity Date at the rate of 6.1310% p.a., payable quarterly in arrears, commencing on October 16, 2015, for the first Interest Payment Date and January 16, April 16, July 16 and October 16 of each year or the subsequent Banking Day without adjustment to the amount of interest to be paid, if such Interest Payment Date is not a Banking Day.

For purposes of clarity, the last Interest Payment Date on the Series B Bonds shall fall on the Maturity Date or July 16, 2022 or seven (7) years from the Issue Date.

*Series C Bonds*

The Series C Bonds bear interest on its principal amount from and including Issue Date and up to and including the Series C Bonds Maturity Date at the rate of 6.8666% p.a., payable quarterly in arrears, commencing on October 16, 2015, for the first Interest Payment Date and January 16, April 16, July 16 and October 16 of each year or the subsequent Banking Day without adjustment to the amount of interest to be paid, if such Interest Payment Date is not a Banking Day.

For purposes of clarity, the last Interest Payment Date on the Series C Bonds shall fall on the Maturity Date or July 16, 2025 or ten (10) years from the Issue Date.

The cut-off date in determining the existing Bondholders entitled to receive the interest or principal amount due on the Bonds shall be two (2) Banking Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

(b) *Interest Accrual*

Each Bond shall accrue and bear interest from the Issue Date up to and including the relevant Maturity Dates or any relevant Early Redemption Option Dates or date of early redemption other than an Early Redemption Option Date, as discussed in the section on *"Redemption and Purchase",* below, unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see the section on *"Penalty Interest"* below) shall apply.

(c) *Determination of Interest Amount*

The interest shall be calculated on the basis of a 30/360-day basis, consisting of 12 months of 30 days each; provided, however, in the case of an incomplete month, due to reasons such as, but not limited to, trades in the secondary market or early redemption and purchase, interest shall be calculated on the basis of the number of days elapsed on the basis of a month of 30 days.

## 5. Redemption and Purchase

(a) *Optional Redemption*

Prior to relevant Maturity Dates, the Company has the right, but not the obligation, to redeem (in whole but not in part) the outstanding Series B or Series C Bonds on Early Redemption Option Dates (as defined herein) or the immediately succeeding Banking Day if such date is not a Banking Day, beginning on (i) **For the Series B Bonds:** the third (3rd) month after the fifth (5th) anniversary of Issue Date and the sixth (6th) anniversary of the Issue Date ; and (ii) **For the Series C Bonds:** the seventh (7th) anniversary of Issue Date and each anniversary of the Issue Date thereafter (each such dates an "Early Redemption Option Date" and collectively, the "Early Redemption Option Dates").

The amount payable to the Bondholders in respect of the exercise of the Early Redemption Option shall be calculated based on the principal amount of the Bonds being redeemed as the sum of the: (i) accrued interest computed up to the relevant Early Redemption Option Date, and (ii) the product of the principal amount and the applicable Early Redemption Option Price (except in case of Redemption for Tax Reasons and Change in Law or Circumstance, as discussed in Section 5 (c) and (d) below) as set forth in the following schedule:

| | Early Redemption Option Dates | Early Redemption Option Price |
|---|---|---|
| Series B Bonds | Third (3rd) month after the Fifth (5th) anniversary of Issue Date | 102.0% |
| | Sixth (6th) anniversary of Issue Date | 101.5% |
| Series C Bonds | Seventh (7th) anniversary of Issue Date | 102.5% |
| | Eighth (8th) anniversary of Issue Date | 102.0% |
| | Ninth (9th) anniversary of Issue Date | 101.5% |

The Company shall give no less than 30 days nor more than 60 days prior written notice of its intention to redeem the Bonds, which notice shall be irrevocable and binding upon the Company to effect such early redemption of the Bonds on the Early Redemption Option Date stated in such notice.

(b) *Final Redemption*

Unless previously redeemed or purchased and cancelled, the Bonds shall be redeemed at par or 100% of their face value on their respective Maturity Dates, being October 16, 2020 or five (5) years and three (3) months after the Issue Date for the Series A Bonds, July 16, 2022 or seven (7) years after the Issue Date for the Series B Bonds and July 16, 2025 or ten (10) years after the Issue Date for the Series C Bonds. If the Maturity Date is not a Banking Day, payment of all amounts due on such date will be made by the Company through the Paying Agent, without adjustment in computation as to the amount of interest payable, on the succeeding Banking Day.

(c) *Redemption for Tax Reasons*

If payments under the Bonds become subject to additional or increased taxes or are or become subject to taxes and at rates of such taxes other than that prevailing on the Issue Date as a result of certain changes in the law, rule or regulation, or in the interpretation or administration thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Company, the Company may redeem the Bonds in whole, but not in part, on any Interest Payment Date (having given not more than 60 days nor less than 30 days' notice to the Trustee and the Registrar and Paying Agent) at par plus accrued interest computed up to the Interest Payment Date when the Bonds shall be redeemed. Any such redemption made shall not be subject to any penalty.

(d) *Change in Law or Circumstance*

i. The Company may redeem the Bonds in whole, but not in part, in the event that there shall occur at any time after the Issue Date changes in law or circumstances (each a "Change of Law"). Each of the following events shall be considered as a Change of Law as it refers to the obligations of the Issuer and to the rights and interests of the Bondholders under the Trust Indenture Agreement and the Bonds. If any provision of the Trust Indenture Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Company to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture Agreement or any other related documents.

ii. Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Company to comply with its obligations under the Trust Indenture Agreement or the Bonds shall be modified in a manner which shall materially and adversely affect the ability of the Company to comply with such obligations, or shall be withdrawn or withheld.

iii. Any concession, permit, right or privilege required for the conduct of the business and operations of the Company shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented due to a change in law, in such manner as to materially and adversely affect the financial condition or operations of the Company; and

iv. In the event that there shall hereafter occur at any time during the term of the Bonds, any change in applicable law or in the interpretation or administration thereof which shall increase the cost of the Company to maintain the Bonds, require any reserve or special deposit against the Bonds or increase any other cost of complying with applicable law, or condition with respect to maintaining the Bonds, the result of any of the foregoing, as reasonably determined by the Company (subject to verification by the Trustee) is to increase the cost to the Company of maintaining the Bonds.

Upon the occurrence of any of the foregoing events and the Company invoking the provisions of this Condition 5(d), the Company shall provide the Trustee an opinion of legal counsel confirming the occurrence of any of the foregoing and the consequences thereof as consistent herewith, such legal counsel being from a law firm reasonably acceptable to the Trustee. Thereupon the Trustee, upon notice to the Company, shall declare the principal of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Indenture Agreement or in the Bonds to the contrary.

(e) *Purchase and Cancellation*

The Company may at any time purchase any of the Bonds in the open market or by tender or by contract in accordance with the PDEx Rules, without any obligation to purchase the Bonds pro-rata from all Bondholders and the Bondholders shall not be obliged to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

## 6. Payments

The principal of, interest on and all other amounts payable on the Bonds shall be paid by the Company to the Bondholders through the Paying Agent pursuant to the Registry and Paying Agency Agreement. On each Payment Date, on the basis of the payment report submitted by the Registrar to the Company, the Company shall transfer to the Paying Agent for deposit into the Payment Account such amount as may be required for the purpose of the payments due on the relevant Payment Date. Pursuant to PDTC Rules, the Paying Agent shall pay, or cause to be paid, on behalf of the Company on each Payment Date the total amounts due in respect of the Bonds by crediting, net of taxes and fees, the cash settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Paying Agent shall generate and send to each Bondholder a credit advice of payments credited to their account.

The Company will ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds and the Company or the Paying Agent may only terminate the appointment of the Paying Agent, as provided in the Registry and Paying Agency Agreement.

**7. Payment of Additional Amounts - Taxation**

Interest income on the Bonds is subject to a final withholding tax at rates of between twenty percent (20%) and thirty percent (30%) depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest shall be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties. If such taxes or duties are imposed, the same shall be for the account of the Company, provided, however, that the Company shall not be liable for:

(a) Income tax on any gain by a holder of the Bonds realized from the sale, exchange or retirement of the said Bonds.

(b) The applicable final withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code.

(c) Gross Receipts Tax under Section 121 of the Tax Code;

(d) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding (including, for the avoidance of doubt, creditable withholding taxes, where applicable); and

(e) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Company's account.

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Company as being sufficient in form and substance: (i) a BIR-certified true copy of the current and valid tax exemption certificate, ruling or opinion issued by the BIR addressed to the relevant Applicant or Bondholder confirming its exemption, as required under BIR Revenue Memorandum Circular No. 8-2014; (ii) a duly notarized undertaking, in the prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative of such Applicant or Bondholder, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases, or the Bondholder holds, the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Company8990 and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding of the required tax; and (iii) such other documentary requirements as may be reasonably required by the Company and/or the Registrar and Paying Agent or under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief, which shall include a copy of the duly filed tax treaty relief application with the International Tax Affairs Division of the BIR as required under BIR Revenue Memorandum Order No. 72-2010, provided further, that all sums payable by the Company to tax exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;.

Unless properly provided with satisfactory proof of the tax-exempt status of an Applicant or a Bondholder, each of the Company and the Registrar and Paying Agent may assume that such Bondholder is taxable and proceed to apply the tax due on the Bonds. Notwithstanding the submission by the Bondholder, or the receipt by the Company or any of its agents, of documentary proof of the tax-exempt status of a Bondholder, the Company may, in its sole and reasonable discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Bonds. Any question on such determination shall be referred to the Company.

**8. Maintenance of Financial Ratios**

Until redemption or payment in full of the aggregate outstanding principal amount of the Bonds and unless the Majority Bondholders shall otherwise consent in writing, the Company shall maintain the following financial ratios at all times:

(a) A maximum Debt-to-Equity Ratio of 1.50:1:00.

(b) A minimum Current Ratio of 1.00:1.00.

(c) A minimum Debt Service Coverage Ratio of 1.25:1:00

Provided, that the requirement to maintain the Current Ratio of 1.00:1.00 shall not apply during the first two (2) quarters immediately following the issuance of the Bond. The financial ratios shall be calculated on the basis of the Company's consolidated financial statements.

There are no other financial ratios that the Company is required to comply with in relation to this issuance.

For purposes of computing the above ratios, the following terms shall have the meanings set forth herein:

Debt-to-Equity Ratio is computed as total Financial Indebtedness divided by Total Equity.

Current Ratio means the ratio of current assets to current liabilities.

Debt Service Coverage Ratio means the ratio of EBITDA to total Debt Service by reference to the immediately preceding twelve (12) months of the period in review.

Financial Indebtedness means with respect to the Issuer and its Subsidiaries: (a) all financial obligations or other obligations of the Issuer and its Subsidiaries for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property (excluding suppliers' credit) or services; (b) all financial obligations or other obligations of any other corporation, person or other entity, the payment or collection of which the Issuer and its subsidiaries has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or otherwise, including, without limitation, liability by way of agreement to purchase, to provide funds for payment, or to supply funds to such person or entity, (c) all financial obligations or other obligations of any other corporation, person or other entity for borrowed money evidenced by a promissory note or other instrument or for the deferred purchase price of property or services secured by (or for which the holder of such financial obligations has an existing right, contingent or otherwise to be secured) any Lien upon or in property (including without limitation, accounts receivables and contract rights) owned by the Issuer or any of its Subsidiaries, whether or not the Issuer or any of its Subsidiaries has assumed or become liable for the payment of such financial obligation or obligations; (d) all financial obligations arising from any currency swap, or interest rate swap, cap or dollar arrangement or any other derivative instrument; and (e) capitalized lease obligations of the Issuer and its Subsidiaries.

Total Equity means the total stockholders' equity of the Issuer as recognized and measured in its consolidated financial statements in conformity with PFRS.

Debt Service means debt principal amortizations, interest payments, financing fees and charges during such period.

Current Ratio means the ratio of current assets to current liabilities.

Debt Service Coverage Ratio means the ratio of EBITDA to total Debt Service by reference to the immediately preceding twelve (12) months of the period in review.

**EBITDA** is computed as consolidated net income before interest and other financing charges, provision for income taxes, depreciation and amortization excluding loss on settlement of loans, foreign exchange losses – net and loss on write down of available-for-sale financial assets

**9. Negative Pledge**

So long as any Bond remains outstanding:

(a) the Company will not create or permit to subsist any Lien upon the whole or any part of its assets or revenues present or future to secure any Debt or any guarantee of or indemnity in respect of any Debt;

(b) the Company shall procure that its Subsidiaries will not create or permit to subsist any Lien upon the whole or any part of any Subsidiary's undertaking, assets or revenues present or future to secure any Debt or any guarantee of or indemnity in respect of any Debt unless, at the same time or prior thereto, the Company's obligations under the Bonds and the Trust Indenture Agreement, (a) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the Majority Bondholders; and provided that this paragraph shall not apply to the following (each a "Permitted Lien" and together, the "Permitted Liens"):

(i) Liens for taxes, assessments or governmental charges or levies, including custom duties, which are being contested in good faith;

(ii) Liens arising by operation of law (including, for the avoidance of doubt, any preference or priority under Article 2244, paragraph 14(a) of the Civil Code of the Philippines existing prior to the date of the Trust Indenture Agreement) on any property or asset of the Company or any of the Subsidiaries, including, without limitation, amounts owing to a landlord, carrier, warehouseman, mechanic or materialman or other similar liens arising in the ordinary course of business or arising out of pledges or deposits under workers' compensation laws, unemployment, insurance and other social security laws;

(iii) Liens incurred or deposits made in the ordinary course of business to secure (or obtain letters of credit that secure) the performance of tenders, statutory obligations or regulatory requirements, performance or return of money bonds, surety or appeal bonds, bonds for release of attachment, stay of execution or injunction, bids, tenders, leases, government contracts and similar obligations) and deposits for the payment of rent;

(iv) Liens created by or resulting from any litigation or legal proceeding which is effectively stayed while the underlying claims are being contested in good faith by appropriate proceedings and with respect to which the Company has established adequate reserves on its books in accordance with PAS/PFRS;

(v) Liens arising from leases or subleases granted to others, easements, building and zoning restrictions, rights-of-way and similar charges or encumbrances on real property imposed by applicable Law or arising in the ordinary course of business that are not incurred in connection with the incurrence of a Debt and that do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of the Company or any of the Subsidiaries;

(vi) Liens incidental to the normal conduct of the business of the Company or any of the Subsidiaries or ownership of its properties and which are not incurred in connection with the incurrence of a Debt and which do not in the aggregate materially impair the use of such property in the operation of the business of the Company or any of the Subsidiaries or the value of such property for the purpose of such business;

(vii) Liens upon tangible personal property acquired in the ordinary course of business after the date hereof (by purchase or otherwise) granted by the Company or any of the Subsidiaries to (i) the vendor, supplier, any of their affiliates or lessor of such property, or (ii) other lenders arranged to secure Debt representing the costs of such property, or incurred to refinance the same principal amount of such debt outstanding at the time of the refinancing, and not secured by any other asset other than such property;

(viii) Pre-existing Liens on after-acquired property of the Company or any of the Subsidiaries;

(ix) Liens constituted to secure loans drawn against the following facilities of the Company and/or its Subsidiaries, including any amendment, renewal or extensions of such facilities: (1) Php1,500,000,000.00 term loan agreement dated January 20, 2015, between China Banking Corporation as Lender and 8990 Housing, 8990 Luzon, 8990 Davao, and Fog Horn as Borrowers; (2) Php1,000,000,000.00 term loan facility agreement dated February 23, 2015, between BDO Unibank, Inc. as Lender and the Company as Borrower; and (3) a credit line granted by Security Bank Corporation in favor of 8990 Housing, 8990 Luzon, 8990 Davao, and Fog Horn, with an outstanding balance of Php500,000,000.00, including, without limit, mortgages, assignment of receivables, or continuing surety by the Company, its Subsidiaries, or any of the Company's directors or officers;

(x) Liens arising from financial lease, hire purchase, conditional sale arrangements or other agreements for the acquisition of assets entered into in the ordinary course of business on deferred payment terms to the extent relating only to the assets which are subject of those arrangements, subject to such financial leases, hire purchase, conditional sale agreements or other agreements for the acquisition of such assets on deferred payment terms;

(xi) Liens arising over any asset, including, but not limited to assets purchased, leased, or developed in the ordinary course of business, to secure: (i) the payment of the purchase price or cost of leasehold rights of such asset; (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Company or any of the Subsidiaries in the ordinary course of business; (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset; or (iv) the rediscounting of receivables of the Company or any of the Subsidiaries;

(xii) Liens established in favor of insurance companies and other financial institutions in compliance with the applicable requirements of the Office of the Insurance Commission on admitted assets;

(xiii) Rights of set-off arising in the ordinary course of business between the Company or any of the Subsidiaries and its suppliers, clients or customers;

(xiv) Netting or set-off arrangement entered into by the Company or any of the Subsidiaries in the ordinary course of business of its banking arrangements for the purpose of netting debt and credit balances;

(xv) Title transfer or retention of title arrangement entered into by the Company or any of the Subsidiaries in the ordinary course of business;

(xvi) Liens created in substitution for any Lien otherwise permitted provided such Lien is over the same asset and the principal amount so secured following the substitution does not exceed the principal amount secured on such asset immediately prior to such substitution;

(xvii) Liens securing indebtedness under hedging transactions (including foreign currency and interest rate swap and derivative transactions) entered into in the ordinary course of business and designed solely to protect the Company or any of the Subsidiaries or its Affiliates from fluctuations in interest rates or currencies or commodities and not for speculation;

(xviii) Liens in favor of banks, insurance companies, other financial institutions and Philippine government agencies, departments, authorities, corporations or other judicial entities, which secure a preferential financing obtained by the Company or any of the Subsidiaries under a governmental program, such preferential financing being conditioned upon the creation of a security;

(xix) The assignment, transfer, conveyance, or delivery (whether in the concept of a sale or other disposition, as a security or in respect of a contract to sell financing facility) of the right of the Company or any of the Subsidiaries to receive any of its income or revenues from receivables arising out of the sale of property held for sale by the Company or any of the Subsidiaries in the ordinary course of business ("Project Receivables"), the Project Receivables or any document evidencing and/or supporting such right or the Project Receivables (which, for the avoidance of doubt, includes, without limit, postdated checks, promissory notes, contracts to sell, certificates of title, tax declarations and other documents of title relating to such contracts to sell);

(xx) Any Lien to be constituted on the assets of the Company and/or any of the Subsidiaries after the date of the Trust Indenture Agreement, which is disclosed in writing by the Company and/or any of the Subsidiaries to the Trustee prior to the execution of the Trust Indenture Agreement;

(xxi) Any Lien created over (i) deposits made by the Company or any of the Subsidiaries with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or financial instruments denominated in foreign currency owned by the Company or any of the Subsidiaries, in each case solely for the purpose of securing loan facilities denominated in Philippine Pesos, granted to the Company or any of the Subsidiaries in an aggregate principal amount not exceeding the amount of the deposit or the face amount (or value) of the financial instrument

(xxii) Liens existing as of the date of this Prospectus which is disclosed in writing by the Company or any of the Subsidiaries in its financial statements; and

(xxiii) Liens created with the prior written consent of the Majority Bondholders;

Provided, that the total aggregate amount of Debt of the Company and its Subsidiaries at any given point in time that may be secured by the Permitted Liens (other than the Permitted Liens under items (i), (ii), (iii), (iv) above and those constituted but not in the incurrence of Debt, all which shall not be included in, or counted for the purpose of, the limit provided in this section) shall not exceed the equivalent of 10% of the market value of the consolidated assets of the Company and its Subsidiaries as reflected in its latest consolidated audited financial statements, or Php3,000,000,000.00, whichever is higher. For the avoidance of doubt, notwithstanding any provision herein to the contrary, any obligation of the Company to pay the purchase price, or any portion thereof, for the acquisition of land or other real property assets entered into in the ordinary course of business on deferred payment terms, to the extent of the amounts due to the party from whom such assets are acquired, is and shall be excluded from, and not be subject to, any limit set forth in this section.

**10. Events of Default**

The Company shall be considered in default under the Bonds and the Trust Indenture Agreement in case any of the following events (each an "Event of Default") shall occur and is continuing:

(a) *Payment Default*

The Company fails to pay any of the principal, interest and fees or any other sum payable by the Company under the Bonds, as and when due and payable at the place and in the currency in which it is expressed to be payable, except that the late payment of principal, interest and fees or any other sum payable by the Company under the Bonds arising solely due to a technical reason not attributable to the fault or negligence of the Company affecting the transfer of funds despite timely instruction having given by the Company shall not result in an Event of Default, provided that such non-payment or late payment due to technical reason shall be remedied within three (3) days.

(b) *Representation Default*

Any representation or warranty made or repeated by the Company in any of the Bonds is incorrect or misleading in any material respect when made or deemed to have been made or repeated, and the same is not cured within a period of 14 Banking Days (or such longer period as the Majority Bondholders shall approve) after written notice of such failure given by the Trustee is received by the Company.

(c) *Closure Default*

The Company voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days except when due to fortuitous events or force majeure.

(d) *Other Provisions Default*

The Company fails to perform or comply with any provision, term, condition, obligation or covenant found in the Bond Agreements which would materially and adversely affect the ability of the

Company to meet its obligations under the Bond Agreements and such failure is not remediable or, if remediable, shall continue to be unremedied during the applicable grace period or, in the absence of such grace period, within a period of 45 days after written notice of such failure given by the Trustee is received by the Company.

(e) *Cross Default*

The Company fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other obligation, or commits a breach or violates any material term or condition of any contract executed by the Company with any bank, financial institution or other person, corporation or entity for borrowed money which constitutes an event of default under said contract, which breach violation, if remediable, is not remedied by the Company within fifteen (15) Banking Days from receipt of notice by the Trustee to the Company, or which violation is otherwise not contested by the Company, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation shall in the reasonable opinion of the Majority Bondholders, adversely and materially affect the performance by the Company of its obligations under the Trust Indenture Agreement and the Bonds.

(f) *Inability to Pay Debts; Bankruptcy Default*

The Company becomes insolvent or is unable to pay its Debts when due or commits or suffers any act of bankruptcy, which term shall include: (i) the filing of a petition, by or against the Company, in any bankruptcy, insolvency, administration, suspension of payment, rehabilitation, reorganization (other than a labor or management reorganization), winding-up, dissolution, moratorium or liquidation proceeding of the Company, or any other proceeding analogous in purpose and effect, unless for such petition filed against the Company, it is contested in good faith by the Company in appropriate proceedings or otherwise dismissed by the relevant court within 60 days from the filing of such petition; (ii) the making of a general assignment by the Company for the benefit of its creditors; (iii) the admission in writing by the Company, through its President, Chief Executive Officer, Chief Operating Officer or Chief Finance Officer, of its general inability to pay its Debts; (iv) the entry of any order of judgment of any competent court, tribunal or administrative agency or body confirming the bankruptcy or insolvency of the Company or approving any reorganization, winding-up or liquidation of the Company, unless withdrawn or revoked by the appropriate court, tribunal or administrative agency or body within sixty (60) days from entry of such order of judgment; (v) the lawful appointment of a receiver or trustee to take possession of a substantial portion of the properties of the Company, unless contested in good faith by the Company in appropriate proceedings; or (vi) the taking of any corporate action by the Company to authorize any of the foregoing, unless withdrawn or rescinded within sixty (60) days from the taking of such action.

(g) *Expropriation*

Any act or deed or judicial or administrative proceedings in the nature of an expropriation, confiscation, nationalization, acquisition, seizure, sequestration or condemnation of or with respect to all or a material part of the business and operations of the Company, or all or substantially all of the property or assets of the Company, shall be undertaken or instituted by any governmental authority, unless such act, deed or proceeding is otherwise contested in good faith by the Company in an appropriate proceeding.

(h) *Judgment Default*

A final and executory judgment, decree or order for the payment of money, damages, fine or penalty in excess of ₱500,000,000.00 or its equivalent in any other currency is entered against the Company and (i) the Company has failed to demonstrate to the reasonable satisfaction of the Majority Bondholders within thirty (30) days of the judgment, decree or order being entered that it is reasonably certain that the judgment, decree or order will be satisfied, discharged or stayed within forty five (45) days of the judgment, decree or order being entered, or (ii) the said final judgment, decree or order is not paid, discharged, stayed or fully bonded within forty five (45) days after the date when payment of such judgment, decree or order is due.

(i) *Attachment*

An attachment or garnishment of or levy upon any of the properties of the Company is made which materially and adversely affects the ability of the Company to pay its obligations under the Bonds and is not discharged or stayed within forty five (45) days (or such longer period as the Company satisfies the Majority Bondholders is appropriate under the circumstances) of having been so imposed.

(j) *License Default.*

Any governmental consent, license, approval, authorization, permit, right, privilege, declaration filing or registration which is granted or required in connection with the Bond Agreements or the Bonds expires or is terminated, revoked or modified in any manner unacceptable to the Majority Bondholders and the result thereof is to make the Company unable to discharge its obligations.

(k) *Material Adverse Change*

There has been, in the reasonable determination of the Trustee, a material change in the financial condition of the Company which will materially and adversely affect the Company's ability to perform its obligations under the Bonds and the Bond Agreements.

(l) *Contest*

The Company (acting through its President, Chief Executive Officer, Chief Operating Officer or Chief Finance Officer) shall contest in writing the validity or enforceability of the Bonds or shall deny in writing the general liability of the Company under the Bonds.

The Company shall promptly deliver to the Trustee a written notice of any Event of Default upon the Company becoming aware of such Event of Default. The Trustee shall notify the Bondholders of the receipt of any such certificate or notice.

The Trustee may call for and rely on a resolution of the Majority Bondholders to determine whether an Event of Default is capable or incapable of remedy and/or an event may adversely and materially affect the performance by the Company of its obligations under the Trust Indenture Agreement and the Bonds.

**11. Consequences of Default**

If any one or more of the Events of Default shall have occurred and be continuing without the same being cured within the periods provided in these Terms and Conditions: (i) the Trustee, upon the written direction of the Majority Bondholders, by notice in writing deliver to the Company, or (ii) the Majority Bondholders, may on its own, by notice in writing deliver to the Company and the Trustee, with a copy furnished to the Paying Agent, Receiving Agent, and Registrar, declare the Issuer in default ("Declaration of Default") and declare the principal of the Bonds then outstanding, including all accrued interest and other charges thereon, if any, to be immediately due and payable, with a copy to the Paying Agent who shall then prepare a payment report in accordance with the Registry and Paying Agency Agreement. Thereupon the Issuer shall make all payments due on the Bonds in accordance with the Registry and Paying Agency Agreement.

All the unpaid obligations under the Bonds, including accrued Interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable according to this section, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Company.

The provisions of this section, however, are subject to the condition that the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul any Declaration of Default made by the Trustee upon such terms, conditions and agreements, if any, as they may determine; ***provided***, that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto; provided, however, that this right of the Majority Bondholders to rescind and annul any Declaration of Default shall not apply to the Events of Default that cannot be waived by Majority Bondholders as described in Sections 10 (a), (b), (c), (d), (e) and (f) above. Any such rescission and annulment of a Declaration of

Default shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of the Bonds, or of any bond issued in lieu thereof or in exchange therefor.

**12. Notice of Default**

The Trustee shall, within ten Banking Days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it, unless the same shall have been cured before the giving of such notice; provided that, in the case of Payment Default under Section 10(a) above and as provided in these Terms and Conditions, the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment Default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in the Philippines for two consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification to the Trustee.

**13. Penalty Interest**

In case any amount payable by the Company under the Bonds, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Company shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 12% p.a. (the "Penalty Interest") from the time the amount falls due until it is fully paid.

**14. Payment in the Event of Default**

The Company covenants that upon the occurrence of any Event of Default, the Company shall pay to the Bondholders, through the Paying Agent, and *provided* that there has been a Declaration of Default and acceleration of payment pursuant to Section 11the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal and with Penalty Interest as described above, where applicable.

**15. Application of Payments**

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Indenture Agreement and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first,* to the pro-rata payment to the Trustee, the Paying Agent and the Registrar, of the reasonable and documented costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable and documented expenses and liabilities incurred or disbursements made by them, without negligence or bad faith; *second,* to the payment of the Penalty Interest, in the order of the maturity of such interest; *third,* to the payment of all outstanding interest; *fourth* to the payment of the principal amount of the Bonds then due and payable; and *fifth,* the remainder, if any shall be paid to the Company, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Bonds shall require the conformity of the Trustee. The Paying Agent shall render a monthly account of such funds under its control.

**16. Prescription**

Claims with respect to principal and interest or other sums payable hereunder shall prescribe unless made within ten years from the date on which payment becomes due.

**17. Remedies**

All remedies conferred by the Trust Indenture Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture Agreement, subject to the discussion in the section below on *"Ability to File Suit".*

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

## 18. Ability to File Suit

No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Indenture Agreement to institute any suit, action or proceeding for the collection of any sum due from the Company hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless all of the following conditions have been fulfilled: (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds; (ii) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

## 19. Waiver of Default by the Bondholders

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders may decide for and on behalf of the Bondholders to waive any past default, except the Events of Default specified in Sections 10 (a), (b), (c), (d), (e) and (f) above. In case of any such waiver, written notice of which shall be given to the Company by the Trustee, the Company, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

## 20. Trustee; Notices

(a) *Notice to the Trustee*

All documents required to be submitted to the Trustee pursuant to the Trust Indenture Agreement and this Prospectus and all correspondence addressed to the Trustee shall be delivered to:

| | |
|---|---|
| To the Trustee: | **BDO Unibank, Inc. – Trust and Investments Group** |
| Attention: | Susan Marie J. Atienza |
| Subject: | 8990 Holdings, Inc. Fixed Rate Bonds |
| Address: | 15/F BDO South Tower, BDO Corporate Center Makati Ave., Makati City |
| Facsimile: | 878-4270 |
| Email Address: | atienza.s@bdo.com.ph |

All documents and correspondence not sent to the above-mentioned address shall be considered as not sent at all.

(b) *Notice to the Bondholders*

The Trustee shall send all notices to Bondholders to their mailing address as set forth in the Electronic Registry of Bondholders. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Electronic Registry of Bondholders. The Trustee shall rely on the Electronic Registry of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received (i) ten days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or; (iv) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Trust Indenture Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Company and all Bondholders. No liability to the Company, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture Agreement resulting from the Trustee's reliance on the foregoing.

**21. Duties and Responsibilities of the Trustee**

(a) The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Indenture Agreement.

(b) The Trustee shall, in accordance with the terms and conditions of the Trust Indenture Agreement, monitor the compliance or non-compliance by the Company with all its representations and warranties, and the observance by the Company of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Indenture Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with respect to any matters that must be taken up with the Company.

(c) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture Agreement.

(d) The Trustee shall exercise such rights and powers vested in it by the Trust Indenture Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters, exercise in the management of their own affairs.

(e) The Trustee shall have custody of and hold, for and in behalf of the Bondholders, the Master Bond Certificate for the total issuance of the Bonds. All moneys, funds, evidence of indebtedness and other documents or agreements received by the Trustee in connection with the Trust Indenture Agreement shall be held in trust for the purpose for which they were received, and any and all such sums and assets shall be segregated from all other funds and assets of the Trustee.

(f) The Trustee shall at all times be a financial institution organized and doing business under the laws of the Republic of the Philippines duly authorized to exercise corporate trust powers, having its principal office and place of business in Metro Manila, Philippines.

(g) The Trustee shall submit all reports to the Bondholders pertaining to the Bonds as well as to its obligations as Trustee as required under, and pursuant to, the Terms and Conditions.

**22. Liability of the Trustee**

No provision of the Trust Indenture Agreement shall be construed to relieve the Trustee from liability for its own gross negligent action, its own gross negligent failure to act or its willful misconduct, provided that:

(a) Prior to the occurrence of an Event of Default or after the curing or the waiver of all Events of Default which may have occurred, in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon, as to the truth of the statements and the correctness of the opinion expressed in, any certificate or opinion furnished to the Trustee conforming to the requirements of the Trust Indenture Agreement. The Trustee may presume that no Event of Default has occurred until it has received notice thereof;

(b) The Trustee shall not be liable for any error of judgment made in good faith by its responsible officer or officers, unless it shall be proven that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Majority Bondholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under the Trust Indenture Agreement.

None of the provisions contained in the Trust Indenture Agreement or Prospectus shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

**23. Ability to Consult Counsel**

(a) The Trustee may consult with reputable counsel in connection with the duties to be performed by the Trustee under the Trust Indenture Agreement and any opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or omitted to be taken by the Trustee in good faith and in accordance with such opinion; provided that, prior to taking or not taking such action for which opinion of counsel is sought, the Trustee shall inform 8990 of the relevant opinion of counsel; provided further that, the Trustee shall not be bound by the foregoing condition to inform 8990 of counsel's opinion if the opinion of counsel which is being sought by the Trustee pertains to, or involves actions to be undertaken due to, an Event of Default or issues pertaining thereto.

(b) Notwithstanding any provision of the Trust Indenture Agreement authorizing the Trustee conclusively to rely upon any certificate or opinion, the Trustee may, before taking or refraining from taking any action in reliance thereon, require further evidence or make any further investigation as to the facts or matters stated therein which it may in good faith deem reasonable in the circumstances; and the Trustee shall require such further evidence or make such further investigation as may reasonably be requested in writing by the Majority Bondholders.

**24. Reliance**

In the performance of its obligations under the Trust Indenture Agreement, the Trustee is entitled to rely on the records of the Registrar and Paying Agent, and the certifications of the Company, including the Certificate of No Default in the form of Annex "B", but shall exercise the degree of care and skill as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

**25. Resignation and Change of Trustee**

The Trustee may at any time resign by giving 90 days prior written notice to the Company and to the Bondholders of such resignation.

Upon receiving such notice of resignation of the Trustee, the Company shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a *bona fide* holder for at least six months (the "*bona fide* Bondholder") may, for and on behalf of the Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.

A successor trustee should possess all the qualifications required under pertinent laws and shall be bound by the terms of the Trust Indenture Agreement as stipulated in Section 26(a) hereof; otherwise, the incumbent trustee shall continue to act as such.

In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Company may within thirty (30) days from such time remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee. If the Company fails to remove the Trustee concerned and appoint a successor trustee, any *bona fide* Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.

The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee with the consent of the Company, by the delivery to the Trustee so removed, to the successor trustee and to the Company of the required evidence of the action in that regard taken by the Majority Bondholders. Such removal shall take effect thirty (30) days from receipt of such notice by the Trustee.

Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of the Trust Indenture Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Indenture Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Indenture Agreement (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed, the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Company.

**26. Successor Trustee**

Any successor trustee appointed shall execute, acknowledge and deliver to the Company and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Indenture Agreement. The foregoing notwithstanding, on the written request of the Company or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.

Upon acceptance of the appointment by a successor trustee, the Company shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Company fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Company.

**27. Reports to the Bondholders**

(a) The Trustee shall submit to the Bondholders on or before 28 February of each year from the relevant Issue Date until full payment of the Bonds a brief report dated as of December 31of the immediately preceding year with respect to:

(i) The property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report , which shall be based on the report to be given by the Paying Agent to the Trustee; and

(ii) Any action taken by the Trustee in the performance of its duties under the Trust Indenture Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

(b) The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent of the aggregate outstanding principal amount of the Bonds at such time.

(c) Upon due notice to the Trustee, the following pertinent documents may be inspected during regular business hours on any Banking Day at the principal office of the Trustee:

(i) Trust Indenture Agreement
(ii) Registry and Paying Agency Agreement
(iii) Articles of Incorporation and By-Laws of the Company
(iv) Registration Statement of the Company with respect to the Bonds

## 28. Meetings of the Bondholders

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or on behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Indenture Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

(a) *Notice of Meetings*

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least 25% of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Company and to each of the registered Bondholders not earlier than forty five (45) days nor later than 15 days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in these Terms and Conditions. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Company within ten (10) days from receipt of the duly supported billing statement.

(b) *Failure of the Trustee to Call a Meeting*

In case at any time the Company or the holders of at least 25% of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Company or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) *Quorum*

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) *Procedure for Meetings*

(i) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Company or by the Bondholders, in which case the Company or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of one year from the date for which the meeting shall originally have been called and the meeting so adjourned may be held upon written agreement by the Company and the Bondholders on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) *Voting Rights*

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one vote for every ₱10,000.00 interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the Persons entitled to vote at such meeting and any representatives of the Company and its legal counsel.

(f) *Voting Requirement*

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in these Terms and Conditions (please refer to the preceding discussion in the section on *"Quorum"*). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as provided in these Terms and conditions shall be binding upon all the Bondholders and the Company as if the votes were unanimous.

(g) *Role of the Trustee in Meetings of the Bondholders*

The Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit. The minutes of each meeting and any resolution made thereat shall be taken by the Trustee.

## 29. Amendments

The Company and the Trustee may, without prior notice to or the consent of the Bondholders or other parties, amend or waive any provisions of the Terms and Conditions of the Bonds and the Bond Agreements if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified of such amendment or waiver thereafter.

The Company and the Trustee may amend or supplement the Terms and Conditions of the Bonds and the Bond Agreements without notice to every Bondholder but with the written consent of the Majority Bondholders (including consents obtained in connection with a tender offer or exchange offer for the Bonds). However, without the consent of each Bondholder affected thereby, any such amendment or supplement may not:

(a) reduce the percentage amount of Bonds outstanding that must consent to an amendment or waiver;

(b) reduce the rate of or extend the time for payment of interest on any Bond;

(c) reduce the principal of or extend the Maturity Date of any Bond;

(d) impair the right of any Bondholder to receive payment of principal of and interest on such Bond holdings on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Bond holdings;

(e) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;

(f) make any Bond payable in money other than that stated in the Bond;

(g) subordinate the Bonds to any other obligation of the Company;

(h) release any security interest that may have been granted in favor of the Bondholders;

(i) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or

(j) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment or supplement, but it shall be sufficient if such consent approves the substance thereof. After an amendment or supplement under this Condition becomes effective, the Company shall send a notice briefly describing such amendment or supplement to the Bondholders in the manner provided in the section entitled "*Notices"*.

Any consent given pursuant to this Section shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof or of any Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Bonds.

**30. Evidence Supporting the Action of the Bondholders**

Wherever in these Terms and Conditions it is provided that the Bondholders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

**31. Non-Reliance**

Each Bondholder represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Company on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature with respect to the Trustee's performance of its obligations under the Trust Indenture Agreement, except those arising from the Trustee's gross negligence or wilful misconduct.

**32. Waiver of Preference or Priority**

Each Bondholder waives its right to the benefit of any preference or priority over the Bonds accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines. This waiver shall be automatically revoked (or deemed not given) in the event that any other Debt of the Company and any of its Subsidiaries has a priority or preference under Article 2244(14) which is not otherwise waived by the party to which priority or preference has been granted and such priority or preference is invoked against the Bonds.

**33. Governing Law**

The Bond Agreements are governed by and shall be construed in accordance with Philippine law. Unless otherwise stipulated in the other Bond Agreements, venue of any and all actions arising from or in connection with the issuance of the Bonds shall be brought before the proper courts of Makati City to the exclusion of all other courts.

# INTEREST OF NAMED EXPERTS

**LEGAL MATTERS**

Certain legal matters in connection with the issuance of the Bonds which are subject of this Offer shall be passed upon by Angara Abello Concepcion Regala & Cruz Law Offices ("ACCRALAW") for the Joint Issue Managers and Joint Lead Underwriters and Joint Bookrunners and by Picazo Buyco Tan Fider & Santos Law Offices ("Picazo") for the Company. ACCRALAW and Picazo have no direct or indirect interest in 8990, although Atty. Cristina S. Palma Gil-Fernandez, who is the Corporate Secretary of the Issuer is also a Partner at Picazo. ACCRALAW and Picazo may, from time to time be engaged by 8990 to advise in its transactions and perform legal services on the same basis that ACCRALAW and Picazo provide such services to its other clients.

**INDEPENDENT AUDITORS**

SGV & Co., independent auditors, audited the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014.SGV & Co. has no shareholdings in the Company, or any right, whether legally enforceable or not, to nominate or to subscribe to the securities of the Company, in accordance with the professional standards on independence set by the Board of Accountancy and Professional Regulation Commission.

The aggregate fees billed by SGV & Co. are shown below (with comparative figures for 2013 and 2012):

| | *(Amount in thousands of Pesos)* | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Audit and Audit Related Fees | ₱9,350 | ₱12,100 | ₱10,961.5 |

There is no arrangement that experts will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

# BUSINESS

## OVERVIEW

The Company is the largest Mass Housing developer in the Philippines in terms of units licensed under B.P. 220 from 2011 to 2013, according to HLURB. The Company has been developing Mass Housing Projects in high-growth areas across the Visayas, Mindanao and Luzon since 2003. In doing so, the Company has benefited significantly from the industry experience of its Principals who, prior to the establishment of the Company's Subsidiaries and through certain 8990 Related Companies, developed their first Mass Housing project in 1991 in Cagayan de Oro. The Company has built a reputation of providing quality and affordable homes to consumers in the fast-growing Philippine Mass Housing market. The Company's DECA Homes and Urban DECA Homes brands have also gained a strong reputation in the market, resulting in the Company garnering numerous awards such as Q Asia Magazine's Best Housing Developer for 2012 to 2013. As of March 31, 2015, the Company has completed 27 Mass Housing projects and is developing another ten Mass Housing and MRB projects. Across these completed and ongoing projects, the Company has, since 2003, sold more than 29,800 units, with approximately 19,000 additional units available for development and sale from ongoing projects. The Company also has an identified pipeline of eight projects with an existing and available landbank, which projects are scheduled to commence between 2015 and 2019 and which in total are expected to provide approximately 64,000 units available for sale.

The Company believes that its industry experience has equipped it with the ability to understand the needs, preferences, means and circumstances of consumers in the Philippine Mass Housing market. The Company offers an affordable pricing and payment model, and has developed its CTS Gold in-house financing program to cater to Mass Housing market Filipino consumers who do not have the accumulated savings to pay high down payments for homes but have sufficient recurring income to support monthly amortization payments. Under this program, customers only pay a minimal down payment and can quickly move into their chosen homes. The Company retains ownership of such homes until full payment is made by the customer. The CTS Gold program is further strengthened by the Company's strong relationship with Pag-IBIG, the primary Government agency providing housing financial assistance to Filipinos through the long-established Pag-IBIG housing loan program. The Company has structured the CTS Gold program, in particular the CTS Gold Convertible product, such that the requirements for such product generally mirror the requirements for availing of a Pag-IBIG home loan. This essentially facilitates the take-up by Pag-IBIG of such loans upon application for by customers, converting receivables of the Company into cash and lessening the financing and other risks appurtenant to potential buyer defaults.

Consistent with the Company's thrust of providing quality and affordable housing units to its customers, the Company also introduced a pre-cast construction process which enables it to construct and complete residences ready for move-in much faster than under the conventional concrete cinder block method. Through this process, the Company is able to construct townhouses and single-storey attached units in just eight to ten "10" days, with an additional five days for single-storey houses with lofts. The use of this process also allows the Company to realize significant cost savings and enables it to turn over units to its customers in a fast and efficient way.

In addition to horizontal Mass Housing subdivision projects, the Company also develops MRB condominium projects. The Company began development of its first MRB Mass Housing project in Cebu in 2012, and plans to develop similar MRB projects in Metro Manila and other urban areas. In 2012, 2013, and 2014, the Company recorded consolidated revenues amounting to ₱3,877.6 million, ₱5,433.1 million, and ₱7,792.5 respectively, with resulting net income of ₱1,704.5 million, ₱2,183.7 million, and ₱3,309.1 million respectively.

The following table outlines the contribution of the subsidiaries of the Company to its consolidated revenues and net income:

| | **2012** | | **2013** | | **2014** | |
|---|---|---|---|---|---|---|
| **Subsidiary** | ***Revenue*** | ***Net Income*** | ***Revenue*** | ***Net Income*** | ***Revenue*** | ***Net Income*** |
| 8990 HDC | 84.53% | 83.82% | 67.01% | 53.12% | 38.49% | 28.59% |
| 8990 Luzon | 4.14% | 4.16% | 16.29% | 9.95% | 33.39% | 30.28% |
| 8990 Mindanao | 0.00% | -0.01% | 0.00% | 14.44% | 0.00% | 8.91% |
| 8990 Davao | 0.00% | -0.04% | 0.35% | 0.09% | 18.35% | 17.93% |
| 8990 Leisure | 0.00% | -0.01% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fog Horn | 11.33% | 12.08% | 16.36% | 22.41% | 9.76% | 14.29% |

## COMPETITIVE STRENGTHS

The Company considers the following to be its principal competitive strengths:

***Favorable market and industry demographics of the Mass Housing sector.***

The Company believes that the Mass Housing sector has shown favorable market demographics in recent years and will continue to do so in the medium- to long-term. Consistent with steadily expanding GDP and rising consumption and spending domestically, the Company believes that the growing Philippine workforce is primarily comprised of young individuals with regular cash flows, which will drive continued expansion and growth in the Philippine housing sector. According to HLURB, from 2001 to 2011, a total of 1,263,924 Mass Housing units were built; during this same period, however, the backlog for new Mass Housing units was approximately 3,087,520 units. In addition, according to the SHDA/CRC Report (based on data from HLURB, HUDCC, United Nations World Population Prospects and the National Statistics Office of the Philippines), by 2030 the total housing need in the Philippines is expected to increase to approximately 6.3 million units, largely driven by the demand for Mass Housing units at approximately 4.8 million units.

The Company believes that it is squarely positioned to capitalize on the existing housing need and growing demand for Mass Housing in the Philippines. This is borne out by the Company's attractive business model of quick construction and roll-out of quality finished houses with affordable monthly amortizations. The Company typically rolls out its horizontal housing developments in phases of up to 200 houses, with a typical phase being completely rolled out after around two months from start of construction. While construction is ongoing, the Company also simultaneously conducts its marketing and sales campaigns, including reservation and processing of homebuyer applications. Given that the Company is serving a need-based market segment within which there is significant demand for housing supply, a substantial number of units are pre-sold prior to completion of construction. This has resulted in strong sales growth recorded by the Company in recent years.

***Leading Mass Housing developer with established track record and brands for the underserved Mass Housing segment.***

The Company is the largest Mass Housing developer in the Philippines in terms of units licensed under B.P. 220 from 2011 to 2013, according to HLURB. In 2003, the Company launched its projects under the DECA Homes brand. As of March 31, 2015, the Company has completed 27 Mass Housing projects and is developing another ten Mass Housing and MRB projects. Across these completed and ongoing projects, the Company has, since 2003, sold more than 29,800 units, with approximately 19,000 additional units available for development and sale from ongoing projects. As a result of this track record, the Company has built a reputation of providing quality and affordable homes to consumers in the fast-growing Philippine Mass Housing market, resulting in the Company garnering numerous awards such as Q Asia Magazine's Best Housing Developer for 2012 to 2013.

The Company believes that it is one of the few developers dedicated to serving the housing needs of the Mass Housing segment throughout the Philippines, with most of its direct competitors being smaller regional developers with limited geographical coverage. This has allowed the Company to build significant nationwide brand equity for its DECA Homes and Urban DECA Homes brands across its target market and also achieve economies of scale from its operations.

***Customer-focused product and payment scheme best suited for the Mass Housing market, coupled with effective collection and risk management policies.***

The Company believes that its industry experience has equipped it and its management with in-depth knowledge and understanding of the needs, preferences, means and constraints of the Mass Housing segment customer base. The Company continuously undertakes demographic analysis of its customer base, which helps in developing products and payment schemes that are in line with the needs and lifestyles of its target customers. The Company believes that sustainable affordability is critical in serving the Mass Housing segment. Accordingly, the Company tailors the house area, lot area and locations of its developments to deliver housing products where the monthly amortization payments are affordable for its target customers when compared to monthly rental payments for comparable housing units, hence allowing a smooth transition from home rental to ownership. Furthermore, the Company's innovative CTS Gold financing program typically requires a relatively small upfront payment (normally 2% of the purchase price of the unit, compared to approximately 10% to 20% equity down payment generally required by other developers). This allows home buyers to purchase and move into a house without material effect on their savings. Fast and efficient processing under the CTS Gold financing program, combined with the Company's pre-cast construction process, translates into the ability to deliver units to customers within a short time frame. This combination of market knowledge, technical expertise and customer understanding results in a compelling proposition for the Company's target Mass Housing segment, which is primarily driven by end-user demand.

To complement and support the CTS Gold financing program, the Company has developed a comprehensive collection platform comprising policies, structures, systems, organizations and mechanisms focused on collection efficiency and the mitigation of payment delinquency. The Company proactively approaches customer credit management, beginning at the point prior to actual sale by conducting in-house seminars/lectures covering key topics related to purchasing a housing unit such as documentary requirements, payment structure and credit and legal obligations connected with the housing unit purchase. The Company has also implemented a comprehensive credit verification process for all potential buyers looking to purchase housing units under the in-house CTS Gold program, which includes a rigorous and systematic documentation approval process. In addition, the Company is able to leverage on its previous experience as collection agent for Pag-IBIG in formulating and implementing highly effective collection processes, including discontinuing the supply of certain utilities to the unit and/or disallowing certain privileges with respect to use of the Company's facilities in the developments. This has resulted in the Company recording estimated collection efficiency rates, defined as amount collected out of current amount due, of over 93% since 2011, with an estimated efficiency rate of 93% in 2013 and 93% in 2014. Moreover, the Company believes that, in part as a result of its collection processes, of the customer accounts which become delinquent, approximately half become active again within three months of default. For the remaining half of the delinquencies that ultimately result in default, the Company is able to regain possession and typically resell the property in due time.

***Market innovations with respect to construction processes, which translates into efficiencies and cost-savings.***

The Company has continually invested in innovation to update its building processes and minimize wasted materials while at the same time maintaining the quality of its products and rapid completion of housing units. To this end, the Company has developed its own unique building system that makes use of a pre-cast construction process, enabling the Company to construct and complete housing units and MRBs in a cost- and time-efficient manner without compromising the quality and standards of the housing units being turned over to its customers. The utilization of this pre-cast construction process on-site, as opposed to traditional building methods, likewise results in significant cost reduction for the Company, particularly on labor costs. The Company believes that these factors help it to achieve and maintain healthy profit margins. Since pre-cast is manufactured in a controlled casting environment, it is easier to control the mix, placement, and curing; hence, quality can be monitored easily and wastage, typically a large cost for those still utilizing traditional construction methods, is significantly reduced. The Company sources cement from the largest cement manufacturers, which it then blends in-house, together with other additives in specific proportions, to create its proprietary concrete blend. This concrete mix has a faster curing time than standard concrete mixes, which allows for faster setting of pre-cast molds, resulting in panels that can withstand approximately four times as much pressure per square inch than traditional cinder block structures. For instance, the recent 7.2 magnitude earthquake which affected Cebu and Bohol tested the structural strength and quality of the Company's projects in the area. The Company commissioned an independent structural engineer to inspect the units in its affected projects and the inspection indicated that there was only minor superficial damage and that the units remained structurally stable and fit for occupancy. Through the use of this process, the Company is able to construct townhouses and single attached units in just eight (8) to ten (10) days with an additional five days for single-storey houses with lofts.

The Company continuously improves and refines this process and has mastered its efficient implementation in the field. This construction process is highly scalable and, as such, enables the Company's high levels of growth.

***Strong relationships with key housing and shelter agencies.***

The Company, through its Subsidiaries and Principals, has been recognized by key Government shelter agencies with respect to its success in the industry. In particular, the Company was recognized by HLURB as the developer with the most number of subdivision units licensed under B.P. 220 from 2011 to 2013. In addition, the accreditation of the Company's projects with the Board of Investment under the Investments Priorities Plan ("IPP") allows each accredited project to enjoy certain tax incentives.

These recognitions demonstrate that the Company has a good reputation and working relationship with key Government agencies that are essential to any success in the Mass Housing development industry. Pag-IBIG serves as the primary Government housing financial assistance program in the Philippines, with a statutory mandate to provide financial assistance for the housing requirements of its members and allot not less than 70% of its available funding for deployment of housing loans to qualified buyers. The Company closely coordinates with Pag-IBIG to increase the efficiency in Pag-IBIG's take-up of the Company's contracts-to-sell under its CTS Gold in-house financing scheme.

The Company has also voluntarily submitted a proposal for it to be recognized as an authorized collection agent by Pag-IBIG for its home buyers, thus lessening the manpower needed by Pag-IBIG to follow up and keep accounts current.

***Experienced management team with extensive expertise in Mass Housing development.***

The Company prides itself in having an experienced management team under the leadership of Mr. Luis Yu, Jr. (Chairman Emeritus and Founder), Mr. Mariano Martinez, Jr. (Chairman of the Board) and Mr. Januario Jesus Gregorio III B. Atencio (President and CEO), who each have extensive experience and in-depth knowledge of the real estate business, particularly in the Mass Housing market, and span an aggregate of over 80 years in the industry. The three principals believe that they have, between them, developed over 80 subdivisions and constructed over 70,000 housing units on an aggregate of over 850 hectares in major cities such as Cagayan de Oro, Cebu City, Davao City and Metro Manila. In addition, they have also developed, over the years, positive relationships with key market participants, including construction companies, regulatory agencies, local Government agencies and banks. Mr. Yu carries with him over 30 years of experience in the Mass Housing business. Mr. Martinez has over three decades of experience in the Mass Housing industry and was once the National President of the Subdivision and Housing Development Association ("SHDA"), the largest national organization of subdivision and housing developers in the Philippines with over 200 members. Mr. Atencio brings with him over two decades of experience in the development of Mass Housing projects across the country. Furthermore, he has also been the National President of the SHDA and currently serves on the Board of Governors of the SHDA and as a private sector representative to the Housing and Urban Development Coordinating Center, the highest policy making body for housing in the Government.

**KEY STRATEGIES**

The Company's overall business strategy, and the key to its current and past success in the Mass Housing industry, is to deliver with speed and quality the right products (a DECA Homes house or Urban DECA Homes MRB unit) to its target customers, mainly comprising low to middle income earners able to afford a monthly amortization payment of approximately ₱2,800 (the estimated amortization for a ₱450,000 loan for a Socialized Housing unit with 6% annual interest rate for the first year and a 25-year amortization schedule) to ₱10,000 (the estimated amortization for a ₱1,250,000 loan with 8.5% annual interest rate and a 25-year amortization schedule) under the Company's in-house financing program, at the right price range (the estimated amortization for a ₱450,000 to ₱1.25 million per housing/condominium unit).

To further build on its competitive strengths and allow further expansion of its business, the Company is looking to undertake the following:

***Increase existing coverage and expand geographically.***

The Company intends to further grow its existing Mass Housing revenue base. To accomplish this, the Company intends to (1) increase the number and variety of projects in the cities in which it currently has existing developments, as well as to (2) geographically expand into new cities. For example, the Company plans to bring to Metro Manila the Urban DECA Homes low-cost MRB concept that they were able to successfully launch and implement in the Mandaue City, Metro Cebu urban environment. The Company is also currently in the process of identifying sites for projects targeting Metro Manila commuters.

***Continue to support Mass Housing home ownership via innovative financing products.***

The Company seeks to promote increased home ownership in the Mass Housing segment in part by continuing to develop financing products tailored to the specific needs, requirements and financial situation of Mass Housing customers. In particular, the Company intends to seek ways to improve on and further provide flexibility to its CTS Gold financing program, an innovative product developed using the Company's experience in the Mass Housing segment, which allows home buyers to move into their chosen homes after a low down payment and provides affordable monthly amortizations.

***Continue to replenish land bank for development.***

The Company plans to continue to explore opportunities to replenish its land bank for future developments, selectively acquiring parcels and properties that meet its requirements for potential projects. The Company aims to seek out properties located in close proximity to public transportation terminals and major thorough-fares in cities, and also seeks to locate suitable project sites near developing business centers and high growth communities across the Philippines.

***Continue to diversify into new product types.***

The Company plans to supplement its subdivision and MRB offerings by launching two high-rise condominium projects under the brand "Urban DECA Towers" in the highest density urban areas of Metro Manila. This concept involves the construction and sale of condominium units that are half the size (i.e. approximately 13 sq. m.) of typical studio apartments. This project is envisioned to provide a weekday lodging for low-to-mid-income commuters who typically have to endure two to four hours of daily travel time and spend up to ₱5,000 each month in transportation costs traveling between their inner-city places of work and their homes in the outlying neighborhoods of Metro Manila. Key to the success of this concept is the up to ₱7,000 per month price point that works for the Company's low- to mid-income customers, coupled with the savings in transportation time and costs that would accrue to the condominium buyers.

***Attain increased efficiencies in all facets of its operations and processes.***

The Company will seek to improve its construction efficiencies in part by adding more mechanization and by standardizing the sizes of its building components. The Company will also seek to further improve collections by updating its customer qualification process and improving its delinquency remedial measures. In pursuing these items, the Company believes that it will be able to lower operating costs even further and improve its operational efficiency.

## HISTORY AND CORPORATE REORGANIZATION

### History

The Company was incorporated and registered with the Philippine SEC as "IP Converge Data Center, Inc." on July 8, 2005. At the time, the Company was principally engaged in the information technology and telecommunications business and provided data services. Subsequent to the events set out in "– Corporate Reorganization", the Company ceased operating as a data services provider and began operating as a holding company. Its shares were initially listed on the PSE on October 20, 2010.

The Company, through its Subsidiaries, is the largest Mass Housing developer in the country that operates with a nation-wide scope in terms of units licensed under B.P. 220 from 2011 to 2013, according to HLURB. The Company's primary purpose is to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures.

The Company, through its Subsidiaries, developed its first Mass Housing project in 2003 in Minglanilla, Cebu, which is on the outskirts of the Metro Cebu urban area. As of March 31, 2015, it has completed 24 projects comprising approximately 28,000 housing units. The Company has completed projects in Luzon (Angeles), Visayas (several cities and municipalities in Cebu Province and Iloilo), and Mindanao (Davao).

### Corporate Reorganization

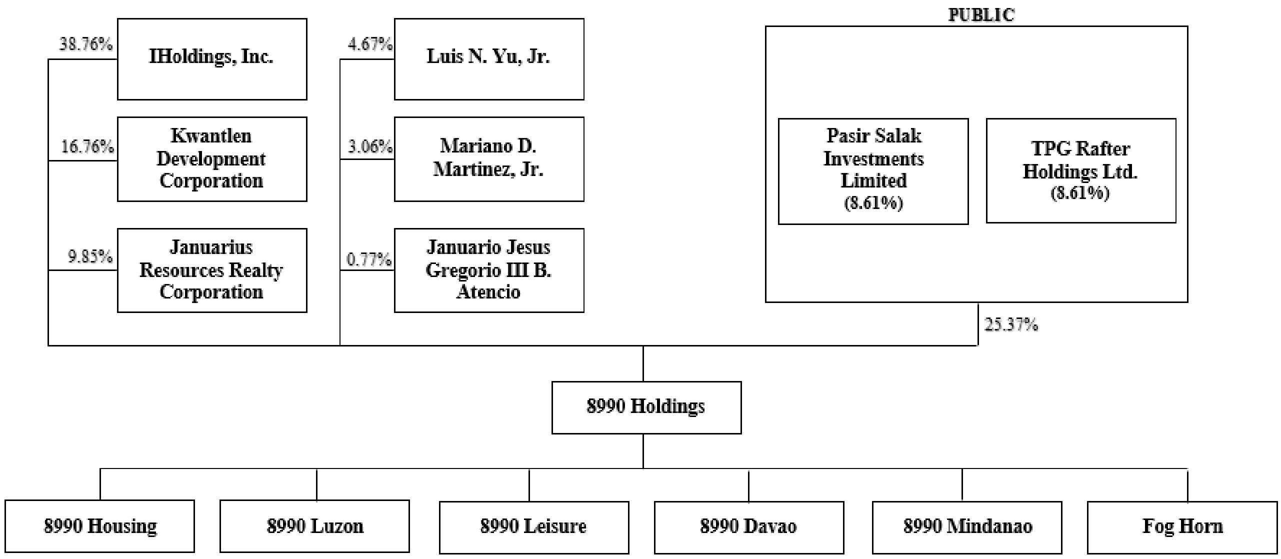
On May 15, 2012, IHoldings, Januarius, and Kwantlen purchased 79.5% of the outstanding capital stock of the Company from certain stockholders of the Company. In compliance with the SRC and the IRRs, a tender offer for all other remaining shares of the Company was conducted, the terms and conditions of which were disclosed through the Tender Offer Report dated June 19, 2012. Following the lapse of the tender offer period on July 19, 2012, during which no stockholder tendered any shares, a Final Tender Offer Report dated August 2, 2012 was filed with the Philippine SEC.

On May 29, 2012, prior to the closing of the sale referred to above, the Company transferred all of its assets to IPCDSI and subsequently transferred all of its equity interest in IPCDSI to its parent company at the time, IPVI, and consequently became a shell company.

On July 25, 2012, pursuant to the sale transaction discussed in the immediately preceding paragraph, IPVI and IEI transferred a total of 136,400,000 shares of the Company to IHoldings, Januarius and Kwantlen through the facilities of the PSE. As a result, IHoldings, Januarius and Kwantlen acquired ownership and control over 61.4% of the Company's total outstanding capital stock. The remaining 40,000,000 shares of the Company acquired pursuant to the sale were transferred through the PSE immediately upon the lapse of the lock-up period applicable to said shares or on November 12, 2014.

On May 6, 2013, the Company acquired all of the outstanding shares in the Subsidiaries from their respective shareholders under a Deed of Exchange dated May 6, 2013, as amended and supplemented on June 8, 2013 and, in exchange, agreed to issue a total of 3,968,357,534 shares from the increase of the Company's authorized capital stock in favor of the Subsidiaries' majority shareholders at the time. Consequently, under a private placement transaction and to ensure continued compliance with Philippine minimum public ownership requirements of the PSE, the Company applied with the Philippine SEC to: (i) increase its authorized capital stock to accommodate the foregoing issuance; (ii) change the primary purpose of the Company into a financial holding company; and (iii) change its corporate name to "8990 Holdings, Inc.". The SEC approved the application for the foregoing on October 1, 2013.

The following chart illustrates the Company's material shareholders and Subsidiaries as of March 31, 2015. For a detailed breakdown of the Subsidiaries, see "– Subsidiaries."




## REAL ESTATE DEVELOPMENT PROJECTS

Through its Subsidiaries, the Company currently undertakes two types of real estate development projects: (i) horizontal residential subdivisions; and (ii) MRB residential complexes. The table below presents the components of the Company's consolidated revenue associated with its business segments for the periods indicated.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | *(₱ in millions)* | | |
| Low-cost Mass Housing ........... | 3,702.8 | 4,666.5 | 6,740.7 |
| MRB condominium units ......... | 33.3 | 559.8 | 789.2 |
| Hotel/timeshare buildings(1) | 94.5 | 129.8(2) | 184.4 |
| **Total.........................................** | 3,830.6 | 5,356.1 | 7,714.3 |

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | *(number of housing units sold)* | | |
| Low-cost Mass Housing ........... | 4,070 | 5,114 | 6,476 |
| MRB condominium units ......... | 37 | 573 | 715 |
| **Total.........................................** | 4,107 | 5,687 | 7,191 |

*Notes:*

*(1) See "Summary - Recent Developments- Sale of Timeshare Business". On August 1, 2014, the Company ceased timeshare selling as the property related to the timeshare business has been sold.*

*(2) Includes ₱12.9 million of adjustments and eliminations.*

The Company believes it is in material compliance with applicable regulatory requirements, including permits and licenses which are necessary to its business operations, the failure to possess any of which would have a material adverse effect on the business and operations of the Company.

**Horizontal Residential Subdivisions**

The Company sells housing unit models under its DECA Homes brand in horizontal Mass Housing development projects. These residential subdivisions are typically located in the outskirts of major metropolitan areas nationwide (apart from Metro Manila).

Within these subdivisions, the Company constructs three types of housing unit models:

- Single-storey – a single-floor residential unit built in a row of four of more units joined by common sidewalls
- Single-storey with loft – a residential unit which is situated on its own or in a separate lot without sharing any walls with another home or building; it includes a loft
- Townhouse – a two-storey residential unit built in a row of four or more units joined by common sidewalls

Floor areas typically range from 35 sq. m. to 60 sq. m. Typical unit prices range from ₱450,000 to ₱1,250,000. Typical lot areas range from 35 sq. m. to 120 sq. m.

Developed subdivisions have the following common facilities: concrete roads, sidewalk with curbs and gutters, underground drainage system, centralized water system, power system, gated entrance with security personnel and perimeter fence. In addition to the foregoing facilities standard to all subdivisions, some projects feature one or more of the following leisure facilities: wakeboard park, swimming pool, basketball court, clubhouse/multi-purpose hall, church and commercial market. Certain larger projects have an area designated for commercial businesses.

As of March 31, 2015, the Company has completed 24 horizontal residential subdivisions comprising approximately 28,000 units.

**Medium-rise Residential Buildings**

The Company also develops low-cost residential complexes of MRBs under the Urban DECA Homes brand. An MRB is a walk-up building of four to five stories or an elevator-equipped building of eight to 12 stories. These MRBs are located in central areas of highly urban locations (i.e. Metro Manila, Metro Cebu, Davao) within walking distance of major public transportation routes. The Company is currently developing its first MRB Mass Housing project in Mandaue City in the province of Cebu. The Company also has plans to develop similar MRB projects in select urban areas in Metro Manila.

The floor area for an MRB unit is approximately 25 sq. m. Unit prices range from ₱800,000 to ₱1,250,000.

MRB complexes have the following common facilities: concrete roads, sidewalk with curbs and gutters, underground drainage system, centralized water system (hooked up to public utility providers), power system, cable and telephone lines, gated entrance with security personnel and perimeter fence. In addition to the foregoing, MRB complexes have on-site leisure facilities such as a swimming pool, basketball court, clubhouse/multi-purpose hall and/or a park.

As of March 31, 2015, the Company has completed 20 MRBs within its first MRB project, comprising an aggregate of 1,520 units and completed 13 MRBs on its second MRB project comprising an aggregated of 988 units.

**High-rise Residential Buildings**

The Company has ventured into high-rise condominium projects under the brand Urban DECA Towers in the highest density urban areas of Metro Manila. This concept involves the construction and sale of condominium units that are half the size (approximately 13 sq. m.) of typical studio apartments. A unit would have a bathroom and a combination sleeping/living/dining area suited for occupancy by a single person or a couple. Each unit would cost around ₱875,000, which equates to initial monthly amortization payments of around ₱7,000 under the Company's CTS Gold Convertible in-house financing product (with typical 25-year term, 8.5% fixed annual interest rate subject to adjustment after fourth year). The lower floors of the building would contain common areas (i.e. gym, living-room style lobby, function rooms, etc.) and commercial shopping/dining areas. The buildings are intended be situated in dense urban neighborhoods with easy access to major transportation routes/facilities and within easy distance of major white-collar employment centers (i.e., central business districts).

Making use of the "Micro Living" concept, Urban DECA Towers is envisioned to provide weekday accommodation for low- to mid-income commuters who typically have a two- to four-hour daily commute and spend up to ₱5,000 each month in transportation costs traveling between their places of work and homes in the outlying neighborhoods of Metro Manila. Key to the success of this concept is the ₱7,000 per month or lower amortization price point that has proven to work with the Company's low- to mid-income customers, coupled with the savings in transportation time and costs that would accrue to the condominium unit buyers.

**Summary of Projects**

The tables below summarize the status of the various completed and ongoing projects the Company has under its various Subsidiaries as of May 23, 2015:

**List of Projects**

| | Project Name | Location | Type | Year Started | Year Completed | No. of Units | Units Sold |
|---|---|---|---|---|---|---|---|
| **I. Completed Projects** | | | | | | | |
| 1 | Deca Homes Danao 2 & 3 | Cebu | Horizontal | 2006 | 2009 | 322 | 322 |
| 2 | Deca Homes Mactan 1 | Cebu | Horizontal | 2005 | 2008 | 679 | 679 |
| 3 | Deca Homes Mactan 2 | Cebu | Horizontal | 2006 | 2009 | 162 | 162 |
| 4 | Deca Homes Mactan 3 | Cebu | Horizontal | 2008 | 2011 | 473 | 473 |
| 5 | Deca Homes Mactan 4 | Cebu | Horizontal | 2009 | 2013 | 1,245 | 1,245 |
| 6 | Deca Homes Mactan 5 | Cebu | Horizontal | 2009 | 2013 | 1,200 | 1,200 |
| 7 | Deca Homes Tunghaan | Cebu | Horizontal | 2005 | 2009 | 381 | 381 |
| 8 | Deca Homes Minglanilla | Cebu | Horizontal | 2003 | 2010 | 2,494 | 2,494 |
| 9 | Deca Homes Commercial | Cebu | Horizontal | 2005 | 2009 | 25 | 25 |
| 10 | Minglanilla Homes | Cebu | Horizontal | 2010 | 2012 | 187 | 187 |
| 11 | Deca Homes Davao | Davao | Horizontal | 2006 | 2012 | 1,685 | 1,685 |
| 12 | Deca Homes Talisay | Cebu | Horizontal | 2011 | 2012 | 1,039 | 1,039 |
| 13 | Deca Homes Pavia | Iloilo | Horizontal | 2009 | 2012 | 976 | 976 |
| 14 | Savannah Green Plains | Angeles | Horizontal | 2006 | 2013 | 2,697 | 2,697 |
| 15 | Deca Homes Mandaue Prime | Cebu | Horizontal | 2008 | 2013 | 912 | 912 |
| 16 | Bon Giorno Homes Subd. | Lipa | Horizontal | 2010 | 2012 | 384 | 384 |
| 17 | Deca Homes Pavia 2 | Iloilo | Horizontal | 2013 | 2014 | 884 | 884 |
| 18 | Deca Homes Baywalk Talisay 2 | Cebu | Horizontal | 2013 | 2014 | 881 | 881 |
| 19 | Urban Homes Tipolo | Cebu | MRB | 2012 | 2015 | 1,540 | 1,540 |
| | **TOTAL** | | | | | **17,844** | **17,844** |
| **II. Ongoing Projects** | | | | | | | |
| 1 | Urban Homes Tisa 1 Cebu | Cebu | MRB | 2014 | 2016 | 2,800 | 72 |
| 2 | Deca Homes Cebu (Guadalupe) | Cebu | Horizontal | 2015 | 2016 | 408 | - |
| 3 | Deca Homes Esperanza | Davao | Horizontal | 2009 | 2015 | 2,072 | 2,041 |
| 4 | Deca Homes Resort Residences | Davao | Horizontal | 2007 | 2015 | 7,381 | 6,374 |
| 5 | Deca Homes Indangan | Davao | Horizontal | 2013 | 2016 | 3,427 | 1,652 |
| 6 | Deca Homes Pavia Resort Residences | Iloilo | Horizontal | 2015 | 2016 | 4,500 | 437 |
| 7 | Deca Homes Bella Vista | Cavite | Horizontal | 2013 | 2015 | 3,881 | 2,601 |
| 8 | Deca Homes Marseilles | Cavite | Horizontal | 2014 | 2015 | 466 | 457 |
| 9 | Deca Clark Residences & Resort | Angeles | Horizontal | 2012 | 2015 | 4,837 | 1,022 |
| 10 | Urban Deca Towers | Mandaluyong | High Rise | 2014 | 2017 | 1,048 | 139 |
| 11 | Urban Deca Homes Campville | Muntinlupa | MRB | 2015 | 2017 | 1600 | - |
| | **TOTAL** | | | | | **32,420** | **14,795** |
| | **GRAND TOTAL** | | | | | **50,264** | **32,639** |

## Pipeline Projects

| | Project | Location | Type | (Target) Start Date | Target Completion | No of Units | Units Constructed | % Completion |
|---|---|---|---|---|---|---|---|---|
| | | | | L U Z O N | | | | |
| 1 | Deca Homes Marseilles | Imus, Cavite | Economic | 2014 | 2015 | 426 | 15 | 3.52% |
| 2 | Urban Deca Tower Edsa | Edsa, Mandaluyong | High Rise | 2014 | 2016 | 1,148 | 0 | 10% |
| 3 | Urban Deca Homes Campville Muntinlupa | Brgy. Cupang Muntinlupa | MRB | 2014 | 2016 | 1,068 | 0 | 2% |
| 4 | Deca Homes Tanza | Tanza, Cavite | Socialized | 2015 | 2015 | 594 | 0 | 2% |
| | | | | V I S A Y A S | | | | |
| 5 | Deca Homes Our Lady of Guadalupe | Guadalupe, Cebu | Economic | 2014 | 2015 | 393 | 0 | 2% |
| 6 | Urban Deca Homes Tisa | Tisa, Cebu | MRB | 2014 | 2018 | 936 | 0 | 15% |
| | | | | I L O I L O | | | | |
| 7 | Deca Homes Pavia Resort Residences Ph 1 | Pavia, Iloilo | Economic | 2014 | 2019 | 2,759 | 0 | 2% |
| | | | | M I N D A N A O | | | | |
| 8 | Deca Homes Resort Residences Phase 11 | Brgy Tugbok, Davao | Economic | 2015 | 2015 | 109 | 0 | 2% |
| 9 | Deca Homes Resort Residences Prime | Brgy Tugbok, Davao | Economic | 2015 | 2015 | 217 | 0 | 2% |
| 10 | Deca Homes Catalunan Grande | Catalunan Grande, Davao City | Economic | 2015 | 2016 | 720 | 0 | 2% |
| 11 | Deca Homes Indangan Ph 3 & 4 | Indangan, Davao City | Economic | 2015 | 2017 | 1,905 | 0 | 2% |
| | **TOTAL** | | | | | **10,275** | | |

**PROJECT DEVELOPMENT AND CONSTRUCTION**

**Land Acquisition**

The following table summarizes the various project sites that the Company has identified for acquisition as of March 31, 2015:

| Location/Description | Land Bank Size (hectares) | Target Start Date | Target Completion Date | Units Available |
|---|---|---|---|---|
| Marilao | 93 | 2015 | 2020 | 7,800 |
| Bacolor, Pampanga | 26 | 2019 | 2020 | 4,250 |
| Alabang Zapote Road | 1.4 | 2018 | 2020 | 3,250 |
| Tipolo | 0.5 | 2019 | 2020 | 2,900 |
| Bacolod | 15.78 | 2018 | 2020 | 4,000 |
| Davao | 103 | | | |
| Total................................. | **223.9** | | | **22,200** |

Funding for the foregoing and future land acquisitions as well as for the development of those already acquired will be sourced primarily from bank financing and/or internally-generated funds.

Offers for properties to the Company for land acquisition and/or joint ventures begins with the Company making a marketability determination of the location of the property, based on the intended development. The Company has developed specific procedures to identify land that is suitable for its needs and performs market research to determine demand for housing in the markets it wishes to enter. These factors include:

- the general economic condition of the environment surrounding the property;
- suitable land must be located near areas with sufficient demand or that the anticipated demand can justify any development;
- the site's accessibility from nearby roads and major thoroughfares;
- the availability of utility infrastructure, such as electric transmission facilities, telephone lines and water systems; and
- the overall competitive landscape and the neighboring environment and amenities.

The Company also considers the feasibility of obtaining required governmental licenses, permits and authorizations, as well as adding necessary improvements and infrastructure including sewage, roads and electricity.

If the property passes the initial procedure, the Company then conducts due diligence on the property. The evaluation process focuses on the following major factors:

- legal documents (e.g. title) related to the property;
- property valuation;
- geographic location (i.e. proximity to public transportation);
- technical characteristics of the property (e.g., location of fault lines); and
- other factors impacting the suitability and feasibility of developing future projects.

Before the Company acquires land, it conducts extensive checks on both the owner and the land itself, with a particular focus on the veracity or validity of the title covering the land and whether it can be traced back to the original judicial decree granting title over the land. As and when needed, the Company also engages third parties, such as surveyors and engineers, to verify that the land it seeks to acquire is consistent with the technical description of the title. The Company also conducts its own valuation of the property based on, among other factors, other similar properties in the market and an assessment of the potential income derivable from any development suitable for the property. The Company also conducts engineering and environmental assessments in order to determine if the land is suitable for construction. The land must be topographically amenable to housing development. There are no material third party claims to the land titles covering the project sites of the Company as identified above which would have a material adverse effect on the business and operations of the Company.

After the second stage is passed, the Company then determines the fair price and terms for the acquisition and then negotiates with the land owner for the purchase.

**Site Development and Construction**

Once the land for a project site has been acquired by the Company, site development and construction work for the Company's projects is contracted out to qualified and accredited independent contractors. The Company's accreditation procedure takes into consideration each contractor's experience, financial capability, resources and track record of adhering to quality, cost and time of completion commitments. The Company primarily contracts the Lasvazmun group of companies (consisting of Lasvazmun Homes, Inc. and Las Caerus Homes, Inc.) for construction work in Luzon, Iloilo and some parts of Cebu and the Conmax group of companies (consisting of Conmax Inc. and Creofab Inc.)for construction work in Davao and other parts of Cebu. Formal arrangements with both groups have been in effect since 2011, ensuring that both contractors are exclusive to the Company only. The Company maintains relationships with many contractors for land development, including CGA Prime Builders Corporation, El Eloha Construction, Lasvazmun Homes, Inc., Las Caerus Homes, Inc., Conmax Inc., Creofab Inc., Panico Construction and Square 8. Typically, these contractors are paid approximately 20% to 25% initially as down payments, with 65% to 70% paid on a turnkey basis and the remaining 10% paid after three months, retained as coverage for any faults.

The Company builds its horizontal subdivision units in five steps: (1) casting, (2) foundation preparation, (3) assembly, (4) roofing and retouching, and (5) finishing and detailing:

1. Construction begins with the casting process, which comprises setting molds and pre-casting the walls and ceiling slabs near the actual project site. The Company's pre-casting process utilizes the proprietary concrete mix developed by the Company internally, which produces concrete slabs that are approximately four times stronger than typical concrete slabs used in the Philippines and dry in approximately 22 hours (compared to 21 days for standard casting).

2. Simultaneously, the foundation at the site is prepared and laid, comprising laying down reinforcing bars and allocations for wiring and pipes, setting hooks for the assembly stage and pouring the concrete mixture. This phase is completed in one day.
3. At the assembly stage, cranes are used to lift the pre-cast components and erect the components in the foundation that is prepared while casting is still in progress. The ends of the components are welded together. This process also takes one day.

4. Roofing and retouching involves the addition of steel beams to support the roof, installation of the roof, and the retouching of rough edges in the concrete structure. This stage takes two to three days to complete.

5. Lastly, finishing and detailing takes four to five days to complete and involves smoothing out the walls, floors and ceilings of the unit, applying paint, and installing doors, windows, and electrical and plumbing fixtures.

The Company currently has capacity to develop up to 12,900 units annually. The Company can further expand its capacity by increasing the number of its pre-fabrication molds, without requiring significant additional investments in time or resources.

Having developed the processes used in the construction of its projects, the Company trains its contractors on these topics. The Company also sends its engineers to oversee critical functions in project construction to ensure the quality of work of its contractors.

**IN-HOUSE FINANCING**

The Company offers in-house financing to qualified borrowers who purchase housing units through its CTS Gold loan financing product. CTS Gold is divided in two categories, namely:

- CTS Gold Convertible – CTS Gold Convertible carries a fixed rate of 8.5% per annum and is intended for Pag-IBIG take-up. The 8.5% per annum interest rate is fixed for the first four years and is subject to re-pricing at the end of fourth year, with the increase not to exceed 3% per annum. The interest rate re-pricing shall be subject to review thereafter, taking into account factors such as inflation and the prevailing market rates. In the event that Pag-IBIG take-up does not happen at the end of the fourth year, the interest rate under the CTS Gold Convertible automatically increases to 11.5% per annum until maturity. The terms of CTS Gold Convertible generally match Pag-IBIG requirements for similar loans.

- CTS Gold Straight – Under the CTS Gold Straight product, interest rate is 11.5% per annum and is not intended for Pag-IBIG take-up.

As of December 31, 2014, the Company estimates that approximately 90% of its in-house financing is under CTS Gold Convertible while the other 10% is under CTS Gold Straight.

Loan approval for the Company's in-house financing is based on capacity to pay. Anticipated amortization should constitute no more than 40% of the applicant's net disposable income during the same period. To substantiate claims of income (after statutory deductions and personal loans), the Company conducts a background investigation and examines other relevant documents such as certificate of employment and compensation, pay slips, other sources of income supported by bank account statements, contract of employment for OFWs, proof of remittance and income tax returns. Should any single individual applicant not meet this requirement, such applicant may add up to three individuals and apply as co-borrowers whose income is then measured on a combined basis.

Prospective homebuyers are required to attend three in-house seminars/lectures that cover topics such as the Company, its products and various projects, documentary requirements needed in purchasing a housing unit from the Company, manner of payment, repayment obligations, homeowners' responsibilities, etc.

The Company typically rolls out its projects in phases (approximately 200 units per phase for horizontal housing projects).

For residential projects, the buyer is expected to pay approximately 2% of the purchase price as down payment, either immediately or within two months of signing.

Principal repayment occurs through monthly amortizations over a maximum of 25 years. The title is transferred to the buyer only after full payment of the equity and principal amounts are made to the Company by either the buyer or by Pag-IBIG.

## LIQUIDITY MANAGEMENT

### Financing Options

*Pag-IBIG Transfer*

The Company may enter into take-out arrangements with Pag-IBIG as needed, where it transfers its CTS Gold Convertible receivables, typically within four years of the loan commencement period, subject to the Company's requirements. In 2014, the Company was able to take out ₱1,777.3 million worth of receivables from Pag-IBIG Fund. The acceptance or rejection of a CTS receivable by Pag-IBIG is based on certain guidelines such as employment, number of contributions made by the homeowner/Pag-IBIG member and net disposable income, among other factors. As a result of the Company's CTS Gold Convertible requirements mirroring those of Pag-IBIG's, the Company estimates that substantially all of its historic requests for take-outs have been accepted by Pag-IBIG. However, in the event that a material number of take-up applications are delayed or even denied, the Company's cashflow and recognized revenues could be materially affected. Moreover, the conversion into cash of the Company's CTS receivables as a result of take-ups by Pag-IBIG also affects the Company's results of operations. As a greater amount of CTS receivables are converted pursuant to the Company's take-up arrangements, the Company's finance income and receivables decrease while its cash balances correspondingly increase.

*Other Receivables Management Options*

In addition to its receivables take-up arrangements with institutions such as Pag-IBIG, the Company also regularly adopts other measures to manage its level of receivables from its housing sales, as well as to generate cash necessary for operations. For example, from time to time, the Company enters into loan arrangements with banks against its receivables portfolio as collateral. The Company has begun to explore possible securitization transactions with respect to its receivables portfolio. In addition, the Company is also considering the sale of its receivables to banks and other financial institutions on a non-recourse basis. The success of any of these receivable management measures, depending on the amount involved and terms agreed, may affect the Company's results of operations in terms of its liquidity and the levels of its receivable assets.

## CREDIT AND COLLECTION

The Company has a credit and collection team which is in charge of handling the amortization payments of buyers. The team is responsible for the timely collection of payments, depositing of post-dated checks and the eventual remittance of payments to the Company's treasury group and undertaking remedial measures for delinquent accounts. The Company has also developed a comprehensive collection platform comprising policies, structures, systems, organizations and mechanisms focused on collection efficiency and the mitigation of payment delinquency.

The Company's credit and collection team is composed of 46 permanent employees organized per area of operation. Of the 46, six are managers in charge of North Luzon, South Luzon, Cebu, Iloilo, and Davao, while 40 are employees functioning as remittance officers, frontline customer service officers and site collection officers. The team is supported by 30 contractual employees who serve as collection officers in the various projects nationwide. These collection officers ensure enforcement of the Company's credit and collection policies. In addition, the services of five law firms have been retained by the Company to handle the legal side of collection, including the sending of demand letters, notices of cancellation and the eventual eviction of the delinquent borrower.

*Submission of Check Payments*

Potential homebuyers of the Company's housing units are required to submit 25 post-dated checks. The first 24 checks are equivalent to the first 24 monthly amortization payments, while the 25th check represents the outstanding principal balance as of the 25th month and serves as an assurance that the borrower will again submit another 24 post-dated checks (equivalent to the payments for months 25 to 48) plus another 25th check equivalent to the outstanding principal balance as of the 49th month. This cycle is repeated until the loan is fully paid at the end of the term. The excess of the 24 checks will be deposited if the borrower fails to submit the next set of 25 checks.

The Company imposes a ₱2,200 bank penalty fee and a ₱200 fee per bounced check as facilitation and retrieval fee. Likewise, a fee of ₱200 is charged if the buyer replaces the check with cash paid directly to the Company.

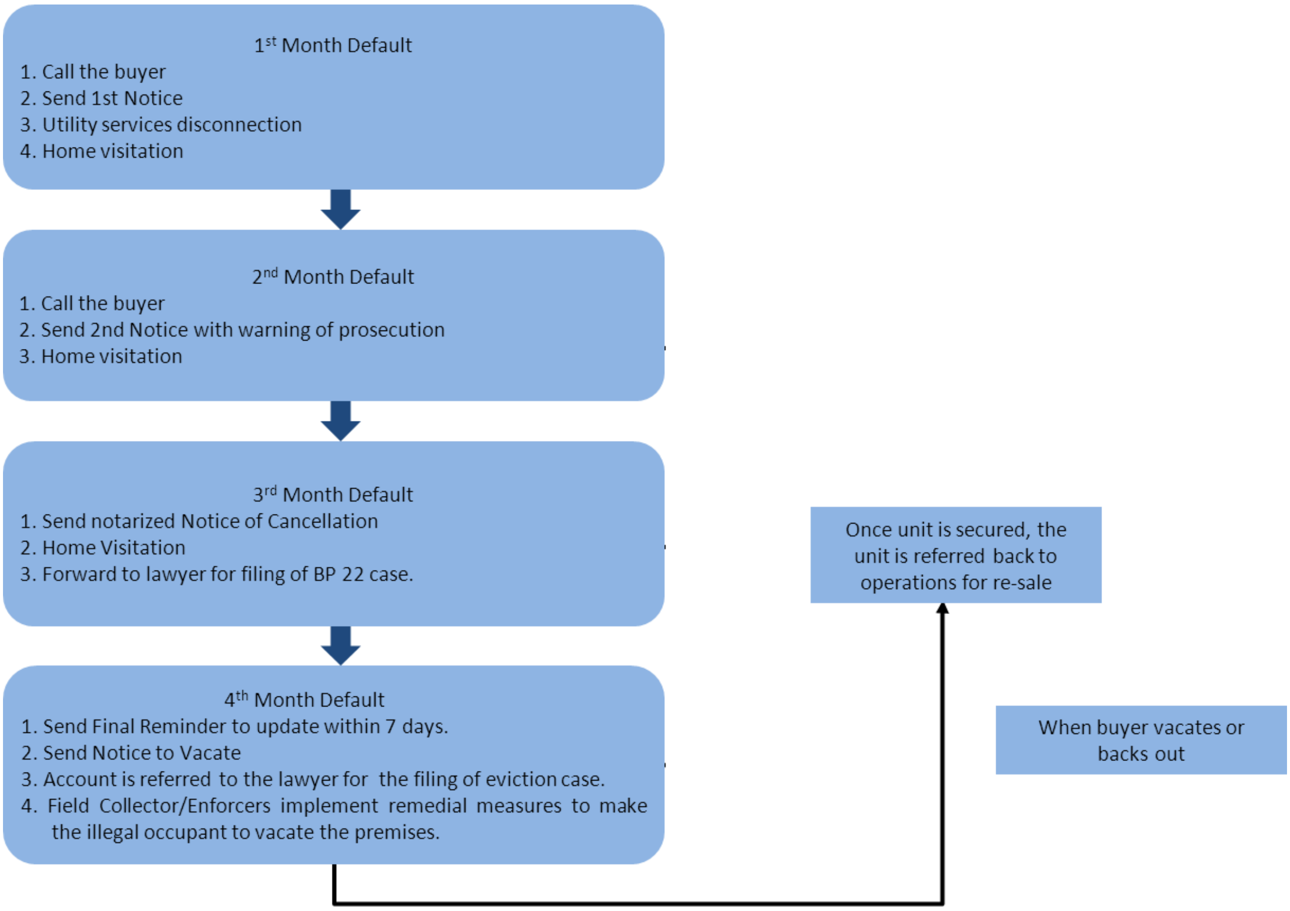
The Company's estimated collection efficiency rates for the past seven years are as follows:

| Period | Collection Efficiency Rate(1) |
|---|---|
| 2008(2) | 93.7% |
| 2009(2) | 94.6% |
| 2010(2) | 92.6% |
| 2011 | 93.2% |
| 2012 | 93.8% |
| 2013 | 93% |
| 2014 | 96% |

*Notes:*
*(1) Collection efficiency rate is calculated as amount collected out of current amount due.*
*(2) Prior to 2011, the collection efficiency rates refer to rates for receivables managed on behalf of Pag-IBIG.*

In the Company's experience, through remedial measures, approximately half of the defaulting accounts usually become current again after a one- to three-month payment lag, while the other half of the defaulting accounts result in the cancellation of the CTS and remarketing of the property. The Company was able to leverage on its experience and expertise in acting as Pag-IBIG's collection agent prior to 2011 in the formulation and execution of its credit and collection policies.

*Collection Process in the Event of Default*




Accounts are considered in default when the buyer fails to pay one monthly amortization, while payments are considered late if the buyer fails to pay his amortization on the due date. In 2012, approximately 4% of all customers (out of the 7% of all customers who were in default) updated their accounts within the first three months of default. In 2013, the Company estimates its collection efficiency at 93%. Out of the 3.2% of all customers who were in default, approximately 1.3% of all customers became current within their first three months of default and only approximately 2% of all customers required eventual cancellation of accounts and eviction of buyers. In 2014, the collection efficiency of the Company was at 96%. The remaining 2% of customers update their account within the first three months of default.

## MARKETING AND SALES

### Marketing

The Company believes it has an extensive marketing network. The Company's marketing and distribution network consists of approximately 236 teams, with 28 headed by unit managers and 208 headed by licensed brokers and with a combined total of more than 3,000 active agents. All of the unit managers and the agents under them are exclusively contracted to the Company. Furthermore, all unit managers are accredited licensed realtors. The Company's commission structure and incentive schemes vary relative to the network's affiliation and sales structure. The Company's marketing teams are compensated through commission fees and are provided some administrative support by the Company. The Company trains its marketing teams monthly on topics including new Company policies, product information and terms and conditions of sale.

As a marketing strategy, the Company's sales and marketing teams regularly conduct presentations to potential clients to inform them of the Company's products. Mall exhibits have likewise provided the Company with an effective platform to introduce its product offerings and get leads on prospective buyers. Another strong source of sales relates to "repeat buyers," in the form of family members of those who already own a DECA Home unit.

The Company does not derive any sales or revenues from foreign sales.

Moreover, promotional discounts are also offered by the Company to attract buyers and increase their interest. These include:

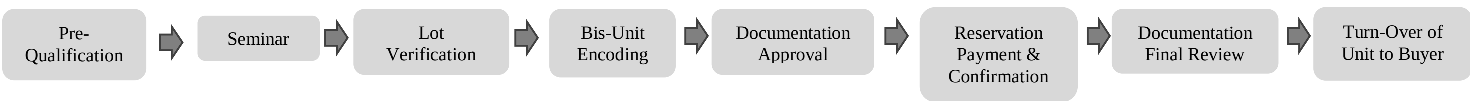
- Cash Discounts. The Company gives discounts upon full payment of the required down payment and is based on the total contract price of the house and lot package (which price ranges from ₱450,000 to ₱1,250,000). Cash discounts are as follows:

| Down Payment Fully Paid Within | Cash Discount |
|---|---|
| 7 Days ...................................................... | 3% |
| 30 Days .................................................... | 2% |
| 60 Days .................................................... | 1% |
| 90 Days .................................................... | 0.5% |

- "LipatAgad." Buyers are allowed to move-in to the property upon full payment of the required down payment pending take-out of the loan with Pag-IBIG.

### CTS Gold Sales Process

The CTS Gold product follows a rigorous process of credit verification for all potential buyers. The following diagram illustrates the process under the CTS Gold product:




Pre-Qualification – The buyer provides basic requirements such as valid identification, proof of income (pay slips, certificate of employment and compensation, bank statements, income tax return, etc.), signed loan documents and complete post-dated checks.

Seminar – The buyer is required to attend a seminar wherein the buyer is oriented on what their obligations as homeowners, neighbors and explain what a postdated check is. We are the only housing developer that requires homeowners to attend the seminar.

Lot Verification – The availability of the unit is verified.

Bis-Unit Encoding – A unit manager assigns and encodes the buyer's identification into its system to avoid double reservation.

Documentation Approval – A documentation manager submits the buyer's information folder to a documentation account officer. The account officer verifies and screens the documents provided by the borrower. Physical appearance of the buyer is required to verify accuracy of all information provided. Incomplete documentation folders are sent back to the documentation manager forre-evaluation.

Reservation Payment and Confirmation – Reservation payment is paid for by the buyer and documented by an account officer.

Documentation Final Review – The documents are sent to a documentation manager for final review.

Turn-Over of Unit to Buyer – Take-out occurs only when construction of the unit is complete and the buyer accepts the unit. Attendance at a buyer orientation is required which will cover documentation, credit and legal obligation, construction and technical discussion.

**SUPPLIERS**

All of the raw materials used by the Company are sourced from domestic Philippine suppliers. Suppliers are chosen based on a number of criteria, including the quality of the raw materials supplied, stability of supply in the past, delivery time, pricing of the raw materials as well as the financial and industrial strength of the supplier. The Company's sourcing strategy is to deal with reliable suppliers at the best available price, prefer national over local suppliers and encourage on-time delivery by its suppliers.

The Company maintains relationships with over 200 suppliers. For the year ended December 31, 2014, the Company's five largest raw materials suppliers in aggregate accounted for approximately 40% of the Company's total amount of purchases.

**CUSTOMERS**

The Company mainly focuses on serving the needs of the Mass Housing market. Specifically, the Company targets (a) the upper-end of the lower class segment of society and (b) the lower-end of the middle class segment of society. The Company's target market primarily consists of buyers who are gainfully employed (such as government employees, business processing operations (BPO) employees, manufacturing workers, etc.), which account for approximately 93% of the Company's horizontal unit buyers, and the self-employed (i.e., tending to their own businesses), which accounts for the remaining 7%. 53% of the horizontal unit buyers have monthly gross income above ₱25,000; 29% have monthly gross income from ₱16,000 to₱25,000, while 18% have monthly gross income of ₱8,000 to ₱15,000. For those who have lower monthly gross income, other income is sourced from employed members of the family living with them or supplementary income from informal businesses. The Company likewise caters to OFWs, which, for many years, have played an important role in keeping the Philippine economy afloat through their remittances that help fuel consumption, specifically real estate purchases. The following table summarizes the Company's customer demographics as of December 31, 2014:

| | Houses | Medium Rise Building |
|---|---|---|
| **Employment Category** | | |
| Retail and Services ...................................... | 35% | 47% |
| Business Process Outsourcing/IT ................ | 13% | 15% |
| Overseas Filipino Worker (Land Based) ..... | 24% | 18% |
| Government Employees.............................. | 4% | 4% |
| Self-employed............................................. | 3% | 3% |
| Remittance.................................................. | 5% | 3% |
| Manufacturing ............................................ | 2% | 2% |
| Seaman ....................................................... | 13% | 6% |
| Banking....................................................... | 1% | 2%% |
| **Gross Income (per month)** | | |
| ₱8000 to ₱15,000........................................ | 10% | 5% |
| ₱16,000 to ₱25,000..................................... | 24% | 16% |
| Above ₱25,000 ........................................... | 67% | 79% |

| | | |
|---|---|---|
| **Civil Status** | | |
| Single........................................................ | 44% | 56% |
| Married ...................................................... | 54% | 43% |
| Others ........................................................ | 2% | 1% |
| **Age** | | |
| 25 and below............................................... | 7% | 9% |
| 26 to 35 years old........................................ | 50% | 40% |
| 36 to 45 years old........................................ | 31% | 32% |
| 46 to 55 years old........................................ | 10% | 15% |
| Above 55 years old ..................................... | 2% | 4% |

**CUSTOMER SERVICE AND WARRANTIES**

The Company believes it is important to ensure that quality service is afforded to homebuyers throughout and after the relevant sales period. Customer service employees oversee pre-delivery quality control inspections and respond to post-delivery customer needs. The Company responds to customer requests during the construction phase and coordinates the legal requirements that customers must comply with when making a purchase, including signing deeds, obtaining permits, and securing funding.

Under the terms of the Company's CTS contracts, buyers may seek repairs for patent (i.e., observable) defects in new homes prior to their acceptance of the residential unit. If the defect is latent (i.e., non-observable), customers may seek repairs within one year from the date the housing unit was turned over to them for occupancy.

In addition to the foregoing contractual warranties, the Company may be subject to additional liabilities arising from construction defects under Philippine law. However, the Company has historically spent immaterial amounts on claims from customers for construction or other defects. See "Risk Factors — Construction defects and other building-related claims may be asserted against the Company, and the Company may be subject to liability for such claims."

**COMPETITION**

The Company believes it does not have significant direct competition from national (i.e. Metro Manila-based) real-estate developers for low cost housing projects within its price range (i.e. ₱450,000 to ₱1,250,000 per housing unit). Although competitors with nationwide scope, such as Amaia Land Corporation, a subsidiary of Ayala Land, Inc.; Century Limitless Corporation, a subsidiary of Century Properties Group, Inc.; Filinvest Land, Inc., under the "Futura Homes" brand; Suntrust Properties, Inc., a subsidiary of Megaworld Corporation; Robinsons Land Corporation, under the "Robinsons Communities" brand; Summerhills Home Development Corporation, a subsidiary of SM Prime Holdings, Inc.; and Vista Land, under the "Camella Homes" brand, do undertake affordable housing projects, they do so at a higher price range (i.e. ₱1,500,000 and up), which is a different market from that of the Company's.

The Company has direct competitors at the local/regional level that sell housing units within its ₱450,000 to ₱1,250,000 price range. These include: Johndorf and ProHomes in Cebu; Foothills Development Corporation and HLC Development Corporation in Davao; ProFriends, Ion Realty, Happy Homes and San Raphael Realty in Iloilo; Hausland, Fiesta Communities and El Valerio Realty in Pampanga; and ProFriends, Homemark Development, Picar Development, Rudex, Masaito and New APEC in Cavite.

**LAND BANK**

As an integral part of its strategy, the Company believes that it maintains a land bank of sufficient size and nature to ensure that it has adequate land to cover its development requirements. The Company has invested in properties situated in what the Company believes are prime locations across the Philippines for existing and future low-cost Mass Housing and land development projects for the next four to five years, most of which is located in areas with close proximity to major roads and primary infrastructure, and aims to expand its land bank to cover development in the next seven to eight years. As of March 31, 2015, the Company had a land bank of approximately 277.068 hectares of raw land for the development of its various projects, with some properties subject to liens or encumbrances. Details of the Company's raw land inventory as of May 23, 2015 are set out in the table below:

| Current Land Bank (May 23, 2015) | | | | | | |
|---|---|---|---|---|---|---|
| | **Project** | **Location** | **Date of Acquisition** | **Price per sqm** | **Acquisition price** | **Total Area** |

| | | | | | | |
|---|---|---|---|---|---|---|
| LUZON | | | | | | |
| 1 | Deca Homes San Mateo | San Mateo, Rizal | 17-Apr-13 | 150.00 | 46,796,250.00 | 311,975 |
| 2 | Urban Deca Tower Alabang | Filinvest, Alabang | 19-May-14 | 125,000.00 | 155,625,000.00 | 1,245 |
| 3 | Urban Deca Tower Yakal | Yakal, Makati | 12-Mar-12 | 83,764.31 | 124,390,000.00 | 1,485 |
| 4 | Urban Deca Homes Las Pinas | Alabang Zapote Road, Las Pinas | 1-Apr-15 | 25,400.00 | 377,926,600.00 | 14,879 |
| 5 | Urban Deca Towers Cubao | Edsa, Cubao | 8-Apr-15 | 85,000.00 | 365,500,000.00 | 4,300 |
| 6 | Deca Homes Batasan | Batasan Quezon City | 18-Dec-13 | 938.28 | 159,860,800.00 | 170,377 |
| 7 | Deca Homes Marilao | Marilao, Bulacan | 15-Jul-14 | 2,652.54 | 348,000,000.00 | 131,195 |
| 8 | Urban Deca Homes Hampton | Imus, Cavite | 11-Feb-14 | 5,000.00 | 55,125,000.00 | 11,025 |
| 9 | Urban Deca Homes Mahogany | Imus, Cavite | 11-Feb-14 | 2,000.00 | 83,742,000.00 | 41,871 |
| VISAYAS | | | | | | |
| 10 | Urban Deca Homes San Miguel | Banilad, Cebu | 18-Mar-14 | 5,500.00 | 174,212,500 | 31,675 |
| 11 | Deca Homes Mactan | Mactan, Cebu | 29-Jan-15 | 2,500.00 | 769,072,500 | 307,629 |
| ILOILO | | | | | | |
| 12 | Deca Homes Pavia Resort Residences Ph 2 | Sta. Barbara, Iloilo | 2011-2014 | 503.83 | 532,806,774.79 | 1,057,513 |
| MINDANAO | | | | | | |
| 13 | Urban Deca Homes Quirino | Quirino, Davao City | 1-Nov-08 | 7057.16 | 50,000,000.00 | 7,085 |
| 14 | Deca Homes San Lorenzo | Tigatto, Davao City | 2014 | 575.00 | 142,743,750.00 | 248,250 |
| 15 | Deca Homes Gen San | General Santos | Dec-14 | 600.00 | 112,930,200.00 | 188,217 |
| | **TOTAL** | | | | **3,498,731,374.79** | **2,528,721** |

The Company intends to continue to look for land in various parts of the Philippines for future development.

**PROPERTY AND EQUIPMENT**

The following table summarizes the various real estate properties owned by the Company not intended for use as the site of future projects as of March 31, 2015:

| Subsidiary and Property Description | Location | Present Use | Mortgages |
|---|---|---|---|
| **8990 Housing** | | | |
| 8990 Corporate Center | Negros St., Cebu Business Park, Cebu City | The three-storey building sits on a property owned by L and D Realty Corp, an affiliate of the Company. It is used as the headquarters of 8990 Housing. A portion of the ground floor and some areas of the 3rd floor are leased out. | Metrobank |
| 8990 Corporate Center | E. Quirino Ave., Davao City | The four-storey building serves as the Company's Davao branch. Some | Phil. Business Bank |

| Subsidiary and Property Description | Location | Present Use | Mortgages |
|---|---|---|---|
| | | portions of the ground floor, the 3rd floor and the 4th floor are leased out. | |
| 3-hectare resort with the following amenities: clubhouse, swimming pool, basketball courts, mini soccer field and fishing lake | Tacunan, Davao City | Serves as additional amenities for the subdivision residents. | None |
| 7-hectare Wakeboard Park | Mintal, Davao City | Wakeboard park with other amenities presently leased to Session Park | None |
| **8990 Luzon** | | | |
| 12-hectare Wakeboard Park | Margot, Pampanga | Wakeboard park with other amenities presently leased to Session Park | None |

## EMPLOYEES

As of March 31, 2015, the Company has a total of 285 employees. This is broken down as follows:

| Function | Number of Employees |
|---|---:|
| Managers | 62 |
| Accounting Staff | 34 |
| Conversion Staff | 16 |
| Credit & Collection Staff | 40 |
| Documentation Staff | 44 |
| Human Resources/Administrative Assistant | 38 |
| Management Information Systems Staff | 8 |
| Planning/Engineering Staff | 23 |
| Water Services Staff | 20 |
| **Total** | **285** |

The Company does not currently anticipate hiring a significant number of additional employees within the next twelve months, but it may look to hire as necessary subject to any changing needs of the business. Furthermore, as of the date of this Prospectus, there is no existing collective bargaining agreement between the Company and its employees, and the Company's employees are not part of any labor union. The Company has not experienced any disruptive labor disputes, strikes or threats of strikes, and management believes that the Company's relationship with its employee in general is satisfactory. The Company complies with minimum compensation and benefits standards as well as all other applicable labor and employment regulations.

## INTELLECTUAL PROPERTY

The Company has filed applications to register "DECA Homes", "Urban DECA Homes" and "Urban DECA Towers" as brand names with the Intellectual Property Office. As of the date of this Prospectus, the application of the Company for the registration of the "DECA Homes", "Urban DECA Homes" and "Urban DECA Towers" as brand names remains pending with the Intellectual Property Office. These trademarks are important in the aggregate because name recognition and exclusivity of use are contributing factors to the success of the Company's and its Subsidiaries' property developments. In the Philippines, certificates of registration of a trademark filed with the Philippine Intellectual Property Office prior to the effective date of the Philippine Intellectual Property Code in 1998 are generally effective for a period of 20 years from the date of the certificate, while those filed after the Philippine Intellectual Property Code became effective are generally effective for a shorter period of 10 years, unless terminated earlier.

## HEALTH, SAFETY AND ENVIRONMENT

The Company regards occupational health and safety as one of its most important corporate and social responsibilities and it is the Company's corporate policy to comply with existing environmental laws and regulations. The Company maintains various environmental protection systems and conducts regular trainings on environment, health and safety.

## INSURANCE

The Company has insurance coverage that is required in the Philippines for real and personal property. Subject to the customary deductibles and exclusions, the Company carries all-risks insurance during the project construction stage. The Company also requires all of its purchasers to carry fire insurance and sales redemption insurance, for which it pays the annual premium upfront to the insurer and charges purchasers on a monthly basis. For its vertical projects, the Company requires its general contractors to carry all-risks insurance for the period of building construction. The Company does not carry business interruption insurance. See "Risk Factors — Risks Related to the Company's Business — Natural or other catastrophes, including severe weather conditions, may materially disrupt the Company's operations, affect its ability to complete projects and result in losses not covered by its insurance."

## LEGAL PROCEEDINGS

Neither the Company nor any of its Subsidiaries are involved in, or the subject of, any legal proceedings which, if determined adversely to the Company or the relevant Subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its Subsidiaries.

## SUBSIDIARIES

The following table presents certain information regarding the Company's Subsidiaries as of December 31, 2014.

| Subsidiary | Country of incorporation | Total Assets | Company's Ownership Interest | Company's Share in Net Income/(Loss) for the year |
|---|---|---|---|---|
| | | *(₱ in millions, except percentages)* | | |
| **8990 Housing** ............................... | Philippines | 22,298 | 100% | 1,072 |
| **8990 Luzon** .................................. | Philippines | 2,047 | 100% | 280 |
| **8990 Mindanao**............................ | Philippines | 56 | 100% | (0.4) |
| **8990 Davao** .................................. | Philippines | 199 | 100% | 2 |
| **8990 Leisure** ................................ | Philippines | 15 | 100% | (4) |
| **Fog Horn**...................................... | Philippines | 2,648 | 100% | 577 |

### 8990 Housing

Established in 2003, 8990 Housing is flagship subsidiary of the Company. Its primary purpose is to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures. 8990 Housing registered with the Philippine SEC on March 20, 2003. Its principal office address is 8990 Bldg., Negros Street, Cebu Business Park, Cebu City.

### 8990 Luzon

8990 Luzon is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines and registered with the Philippine SEC on October 28, 2008. 8990 Luzon engages in acquiring by purchase, lease, donation or otherwise, and own, using, improving, developing, subdividing, selling, mortgaging, exchanging, leasing and holding for investment or otherwise, real estate of all kinds, whether improve, manage or otherwise dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances. The registered principal office address of 8990 Luzon is 8990 Bldg., Negros Street, Cebu Business Park, Cebu City.

### 8990 Mindanao

8990 Mindanao is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines and registered with the Philippine SEC on September 17, 2009. 8990 Mindanao primarily engages in developing Mass Housing projects. Its registered principal office address is 8990 Corporation Center, Quirino Avenue, Davao City. 8990 Mindanao owns certain parcels of land used for the Company's development projects.

**8990 Davao**

8990 Davao is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines and registered with the Philippine SEC on September 17, 2009. 8990 Davao primarily engages in the Mass Housing development business. Its registered principal office address is Door 4, Evelyn Eleminio Building, Cervantes cor. Lacson Streets, Barangay Obrero, Davao City. 8990 Davao owns certain parcels of land used for the Company's development projects.

**8990 Leisure**

8990 Leisure is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines and registered with the Philippine SEC on November 24, 2009. 8990 Leisure engages in acquiring, purchasing, holding, managing, developing and selling land with or without buildings or improvements for such consideration and in such manner or form as the company may determine of as the law permits, erecting, constructing, altering, managing, operating, leasing in whole or in part, buildings and tenements of the company or other persons, engages in real estate consultation and management including identifying, purchasing, conceptualizing, preparing master plans and layouts for land and building developments, managing the properties of and advising clients, developing or executing plans, undertaking project management and overseeing construction, except for management of funds, portfolios, securities and other similar assets. 8990 Leisure owns certain parcels of land used for the Company's development projects. 8990 Leisure's principal office address is 2nd Floor PGMC Bldg., 76 Calbayog St. corner Libertad St., Mandaluyong City.

**Fog Horn**

Fog Horn is a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines and registered with the Philippine SEC on January 14, 2004. Fog Horn engages in acquiring by purchase, lease, donation or otherwise, and own, using, improving, developing, subdividing, selling, mortgaging, exchanging, leasing and holding for investment or otherwise, real estate of all kinds, whether improve, manage or otherwise dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances. Fog Horn's registered principal office address is located at the 2nd Floor PGMC Bldg., 76 Calbayog St. corner Libertad St., Mandaluyong City.

**Dividends from Subsidiaries**

8990 HDC declared dividends to the Company on July 28, 2014 and October 29, 2014 amounting to P560 million and P280 million respectively.

## REGULATORY AND ENVIRONMENTAL MATTERS

Presidential Decree No. 957, otherwise known as The Subdivision and Condominium Buyer's Protective Decree ("P.D. 957"), and Batas Pambansa Blg. 220 ("B.P. 220"), as amended, are the principal statutes which regulate the development and sale of real property as part of a condominium project or subdivision.

P.D. 957 and B.P. 220 cover subdivision projects and all areas included therein for residential, commercial, industrial and recreational purposes, and condominium projects for residential or commercial purposes. The HLURB is the administrative agency of the Government which, together with local government units ("LGUs"), enforces these decrees and has jurisdiction to regulate the real estate trade and business.

All subdivision and condominium plans for residential, commercial, industrial and other development projects are subject to approval by the pertinent LGU of the area in which the project is situated. The development of subdivision and condominium projects can commence only after the LGU has issued the development permit.

The issuance of a development permit is dependent on, among others (i) compliance with required project standards and technical requirements which may differ depending on the nature of the project, and (ii) issuance of the barangay clearance, the HLURB locational clearance, DENR permits, and, as applicable, DAR conversion or exemption orders as discussed below. A bond equivalent to 10% of the total project cost is required to be posted by the project developer to ensure commencement of the project within one year from the issuance of the development permit.

Further, all subdivision plans and condominium project plans are required to be filed with and approved by the HLURB. Approval of such plans is conditional on, among other things, the developer's financial, technical and administrative capabilities. Alterations of approved plans which affect significant areas of the project, such as infrastructure and public facilities, also require the prior approval of the HLURB and the written conformity or consent of the duly organized homeowners association, or in the absence of the latter, by the majority of the lot buyers in the subdivision.

Owners of, or dealers in, real estate projects are required to obtain licenses to sell before making sales or other dispositions of lots or real estate projects to the public. Dealers, brokers and salesmen are also required to register with the HLURB pursuant to Republic Act No. 9646 or the Real Estate Service Act of the Philippines.

Project permits and licenses to sell may be suspended, cancelled or revoked by the HLURB by itself or upon complaint from an interested party for reasons such as insolvency or violation of any of the provisions of P.D. 957. A license or permit to sell may only be suspended, cancelled or revoked after a notice to the developer has been served and all parties have been given an opportunity to be heard in compliance with the HLURB's rules of procedure and other applicable laws.

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. The license to sell may be issued only against a performance bond posted to guarantee the completion of the construction and maintenance of the roads, gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance by the owner or dealer with the applicable laws and regulations.

### Subdivision Projects

There are essentially two different types of residential subdivision developments, which are distinguished by different development standards issued by the HLURB. The first type of subdivision, aimed at Economic and Socialized Housing, must comply with B.P. 220, which allows for a higher density of building and relaxes some construction standards. Other subdivisions must comply with P.D. 957, which sets out standards for lower density developments. Both types of development must comply with standards regarding the suitability of the site, road access, necessary community facilities, open spaces, water supply, the sewage disposal system, electrical supply, lot sizes, the length of the housing blocks and house construction.

Under current regulations, a developer of a residential subdivision with an area of one hectare or more and covered by P.D. 957 is required to reserve at least 30% of the gross land area of such subdivision, which shall be non-saleable, for open space for common uses, which include roads and recreational facilities. A developer of a subdivision is required to reserve at least 3.5% of the gross project area for parks and playgrounds.

Republic Act No. 7279, otherwise known as the Urban Development and Housing Act, as amended, further requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer, within the same city or municipality, whenever feasible, and in accordance with the standards set by the HLURB and other existing laws. To comply with this requirement, the developers may choose to develop for socialized housing an area equal to 20% of the total area of the main subdivision project or allocate and invest an amount equal to 20% of the main subdivision total project cost, which shall include the cost of the land and its development as well as the cost of housing structures therein, or they may engage in development of a new settlement through purchase of socialized housing bonds, slum upgrading, participation in a community mortgage program, the undertaking of joint-venture projects and the building of a large socialized housing project to build a credit balance.

Republic Act No. 6552, otherwise known as the Realty Installment Buyer Act (the "Maceda Law"), applies to all transactions or contracts involving the sale or financing of real estate through installment payments, including residential condominium units. Under the Maceda Law, buyers who have paid at least two years of installment are granted a grace period of one month for every year of paid installment to cure any payment default. If the contract is cancelled, the buyer is entitled to receive a refund of at least 50% of the total payments made by the buyer, with an additional 5% per annum in cases where at least five years of installment have been paid (but with the total not to exceed 90% of the total payments). Buyers who have paid less than two years of installment and who default on installment payments are given a 60-day grace period to pay all unpaid installment before the sale can be cancelled, but without right of refund.

**Condominium Projects**

Republic Act No. 4726, otherwise known as The Condominium Act ("R.A. No. 4726"), as amended, likewise regulates the development and sale of condominium projects. R.A No. 4726 requires the annotation of the master deed on the title of the land on which the condominium project shall be located. The master deed contains, among other things, the description of the land, building/s, common areas and facilities of the condominium project. A condominium project may be managed by a condominium corporation, an association, a board of governors or a management agent, depending on what is provided in the declaration of restrictions of the condominium project. However, whenever the common areas are held by a condominium corporation, such corporation shall constitute the management body of the project.

**HOME DEVELOPMENT MUTUAL FUND OR THE PAG-IBIG FUND**

The Home Development Mutual Fund, more popularly known as the Pag-IBIG Fund ("Pag-IBIG"), was established on June 11, 1978 by virtue of Presidential Decree No. 1530 to provide a national savings program and affordable shelter financing for Filipino workers. Pag-IBIG is a mutual provident savings system for private and government employees and other earning groups, supported by matching mandatory contributions of their respective employers with housing as the primary investment. Pag-IBIG is statutorily mandated to provide financial assistance for the housing requirements of its members and allot not less than 70% of its investible funds for deployment of housing loans to qualified buyers.

At the time that Home Development Mutual Fund was established, the funds contributed by private employees and government employees were administered separately by the Social Security System ("SSS") and the Government Service Insurance System ("GSIS"). Less than a year after its establishment or on March 1, 1979, Executive Order No. 527 was passed directing the transfer of the administration of HDMF to the National Home Mortgage Finance Corporation ("NHMFC"). Executive Order No. 538 which was issued on June 4, 1979 merged the funds for private and government personnel into what is now known as the Pag-IBIG Fund.

With the signing of P.D. 1752 on December 14, 1980, Pag-IBIG was made independent from the NHMFC and was made a body corporate with its own board of trustees. Executive Order No. 90 passed on January 1, 1987 made membership to Pag-IBIG voluntary. This was subsequently amended by Republic Act 7742 on June 17, 1994, which made membership to Pag-IBIG mandatory to all employees covered by SSS and GSIS. On July 21, 2009, Republic Act No. 9679 or the Home Development Mutual Fund Law of 2009 further strengthened Pag-IBIG by making membership thereof mandatory for all Filipino employees including Filipinos employed by foreign-based employers, uniformed personnel and the self-employed.

Pag-IBIG's 2013 Accomplishment Report indicates that as of 2013, membership in the fund stood at 13.5 million. In the last 12 months, Pag-IBIG membership grew by 1.4 million members from the 2012 yearend level.

Among the benefits of membership, Pag-IBIG members may avail of housing loans to finance the purchase of a fully developed lot not exceeding 1,000 square meters and to construct a residential unit thereon or to purchase a residential unit, whether old or new, with home improvement. The housing loan proceeds may also be used to refinance an existing housing loan with an institution acceptable to Pag-IBIG, provided that, the account reflects a perfect repayment history for at least one (1) year prior to date of application, as supported by the borrower's official receipts.

To qualify for an Pag-IBIG housing loan, a member must not be more than sixty-five (65) years old at the date of loan application nor more than seventy (70) years old at loan maturity. Further, said member must have been a member under Pag-IBIG Membership Program for at least twenty-four (24) months, as evidenced by the remittance of at least twenty-four (24) monthly mandatory savings at the time of loan application. A new member who wishes to apply for a housing loan is allowed to pay in lump sum the required twenty-four monthly mandatory savings. Similarly, members with less than twenty-four (24) mandatory savings may pay their monthly mandatory savings for the succeeding months in lump sum to be eligible for a housing loan.

A qualified Pag-IBIG member may borrow up to a maximum amount of Six Million Pesos (₱6,000,000.00), depending on the member's actual need, his loan entitlement based on gross monthly income, his loan entitlement based on capacity to pay, and the loan-to-appraisal value ratio, whichever is lower. The housing loans are charged with interest rates based on Pag-IBIG's pricing framework. Said interest rates are re-priced periodically depending on the chosen re-pricing period of the borrower whether it is after every three (3), five (5), ten (10) or fifteen (15) years. Members are allowed a maximum repayment period for the loan of thirty (30) years.

Pag-IBIG's 2013 Accomplishment Report indicates that a total of ₱46.6 billion was approved for disbursement to finance 63,148 new homes for Pag-IBIG members across the Philippines for 2013.

There are two (2) modes of applying for an Pag-IBIG housing loan: (i) Retail – wherein the member applies directly to the Fund for his/her housing loan application; or (ii) Developer-Assisted – wherein the developer assists the member in his/her housing loan application.

The Developer-Assisted mode of application is in line with Pag-IBIG's objectives to fast track the government's housing program by providing an express take-out window for Pag-IBIG-accredited developers, as well as to enhance the asset quality of the Pag-IBIG's mortgage loan portfolio. Through this scheme, developers deliver housing loan applications to Pag-IBIG which are secured by Contracts to Sell ("CTS") or Real Estate Mortgage ("REM") on the residential property to which the loan proceeds are applied.

The developer receives, evaluates, pre-processes and approves the housing loan applications of Pag-IBIG's member borrowers in accordance with the applicable guidelines set by Pag-IBIG for housing loan programs. For applications secured by CTS, the developer executes a Contract-to-Sell with the Pag-IBIG member to cover the purchase of the residential property or lot to be used as collateral for the Pag-IBIG housing loan. With the conformity of the borrower, the developer then executes a Deed of Assignment assigning the CTS in favor of Pag-IBIG, which shall be annotated in the title of the property. The developer is then required to convert the security of eligible accounts from CTS to REM not later than the 24th month from date of loan takeout. For applications secured by REM, the developer is responsible for the annotation of the Loan and Mortgage Agreement on the individual Transfer Certificate of Title covering the house and lot units subject of the loan with the appropriate Register of Deeds and deliver the complete mortgage folders to Pag-IBIG.

Pag-IBIG can process and release the takeout proceeds due the developer within seven (7) working days from the date of submission of the all the Pag-IBIG required documents.

**BOARD OF INVESTMENTS**

The Board of Investments (the "BOI"), an agency under the Department of Trade and Industry, is the lead investments promotion agency of the Philippines. The agency is designed to promote inward investments and assist local and foreign investors in their venture of the desirable areas of business, defined in the annually-prepared Investment Priorities Plan ("IPP"). Under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, as amended, the BOI is mandated to encourage investments through tax exemption and other benefits in preferred areas of economic activity specified by the BOI in the IPP. The IPP, formulated annually by the BOI, through an inter-agency committee, and approved by the President, lists the priority activities for investments. It contains a listing of specific activities that can qualify for incentives.

A Filipino enterprise can register their activity with the BOI if their project is listed as a preferred project in the current IPP. Said enterprise may engage in domestic-oriented activities listed in the IPP whether classified as pioneer or non-pioneer. However, an activity which is not listed, may also be entitled to incentives if the following conditions are met: (i) At least 50% of the production is for export (for 60% Filipino-40% Foreign-owned enterprises); or (ii) At least 70% of production is for export (for more than 40% foreign–owned enterprises).

Mass housing infrastructure projects has been part of the IPP of the BOI since year 2000. For 2013, a mass housing project must meet the following requirements to be eligible for registration,: (i) the selling price of each housing unit shall be more than Four Hundred Fifty Thousand Pesos (₱450,000.00) but not exceeding Three Million Pesos (₱3,000,000.00); (ii) the project must be a new or expanding low-cost Mass Housing project; (iii) the project must conform with the design standards set forth in B.P. 220 and P.D. 957; and (iv) the project must comply with the socialized housing requirement of R.A. 7279. Furthermore, compliance with socialized housing requirement must be completed within the income tax holiday availment period and should be proportionate to the number of low cost housing units being applied for the income tax holiday for the taxable year.

Generally, BOI-registered enterprises are exempt from payment of the income taxes depending on the project's status as follows: (i) six (6) years for new projects with a pioneer status; (ii) four (4) years for new projects with a non-pioneer status; (iii) three (3) years for expansion projects; and (iv) six years for new or expansion projects in less developed areas. However, eligible mass housing projects in the National Capital Region and Metro Cebu are entitled to only three (3) years of income tax holiday.

BOI-registered enterprises also enjoy taxes and duties exemption on imported spare parts, as well as an exemption on wharfage dues and export tax. Other fiscal incentives include (i) reduced duty rates on capital equipment, spare parts, and accessories; (ii) tax credits on domestic breeding stocks, genetic material, raw materials, and supplies; and (iii) additional deductions from taxable income on labor expense as well as necessary and major infrastructure work. BOI-registered enterprises are also entitled to other non-fiscal incentives such as the employment of foreign nationals, streamlined customs procedures, and the importation of consigned equipment.

**ZONING AND LAND USE**

Land use may be also limited by zoning ordinances enacted by LGUs. Once enacted, land use may be restricted in accordance with a comprehensive land use plan approved by the relevant LGU. Lands may be classified under zoning ordinances as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process may be lengthy and cumbersome.

Under the agrarian reform law currently in effect in the Philippines and the regulations issued thereunder by the DAR, land classified for agricultural purposes as of or after June 15, 1988, cannot be converted to non-agricultural use without the prior approval of DAR.

**SPECIAL ECONOMIC ZONE**

PEZA is a Government corporation that operates, administers and manages designated special economic zones ("Ecozones") around the country. Ecozones, which are generally created by proclamation of the President of the Philippines, are areas earmarked by the Government for development into balanced agricultural, industrial, commercial, and tourist/recreational regions.

An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones, and tourist/recreational centers. PEZA-registered enterprises locating in an Ecozone are entitled to fiscal and non-fiscal incentives such as income tax holidays and duty free importation of equipment, machinery and raw materials.

**ENVIRONMENTAL LAWS**

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain ECC prior to commencement. The DENR, through its regional offices or through the Environmental Management Bureau ("EMB"), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. In case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandated.

The EIS refers to both the document and the study of a project's environmental impact, including a discussion of the scoping agreement identifying critical issues and concerns as validated by the EMB, environmental risk assessment if determined necessary by EMB during the scoping, environmental management program, direct and indirect consequences to human welfare and ecological as well as environmental integrity. The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the projects' environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The ECC is a Government certification, that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the project's abandonment phase. The ECC also provides for other terms and conditions, any violation of which would result in a fine or the cancellation of the ECC.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund ("EGF") when the ECC is issued to projects determined by the DENR to pose a significant public risk to life, health, property and the environment. The EGF is intended to answer for damages caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are mandated to include a commitment to establish an Environmental Monitoring Fund ("EMF") when an ECC is eventually issued. The EMF shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations. Aside from EIS and IEE, engineering, geological, and geo-hazard assessments are also required for ECC applications covering subdivisions, housing, and other development and infrastructure projects.

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of the Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

The Company incurs expenses for the purposes of complying with environmental laws that consist primarily of payments for Government regulatory fees. Such fees are standard in the industry and are minimal.

**PROPERTY REGISTRATION**

The Philippines has adopted a system of land registration which conclusively confirms land ownership which is binding on all persons, including the Government. Once registered, title to registered land can no longer be challenged except with respect to claims noted on the certificate of title. Title to registered lands cannot be lost through adverse possession or prescription. Presidential Decree No. 1529, as amended, codified the laws relative to land registration and is based on the generally accepted principles underlying the Torrens System.

After proper surveying, application, publication and service of notice and hearing, unregistered land may be brought under the system by virtue of judicial or administrative proceedings. In a judicial proceeding, the Regional Trial Court within whose jurisdiction the land is situated confirms title to the land. Persons opposing the registration may appeal the judgment within 15 days to the Court of Appeals or the Supreme Court. After the lapse of the period of appeal, the Register of Deeds may issue an Original Certificate of Title. The decree of registration may be annulled on the ground of actual fraud within one year from the date of entry of the decree of registration. Similarly, in an administrative proceeding, the land is granted to the applicant by the DENR by issuance of a patent and the patent becomes the basis for issuance of the Original Certificate of Title by the Register of Deeds. All land patents such as homestead, sales and free patents, must be registered with the appropriate registry of deeds since the conveyance of the title to the land covered thereby takes effect only upon such registration.

Any subsequent transfer of encumbrance of the land must be registered in the system in order to bind third persons. Subsequent registration and a new Transfer Certificate of Title in the name of the transferee will be granted upon presentation of certain documents and payment of fees and taxes.

All documents evidencing conveyances of subdivision and condominium units should also be registered with the Register of Deeds. Title to the subdivision or condominium unit must be delivered to the purchaser upon full payment of the purchase price. Any mortgage existing thereon must be released within six months from the delivery of title. To evidence ownership of condominium units, a Condominium Certificate of Title is issued by the Register of Deeds.

## NATIONALITY RESTRICTIONS

The Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning building and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40%.

Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Ninth Regular Foreign Investment Negative List, provide that certain activities are nationalized or partly- nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly- nationalized and thus, landholding companies may only have a maximum of 40% foreign equity.

Considering the foregoing, for as long as the Company or any of its Subsidiaries own land in the Philippines or continue to conduct property development in the Philippines, foreign ownership in the Company is limited to a maximum of 40% of the capital stock of the Company which is outstanding and entitled to vote. Accordingly, the Company shall disallow the issuance or the transfer of Shares to persons other than Philippine Nationals and shall not record transfers in its books if such issuance or transfer would result in the Company ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

Compliance with the required ownership by Philippine Nationals of a corporation is to be determined on the basis of outstanding capital stock whether fully paid or not, but only such stocks which are generally entitled to vote are considered.

In the Philippine Supreme Court case of *Wilson P. Gamboa v. Finance Secretary Margarito B. Teves, et. al.* dated June 28, 2011 (*G.R. No. 176579*) (the "Gamboa Case"), a case involving a public utility company (which under the Philippine Constitution is also subject to the 60-40 rule on capital ownership), the Philippine Supreme Court ruled that the term "capital", as used in Section 11 of Article XII of the Philippine Constitution, refers only to shares of stocks entitled to vote in the election of directors and not to the total outstanding capital stock, because it is the said voting rights which translate to control. The Supreme Court claimed that this interpretation is consistent with the intent of the framers of the Constitution to ensure that the control and management of public utilities remain with Filipino Citizens. This decision has been a subject of Motions for Reconsideration ("Motions").

On October 9, 2012, the Supreme Court sitting *en banc* issued a Resolution (the "Gamboa Resolution") and ruled that the term "capital" as refers to both voting control and beneficial ownership of the corporation. The Supreme Court also ruled that in case a corporation engaged in a partially nationalized activity issues a mixture of common and preferred non-voting shares, the 60-40 ownership requirement under the Philippine Constitution must apply not only to shares with voting rights, but separately to all classes of shares issued by a corporation, including shares without voting rights. This is because preferred shares, though denied the right to vote for directors, are still entitled to vote on other corporate matters. Accordingly, at least 60% of the common shares and at least 60% of the preferred non-voting shares of a corporation engaged in a partially nationalized industry must be owned by Filipinos.

Thus, for purposes of establishing compliance with the 60-40 rule on capital ownership under the Philippine Constitution and the Foreign Investments Act, Filipino citizens must own (a) at least 60% of all of the issued and outstanding capital stock of such corporation (regardless of par value, whether voting or non-voting) *and* (b) at least 60% of each class of shares issued by such corporation.

Subsequent to the Gamboa Case cited above, in the December 2012 case of *Express Investments v. Bayan Telecommunications, Inc. (G.R. No. 174457-59),* the Philippine Supreme Court discussed the Gamboa ruling, and clarified that "considering that common shares have voting rights which translate to control as opposed to preferred shares which usually have no voting rights, the term 'capital' in Section 11, Article XII of the Constitution refers only to common shares." In the said case, the Supreme Court, however, added that if the preferred shares also have the right to vote in the election of directors, then the term "capital" shall include such preferred shares because the right to participate in the control or management of the corporation is exercised through the right to vote in the election of directors. The Philippine Supreme Court said that "in short, the term 'capital' in Section 11, Article XII of the Constitution refers only to shares of stock that can vote in the election of directors." This then supersedes the implied pronouncement in the Gamboa Resolution that the 60-40 ownership requirement in favor of Filipino citizens must apply to each class of shares, regardless of voting rights. Thus, the recent decisions of the Supreme Court remain consistent with the Foreign Investments Act, which apply the minimum Filipino requirements only to "shares that are generally entitled to vote."

On May 20, 2013, the SEC issued Memorandum Circular No. 8 or the *Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities.* The Circular provides that for purposes of determining compliance therewith, the required percentage of Filipino ownership shall be applied to BOTH (a) the total number of outstanding shares of stock entitled to vote in the election of directors; AND (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors." A petition for certiorari has since been filed sometime in June 2013, questioning the constitutionality of the Rules on Foreign Ownership (Memorandum Circular No. 8, Series of 2013) promulgated by the SEC. This petition remains pending with the Supreme Court as of this time.

More recently, in the case of Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp (*G.R. No. 195580, April 21, 2014)* (the "Narra Nickel Case"),, the third division of the Supreme Court, in passing upon the nationality of applicants for a Mineral Production Sharing Agreement, stated that while the prevailing rule is still the use of the Control Test, the Grandfather Rule applies in instances when there is doubt as to the proper representation of the Filipino-foreign equity participation (making reference to the 1967 SEC Rules and DOJ Opinion No. 020 Series of 2005)Under the Grandfather Rule, shares owned by corporate shareholders are attributed either as part of Filipino or foreign equity by determining the nationality not only of the corporate shareholders but also such corporate shareholders' shareholders and their shareholders (and down the line).

On 28 January 2015, the Supreme Court issued a Resolution dismissing with finality the Motion for Reconsideration of its decision in the Narra Nickel Case. Thus, the Supreme Court affirmed that the Grandfather Rule is to be used jointly and cumulatively with the Control Test, as follows: (1) if the corporation's Filipino equity falls below sixty percent (60%), it is immediately considered foreign-owned, applying the Control Test; (2) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (3) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied.

Thus, although the Narra Nickel Case in no way abandons the use of the Control Test and the Foreign Investments Act provisions in determining the nationality of a corporation, it appears to expand and/or modify the doctrine laid in the Gamboa Case cited above. Under the Constitution, however, no doctrine or principle of law laid down by the Supreme Court in a decision *en banc* or in division may be modified or reversed except by the court sitting *en banc*.

**PROPERTY TAXATION**

Real property taxes are payable annually based on the property's assessed value. The assessed value of property and improvements vary depending on the location, use and the nature of the property. Land is ordinarily assessed at 20% to 50% of its fair market value; buildings may be assessed at up to 80% of their fair market value; and machinery may be assessed at 40% to 80% of its fair market value. Real property taxes may not exceed 2% of the assessed value in municipalities and cities within Metro Manila or in other chartered cities and 1% in all other areas. An additional special education fund tax of 1% of the assessed value of the property is also levied annually.

# CERTAIN LEGAL PROCEEDINGS

As of December 31, 2014, neither the Company nor any of its Subsidiaries are involved in, or the subject of, any legal proceedings which, if determined adversely to the Company or the relevant Subsidiary's interests, would have a material effect on the business or financial position of the Company or any of its Subsidiaries.

# MARKET PRICE OF AND DIVIDENDS ON 8990's COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common shares have been listed on the Philippine Stock Exchange (PSE) since 2010. The common shares (PSE: HOUSE) closed at ₱7.56 on June 4, 2015.

## DIVIDENDS

The declaration and payment of dividends are subject to certain conditions under the Company's existing loan agreements with various institutions. Under said loan agreements, the Company may declare and pay dividends provided: (a) all payments (including pre-payments) due on said loan and premiums on insurance of assets are current and updated; (b) all financial covenants set forth therein are satisfied; (c) certain financial ratios are met and such payment will not result in the violation of the required financial ratios under the loan agreements; and (d) no event of default as provided in the loan agreements shall exist or occur as a result of such payment.

The Company's current dividend policy provides that subject to available cash and existence of Unrestricted Retained Earnings, at least 50% of the net income of 8990 for the preceding fiscal year will be declared as dividends. The Company intends to maintain a consistent dividend payout policy based on its consolidated net income for the preceding fiscal year, subject to the requirements of the applicable laws and regulations and the absence of circumstances which may restrict the payment of such dividends.

## CASH DIVIDEND

**₱0.05 per share**
Declaration Date: November 4, 2014
Record date: November 18, 2014
Payment date: December 12, 2014

**₱0.18 per share**
Declaration Date: February 17, 2015
Record date: March 4, 2015
Payment date: March 30, 2015

Each of the Subsidiaries has adopted the same dividend policy whereby, subject to available cash and existence of Unrestricted Retained Earnings, at least 50% of the net income of such Subsidiary for the preceding fiscal year will be declared as dividends.

In July 28, 2014 and October 29, 2014, 8990 HDC declared dividends in the amount of ₱560 million and ₱280 million, respectively. Apart from the foregoing, no other dividend declaration has been by any of the Subsidiaries of the Company for the past two fiscal years.

## HIGH AND LOW SHARE PRICES

The market capitalization of 8990 as of March 9, 2015 based on the closing price of April 6, 2015 per share was approximately ₱8.70.

| Quarter | | | | 2014 | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | High | Low | Close | High | Low | Close | High | Low | Close | High | Low | Close |
| 1st | 10.50 | 6.85 | 8.70 | 7.47 | 6.00 | 6.58 | 4.65 | 3.21 | 4.55 | 3.49 | 2.52 | 3.17 |
| 2nd | - | - | - | 8.77 | 6.01 | 8.02 | 10.42 | 4.22 | 6.60 | 4.70 | 2.00 | 2.33 |
| 3rd | - | - | - | 8.50 | 6.88 | 7.24 | 7.00 | 5.51 | 5.71 | 2.75 | 1.75 | 2.05 |
| 4th | - | - | - | 7.99 | 6.74 | 7.12 | 9.03 | 5.81 | 6.99 | 3.40 | 2.03 | 3.34 |

As of March 31, 2015, the foreign equity ownership of the Company is 23.53% based on total issued shares of 5,517,990,720.

The number of shareholders of record as of March 31, 2015 was 26. Common shares outstanding as of March 31, 2015 were 5,517,990,720.

**The following table sets forth the stockholders of record of the Company as of the date if this Prospectus:**

| Shareholder | Number of Shares Subscribed | Amount Subscribed and Paid-up (in ₱) | % of Ownership |
|---|---|---|---|
| IHoldings, Inc. | 2,139,035,107 | 2,139,035,107.00 | 38.76% |
| PCD Nominee Corporation (Non-Filipino) | 1, 297,461,068 | 1,297,461,068.00 | 23.51% |
| Kwantlen Development Corporation | 925,325,018 | 925,325,018.00 | 16.77% |
| Januarius Resources Realty Corporation | 543,794,584 | 543,794,584.00 | 9.85% |
| PCD Nominee Corporation (Filipino) | 142,355,974 | 142,355,974.00 | 2.58% |
| Luis N. Yu, Jr. | 258,099,322 | 258,099,322.00 | 4.68% |
| Mariano D. Martinez, Jr. | 168,916,767 | 168,916,767.00 | 3.06% |
| Januario Jesus Gregorio III B. Atencio | 42,582,637 | 42,582,637.00 | 0.77% |
| Antholin T. Muntuerto | 300,000 | 300,000.00 | 0.01% |
| Mark Werner J. Rosal | 200,000 | 200,000.00 | 0.00% |
| Ian Norman E. Dato | 5,001 | 5,001.00 | 0.00% |
| Angeline Pami Torres | 3,000 | 3,000.00 | 0.00% |
| Hector A. Sanvictores | 2,000 | 2,000.00 | 0.00% |
| Gregorio G. Gruyal | 1,500 | 1,500.00 | 0.00% |
| Stephen G. Soliven | 1,500 | 1,500.00 | 0.00% |
| Raul Fortunato R. Rocha | 101 | 101.00 | 0.00% |
| Ben Chan Wei Beng | 100 | 100.00 | 0.00% |
| Owen Nathaniel Sy Au ITF Li Marcus Au | 80 | 80.00 | 0.00% |
| Manuel S. Delfin, Jr. | 1 | 1.00 | Nil |
| Richard L. Haosen | 1 | 1.00 | Nil |
| Arlene C. Keh | 1 | 1.00 | Nil |
| Dominic J. Picone | 1 | 1.00 | Nil |
| Anthony Vincent S. Sotto | 1 | 1.00 | Nil |
| Willibaldo J. Uy | 1 | 1.00 | Nil |
| Lowell L. Yu | 1 | 1.00 | Nil |
| Total | 5,517,990,720 | 5,517,990,720.00 | 100% |

**Recent Sale of Unregistered or Exempt Securities, including Recent Issuance of Securities constituting an Exempt Transaction**

(1) Issuance of 40,000,000 shares to IPVI

On September 28, 2011, IPVI subscribed to 40,000,000 common shares at ₱2.52 per share. IPVI's subscription is a private placement transaction under Section 10.1(1)(k) of the SRC. Accordingly, a Notice of Exemption dated June 28, 2012 was filed for the said subscription with the SEC on June 29, 2012. These shares were listed on the PSE on November 12, 2014.

(2) Issuance of shares to the 8990 Majority Shareholders pursuant to a share swap

On May 6, 2013, 8990 and the 8990 Majority Shareholders entered into a share swap transaction whereby in exchange for the transfer by the 8990 Majority Shareholders of all of the shares owned by them in the Subsidiaries, the Company shall issue a total of 3,968,357,534 shares to the 8990 Majority Shareholders at a par value of ₱1.00 per share coming from the increase in its authorized capital stock. As a result of such exchange, the Company became the majority shareholder of each Subsidiary. In turn, the 8990 Majority Shareholders shall, collectively, likewise become majority shareholders of the Company. The share swap transaction is a private placement transaction under Section 10.1(1)(k) of the SRC Accordingly, a Notice of Exemption dated October 2, 2013 was filed for the said transaction with the SEC on October 3, 2013. These shares were listed on the PSE on May 14, 2014.

(3) Issuance of shares to the Subscribers pursuant to a private placement

On September 23, 2013, Raul R. Rocha, Socorro P. Lim, Antholin T. Muntuerto, Mark Werner J. Rosal, Nicolas D. Divinagracia, and Rodrigo B. Libunao, Jr. agreed to subscribe to 87,020,000; 100,000,000; 69,600,000; 69,600,000; 69,600,000, and 69,760,467, common shares, respectively, at ₱1.00 per share, subject to SEC approval of the Company's application to increase its authorized capital stock. Following the approval by the SEC of the said application, said shares were issued to the subscribers. The said subscription is a private placement transaction under Section 10.1(1)(k) of the SEC. Accordingly, on October 3, 2013, a Notice of Exemption dated October 2, 2013 was filed for the said subscription with the SEC. These shares were listed on the PSE on May 14, 2014.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of the Company's financial results should be read in conjunction with the independent auditors' reports and the Company's audited consolidated financial statements and notes thereto contained in this Prospectus and the section entitled "Selected Financial and Operating Information." The unaudited interim financial statements of the Company as of March 31, 2015 has been disclosed to the PSE and SEC and are also available for viewing in the Company's official website.*

*This discussion contains forward-looking statements and reflects the current views of the Company with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" and elsewhere in this Prospectus.*

## OVERVIEW

The Company is the largest Mass Housing developer in the Philippines in terms of units licensed under B.P. 220 from 2011 to 2013, according to HLURB. The Company has been developing Mass Housing Projects in high-growth areas across the Visayas, Mindanao and Luzon since 2003. In doing so, the Company has benefited significantly from the industry experience of its Principals who, prior to the establishment of the Company's Subsidiaries and through certain 8990 related companies, developed their first Mass Housing project in 1991 in Cagayan de Oro. The Company has built a reputation of providing quality and affordable homes to consumers in the fast-growing Philippine Mass Housing market. The Company's DECA Homes and Urban DECA Homes brands have also gained a strong reputation in the market, resulting in the Company garnering numerous awards such as Q Asia Magazine's Best Housing Developer for 2012 to 2013. As of March 31, 2015, the Company has completed 24 Mass Housing projects and is developing another 9 Mass Housing and MRB projects. Across these 24 completed projects, the Company has, since 2003, sold more than 28,000 units, with approximately 21,000 additional units available for development and sale from ongoing projects. The Company also has an identified pipeline of eight projects with an existing and available landbank, which projects are scheduled to commence between 2015 and 2019 and which in total are expected to provide approximately 43,000 units available for sale.

The Company believes that its industry experience has equipped it with the ability to understand the needs, preferences, means and circumstances of consumers in the Philippine Mass Housing market. The Company offers an affordable pricing and payment model, and has developed its CTS Gold in-house financing program to cater to Mass Housing market Filipino consumers who do not have the accumulated savings to pay high down payments for homes but have sufficient recurring income to support monthly amortization payments. Under this program, customers only pay a minimal down payment and can quickly move into their chosen homes. The Company retains ownership of such homes until full payment is made by the customer. The CTS Gold program is further strengthened by the Company's strong relationship with Pag-IBIG, the primary Government agency providing housing financial assistance to Filipinos through the long-established Pag-IBIG housing loan program. The Company has structured the CTS Gold program, in particular the CTS Gold Convertible product, such that the requirements for such product generally mirror the requirements for availing of a Pag-IBIG home loan. This essentially ensures the take-up by Pag-IBIG of such loans upon application for by customers, converting receivables of the Company into cash and lessening the financing and other risks appurtenant to potential buyer defaults.

Consistent with the Company's thrust of providing quality and affordable housing units to its customers, the Company also introduced a pre-cast construction process which enables it to construct and complete residences ready for move-in much faster than under the conventional concrete cinder block method. Through this process, the Company is able to construct townhouses and single-storey attached units in just eight to ten days, with an additional five days for single-storey houses with lofts. The use of this process also allows the Company to realize significant cost savings and enables it to turn over units to its customers in a fast and efficient way.

In addition to horizontal Mass Housing subdivision projects, the Company also develops MRB condominium projects. The Company began development of its first MRB Mass Housing project in Cebu in 2012, and plans to develop similar MRB projects in Metro Manila and other urban areas. In 2013 and 2014, the Company recorded consolidated revenues amounting to ₱5,433.1 million and ₱7,792.5 million, respectively, with resulting total comprehensive income of ₱2,182.3 million and ₱3,307.0 million, respectively.

## FACTORS AFFECTING RESULTS OF OPERATIONS

*The Company's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past and which the Company expects to affect its financial results in the future. Factors other than those set out below could also have a significant impact on the Company's results of operations and financial condition in the future. See "Risk Factors."*

### General Global and Philippine Economic Conditions and the Condition of the Philippine Real Estate and Residential Housing Markets

The Company derives substantially all of its revenue from its Mass Housing development activities in the Philippines. The Philippine real estate and housing markets have historically been affected by the prevailing economic conditions in the Philippines, which may also be affected by the economic conditions in other parts of the world. Accordingly, the Company's results of operations may be significantly affected by the state of the global and Philippine economies generally and specifically the Philippine property and housing markets. The Philippine real estate and housing markets have historically been subject to cyclical trends, and property values have been affected by the supply of and demand for comparable properties, the rate of economic growth, the rate of unemployment and political and social developments in the Philippines. Demand for new residential projects in the Philippines has historically also been affected by, among other things, prevailing political, social and economic conditions in the Philippines, including overall growth levels, the value of the Philippine peso and interest rates, as well as the strength of the economy in other parts of the world, given that a substantial portion of demand comes from overseas Filipino workers. Furthermore, as the Company continues expanding its business, these operations will also be increasingly affected by general conditions in the global and Philippine economies. As a result, the Company expects that its results of operations will continue to vary from period to period largely as a result of general global and Philippine economic conditions.

### Collection of Receivables and Resale of Repossessed Units

The Company's results of operations are also affected to some degree by the success and efficiency of its collection of receivables from its customers. Only when the Company experiences any significant delays or defaults on its collection of receivables, could it experience liquidity issues including the inability to meet its obligations as they come due.

In addition, a significant number of defaults in the collection of receivables may result in a significant increase in the Company's housing inventory as a result of repossession as well as increased costs associated with such repossessions. Upon the Company's repossession of a housing unit, the Company recognizes an increase in its inventory measured at the housing unit's fair value at repossession less estimated costs to restore and resell the unit, as compared to the unit's original value at construction. In addition, the Company necessarily incurs various costs associated with the process of repossessing and reselling the unit. Due to the buyer's default, the Company also records a corresponding decline in trade and other receivables for the amount of the carrying value of the relevant installment contract receivable on the date of repossession. Based on Philippine law, at the point of repossession, all amounts paid by the buyer shall be forfeited in favor of the developer should the cancellation occur within two years.

The difference between these two adjustments is recorded by the Company as a gain or loss on repossession. In instances of payment defaults, there can be no guarantee that the Company will be able to dispose of these repossessed units quickly, at acceptable prices or at all.

The Company's gross profit margins may also be affected by the resale of repossessed housing units. Upon the resale of a repossessed unit, the Company recognizes revenues based on the selling price of the unit. However, the relevant cost of sales and services that match these revenues are based on the recorded inventory cost of the unit. These accounting policies result in a structurally lower gross profit margin on the resale of a repossessed unit when compared to the sale of a newly constructed housing unit.

Any of these occurrences in relation to failure to collect receivables from its customers in a timely manner or at all may have some adverse effect on the Company's liquidity, financial condition and results of operations. Additionally, only when a material number of sales of repossessed units happen could it affect the overall gross profit margins presented by the Company, even if the margins recognized by the Company from the sale of newly constructed units remain stable or increase.

**Liquidity Risk Management**

To better manage its liquidity risk, interest risk, as well as improve its cash conversion cycle, the Company typically enters into take-out arrangements with Pag-IBIG where it will transfer its CTS Gold Convertible receivables within four years in exchange for cash. The acceptance or rejection of a CTS receivable by Pag-IBIG is based on certain guidelines of Pag-IBIG such as employment, number of contributions made by the homeowner/Pag-IBIG member and net disposable income, among other factors. In 2014, the Company was able to take out ₱1,777.3 million worth of receivables from Pag-IBIG Fund. While the company expects that majority of its receivables may be taken out by Pag-IBIG since their buyers are Pag-IBIG housing loan eligible, in the event that a material number of take-up applications are delayed or even denied, whether due to Pag-IBIG or to banks that hold title, the Company's cashflow and recognized revenues could be materially affected. Moreover, the conversion into cash of the Company CTS receivable as a result of take-ups by Pag-IBIG also affects the Company's results of operations. As a greater amount of CTS receivables are converted due to the Company's take-up arrangements, the Company's finance income and receivables decrease while its cash balances correspondingly increase.

In addition to its receivables take-up arrangements with institutions such as Pag-IBIG, the Company also regularly adopts other measures to manage its level of receivables from its housing sales, as well as to generate cash necessary for operations. For example, the Company from time to time enters into loan arrangements with banks against its receivables portfolio as collateral and sells its receivables with recourse. The Company has begun to explore possible securitization transactions with respect to its receivables portfolio. In addition, the Company is also considering the sale of its receivables to banks and other financial institutions on a non-recourse basis. The success of any of these receivable management measures, depending on the amount involved and terms agreed, may affect the Company's results of operations in terms of its liquidity and the levels of its receivable assets.

**Interest Rates**

The Company generally charges its customers an annual fixed interest rate of 8.5% on their housing loans under the CTS Gold program; this interest rate matches the mandated 8.5% interest rate that Pag-IBIG will charge such customers if and when their loans are taken up in the Pag-IBIG home loan program. The Company's loans payable interest rates are either subject to annual repricing or at variable rates, with interest rates ranging from 2.6% to 11.0% per annum in 2013. As the Company typically only needs to borrow project funding costs, which, based on its margins, is approximately half of the amount of loans it grants to its customers, the Company believes that it is substantially protected against fluctuations of interest rates in the market. However, in cases of extraordinary increases in interest rates, such as during the Asian financial crisis of the late 1990s or the global economic downturn of 2008, the Company's financial position and results of operations could be adversely affected.

**Timing of Project Construction and Completion**

The Company's results of operations tend to fluctuate from period to period. The number of housing units that the Company can develop or complete during any particular period is limited by the time and cost constraints associated with acquiring land, obtaining approvals and availability of suitable contractors. As a real estate developer operating in the Mass Housing market, the Company must receive multiple regulatory approvals before construction on any of its particular projects may begin. Furthermore, because the Company engages a limited number of contractors for construction of its projects, any delays in the completion of prior projects may affect the timing of the Company's current projects. There are also substantial capital requirements for property development and construction and a lengthy development period before positive cash flows may be generated from any particular project. The Company may also experience delays in project construction and/or completion.

**Tax Incentives and Exemptions**

As a developer of low-cost housing with Mass Housing unit price points not exceeding ₱1.9 million (for lots only) or ₱3.2 million (for residential house and lots or other residential dwellings), the Company benefits from an exemption on VAT under current tax laws and regulations. Furthermore, the accreditation of the Company's projects with unit price between ₱450,000 and ₱3,000,000 with the BOI under the IPP allows each accredited project to enjoy certain tax incentives. For each accredited project, the Company's sales of low cost subdivision lots and housing units are currently not subject to corporate income tax. Also, the Company's projects with unit price of ₱450,000 and under are considered socialized housing projects and enjoy income tax free status by virtue of Republic Act No. 7279. See "Regulatory and Environmental Matters – Board of Investments." As such, the Company's sales of low-cost subdivision lots and housing units of its accredited projects are not subject to 12.0% VAT and corporate income tax. In the event that the Company loses these tax exemptions or incentives or its tax holiday lapses or is not renewed or if there are delays in the approvals for income tax holiday for future projects, these sales would become subject to VAT and corporate income tax. These prospective tax charges will directly affect the Company's net income, and the Company expects that any changes in regulatory and tax policy and applicable tax rates may affect its results of operations from time to time. See "Risk Factors — Risks Related to the Company's Business — The loss of certain tax exemptions and incentives will increase the Company's tax liability and decrease any profits the Company might have in the future."

**Price Volatility of Construction Materials and Other Development Costs**

The Company's cost of sales is affected by the price of construction materials such as steel, tiles and cement, as well as fluctuations in electricity and energy prices. While the Company, as a matter of policy, attempts to fix the cost of materials components in its agreements with contractors, in cases where demand for steel, tiles and cement are high or when there are shortages in supply, the contractors the Company hires for construction or development work may be compelled to raise their contract prices. With respect to electricity, higher prices generally result in a corresponding increase in the Company's overall development costs. As a result, rising costs for any construction materials or in the price of electricity will impact the Company's construction costs, cost of sales and the price for its products. Any increase in prices resulting from higher construction costs could adversely affect demand for the Company's products and the relative affordability of such products, particularly as a Mass Housing developer. This could reduce the Company's profitability.

With regard to sales of subdivision house and lots, if the actual cost of completing the development of a particular project exceeds the Company's estimates, any increase in cost is recorded as part of the cost of sales of subdivision house and lots in the same project. This means that the cost of sales for future sales in the same project will be higher.

**Availability of Suitable Land for Development**

The Company meticulously selects the sites for its Mass Housing development projects, typically undergoing a research process of anywhere from six months to one year before deciding to acquire land for its contemplated developments. After beginning in the Visayas and Mindanao, the Company is currently looking to expand its footprint in Luzon and also the Metro and Greater Manila areas. To this end, the Company is currently examining its options for the acquisition of parcels of land in these areas. The Company selects the location of its developments based on numerous factors, such as proximity to public transportation hubs and employment areas, as well as vicinity to retail and other commercial establishments, among others. That said, properties which meet all these criteria may not be available for the price the Company is willing to pay, or the Company may encounter competing offers from other developers who may have more resources at their disposal. If the Company is unable to acquire or select the optimal parcels of land for its development projects and expansion plans or is unable to successfully grow and manage its land bank, its ability to meet its revenue and growth targets may be adversely affected.

**Demand for Residential Properties**

The Company has benefited from greater demand for residential properties resulting from, among other factors, the growth of the Philippine economy, the increasing number of Filipinos investing in the Philippine real estate market, strong levels of OFW remittances and increasing demand from expatriate Filipinos. In addition, the Company has also benefited specifically from the underserved backlog for Mass Housing in the Philippines in recent years. The increased demand for residential properties has been a significant factor in the Company's increased revenues and profits over the last three years. In response to these developments, the Company has further increased the number of Mass Housing development projects. The Company has also begun to offer new Mass Housing residential products, such as condominiums, to address potential demand from specific target markets. It is unclear whether the demand for housing in the Philippines will remain high or continue to grow or whether the demand for the Company's products will reach the levels anticipated by the Company. Negative developments with respect to demand for housing in the Philippines would in turn have a negative effect on the Company's operational results. Conversely, positive developments in housing demand would likely positively contribute to the Company's operational results as observed in the past.

## CRITICAL ACCOUNTING POLICIES

*Critical accounting policies are those that are both (i) relevant to the presentation of the Company's financial position and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex. To provide an understanding of how the Company's management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the critical accounting policies discussed below have been identified. While the Company believes that all aspects of its consolidated financial statements should be studied and understood in assessing its current and expected financial condition and results of operations, the Company believes that the critical accounting policies warrant particular attention.*

For information on the Company's significant accounting policies and significant accounting judgments and estimates, see Notes 2 and 3 to the Company's audited consolidated financial statements included elsewhere in this Prospectus.

## DESCRIPTION OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LINE ITEMS

The following table sets forth details for the Company's sales and other income line items for the periods indicated.

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| | ₱ | ₱ | ₱ |
| | | **(Audited)** | |
| | | *(millions)* | |
| Revenue | 3,877.6 | 5,433.1 | 7,792.5 |
| Cost of Sales and Services | (1,464.9) | (1,988.6) | (3,134.9) |
| **Gross Income** | 2,412.7 | 3,444.45 | 4,657.6 |
| Operating Expenses | (677.9) | (1,155.3) | (1,580.9) |
| **Net Operating Income** | 1,734.8 | 2,289.2 | 3,076.8 |
| Finance Costs | (216.3) | (406.5) | (396.3) |
| Other Income | 235.2 | 558.8 | 933.4 |
| **Income before Income Tax** | 1,753.7 | 2,441.5 | 3,613.8 |
| Provision for Income Tax | (49.2) | (257.8) | (304.7) |
| **Net Income** | 1,704.5 | 2,183.7 | 3,309.1 |
| Other Comprehensive Loss | – | (1.4) | (2.1) |
| **Total Comprehensive Income** | 1,704.5 | 2,182.3 | 3,307.0 |

### Revenue

The Company's revenue primarily comprise of those received from its sales of low-cost Mass Housing units and subdivision lots and medium-rise building housing units, rental services and other incidental income relating to its real estate operations, as well as revenues derived from its timeshare and hotel operations.

**Cost of Sales and Services**

Cost of sales and services comprise (i) the Company's costs of sales from its low-cost Mass Housing sales of housing units and subdivision lots, costs of sales from sales of MRB condominium units and costs of sales from sales of timeshares; (ii) cost of rental services; and (iii) the Company's costs of services from its hotel operations (including room and food and beverage sales).

**Operating Expenses**

Operating expenses generally include selling and administrative costs that are not directly attributable to the services rendered. Operating expenses of the Company comprise expenses related to marketing and selling, documentation, taxes and licenses, salaries and employment benefits, write-off of assets, provisions for impairment losses, management and professional fees, communication, light and water, provisions for probable losses, security, messengerial and janitorial services, depreciation and amortization, transportation and travel, repairs and maintenance, rent, entertainment, amusement and representation, supplies, provisions for write-down, subscription dues and fees and miscellaneous expenses (such as extraordinary documentation expenses, liquidation and donation expenses, as well as other expenses).

**Finance Costs**

Finance costs comprise costs associated with the Company's borrowings, accretion of interest, bank charges and net interest expense on its pension obligations.

**Other Income**

Other income comprises of interest income from installment contract receivables and cash in banks, gain on sale of building and improvements and miscellaneous income (such as retrieval fee, association dues, and transfer fee). The Company also recorded other gains and losses such as a gain from the sale of unquoted debt security classified as loans, and other expenses such as a loss on the sale of a subsidiary.

**Provision for Income Tax**

Provision for income tax comprises the Company's provisions for regular and minimum corporate income taxes, final taxes to be paid as well as provision for deferred income tax recognized.

**RESULTS OF OPERATIONS**

***Year ended December 31, 2014 compared to year ended December 31, 2013***

*Revenue*

For the year ended December 31, 2014, the Company recorded consolidated revenue of ₱7,792.5 million, an increase of 43.4% from consolidated sales of ₱5,433.1 million recorded for the year ended December 31, 2013. The increase was mainly attributable to increased real estate sales, rental income and timeshare and hotel operations. The Company's real estate sales generated ₱7,530.0 million in revenues for the year ended December 31, 2014, an increase of 44.1% from the ₱5,226.3 million in revenues recorded for the year ended December 31, 2013. The improvement was mainly due to an increase in the number of units sold during the year, supported by the growing nationwide market acceptance of the Company's CTS Gold program, as well as price increases. The Company's rental business generated ₱39.2 million in revenues for the year ended December 31, 2014, an increase of more than 5 times from the ₱6.5 million rental income for the year ended December 31, 2013. The increase was mainly due to existing rental contracts of the acquired lot in Ortigas, which as part of acquisition terms will be for the account of the Company until the subject contracts expire.

*Cost of Sales and Services*

The Company's consolidated cost of sales and services for the year ended December 31, 2014 was ₱3,134.9 million, an increase of 57.6% from consolidated cost of sales and services of ₱1,988.6 million recorded for the year ended December 31, 2013. The increase was mainly attributable to increases in costs of real estate operations, consistent with the sales growth of these segments. The Company's real estate operations recorded ₱3,052.6 million in costs for the year ended December 31, 2014, an increase of 59.4% from the ₱1,914.8 million in costs recorded for the year ended December 31, 2013. The increase was mainly due to higher sales of housing units and subdivision lots. The Company's timeshare and hotel operations recorded ₱56.1 million in costs for the year ended December 31, 2014, an increase of 7.5% from the ₱52.2 million in costs for the year ended December 31, 2013. This growth was generally consistent with the higher revenue from timeshare and hotel operations for 2014. Consolidated cost of sales and services of the Company include costs for real estate operations, timeshare and hotel operations, cost of rental services, and cost of other expenses (i.e. water distribution) of the Company.

*Gross Income*

The Company's consolidated gross income for the year ended December 31, 2014 was ₱4,657.7 million, an increase of 35.2% from consolidated gross income of ₱3,444.5 million recorded for the year ended December 31, 2013. The Company's gross income margin for the year ended December 31, 2014 was 60%, compared to a gross income margin of 63% recorded for the year ended December 31, 2013. The Company attributes its strong and steady gross income margin to its sound internal financial planning policies with respect to landbank acquisition and project budgeting process.

*Operating Expenses*

For the year ended December 31, 2014, the Company recorded consolidated operating expenses of ₱1,580.8 million, an increase of 36.8% from consolidated operating expenses of ₱1,155.3 million recorded for the year ended December 31, 2013. The increase was mainly attributable to higher marketing and selling expenses, taxes and licenses, write-offs of assets, provisions for impairment losses and miscellaneous expenses.

> *Marketing and selling expenses*. The Company's consolidated marketing and selling expenses were ₱542.4 million for the year ended December 31, 2014, an increase of 76.7% from the ₱307.0 million recorded for the year ended December 31, 2013. The increase was mainly due to sales commissions paid to the Company's agents and unit managers, as well as increased media advertisements and expenses.
>
> *Taxes and licenses*. The Company's consolidated expenses related to taxes and licenses were P117.7 million for the year ended December 31, 2013, a 14.4% increase from the ₱102.9 million consolidated taxes and licenses expenses recorded for the year ended December 31, 2013. The increase was mainly due to increased taxes on new projects launched in 2014.
>
> *Provision for probable losses*. The Company's consolidated provision for probable losses were ₱77.3 million for the year ended December 31, 2014, compared to consolidated provision for impairment of ₱26.3 million for the year ended December 31, 2013. The increase was mainly due to provision made in relation to increased past due receivables in 2014. The Company already tightened its credit checking parameters to address this.

*Operating Income*

The Company's consolidated operating income for the year ended December 31, 2014 was ₱2,680.5 million, an increase of 42.4% from consolidated net operating income of ₱1,882.7 million recorded for the year ended December 31, 2013. The Company's consolidated net operating margin was 34.4% for the year ended December 31, 2014, compared to a consolidated net operating margin of 21.2% for the year ended December 31, 2013, as a result of higher operating expenses related mainly to provisions recorded during the year.

*Finance Costs*

The Company's consolidated finance costs for the year ended December 31, 2014 were ₱396.3 million, a decrease of 2.6% from consolidated finance costs of ₱406.5 million recorded for the year ended December 31, 2013. The decrease was mainly attributable to lower interest rate enjoyed by the Company from creditor banks.

*Other Income*

For the year ended December 31, 2014, the Company recorded consolidated other income of ₱933.4 million, a 67.0% increase from ₱558.8 million recorded for the year ended December 31, 2013. The increase was mainly attributable to interest income on the Company's higher level of installment contract receivables under its CTS Gold program during the year, consistent with its higher sales volumes.

*Income before Income Tax*

The Company's consolidated income before income tax for the year ended December 31, 2014 was ₱3,613.8 million, an increase of 48.0% from consolidated income before income tax of ₱2,441.5 million recorded for the year ended December 31, 2013.

*Provision for Income Tax*

The Company's consolidated provision for income tax for the year ended December 31, 2014 was ₱304.7 million, an 18% increase from consolidated provision for income tax of ₱257.8 million recorded for the year ended December 31, 2013.

*Net Income*

As a result of the foregoing, the Company's consolidated net income for the year ended December 31, 2014 was ₱3,309.1 million, an increase of 51.5% from consolidated net income of ₱2,183.7 million recorded for the year ended December 31, 2013. The Company's consolidated net income margin for the year ended December 31, 2014 was 42%, compared to a consolidated net income margin of 40% for the year ended December 31, 2013.

***Year ended December 31, 2013 compared to year ended December 31, 2012***

*Revenue*

For the year ended December 31, 2013, the Company recorded consolidated revenue of ₱5,433.1 million, an increase of 40.2% from consolidated sales of ₱3,877.6 million recorded for the year ended December 31, 2012. The increase was mainly attributable to increased sales in the Company's real estate operations and timeshare and hotel operations businesses. The Company's real estate operations generated ₱5,303.3 million in revenues for the year ended December 31, 2013, an increase of 40.1% from the ₱3,783.1 million in revenues recorded for the year ended December 31, 2012. The improvement was mainly due to an increase in the number of units sold during the year, supported by the growing nationwide market acceptance of the Company's CTS Gold program, as well as price increases. The Company's timeshare and hotel operations generated ₱129.8 million in revenues for the year ended December 31, 2013, an increase of 37.4% from the ₱94.5 million in revenues from the timeshare and hotel operations segment recorded for the year ended December 31, 2012.

*Cost of Sales and Services*

The Company's consolidated cost of sales and services for the year ended December 31, 2013 was ₱1,988.6 million, an increase of 35.7% from consolidated cost of sales and services of ₱1,464.9 million recorded for the year ended December 31, 2012. The increase was mainly attributable to increases in costs of sales in the Company's real estate operations and timeshare and hotel operations, consistent with the sales growth of these segments. The Company's real estate operations segment recorded ₱1,988.6 million in costs of sales and services for the year ended December 31, 2013, an increase of 35.0% from the ₱1,464.9 million in costs of sales and services recorded for the year ended

December 31, 2012. The increase was mainly due to higher sales of housing units and subdivision lots. The Company's timeshare and hotel operations segment recorded ₱52.2 million in costs of sales and services for the year ended December 31, 2013, an increase from the ₱29.9 million in costs of sales and services from the timeshare and hotel operations segment recorded for the year ended December 31, 2012. The remaining ₱21.6 million consists of cost of rental services of P657,382 and other expenses (water distribution) of ₱20,866,941. Consolidated cost of sales and services of the Company include costs for real estate operations, timeshare and hotel operations, cost of rental services, and cost of other expenses of the Company.

*Gross Income*

The Company's consolidated gross income for the year ended December 31, 2013 was ₱3,444.5 million, an increase of 42.8% from consolidated gross income of ₱2,412.7 million recorded for the year ended December 31, 2012. The Company's gross income margin for the year ended December 31, 2013 was 63%, compared to a gross income margin of 62% recorded for the year ended December 31, 2012. The Company attributes its strong and steady gross income margin to its sound internal financial planning policies with respect to landbank acquisition and project budgeting process.

*Operating Expenses*

For the year ended December 31, 2013, the Company recorded consolidated operating expenses of ₱1,155.3 million, an increase of 70.4% from consolidated operating expenses of ₱677.9 million recorded for the year ended December 31, 2012. The increase was mainly attributable to higher marketing and selling expenses, taxes and licenses, write-offs of assets, provisions for impairment losses and miscellaneous expenses.

> *Marketing and selling expenses*. The Company's consolidated marketing and selling expenses were ₱307.0 million for the year ended December 31, 2013, an increase of 55.5% from the ₱197.4 million recorded for the year ended December 31, 2012. The increase was mainly due to sales commissions paid to the Company's agents and unit managers, as well as increased media advertisements and expenses related to marketing efforts in shopping malls.
>
> *Taxes and licenses*. The Company's consolidated expenses related to taxes and licenses were ₱102.9 million for the year ended December 31, 2013, a 166.6% increase from the ₱38.6 million consolidated taxes and licenses expenses recorded for the year ended December 31, 2012. The increase was mainly due to increased taxes on capital stock increases and share swaps in relation to the Company's corporate reorganization in 2013.
>
> *Write-off of assets*. The Company recorded consolidated write-off of assets of ₱64.9 million for the year ended December 31, 2013, pertaining to one-time write-offs of receivables in the form of advances to the Company's marketing managers to assist in their selling efforts, as well as advances made to managers who had since ceased to be affiliated with the Company.
>
> *Provision for impairment losses*. The Company's consolidated provision for impairment losses were ₱58.4 million for the year ended December 31, 2013, compared to consolidated provision for impairment of ₱2.1 million for the year ended December 31, 2012. The increase was mainly due to provision made in relation to certain advances to contractors for equipment purchases for the Company's development projects.
>
> *Miscellaneous expenses.* The Company's miscellaneous expenses were ₱56.3 million in the year ended December 31, 2013, compared to miscellaneous expenses of ₱13.2 million in the year ended December 31, 2012. The increase was mainly due to additional documentation and receivables liquidation expenses incurred during the year, such as those related to releasing titles and acquiring permits.

*Operating Income*

The Company's consolidated operating income for the year ended December 31, 2013 was ₱1,882.7 million, an increase of 24.0% from consolidated net operating income of ₱1,518.5 million recorded for the year ended December 31, 2012. The Company's consolidated net operating margin was 42%, compared to a consolidated net operating margin of 39.2% for the year ended December 31, 2012, as a result of higher operating expenses related mainly to write-offs and provisions recorded during the year.

*Finance Costs*

The Company's consolidated finance costs for the year ended December 31, 2013 were ₱406.5 million, an increase of 70.4% from consolidated finance costs of ₱216.3 million recorded for the year ended December 31, 2012. The increase was mainly attributable to interest expense resulting from the Company's short-term and long-term loans entered into during the year to support its operations.

*Other Income*

For the year ended December 31, 2013, the Company recorded consolidated other income of ₱558.8 million, an increase of 137.6% from the consolidated other income of ₱235.2 million recorded for the year ended December 31, 2012. The increase was mainly attributable to interest income on the Company's higher level of installment contract receivables under its CTS Gold program during the year, consistent with its higher sales volumes.

*Income before Income Tax*

The Company's consolidated income before income tax for the year ended December 31, 2013 was ₱2,441.5 million, an increase of 39.2% from consolidated income before income tax of ₱1,753.7 million recorded for the year ended December 31, 2012.

*Provision for Income Tax*

The Company's consolidated provision for income tax for the year ended December 31, 2013 was ₱257.8 million, an increase from consolidated provision for income tax of ₱49.2 million recorded for the year ended December 31, 2012. The increase was mainly attributable to the increase in consolidated net deferred tax liability recognized during the year largely as a result of the belated Government approval of BOI accreditation for certain of the Company's projects. The increase in Other Income, which more than doubled, also contributed to the increase in the provision for income tax.

*Net Income*

As a result of the foregoing, the Company's consolidated net income for the year ended December 31, 2013 was ₱2,183.7 million, an increase of 28.1% from consolidated net income of ₱1,704.5 million recorded for the year ended December 31, 2012. The Company's consolidated net income margin for the year ended December 31, 2013 was 40%, compared to a consolidated net income margin of 44% for the year ended December 31, 2012.

**FINANCIAL POSITION**

***As at December 31, 2014 compared to as at December 31, 2013***

***Assets***

*Cash on Hand and in Banks*

The Company's consolidated cash on hand and in banks were ₱605.1million as at December 31, 2014, an increase of 143.0% from consolidated cash on hand and in banks of ₱249.0 million as at December 31, 2013.

*Current portion of trade and other receivables*

The Company's consolidated current portion of trade and other receivables were ₱947.6 million as at December 31, 2014, a 76.4% increase from consolidated current portion of trade and other receivables of ₱537.1 million as at December 31, 2013.

*Inventories*

The Company's consolidated inventories were ₱3,078.1 million as at December 31, 2014, an increase of 37.2% from consolidated inventories of ₱2,243.6 million as at December 31, 2013. The increase was due mainly to the reclassification of lands previously classified as held for future development to inventories subsequent to the commencement of construction of development projects on such land.

*Due from related parties*

The Company's consolidated due from related parties were ₱133.4 million as at December 31, 2014, a decrease of 74.2% from consolidated due from related parties of ₱517.5 million as at December 31, 2013. The decrease was attributable primarily to managed intercompany advances made to affiliated entities during the year.

*Other current assets*

The Company's consolidated other current assets were ₱572.8 million as at December 31, 2014, an increase of 67.4% from consolidated other current assets of ₱342.1 million as at December 31, 2013, primarily due to increased advances to contractors in relation to construction of the Company's development projects.

*Trade and other receivables – net of current portion*

The Company's consolidated trade and other receivables-net of current portion were ₱13,477.1 million as at December 31, 2014, an increase of 42.3% from consolidated trade and other receivables-net of current portion of ₱9,473.8 million as at December 31, 2013. This increase was due mainly to higher receivables under the Company's CTS Gold program, in line with its higher sales which increased by 44% to ₱7.5 billion as of December 31, 2014. This increase is attributable to the strong performance of the Company in 2014 where revenues increased by 43.4% over the 2013 level.

*Land held for future development*

The Company's consolidated land held for future development was ₱6,527.0 million as at December 31, 2014, an increase of 72.5% from consolidated land held for future development of ₱3,784.7 million as at December 31, 2013, as the Company acquired certain real properties as part of its landbank maintenance activities.

*Property and equipment*

The Company's consolidated property and equipment was ₱227.1 million as at December 31, 2014, an increase of 8.7% from consolidated property and equipment of ₱208.9 million as at December 31, 2013.

*Investment properties*

The Company's consolidated investment properties were ₱296.3 million as at December 31, 2014, an increase of 108.8% from consolidated investment properties of ₱141.9 million as at December 31, 2013.

*Other noncurrent assets*

The Company's consolidated other noncurrent assets were ₱126.9 million as at December 31, 2014, almost 8.4% increase from consolidated other noncurrent assets of ₱117.0 million as at December 31, 2013.

***Liabilities***

*Current portion of trade and other payables*

The Company's consolidated current portion of trade and other payables were ₱2,225.8 million as at December 31, 2014, a decrease of 24.2% from consolidated current portion of trade and other payables of ₱2,937.7 million as at December 31, 2013.

*Current portion of loans payable*

The Company's consolidated current portion of loans payable were ₱2,380.8 million as at December 31, 2014, a decrease of 28.6% from the consolidated current portion of loans payable of ₱3,332.3 million as at December 31, 2013.

*Deposits from customers*

The Company's consolidated deposits from customers were ₱274.4 million as at December 31, 2014, an increase of 474.^% from consolidated deposits from customers of ₱47.7 million as at December 31, 2013. The increase was because (1) there were more units sold in 2014; and (2) higher equity payment made by the buyers.

*Due to related parties*

The Company's consolidated due to related parties were ₱369.0 million as at December 31, 2014, an increase of 113.5% from consolidated due to related parties of ₱172.8 million as at December 31, 2013.

*Income tax payable*

The Company's consolidated income tax payable was ₱137.3 million as at December 31, 2014, an increase from consolidated income tax payable of ₱31.2 million as at December 31, 2013.The increase is due to the higher taxable income of the Company in 2014.

*Trade and–other payables - net of current portion*

The Company's consolidated trade and–other payables - net of current portion were ₱18.3 million as at December 31, 2014, a decrease of 93.0% from consolidated trade and–other payables - net of current portion of ₱263.1 million as at December 31, 2013–

*Loans payable - net of current portion*

The Company's consolidate– loans payable - net of current portion was ₱6,453.1 million as at December 31, 2014, a 62.1% increase from consolidate– loans payable - net of current portion of ₱3,980.6 million as at December 31, 2013. The Company entered into additional loan transactions during the course of the year to fund its installment contract receivables under the CTS Gold program.

*Deferred tax liability*

The Company's consolidated deferred tax liability was ₱398.8 million as at December 31, 2014, an increase of 56.8% from consolidated deferred tax liability of ₱254.3 million as at December 31, 2013. This deferred tax liability was attributable to provision for income tax resulting from the delay in the income tax holiday accreditation for certain Company projects. Accreditation for these projects have since been obtained.

***As at December 31, 2013 compared to as at December 31, 2012***

***Assets***

*Cash on Hand and in Banks*

The Company's consolidated cash on hand and in banks were ₱249.0 million as at December 31, 2013, an increase of 38.1% from consolidated cash on hand and in banks of ₱180.3 million as at December 31, 2012.

*Current portion of trade and other receivables*

The Company's consolidated current portion of trade and other receivables were ₱537.1 million as at December 31, 2013, a slight decrease of 0.02% from consolidated current portion of trade and other receivables of ₱537.2 million as at December 31, 2012.

*Inventories*

The Company's consolidated inventories were ₱2,243.6 million as at December 31, 2013, an increase of 9.9% from consolidated inventories of ₱2,040.5 million as at December 31, 2012. The increase was due mainly to the reclassification of lands previously classified as held for future development to inventories subsequent to the commencement of construction of development projects on such land.

*Due from related parties*

The Company's consolidated due from related parties were ₱517.5 million as at December 31, 2013, an increase of 251.1% from consolidated due from related parties of ₱147.4 million as at December 31, 2012. The increase was attributable primarily to higher intercompany advances made to shareholders and affiliated entities during the year.

*Current portion of long-term investments*

The Company's consolidated current portion of long-term investments were nil as at December 31, 2013, compared to consolidated current portion of long-term investments of ₱3.0 million as at December 31, 2012.

*Other current assets*

The Company's consolidated other current assets were ₱342.1 million as at December 31, 2013, an increase of 149.5% from consolidated other current assets of ₱137.1 million as at December 31, 2012, primarily due to increased advances to contractors in relation to construction of the Company's development projects.

*Trade and other receivables – net of current portion*

The Company's consolidated trade and other receivables-net of current portion were ₱9,473.8 million as at December 31, 2013, an increase of 114.3% from consolidated trade and other receivables-net of current portion of ₱4,421.0 million as at December 31, 2012. This increase was due mainly to higher receivables under the Company's CTS Gold program, in line with its higher sales which increased by 29.5% from 4,107 units as of December 31, 2012 to 5,687 units as of December 31, 2013.

*Land held for future development*

The Company's consolidated land held for future development was ₱3,784.7 million as at December 31, 2013, an increase of 274.5% from consolidated land held for future development of ₱1,010.5 million as at December 31, 2012, as the Company acquired certain real properties as part of its landbank maintenance activities.

*Property and equipment*

The Company's consolidated property and equipment was ₱208.9 million as at December 31, 2013, an increase of 42.2% from consolidated property and equipment of ₱146.9 million as at December 31, 2012.

*Investment properties*

The Company's consolidated investment properties were ₱141.9 million as at December 31, 2013, a decrease of 0.4% from consolidated investment properties of ₱142.4 million as at December 31, 2012.

*Other noncurrent assets*

The Company's consolidated other noncurrent assets were ₱117.0 million as at December 31, 2013, an increase of 43.4% from consolidated other noncurrent assets of ₱81.6 million as at December 31, 2012.

***Liabilities***

*Current portion of trade and other payables*

The Company's consolidated current portion of trade and other payables were ₱2,937.7 million as at December 31, 2013, an increase of more than ₱2.3 billion from consolidated current portion of trade and other payables of ₱617.7 million as at December 31, 2012. The increase was mainly attributable to the unpaid purchase price on certain land acquired by the Company (see "—Capital Expenditures"), as well as higher payables to contractors in relation to the construction of the Company's development projects.

*Current portion of loans payable*

The Company's consolidated current portion of loans payable were ₱3,332.3 million as at December 31, 2013, more than twice the consolidated current portion of loans payable of ₱1,257.7 million as at December 31, 2012.

*Deposits from customers*

The Company's consolidated deposits from customers were ₱47.7 million as at December 31, 2013, a 55% decrease from consolidated deposits from customers of ₱104.9 million as at December 31, 2012.

*Due to related parties*

The Company's consolidated due to related parties were ₱172.8 million as at December 31, 2013, a 302% increase from consolidated due to related parties of ₱57.2 million as at December 31, 2012.

*Income tax payable*

The Company's consolidated income tax payable was ₱31.2 million as at December 31, 2013, a 224% increase from consolidated income tax payable of ₱13.9 million as at December 31, 2012.

*Trade and other payables - net of current portion*

The Company's consolidated trade and other payables - net of current portion were ₱263.1 million as at December 31, 2013, a 47% decrease from consolidated trade and other payables - net of current portion of ₱499.9 million as at December 31, 2012.

*Loans payable - net of current portion*

The Company's consolidated loans payable - net of current portion was ₱3,980.6 million as at December 31, 2013, a 71.8% increase from consolidated loans payable - net of current portion of ₱2,316.8 million as at December 31, 2012. The Company entered into additional loan transactions during the course of the year to fund its installment contract receivables under the CTS Gold program.

*Deferred tax liability*

The Company's consolidated deferred tax liability was ₱254.3 million as at December 31, 2013, an 800% increase from consolidated deferred tax liability of ₱31.8 million as at December 31, 2012. This deferred tax liability was attributable to provision for income tax resulting from the delay in the income tax holiday accreditation for certain Company projects. Accreditation for these projects have since been obtained.

## LIQUIDITY AND CAPITAL RESOURCES

The Company mainly relies on the following sources of liquidity: (1) cash flow from operations, (2) cash generated from the sale or transfer of receivables to private financial institutions such as banks or to government housing related institutions such as the Home Development Mutual Fund ("Pag-IBIG"), and (3) financing lines provided by banks. The Company knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. The Company is current on all of its loan accounts, and has not had any issues with banks to date. The Company does not anticipate having any cash flow or liquidity problems over the next 12 months. The Company is not in breach or default on any loan or other form of indebtedness.

The Company expects to meet its operating assets and liabilities, capital expenditure, dividend payment and investment requirements for the next 12 months primarily from its operating cash flows, borrowings and proceeds of the Primary Offer. It may also from time to time seek other sources of funding, which may include debt or equity financings, depending on its financing needs and market conditions.

**Cash Flows**

The following table sets forth selected information from the Company's consolidated statements of cash flows for the periods indicated:

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | ₱ | ₱ | ₱ |
| | | (Audited) | |
| | | *(millions)* | |
| Net Cash Used in Operating Activities | (1,504.7) | (1,985.3) | (2,159.8) |
| Net Cash Used in Investing Activities | (377.8) | (1,266.2) | (4,120.8) |
| Net Cash Provided by Financing Activities | 1,812.1 | 3,320.2 | 6,636.7 |
| Net Increase (Decrease) in Cash on Hand and in Banks | (70.4) | 68.7 | 356.1 |
| Cash on Hand and in Banks at Beginning of Year | 250.7 | 180.3 | 249.0 |
| Cash on Hand and in Banks at End of Year | 180.3 | 249.0 | 605.1 |

***Cash flow used in operating activities***

The Company's consolidated net cash used in operating activities is primarily affected by the revenues generated from its operations, primarily the sale of residential housing units, subdivision lots and MRB condominium units. The Company's consolidated net cash used in operating activities were ₱1,985.2 million and ₱2,159.8 million for the years ended December 31, 2013 and 2014, respectively.

For the year ended December 31, 2014, consolidated net cash flow used in operating activities reflected cash used in the Company's operations.

***Cash flows used in investing activities***

Consolidated net cash flow used in investing activities for the years ended December 31, 2013 and 2014 were ₱1,266.2 million and ₱4,120.8 million, respectively.

For the year ended December 31, 2014, consolidated net cash flow used in investing activities reflected acquisitions of land for future development, as well as purchases of property and equipment.

***Cash flow provided by financing activities***

Consolidated net cash flow provided by financing activities for the years ended December 31, 2013 and 2014 were ₱3,320.2 million and ₱6,636.7 million, respectively.

For the year ended December 31, 2014, consolidated net cash flow provided by financing activities was attributable mainly to the proceeds from the Company's availment of loans during the year and an issuance of shares, as offset by certain loan repayments.

**CAPITAL EXPENDITURES**

The Company's capital expenditures for the years ended December 31, 2013 and 2014 were ₱81.9 million and ₱63.8 million, respectively. The table below sets forth the primary capital expenditures of the Company over the same periods.

| | For the years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2013 | 2014 |
| | ₱ | ₱ | ₱ |
| | | (Audited) | |
| | | *(millions)* | |
| Land | – | 53.8 | – |
| Building | 6.8 | 2.8 | 0.4 |
| Land improvements | – | 0.8 | – |
| Leasehold improvements | 1.9 | 1.1 | 3.0 |
| Furniture and fixtures | 3.0 | 6.4 | 6.0 |
| Machineries and equipment | 0.6 | 8.5 | 43.3 |
| Transportation vehicles | 25.2 | 7.3 | 8.1 |
| Construction-in-progress | – | 1.2 | 0.2 |
| Waterlines | – | – | 2.8 |
| **Total capital expenditures** | **37.5** | **81.9** | **63.8** |

On March 18, 2014, the Company, through 8990 Housing, entered into a contract with San Miguel Corporation to purchase a block of land (including improvements thereon) with an aggregate area of 31, 675 sq. m. located in Cebu City for a total contract price of ₱174,212,500. On the same date, the Company paid a down payment representing 20.0% of the total contract price. The Company will pay the remaining 80.0% of the contract price in 24 equal monthly amortizations. Aside from the transaction described above, the Company has no further pending acquisitions. However, the Company is continuously evaluating available properties for sale.

The Company through 8990 Housing purchased 8.4-hectare land in Tondo, Manila in June 25, 2014 via purchase of shares of stocks from Tondo Holdings, Inc. and Euson Realty and Development Corporation.

In May 19, 2014, the Company through 8990 Housing purchased a lot in Muntinlupa City from Modernland Corporation, a related company. The land is with an area of 1,245 square meters. The Company plans to develop medium-rise condominium in this lot.

The Company also purchased 15-hectare property in Marilao, Bulacan from Vitarich Corporation in 2014.

Aside from the items described in the previous three paragraphs, the Company has no other material commitments for capital expenditure.

**Asset Acquisition**

The assets of both Euson Realty Development Corporation (ERDC) and Tondo Holdings, Inc. (THI) which were acquired by the Company through purchase of shares of stock of the two corporations consist only of two parcels of land and five parcels of land, respectively, with a total land area of 84,731.95 square meters. At the time of acquisition in June 2014, apart from leasing out a portion of the property to a third party, ERDC is not engaged in any business operation. THI is also not engaged in any business operation.

8990 HDC acquired these companies to develop their assets in the future into residential and/or commercial projects.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table sets forth the Company's consolidated contractual obligations and commitments as of December 31, 2014:

| | **Contractual Obligations and Commitments**<br>**Principal Payments Due by Period**<br>*(₱ millions)* | | | |
|---|---|---|---|---|
| | **Total** | **2015** | **2016-2019** | **After 2019** |
| Long-term debt obligations................................ | 6,729.5 | 276.4 | 6,453.1 | - |
| Short-term debt obligations ............................... | 2,104.4 | 2,104.4 | - | - |
| Operating leases................................................. | 5.0 | | | - |
| | | 9.9 [(1)] | 0.5 | |
| **Total**................................................................ | 8,838.9 | 2,390.7 | 6,452.6 | - |

*Notes:*

*(1) Lease obligation only pertains to 8990 Holdings, Inc. on a standalone basis. Lease contracts of other entities are cancellable.*

## KEY PERFORMANCE INDICATORS

The table below sets forth key performance indicators for the Company for the years ended December 31, 2013 and 2014.

| **Key Performance Indicators** | **As of December 31, 2014**<br>**Audited** | **As of December 31, 2013**<br>**Audited** |
|---|---|---|
| Current Ratio | 1.21 | 0.60 |
| Book Value Per Share | 2.70 | 1.42 |
| Debt to Equity Ratio | 0.82 | 1.67 |
| Debt Service Coverage Ratio | 2.98 | 1.64 |
| Asset to Equity Ratio | 1.82 | 2.67 |
| Asset to Debt Ratio | 2.21 | 1.60 |
| Interest Coverage Ratio | 10.12 | 7.01 |
| Gross Income | 59.77% | 63.40% |
| EBITDA Margin | 51.93% | 52.83% |
| Net Income Margin | 42.46% | 40.19% |

## DEBT OBLIGATIONS AND FACILITIES

As of December 31, 2014, the Company's total outstanding indebtedness was ₱8.8 billion, comprised of various short-term and long-term loans mainly from local banks, with interest rates ranging from 3.5% to 6.0% per annum in 2014. The Company's interest rates are either subject to annual repricing or at variable rates. The Company's loans payable have maturities ranging from three months to five years, and are typically secured by receivables under its CTS Gold program, land held for future development, inventories and various properties of the Company.

The Company entered into further financing arrangements in 2014 to fund the balance of its purchase of a 13-hectare property situated in Ortigas Avenue Extension, Barangay Rosario, Pasig City, Metro Manila.

## ACCELERATION OF FINANCIAL OBLIGATIONS

There are no known events that could trigger a direct or contingent financial obligation that would have a material effect on the Company's liquidity, financial condition and results of operations.

**OFF BALANCE SHEET ARRANGEMENTS**

As of the date of this Prospectus, the Company has no material off-balance sheet transactions, arrangements, obligations. The Company also has no unconsolidated subsidiaries.

**INCOME OR LOSSES ARISING OUTSIDE OF CONTINUING OPERATIONS**

The Company has no sources of income or loss coming from discontinued operations. All of its Subsidiaries are expected to continue to contribute to the Company's operating performance on an ongoing basis and/or in the future. However, on August 1, 2014, the Company ceased timeshare selling as the property related to the timeshare business has been sold to Azalea Leisure Residences Corporation (ALRC). In turn, the Company purchased all preferred shares of ALRC, which it intends to sell on secondary market pending necessary approval from the Securities and Exchange Commission, in lieu of timeshare. The purchaser of the said preferred share will have a perpetual right to occupy one unit of now ALRC's vacation hotel for a specific number of days in a year, same rights under timeshare previously sold by the Company.

On its hotel operations, since all preferred shares of ALRC has been purchased by the Company, this allows the Company to continue its hotel operations until such time that all preferred shares have been sold to secondary purchasers.

**QUALITATIVE AND QUANTITATIVE DISCLOSURE OF MARKET RISK**

**Credit Risk**

The Company is exposed to credit risk from its in-house financing program. Credit risk is the risk of loss that may occur from the failure of a customer to abide by the terms and conditions of the customer's financial contract with the Company, principally the failure to make required payments on amounts due to the Company. The Company attempts to mitigate credit risk by measuring, monitoring and managing the risk for each customer seeking to obtain in-house financing. The Company has a structured and standardized credit approval process, which includes an examination of documents such as certificate of employment and compensation, pay slips, other sources of income supported by bank account statements, contract of employment for OFWs, proof of remittance and income tax returns. From time to time, the Company sells its receivables to certain banks with recourse.

**Liquidity Risk**

The Company faces the risk that it will not have sufficient cash flows to meet its operating requirements and its financing obligations when they come due.

To better manage its liquidity risk as well as improve its cash conversion cycle, the Company currently has take-out arrangements with Pag-IBIG where it will transfer its receivables under the CTS Gold Convertible program within four years in exchange for cash. The acceptance or rejection of a CTS receivable by Pag-IBIG is based on certain guidelines of Pag-IBIG such as employment, number of contributions made by the homeowner/Pag-IBIG member, net disposable income, etc. The Company believes that substantially all of its historic requests for take-outs have been accepted by Pag-IBIG.

In addition, the Company is also pursuing various sustainable strategies to better manage its liquidity profile. These include the sale to institutions (such as banks or government housing agencies) or the securitization of portions of the Company's receivables portfolio.

**Interest Rate Risk**

Fluctuations in interest rates could negatively affect the margins of the Company in respect of its sales of receivables and could make it more difficult for the Company to procure new debt on attractive terms, or at all. The Company currently does not, and does not plan to, engage in interest rate derivative or swap activity to hedge its exposure to increases in interest rates.

Fluctuations in interest rates also have an effect on demand for the Company's products. As most of the Company's customers obtain some form of financing for their real estate purchases, interest rate levels could affect the affordability and desirability of the Company's subdivision lots and housing and condominium units. Increased inflation, fluctuations in interest rates, changes in Government borrowing patterns and Government regulations could have a material adverse effect on the Company's and its customers' ability to obtain financing."

**Commodity Risk**

As a property developer, the Company is exposed to the risk that prices for construction materials used to build its properties (including, among others, cement and steel) will increase. These materials are global commodities whose prices are cyclical in nature and fluctuate in accordance with global market conditions. The Company is exposed to the risk that it may not be able to pass its increased costs to its customers, which would lower the Company's margins. The Company does not engage in commodity hedging, but attempts to manage commodity risk by generally requiring its construction and development contractors to supply raw materials for the relevant construction and development projects (and bear the risk of price fluctuations).

**SEASONALITY**

There is no significant seasonality in the Company's sales. However, sales are sometimes affected by reasons which also have an impact on delinquencies as described below. Delinquencies on the Company's receivables from homebuyers tend to increase in the months of June and December. During these months, the Company's customers' cash flows are impacted by the need to make tuition payments in June for their children's schooling and by Christmas Holiday-related expenditures in December. The Company mitigates this seasonality in collections by instituting credit and collection policies that encourage homebuyers to prioritize their amortization payments to the Company over other expenditures. These include incentives (i.e. vouchers for school supplies or Christmas season shopping at local stores that are given to homebuyers who are timely in their amortization payments) and remedial measures (i.e. fines for late amortization payments). For the most part, any fluctuations in delinquencies in June and December normalize in the succeeding month or two as homebuyers update their payments. Additionally, the Company tends to experience higher operating expenses during the fourth quarter of the year related to payments of year-end compensation, incentives and/or bonuses, whether required by law or based on internal polices, to executives, employees and salespersons, as well as other expenses.

# INDUSTRY

*The information set out in this section "Industry" has been extracted from "The Housing Industry Road Map of the Philippines: 2012-2030," a publicly available report by the SHDA in partnership with the CRC dated February 4, 2014.*

## PHILIPPINE HOUSING SECTOR

### General Demographics and Economic Outlook

The Philippines' underlying demographic trends are expected to remain supportive of continued growth in the housing sector. The Philippines' population size was approximately 95 million as of 2011 and is expected to reach approximately 126 million by 2030, according to the United Nations. In terms of the number of households, the Philippines is expected to see an increase of approximately 6.3 million additional households by 2030.

TABLE 1. PROJECTED POPULATION OF THE PHILIPPINES 2011–2030 (IN MILLIONS)

| Year | Population | Households |
|---|---|---|
| 2011 .................................. | 94.95 | 18.96 |
| 2015 .................................. | 101.42 | 20.28 |
| 2020 .................................. | 109.74 | 21.94 |
| 2025 .................................. | 118.19 | 23.61 |
| 2030 .................................. | 126.32 | 25.26 |

*Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, National Statistics Office of the Philippines (NSO)*

The Philippines' economy remained resilient throughout the 2008-09 financial crisis, with GDP continuing to grow (albeit at a slower rate) prior to rebounding strongly in 2010 at a record growth of 7.6%, according to the National Statistical Coordination Board of the Philippines (NSCB).

### Housing Supply Classifications and Required Income Estimates

The SHDA (Subdivision and Housing Developers Association) in partnership with the Center for Research and Communication at University of Asia and the Pacific has undertaken a study ("The Housing Industry Road Map of the Philippines: 2012-2030"), which classifies the overall housing supply in the Philippines into five different categories (socialized, economic, low cost, mid income, and high end). The price ranges upon which this classification is based are detailed in the table below. The SHDA report highlights that, aside from the prices, different segments also vary in loan terms and interest rates e.g., socialized housing, where most buyers come from lower-income classes, typically has a lower interest rate and longer loan term.

TABLE 2. HOUSING SUPPLY CLASSIFICATIONS

| Segments | Price Range (in pesos) | | Housing Price Used (in pesos) | Interest Rate | Term (years) | Loan Value |
|---|---|---|---|---|---|---|
| Socialized Housing .................. | Below | 400,000[1] | 300,000 | 6.0% | 25 | 100% |
| Economic Housing................... | 400,001[1] | 1,250,000 | 400,000 | 8.5% | 20 | 90% |
| Low Cost................................. | 1,250,001 | 3,000,000 | 1,250,000 | 10.5% | 20 | 80% |
| Mid End .................................. | 3,000,001 | 6,000,000 | 3,000,000 | 10.5% | 15 | 80% |
| High End.................................. | 6,000,001 | and above | 6,000,000 | 10.5% | 15 | 80% |

*Sources: SHDA, Various banks as cited in "The Housing Industry Road Map of the Philippines: 2012-2030"*

*Note 1: Subsequent to "The Housing Industry Road Map of the Philippines: 2012-2030" study, the price ceiling for socialized housing was revised to ₱450k by HUDCC (Housing & Urban Development Coordinating Council)*

From the price range and loan terms indicated above, the annual amortization for each category and required minimum income for a home buyer in each category were derived assuming a 30% threshold for annual amortization as a percentage of annual household income.

TABLE 3. REQUIRED INCOME FOR EACH HOUSING SEGMENT

| Segments | Annual Amortization | Required Annual Income | Required Annual Income[1] |
|---|---|---|---|
| Socialized Housing | 23,468.02 | 78,226.72 | At least 78,000 |
| Economic Housing | 38,041.55 | 126,805.17 | At least 130,000 |
| Low Cost | 121,493.27 | 404,977.55 | At least 405,000 |
| Mid End | 324,595.20 | 1,081,984.01 | At least 1,100,000 |
| High End | 649,190.41 | 2,163,968.02 | At least 2,200,000 |

*Sources: SHDA, Center for Research and Communication (University of Asia and the Pacific)*

*Note 1: Rounding to facilitate easier matching with the income survey of NSO*

**Household Breakdown by Region and Income Groups**

The table below shows the breakdown of number of households by income groups per region across the Philippines based on the 2009 Family and Income Expenditure Survey (FIES) conducted by NSO.

TABLE 4. 2009 FIES HOUSEHOLDS BY INCOME GROUP PER REGION

| | TOTAL | Below ₱78,000 | ₱78,000 – ₱130,000 | ₱130,000 – ₱405,000 | ₱405,000– ₱1.1million | ₱1.1million – ₱2.2million | ₱2.2million and above |
|---|---|---|---|---|---|---|---|
| Total | 18,451,541 | 4,251,817 | 4,640,804 | 7,592,152 | 1,776,243 | 160,872 | 29,653 |
| NCR | 2,460,918 | 50,946 | 239,218 | 1,537,027 | 543,861 | 79,312 | 10,554 |
| CAR | 321,992 | 72,250 | 71,640 | 138,483 | 36,476 | 2,426 | 717 |
| I - Ilocos | 1,004,892 | 199,774 | 307,872 | 419,886 | 73,938 | 1,331 | 2,091 |
| II - Cagayan Valley | 652,600 | 168,837 | 197,734 | 237,624 | 42,453 | 4,476 | 1,476 |
| III - Central Luzon | 2,027,521 | 230,499 | 480,811 | 1,101,187 | 204,222 | 8,824 | 1,978 |
| IVA – CALABARZON | 2,405,620 | 265,491 | 513,213 | 1,304,841 | 297,921 | 22,121 | 2,033 |
| IVB - MIMAROPA | 589,857 | 205,732 | 177,666 | 176,854 | 28,956 | 649 | - |
| V - Bicol | 1,069,710 | 331,416 | 367,872 | 312,515 | 53,013 | 4,325 | 569 |
| VI - Western Visayas | 1,452,186 | 440,474 | 439,403 | 471,948 | 97,059 | 2,200 | 1,102 |
| VII - Central Visayas | 1,373,932 | 408,864 | 340,954 | 493,708 | 118,214 | 11,181 | 1,011 |
| VIII - Eastern Visayas | 864,802 | 337,422 | 251,119 | 214,474 | 55,455 | 3,726 | 2,606 |
| IX - Zamboanga Peninsula | 661,974 | 289,860 | 172,783 | 160,602 | 33,906 | 4,083 | 740 |
| X – Northern Mindanao | 839,110 | 313,201 | 214,636 | 245,245 | 60,372 | 4,261 | 1,395 |
| XI – Davao | 883,528 | 264,304 | 243,901 | 318,002 | 51,413 | 4,791 | 1,117 |
| XII - SOCCSKSARGEN | 800,762 | 285,644 | 234,230 | 229,626 | 45,584 | 4,294 | 1,384 |
| XIII - Caraga | 470,371 | 189,244 | 132,529 | 121,570 | 23,912 | 2,236 | 880 |
| ARMM | 571,766 | 197,859 | 255,223 | 108,560 | 9,488 | 636 | - |

*Source: NSO as cited in "The Housing Industry Road Map of the Philippines: 2012-2030" report by SHDA, Center for Research and Communication (University of Asia and the Pacific)*

The projected growth in number of households up to 2030 in the table below indicates that the number of households in the income groups that would qualify for mass housing (socialized + economic + low cost) (i.e., household income range of ₱78,000to ₱1.1million) are expected to increase by approximately 5.2 million from 2010 to 2030, comprising approximately 76% of the total number of household increases over the same period.

TABLE 5. HOUSEHOLD INCREASES PER INCOME GROUPINGS

| | Below ₱78,000 | ₱78,001–₱130,000 | ₱130,001 – ₱405,000 | ₱405,001–₱1.1m | ₱1.1m – ₱2.2m | ₱2.2m and above | TOTAL |
|---|---|---|---|---|---|---|---|
| 2001 | 107,348 | 76,001 | 111,049 | 23,496 | 1,944 | 257 | 320,095 |
| 2002 | 109,597 | 77,594 | 113,376 | 23,988 | 1,984 | 262 | 326,802 |
| 2003 | 111,894 | 79,220 | 115,752 | 24,491 | 2,026 | 267 | 333,650 |
| 2004 | 114,239 | 80,880 | 118,178 | 25,004 | 2,068 | 273 | 340,642 |
| 2005 | 116,633 | 82,575 | 120,654 | 25,528 | 2,112 | 279 | 347,781 |
| 2006 | 154,088 | 109,093 | 159,401 | 33,726 | 2,790 | 368 | 459,466 |
| 2007 | (372,947) | 126,413 | 378,978 | 120,866 | 13,335 | 3,776 | 270,421 |
| 2008 | (845,128) | 203,782 | 696,849 | 231,012 | 25,965 | 7,569 | 320,049 |
| 2009 | (366,589) | 178,422 | 478,608 | 146,895 | 15,894 | 4,359 | 457,590 |
| 2010 | 2,289 | 2,498 | 4,087 | 956 | 87 | 16 | 9,934 |
| 2011 | 115,959 | 126,568 | 207,060 | 48,443 | 4,387 | 809 | 503,226 |
| 2012 | 74,591 | 81,415 | 133,192 | 31,161 | 2,822 | 520 | 323,703 |
| 2013 | 75,651 | 82,572 | 135,084 | 31,604 | 2,862 | 528 | 328,301 |
| 2014 | 76,112 | 83,075 | 135,907 | 31,796 | 2,880 | 531 | 330,301 |
| 2015 | 76,296 | 83,276 | 136,236 | 31,873 | 2,887 | 532 | 331,101 |
| 2016 | 76,342 | 83,326 | 136,318 | 31,893 | 2,888 | 532 | 331,300 |
| 2017 | 76,572 | 83,578 | 136,730 | 31,989 | 2,897 | 534 | 332,300 |
| 2018 | 76,665 | 83,678 | 136,894 | 32,027 | 2,901 | 535 | 332,700 |
| 2019 | 76,849 | 83,880 | 137,223 | 32,104 | 2,908 | 536 | 333,500 |
| 2020 | 76,941 | 83,980 | 137,388 | 32,143 | 2,911 | 537 | 333,900 |
| 2021 | 76,987 | 84,030 | 137,470 | 32,162 | 2,913 | 537 | 334,100 |
| 2022 | 76,987 | 84,030 | 137,470 | 32,162 | 2,913 | 537 | 334,100 |
| 2023 | 76,987 | 84,030 | 137,470 | 32,162 | 2,913 | 537 | 334,100 |
| 2024 | 76,849 | 83,880 | 137,223 | 32,104 | 2,908 | 536 | 333,500 |
| 2025 | 76,711 | 83,729 | 136,976 | 32,047 | 2,902 | 535 | 332,900 |
| 2026 | 76,572 | 83,578 | 136,730 | 31,989 | 2,897 | 534 | 332,300 |
| 2027 | 76,296 | 83,276 | 136,236 | 31,873 | 2,887 | 532 | 331,101 |
| 2028 | 75,973 | 82,924 | 135,660 | 31,739 | 2,875 | 530 | 329,701 |
| 2029 | 75,513 | 82,421 | 134,838 | 31,546 | 2,857 | 527 | 327,702 |
| 2030 | 74,960 | 81,818 | 133,850 | 31,315 | 2,836 | 523 | 325,302 |
| **TOTAL** | 69,7237 | 2,725,545 | 5,092,887 | 1,310,099 | 127,449 | 28,347 | 9,981,564 |

*Source: "The Housing Industry Road Map of the Philippines: 2012-2030" report by SHDA, Center for Research and Communication (University of Asia and the Pacific) which used data from HLURB, HUDCC, UN World Population Prospects, NSO and computation by the authors of the same report*

**Housing Backlog by Segment and Region**

According to "The Housing Industry Road Map of the Philippines: 2012-2030" report by SHDA in partnership with Center for Research and Communication (University of Asia and the Pacific), the total housing backlog in the Philippines as of 2011 registered at approximately 3.9 million households. Mass housing comprised approximately 79% of this housing backlog, particularly in the economic housing segment (up to ₱1.25million unit price).

The table below shows the distribution of housing surplus/(deficit) in various regions of the Philippines. For the economic housing segment, all regions across the Philippines showed a housing supply deficit, with NCR (Metro Manila) needing an estimated 267,418 housing units in this segment, the highest across all regions. For the socialized housing segment, Autonomous Region of Muslim Mindanao ("ARMM") region registered the highest shortage, with a deficit of 130,156 housing units. Metro Manila also had high deficit in the low-cost segment, with 86,550 housing units. On the other hand, Metro Manila had a surplus of 89,869 housing units and 84,818 units in the mid-income and high-end segments respectively. This provides an indication of how the housing supply in Metro Manila has historically been focused more on mid-income and high-end segments.

TABLE 6. REGIONAL ANALYSIS HOUSING SURPLUS/DEFICIT BY SEGMENTS

| | Socialized | Economic | Low Cost | Mid | High End |
|---|---|---|---|---|---|
| Total | (663,282) | (1,962,077) | (462,160) | 250,403 | 224,011 |
| NCR | 125,882* | (267,418) | (86,550) | 89,869 | 84,818 |
| CAR | (13,703) | (44,223) | (12,418) | 751 | 999 |
| I – Ilocos | (56,148) | (170,177) | (37,869) | 3,802 | 898 |
| II - Cagayan Valley | (42,780) | (81,967) | (15,618) | (3,208) | (8,30) |
| III - Central Luzon | 35,667 | (220,405) | (26,627) | 51,653 | 41,117 |
| IVA - CALABARZON | 111,899 | (211,298) | (45,877) | 68,650 | 61,066 |
| IVB - MIMAROPA | (59,968) | (83,866) | (17,157) | 123 | 206 |
| V - Bicol | (123,076) | (114,442) | (21,434) | 3,485 | 3,017 |
| VI - Western Visayas | (99,965) | (146,938) | (36,327) | 18,466 | 13,555 |
| VII - Central Visayas | (63,151) | (142,493) | (49,081) | 15,123 | 15,780 |
| VIII - Eastern Visayas | (107,576) | (72,175) | (25,060) | 650 | (1,114) |
| IX - Zamboanga Peninsula | (73,056) | (42,527) | (9,413) | (448) | 339 |
| X - Northern Mindanao | (38,902) | (81,145) | (18,776) | 3,586 | 1,427 |
| XI - Davao | (41,413) | (95,773) | (12,698) | 1,515 | 3,403 |
| XII - SOCCSKSARGEN | (48,858) | (88,679) | (28,278) | (2,983) | (265) |
| XIII - Caraga | (37,976) | (39,237) | (13,336) | (523) | (404) |
| ARMM | (130,156) | (59,313) | (5,642) | (109) | - |

*Sources: "The Housing Industry Road Map of the Philippines: 2012-2030" report by SHDA, Center for Research and Communication (University of Asia and the Pacific), which used data from HLURB, HUDCC, UN World Population Prospects, NSO and computation by authors of the same report*

** "The Housing Industry Road Map of the Philippines: 2012-2030" report by SHDA, Center for Research and Communication (University of Asia and the Pacific) mentions that it is highly improbable that there will be a surplus of socialized housing units in NCR as, based on the estimates of NHA, there are over 544,000 informal settlers alone. It is also mentioned in the same report that inquiries done by authors of the SHDA report with developers indicate that the number of housing units for socialized housing in NCR may be an overestimate, given that HLURB records a minimal 20% compliance of Manila-based developers putting up socialized housing units in NCR.*

In order to derive housing needs from 2012-2030, the authors of "The Housing Industry Road Map of the Philippines: 2012-2030" report used the FIES 2009 and population projections data of the United Nations to derive the increase in household per income bracket, as indicated beforehand. The increase in household was also grouped according to the respective housing segments. Based on this analysis, from 2012 to 2030 approximately 6.2 million housing units will be required to address the housing needs in the Philippines. Mass housing demand is expected to comprise approximately 76% of this expected housing need (41% for economic housing, 25% for socialized housing and 10% for low cost housing). On the other hand, the mid-income housing segment and high-end segments are projected to account for only approximately 1% and 0.2%, respectively, of new housing demand from 2012 to 2030. In terms of housing supply projections, the report assumes that production will average 200,000 units every year from 2012 to 2030.

Based on the above key assumptions and calculations in the report, housing backlog in the Philippines is projected to persist and grow to reach 6.5 million households by 2030.

TABLE 7. HOUSING DEMAND AND SUPPLY PROFILE, 2001–2011

| Market segment | Housing demand | Housing supply | Surplus/(Deficit) |
|---|---|---|---|
| Socialized Housing | 1,143,048 | 479,765 | (663,283) |
| Economic Housing | 2,503,990 | 541,913 | (1,962,077) |
| Low Cost Housing | 704,406 | 242,246 | (462,160) |
| Mid Cost Housing | 72,592 | 322,995 | 250,403 |
| High End Housing | 18,235 | 242,246 | 224,011 |
| | | | |
| THOSE WHO CAN'T AFFORD | | | 832,046 |
| HOUSING BACKLOG 2001–2011 | | | 3,087,520 |
| TOTAL HOUSING BACKLOG (2011) | | | 3,919,566 |

*Source: "The Housing Industry Road Map of the Philippines: 2012-2030" - Subdivision and Housing Developers Association of the Philippines*

TABLE 8. ESTIMATED BACKLOG BY 2030

| Particulars | Units Per Year | No. of Years | Total Units |
|---|---|---|---|
| Current Housing Backlog ........................................................ | | | 3,919,566 |
| Est. new housing need (2012-2030)......................................... | 345,941 | 18 | 6,226,540 |
| Housing production capacity ................................................... | 200,000 | 18 | (3,600,000) |
| Backlog by 2030....................................................................... | | | 6,546,106 |

*Source: "The Housing Industry Road Map of the Philippines: 2012-2030" - Subdivision and Housing Developers Association of the Philippines*

# INDEPENDENT AUDITORS

The consolidated financial statements of the Company as of and for the years ended December 31, 2012, 2013, and 2014 were audited by SGV & Co., a member firm of Ernst & Young Global Limited, independent auditors, in accordance with PSA, as stated in their report appearing herein.

SGV & Co. has acted as the Company's external auditor since 2012. Janeth T. Nuñez is the current audit partner for the Company and has served as such since 2012. The Company has not had any material disagreements on accounting and financial disclosures with its current external auditor for the same periods or any subsequent interim period. SGV & Co. has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. SGV & Co. will not receive any direct or indirect interest in the Company or its securities (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by SGV & Co., excluding fees directly related to the Offer.

| | 2012 | 2013[3] | 2014 |
|---|---|---|---|
| | (₱) | | |
| Audit and Audit-Related Fees[1] .............................. | 10,961,500 | 11,000,000 | 8,500,000 |
| All Other Fees[2] | | 1,100,000 | 850,000 |
| Total......................................................................... | 10,961,500 | 12,100,000 | 9,350,000 |

(1) *Audit and Audit-Related Fees. This category includes the audit of annual financial statements, review of interim financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings or engagements for those calendar years.*

(2) *All other fees above include out-of-pocket expenses incidental to the independent auditors' work, the amounts of which do not exceed 15% of the agreed-upon engagement fees.*

(3) *Billed fees for the interim review engagement of the Company's September 30, 2013 and June 30, 2013 interim consolidated financial statements.*

In relation to the audit of the Company's annual financial statements, the Company's Corporate Governance Manual provides that the audit committee shall, among other activities (i) evaluate significant issues reported by the external auditors in relation to the adequacy, efficiency and effectiveness of policies, controls, processes and activities of the Company; (ii) ensure that other non-audit work provided by the external auditors are not in conflict with their functions as external auditors; and (iii) ensure the compliance of the Company with acceptable auditing and accounting standards and regulations.

# BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The overall management and supervision of the Company is undertaken by the Company's Board of Directors. The Company's executive officers and management team cooperate with its Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. Pursuant to the Company's current articles of incorporation, the Board consists of thirteen (13) members. As of the date of this Prospectus, two members of the Board are independent directors. Except for Mr. Manuel S. Delfin, Jr. who was elected to the Board on September 2, 2014, all of the directors were re-elected at the Company's annual shareholders meeting on July 28, 2014 and will hold office for a period of one (1) year from their election and until their successors have been duly elected and qualified.

The table below sets forth each member of the Company's Board as of the date of this Prospectus.

| Name | Age | Nationality | Position |
|---|---|---|---|
| Mariano D. Martinez, Jr............ | 60 | Filipino | Chairman of the Board |
| Januario Jesus Gregorio III Atencio .................................... | 53 | Filipino | President, CEO and Director |
| Luis N. Yu, Jr. ......................... | 59 | Filipino | Chairman Emeritus and Director |
| Anthony Vincent S. Sotto ......... | 39 | Filipino | Director |
| Willibaldo J. Uy....................... | 56 | Filipino | Independent Director |
| Arlene C. Keh .......................... | 47 | Filipino | Independent Director |
| Manuel S. Delfin, Jr. | 54 | Filipino | Director |
| Lowell L. Yu | 38 | Filipino | Director |
| Raul Fortunato R. Rocha | 62 | Filipino | Director |
| Richard L. Haosen | 51 | Filipino | Director, Treasurer and Chief Financial Officer |
| Ian Norman E. Dato | 36 | Filipino | Director |
| Ben Chan Wei Beng | 48 | Malaysian | Director |
| Dominic J. Picone | 36 | American | Director |

The business experience of each of the directors for the last five years is set forth below.

**Mariano D. Martinez, Jr.**
*Chairman of the Board*

Mr. Martinez assumed chairmanship of the Company in September 2012. He is the President and CEO of 8990 Luzon Housing Development Corp. (2008 to present), and Ceres Homes, Inc. (2002 to present). He is also the President of Kwantlen Development Corporation (2010 to present), and Fog Horn, Inc. (2004 to present). Mr. Martinez had previously held the position of President for Happy Well Management & Collection Services Inc. (2008) and BP Waterworks Incorporated (1997). He is currently a Board Advisor to the SHDA, the largest industry organization for real estate developers in the Philippines. He held the positions of Chairman (2001-2002) and President (1999-2001) for the SHDA. Mr. Martinez holds a Bachelor of Science in Business Management degree from De La Salle College (1976). Mr. Martinez has more than 30 years of experience managing and heading companies engaged in Mass Housing subdivision development.

**Januario Jesus Gregorio III B. Atencio**
*President, CEO and Director*

Mr. Atencio became the President, CEO and Director of the Company in September 2012. He is currently the Chairman of Januarius Resources Realty Corporation. Mr. Atencio is also the President and CEO of 8990 Housing Development Corporation, 8990 Commercial Management Corporation and DECA Wakeboard Park (2005 to present). He holds directorship positions in eight (8) other real estate subsidiaries of 8990 Housing Development Corporation. Mr. Atencio is presently a member of the HUDCC, the highest policy-making body of the Government for shelter and human settlements, as a representative of the private sector. He was the National President (2002 to 2003) and National Chairman (2003 to 2004), and currently a member of the Board of Governors of the SHDA. Mr. Atencio completed the International Housing Finance Course at Wharton School of Business, University of Pennsylvania, USA (2011), and the Applied Business Economics Program (post-graduate) at the Center for Research and Communications (University of Asia and the Pacific). He holds a Bachelor of Arts degree in Psychology from the Ateneo de Manila University. Mr. Atencio has more than 20 years of experience managing and heading companies engaged in Mass Housing subdivision development.

**Luis N. Yu, Jr.**
*Chairman Emeritus and Director*

Mr. Yu became a director of the Company in July 2012. Mr. Yu is the Founder and Chairman Emeritus of the Company. Mr. Yu is also the Chairman Emeritus of IHoldings, Inc. (2012 to present). He is also the Chairman of 8990 Cebu Housing Development Corporation, 8990 Visayas Housing Development Corporation, 8990 Davao Housing Development Corporation, 8990 Mindanao Housing Development Corporation, 8990 Iloilo Housing Development Corporation and 8990 Luzon Housing Development Corporation (2009 to present), 8990 Housing Development Corporation (2006 to present), Ceres Homes, Inc. (2002 to present), N&S Homes, Inc. (1998 to present), L&D Realty Holdings, Inc. (1998 to present), and Fog Horn (1994 to present). Mr. Yu is currently the President of DECA Housing Corporation (1995 to present). Mr. Yu holds a Master in Business Management degree from the Asian Institute of Management. Mr. Yu has more than 30 years of experience managing and heading companies engaged in Mass Housing subdivision development.

**Anthony Vincent S. Sotto**
*Director*

Mr. Sotto became a director of the Company in August 2012. He is currently the General Manager of 8990 Housing Development Corporation (June 2012 to present). He is also a Partner at the Rosal Castillo Diaz Bacalla Sotto and Fortuna Law Offices based in Cebu City (2011 to present). Prior to his current positions, Mr. Sotto served as Assistant General Manager for 8990 Housing Development Corporation (2003 to June 2012), and as Associate lawyer at the Solis and Medina Law Offices (2001-2002). Mr. Sotto holds a Bachelor of Laws (LI.B) degree from the University of the Philippines (2001), and a Bachelor of Arts in Political Science degree from the University of the Philippines-Cebu College (1997).

**Willibaldo J. Uy**
*Independent Director*

Mr. Uy became an independent director of the Company in August 2012. Mr. Uy presently holds concurrent positions with the Phinma Group of Companies. He is currently the President and CEO of Phinma Property Holdings Corporation, President of Asian Plaza Inc., Senior Vice President of Philippine Investment Management(Phinma), Inc., Executive Vice President of T-O Insurance Brokers, Inc., Vice President and Treasurer of Mariposa Properties, Inc., Member of the Board of Directors/Trustees for Microtel Development Corporation, Phinma BPO, Union Galvasteel Corporation, Trans-Asia Renewable Energy Corporation, Phinma Foundation, Inc. and Mariposa Foundation, Inc. Mr. Uy also holds the position of President and Chairman of the Board of Rockwell Center Association, Inc. He is also the Managing Director of CMTC International Marketing Corporation, Treasurer and Director for American Home Appliance Marketing Corporation, le Becarre International Corporation, Harritex Industrial Corporation, Director of Harrison Industrial Corporation, Southeast Asia Tour and Travel Corporation, Emerald Headway Distributors, Inc., Philippine Retirement, Inc., the SHDA, SHDA Guaranty Funds, Inc., Microventures, Inc. and Treasurer for Coalition for the Homeless Foundation, Inc. Mr. Uy completed the Executive Program from the National University of Singapore and University of California, Los Angeles (1992). He has a Master in Business Administration from the Ateneo Graduate School of Business (1986) and a degree of Bachelor of Science in Marketing Management from the De la Salle University (1979).

**Arlene C. Keh**
*Independent Director*

Ms. Keh became an independent director of the Company in August 2012. Ms. Keh holds the position of President of CG & E Holdings Corporation, Cypress Grove Estates Corporation, and CGE South Hills Ventures, Incorporated. She is also the Managing Director of Ceres Homes, Incorporated, Director and Treasurer of C-S Mansions and Development Corporation and Alabang Homes Condotel, Inc. Ms. Keh is a member of the Board of Governors of the SHDA, consultant to the Board of Directors of SM Foundation, Incorporated, and a member of the Board of Directors/Trustees of Foundation for Professional Training, Inc., Asian Appraisal Company, Incorporated and Amalgamated Project Management Services, Inc. Ms. Keh holds a Masters in Business Administration from the J.L. Kellogg Graduate School of Management, Northwestern University, Chicago Illinois, USA and the Hong Kong University of Science and Technology, Clearway Bay, Hong Kong. She has a Bachelor of Science in Biology degree (Summa Cum laude) from the University of the Philippines, where she also earned the Dean’s Medal for the Highest Academic Achievement.

**Manuel S. Delfin, Jr.**
*Director*

Dr. Delfin is currently a partner in Allied Ophthalmic Consultants. He is also a consultant and the Vice-Chairman of the Department of Ophthalmology in Manila Doctors Hospital. He is also a consultant in Patients First Medical Center. Apart from his medical affiliations, he is also currently serving the following positions: (i) Corporate Secretary of UP Medical Foundation; (ii) President of Lakan Bakor Foundation; (iii) Treasurer of Philippine Glaucoma Society; (iv) Assistant Secretary of Philippine Glaucoma Foundation; (v) Director of Happy Wells Management & Corp.; and (vi) Director of 77 Avenida Corp. Dr. Delfin graduated with a bachelor’s degree in Zoology from the University of the Philippines Diliman, cum laude, in 1982. He obtained his medical degree from the University of the Philippines College of Medicine in 1986. He also obtained his residency from the same university in 1990. He obtained his fellowship in Glaucoma from California Pacific Medical Center, USA, under Dr. Dr. Robert L. Stamper MD and Dr. Marc F. Lieberman MD.

**Lowell L. Yu**
*Director*

Mr. Yu, 37 years old, is currently the President of iHoldings Inc. He also holds chairmanship positions at 77 Living Spaces, Inc, Grand Majestic Convention City Corp., 101 Restaurant City, Inc., iKitchen Inc., MyMarket, Inc. and Govago, Inc. He is also a founding partner of Dato and Yu Law offices. He previously worked as an AVP of Business Development of Earth+Style/Quantuvis Resources. Atty. Yu Holds Masters in Management from the Asian Institute of Management and a Bachelor of Laws from Siliman University.

**Raul Fortunato R. Rocha**
*Director*

Mr. Rocha, 61 years old, was born in Tabaco Albay on August 28, 1953. A banker for fourteen years and a businessman with businesses that include real estate development and leasing. He is currently the president of LYRR Realty Development Corporation and Naga Queenstown Realty and Development Inc. He is also the Chairman of the Board of Directors of Tabaco Port Cargo Corp. He graduated from Divine Word College Legazpi City in 1976 with a degree of BSC Major in Management. He is a member of various organizations like Rotary Club of Naga East, Metro Naga Chamber of Commerce and Industry and Kapisanan ng mga Broadcaster ng Pilipinas (KBP).

**Richard L. Haosen**
*Director, Treasurer, and Chief Financial Officer*

Mr. Richard L. Haosen, 50 years old, assumed the position of Chief Financial Officer of the Company in March 2014. Mr. Haosen is also currently serving as the General Manager of 8990 Housing. Prior to his current positions, he served as General Manager of the Treasury for 8990 Housing. Before joining the Company in 2010, he served as the Vice President/Division Head of the Business Lending Division – Cebu and the Business Lending Group – Visayas/Mindanao of Metropolitan Bank and Trust Company (MBTC) from 2006 to 2010. He also served as Unit Head of MBTC Cebu Account Management Unit from 2005 to 2006, and as Account Officer of MBTC Cebu Downtown Center Branch from 1994 to 2005. Mr. Haosen obtained his license as a Certified Public Accountant in 1982. He also has a degree in B.S. Commerce, major in Accounting from the Ateneo de Davao University (1982).

**Ian Norman E. Dato**
*Director*

Mr. Dato, 35 years old, is the Managing Partner of Dato Inciong & Associates. He is also an incumbent director of IKitchen, Inc. and MyMarket, Inc. and an incoming one (pending approval by the Monetary Board) of First Naga Rural Bank, Inc. He is Corporate Secretary to 27 corporations. His experience in private law practice includes Ponce Enrile Reyes & Manalastas Law Offices (2012) and Kalaw Sy Vida Selva & Campos (2005-2006). He was in government service between 2003 and 2010 in various capacities, such as: Undersecretary of Justice (2010), Undersecretary of Political Affairs (2008-2010), Assistant Secretary of Political Affairs (2007-2008), and Director in the Presidential Legislative Liaison Office in the Office of the President of the Philippines (2003-2005). He has a Master of Laws degree from University College of London where he graduated with merit in 2011. He obtained his *Juris Doctor* from the Ateneo de Manila University School of Law and a degree in Political Science from the University of the Philippines Diliman. He is a member of the UCL Alumni Association, International Visitors Leadership Program Alumni of the U.S. Department of State, and Chevening Alumni of the Foreign & Commonwealth Office of the United Kingdom.

**Ben Chan Wei Beng**
*Director*

Mr. Chan, 47 years old, is currently an Executive Director of Investments in Khazanah Nasional Berhad ("Khazanah"). He joined Khazanah in June 2005 and was appointed an Executive Director in April 2008. Mr. Chan oversees Khazanah's investments in Greater China, Vietnam, Korea and Philippines as well as the reinsurance sector. He also serve on boards of some the investee companies. Prior to joining Khazanah, Mr. Chan was the Director of Research at several investment houses covering both the China and Southeast Asian markets. Mr. Chan is a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Commerce (with merit) from the University of New South Wales, Australia.

**Dominic J. Picone**
*Director*

Mr. Picone, 35 years old, is a Principal and Head of Asia Financial Services (ex. India) at TPG Capital, based in Singapore. In addition to 8990, he has been involved with current and past TPG portfolio companies including BFI Finance, Masan Group, Fairmont Raffles Hotels, Bank BTPN, United Test & Assembly Center (UTAC), and CIMB. He is an alternate board member of UTAC Holdings, and serves on the audit, risk, and compensation committees of BFI Finance. Prior to joining TPG in 2005, Mr. Picone worked in the Investment Banking Division of Credit Suisse First Boston in Melbourne, primarily focused on mergers and acquisitions in Australia and New Zealand. A native of Australia, he received a Bachelor of Commerce (Honours – Finance) and a Bachelor of Laws from the University of Melbourne.

The table below sets forth the Company's officers as of the date of this Prospectus.

| Name | Age | Nationality | Position |
|---|---|---|---|
| Januario Jesus Gregorio III Atencio .................................... | 53 | Filipino | President and CEO |
| Richard L. Haosen .................... | 51 | Filipino | Treasurer and Chief Financial Officer |
| Teresa C. Secuya ...................... | 53 | Filipino | Compliance Officer |
| Cristina S. Palma Gil-Fernandez ................................................. | 46 | Filipino | Corporate Secretary |
| Kristina Joyce C. Caro-Gañgan | 33 | Filipino | Asst. Corporate Secretary |
| Mohammad Taha S. Basman II | 29 | Filipino | Investor Relations Officer |

The business experience of each of the key executive and corporate officers for the last five years is set forth below.

**Januario Jesus Gregorio III B. Atencio**
*President and Chief Executive Officer*
Please refer to the table of Directors above.

**Richard L. Haosen**
*Chief Financial Officer*
Please refer to the table of Directors above.

**Teresa C. Secuya**
*Compliance Officer*

Ms. Secuya assumed the position of Compliance Officer of the Company in September 2012. Ms. Secuya is also currently the Executive Assistant to the Chairman of 8990 Luzon Housing Development Corp. Prior to her current positions, she served as the Executive Secretary of the President of Ceres Homes, Inc. (February 2006 to December 2009), Executive Assistant of the Chairman of Urban Basic Housing Corporation (May 1999 to January 2003), Executive Assistant for Admin Affairs of Newpointe Realty & Development Corp. (June to July 1996), Marketing Assistant of HlC Construction & Development Corp. (March to May 1996), and Proprietor of Jobs Drugs and Gifts (November 1991 to March 1996). She obtained her Bachelor of Arts degree, major in Communication Arts from the Ateneo de Davao University in 1982.

**Cristina S. Palma Gil-Fernandez**
*Corporate Secretary*

Atty. Palma Gil-Fernandez assumed the position of Corporate Secretary of the Company in September 2012. Atty. Palma Gil-Fernandez graduated with a Bachelor of Arts degree, Major in History (Honors) from the University of San Francisco in 1989, and with a Juris Doctor degree, second honors, from the Ateneo de Manila University in 1995. She is currently a Partner at Picazo Buyco Tan Fider & Santos Law Offices and has over 19 years of experience in corporate and commercial law, with emphasis on the practice areas of banking, securities and capital markets (equity and debt), corporate reorganizations and restructurings and real estate.

**Kristina Joyce C. Caro-Gangan**
*Assistant Corporate Secretary*

Atty. Caro-Gangan assumed the position of Assistant Corporate Secretary of the Company in September 2012. Born on March 18, 1982, Atty. Gangan graduated cum laude with the degree of Bachelor of Arts, Major in Political Science, from the University of the Philippines in 2002, and with the degree of Bachelor of Laws also from the University of the Philippines in 2006. She is currently a Senior Associate at Picazo Buyco Tan Fider & Santos Law Offices.

**Mohammad Taha S. Basman II**
*Investor Relations Officer*

Mr. Basman assumed the position of Investor Relations Officer of the Company in March 2014. Mr. Basman is also currently serving as the Management Services Manager of the Company. Prior to his current position, he worked with The Asia Foundation working on projects under USAID, World Bank and Australian Aid. He has a Masters degree in Business Administration from the Asian Institute of Management.

## INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

To the best of the Company's knowledge and belief and after due inquiry, none of the Company's directors, nominees for election as director, or executive officers have in the five-year period prior to the date of this Prospectus: (1) had any petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within a two-year period of that time; (2) have been convicted by final judgment in a criminal proceeding, domestic or foreign, or have been subjected to a pending judicial proceeding of a criminal nature, domestic or foreign, excluding traffic violations and other minor offenses; (3) have been the subject of any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities; or (4) have been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, such judgment having not been reversed, suspended, or vacated.

## CORPORATE GOVERNANCE

The Company submitted its Manual on Corporate Governance (the "Manual") to the Philippine SEC on October 18, 2010 in compliance with Philippine SEC Memorandum Circular No. 6, series of 2009. The Company and its respective directors, officers and employees have complied with the best practices and principles on good corporate governance as embodied in its Corporate Governance Manual. An evaluation system has been established by the Company to measure or determine the level of compliance of the Board of Directors and top level management with its Manual of Corporate Governance.

### Independent Directors

The Manual requires the Company to have at least two (2) independent directors in the Board of Directors, at least one of whom serves on each of the Corporate Governance, Nomination Committee, and the Audit Committee. An independent director is defined as a person who has not been an officer or employee of the Company, its Subsidiaries or affiliates or related interests during the past three (3) years counted from date of his election, or any other individual having a relationship with the institution, its parent, subsidiaries or related interest, or to any of the Company's director, officer or stockholder holding shares of stock sufficient to elect one seat in the board of directors or any of its related companies within the fourth degree of consanguinity or affinity, legitimate or common-law, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

## COMMITTEES OF THE BOARD

The Board created and appointed Board members to each of the committees set forth below. Each member of the respective committees named below holds office as of the date of this Prospectus and will serve until his successor is elected and qualified.

### Audit and Risk Management Committee

The Audit and Risk Committee is composed of at least three members of the Board who have accounting and finance backgrounds, at least one of whom is an independent director and another with audit experience. The chair of the Audit and Risk Management Committee should be an independent director.

The Audit Committee has the following functions:

(a) Assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations;

(b) Provide oversight over the management's activities in managing credit, market, liquidity, operational, legal and other risks of the Company. This function shall include receiving from management of information on risk exposures and risk management activities;

(c) Perform oversight functions over the Company's internal and external auditors. It should ensure that the internal and external auditors act independently from each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

(d) Review the annual internal audit plan to ensure its conformity with the objectives of the Company. The plan shall include the audit scope, resources and budget, necessary to implement it;

(e) Prior to the commencement of the audit, discuss with the external auditor the nature, scope and expenses of the audit, and ensure proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimized duplication of efforts;

(f) Organize an internal audit department, and consider the appointment of an independent internal auditor and the terms and conditions of it engagement and removal;

(g) Monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security;

(h) Review the reports submitted by the internal and external auditors;

(i) Review the quarterly, half-year and annual financial statements before their submission to the Board, with particular focus on the following matters:

- (i) Any changes in accounting policies and practices;
- (ii) Major judgmental areas;
- (iii) Significant adjustments resulting from the audit;
- (iv) Going concern assumptions;
- (v) Compliance with accounting standards; and
- (vi) Compliance with tax, legal and regulatory requirements.

(j) Coordinate, monitor and facilitate compliance with laws, rules and regulations;

(k) Evaluate and determine the non-audit work, if any, of the external auditor, and review periodically the non-audit fees paid to the external auditor in relation to their significance to the total annual income of the external auditor and to the Company's overall consultancy expenses. The Audit Committee shall disallow any non-audit work that will conflict with his duties as an external auditor or may pose a threat to his independence. The non-audit work, if allowed, should be disclosed in the Company's annual report;

(l) Establish and identify the reporting line of the internal auditor to enable him to properly fulfill his duties and responsibilities. He shall functionally report directly to the Audit Committee. The Audit Committee shall ensure that, in the performance of the work of the internal auditor, he shall be free from interference by outside parties.

As of the date of this Prospectus, the Audit and Risk Management Committee is chaired by Ms. Arlene C. Keh, while Mr. Mariano D. Martinez, Jr., Mr. Luis N. Yu, Jr., Mr. Ben Chan Wei Beng, and Mr. Dominic J. Picon serve as its members.

**Nominations and Compensation Committee**

The Nominations and Compensation Committee is composed of at least three members of the Board, one of whom is an independent director. The Nominations and Compensation Committee reviews and evaluates the qualifications of all persons nominated to the Board and other appointments that require Board approval. The Nominations and Compensation Committee may also establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business strategy in which it operates.

As of the date of this Prospectus, the Nominations and Compensation Committee is chaired by Mr. Willibaldo J. Uy, while Mr. Dominic J. Picone and Mr. Januario Jesus Gregorio III B. Atencio serve as its members.

**Corporate Governance Committee**

The Corporate Governance Committee is composed of at least three members of the Board, one of whom is an independent director. The Corporate Governance Committee reviews and evaluates the compliance of the Company with the Manual and the Philippine SEC Code of Corporate Governance.
As of the date of this Prospectus, the Corporate Governance Committee is chaired by Mr. Willibaldo J. Uy, while Mr. Ben Chan Wei Beng and Mr. Januario Jesus Gregorio III B. Atencio serve as its members.

**Executive Committee**

The Executive Committee shall handle the management of the day-to-day business operations and affairs of the Company, except with respect to certain actions specifically reserved for Board action.

As of the date of this Prospectus, the Executive Committee is chaired by Mr. Mariano D. Martinez, Jr., while Mr. Luis N. Yu, Jr,, and Mr. Januario Jesus Gregorio III B. Atencio serve as its members.

**EVALUATION SYSTEM AND COMPLIANCE**

As part of its system for monitoring and assessing compliance with the Manual and the Philippine SEC Code of Corporate Governance, each committee is required to report regularly to the Board of Directors and the Manual is subject to quarterly review. Any violation of the Company's Corporate Governance Manual shall subject the responsible officer or employee to the following penalties:

- For a first violation, the offender shall be reprimanded.
- For a second violation, suspension from office shall be imposed on the offender. The duration of suspension shall depend on the gravity of the violation. This penalty shall not apply to the members of the Board of Directors.
- For a third violation, the maximum penalty of removal from office shall be imposed on the offender. The commission of a third violation by any member of the board or the Company or its Subsidiaries and affiliates shall be sufficient cause for removal from directorship. In case the offender is a member of the Board of Directors, the provisions of Section 28 of the Philippine Corporation Code shall be observed.

**EXECUTIVE COMPENSATION SUMMARY**

**Compensation**

The following are the Company's president and four most highly compensated executive officers for the year ended December 31, 2014:

| Name | Position |
|---|---|
| Januario Jesus Gregorio III B. Atencio | President and CEO |
| Richard L. Haosen | Chief Financial Officer |
| Alexander Ace Sotto | General Manager – Construction |
| Anthony Vincent S. Sotto | General Manager – Operations |
| Antonio Balleras | Assistant General Manager – Management Information Systems |

The following table identifies and summarizes the aggregate compensation (actual and expected) of the Company's President and CEO and the four most highly compensated executive officers of the Company in 2013, 2014 and 2015:

| | Year | Total[1] (₱) |
|---|---|---|
| President and the four most highly compensated executive officers named above.................................................................. | 2012 | 19,643,778 |
| | 2013 | 19,643,778 |
| | 2014 | 21,608,155 |
| | 2015 (est.) | 24,577,436 |
| Aggregate compensation paid to all other officers as a group unnamed..................................................................................... | 2012 | 19,402,621 |
| | 2013 | 23,250,000 |
| | 2014 | 28,050,000 |
| | 2015 (est.) | 31,019,281 |

*Note:*
*(1) Includes salary, bonuses and other income.*

**Compensation of Directors**

The by-laws of the Company provide that, by resolution of the Board, each director shall receive a reasonable per diem allowance for his attendance at each meeting of the Board. As compensation, the Board shall receive and allocate an amount of not more than ten (10%) percent of the net income before tax of the Company during the preceding year. Such compensation shall be determined and apportioned among the directors in such manner as the Board may deem proper, subject to the approval of stockholders representing at least a majority of the outstanding capital stock at a regular or special meeting of the stockholders. However, since 2013, no directors' compensation was approved and given by the Board.

Currently, the directors are entitled to a per diem allowance of ₱10,000.00 for each attendance in the Company's board meetings.

**Other Arrangements**

There are no other arrangements for which the directors are compensated by the Company for services other than those provided as a director.

**SIGNIFICANT EMPLOYEES**

The Company has no significant employee or personnel who was not an executive officer but is expected to make a significant contribution to the business.

**FAMILY RELATIONSHIPS**

As of the date of this prospectus, family relationships (by consanguinity or affinity within the fourth civil degree) between Directors and members of the Company's senior management are as follows:

Lowell L. Yu, Director, is the son of Mr. Luis N. Yu, Jr., Director.

Apart from the foregoing, there are no other family relationships up to the fourth civil degree either by consanguinity or affinity among directors or executive officers of the Company.

**EMPLOYMENT CONTRACTS**

The Company and its Subsidiaries have executed pro-forma employment contracts with its executive officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Company in the event of a change in control.

**WARRANTS AND OPTIONS OUTSTANDING**

As of the date of this Prospectus, there are no outstanding warrants or options held by the president, the chief executive officer, the named executive officers, and all officers and directors as a group.

## SECURITY OWNERSHIP OF CERTAIN RECORD AND BENEFICIAL OWNERS AND MANAGEMENT

**Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Company's voting securities as of May 31, 2015**

| Name and Address of Record Owners | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Common Shares Held | Total No. of Shares Held | % of Total Outstanding Shares |
|---|---|---|---|---|---|
| IHoldings, Inc. Unit 605, Ayala FGU Center, Cebu Business Park, Cebu City | The record owner is the beneficial owner of the shares indicated | Filipino | 2,179,035,107* | 2,179,035,107 | 39.49% |
| Kwantlen Development Corporation Unit 605, Ayala FGU Center, Cebu Business Park, Cebu City | The record owner is the beneficial owner of the shares indicated | Filipino | 925,325,018 | 925,325,018 | 16.77% |
| Januarius Resources Realty Corporation Unit 605, Ayala FGU Center, Cebu Business Park, Cebu City | The record owner is the beneficial owner of the shares indicated | Filipino | 543,794,584 | 543,794,584 | 9.85% |
| Pasir Salak Investments Limited Brumby Center, Lot 42, Jalan Muhibbah, 87000 Labuan FT, Malaysia | The record owner is PCD Nominee Corporation | Malaysian | 475,000,000 | 475,000,000 | 8.61% |
| TPG Rafter Holdings Ltd. Maples Corporate Services Limited, PO Box 309, Ugland House, George Town, Grand Cayman, Cayman Islands | The record owner is PCD Nominee Corporation | Cayman Islands | 475,000,000 | 475,000,000 | 8.61% |

**includes the 40,000,000 common shares lodged with PDTC.*

As of the date of this Prospectus, the Company's level of foreign ownership is 23.51% of its equity.

**Security Ownership of Directors and Officers as of the date of this Prospectus**

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | % of Total Outstanding Shares |
|---|---|---|---|---|
| Common | Luis N. Yu, Jr. | 247,962,022 – direct<br>10,137,300 -indirect | Filipino | 4.68 |
| Common | Mariano D. Martinez, Jr. | 168,916,767 – direct | Filipino | 3.06 |
| Common | Januario Jesus Gregorio III B. Atencio | 41,006,372 – direct<br>1,576,265 – indirect* | Filipino<br>Filipino | 0.77 |
| Common | Arlene C. Keh | 1 – direct | Filipino | 0.0 |
| Common | Anthony Vincent S. Sotto | 1 – direct | Filipino | 0.0 |
| Common | Willibaldo J. Uy | 1 – direct | Filipino | 0.0 |
| Common | Manuel S. Delfin, Jr. | 1 – direct | Filipino | 0.0 |
| Common | Lowell L. Yu | 1 – direct | Filipino | 0.0 |
| Common | Richard L. Haosen | 1 – direct | Filipino | 0.0 |

| | | | | |
|---|---|---|---|---|
| Common | Ian Norman E. Dato | 5,001 – direct | Filipino | 0.0 |
| Common | Raul Fortunato R. Rocha | 101 – direct<br>500,000 – indirect* | Filipino | 0.0 |
| Common | Ben Chan Wei Beng | 100 – direct | Malaysian | 0.0 |
| Common | Dominic J. Picone | 1 – direct<br>99 – indirect* | American | 0.0 |
| Common | Cristina S. Palma Gil-Fernandez | None | Filipino | 0.0 |
| Common | Kristina Joyce C. Caro-Gañgan | None | Filipino | 0.0 |
| Common | Teresa C. Secuya | None | Filipino | 0.0 |
| Common | Mohammad Taha S. Basman II | None | Filipino | 0.0 |
| | Total: | 470,104,034 shares | | |

**held through the PCD Nominee Corporation*

**Voting Trust Holders of five percent or more**

There were no persons holding more than five percent of a class of shares of the Company under a voting trust or similar agreement as of the date of this Prospectus.

**CHANGE IN CONTROL**

As of the date of this Prospectus, there are no arrangements which may result in a change in control of the Company.

## RELATED PARTY TRANSACTIONS

The Company and its Subsidiaries, in their ordinary course of business, engage in transactions with related parties and affiliates. These transactions include advances and reimbursement of expenses. Settlement of outstanding balances of advances at year end occurs in cash. As of December 31, 2012 and 2013, the Company has not made any provision for impairment losses relating to amounts owed by related parties.

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

| | Account | Outstanding Balance as of December 31, | | | Terms |
|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | |
| | | (₱ in millions) | | | |
| **Stockholders:** | | | | | |
| Advances | Due from related parties | - | 205.8 | 4.5 | Non-interest bearing, payable on demand |
| Advances | Due to related parties | 57.2 | - | - | Non-interest bearing, payable on demand |
| Borrowings | Loans payable | - | 113.9 | 25.0 | On demand; 7.50% per annum |
| Interest on borrowings | Finance costs | - | 19.4 | - | |
| **Entities under common control:** | | | | | |
| Advances | Due from related parties | 147.4 | 311.7 | 128.9 | Non-interest bearing, payable on demand |
| Advances | Due to related parties | - | 172.8 | 369.0 | Non-interest bearing, payable on demand |

**Transactions Not in the Ordinary Course of Business**

The Company has likewise entered into transactions with related parties otherwise than in the ordinary course of business. These transactions consist of advances to and from the 8990 Majority Shareholders and the 8990 Related Companies as disclosed in Note 27 of the consolidated financial statements included with this Prospectus.

# FINANCIAL INFORMATION

The following pages set forth 8990's audited consolidated financial statements for the three years ended December 31, 2014, 2013, and 2012.

# 8990 Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

# COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 0 4 0 0 1 6 9

Company Name

8 9 9 0 H o l d i n g s , I n c . a n d S u b s i d i a r i e s

Principal Office (No./Street/Barangay/City/Town/Province)

1 1 T H F L O O R L I B E R T Y C E N T E R , 1 0 4 H . V . D E L A C O S T A , S A L C E D O V I L L A G E , M A K A T I C I T Y

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| | 479-8888 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 26 | July 28 | December 31 |

## CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Richard Haosen | Richard.haosen@yahoo.com | (632)533-3915/533-3917 | (0919) 9994418 |

Contact Person's Address

Negros Street, Cebu Business Park

**Note**: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.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 Board of Directors and the Stockholders
8990 Holdings, Inc.
11th Floor Liberty Center
104 H.V. Dela Costa, Salcedo Village
Makati City

We have audited the consolidated financial statements of 8990 Holdings, Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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.

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***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 8990 Holdings, Inc. and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-A (Group A),
July 1, 2013, valid until June 30, 2016
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751306, January 5, 2015, Makati City

April 10, 2015

*SGVFS009249*

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
8990 Holdings, Inc.

We have audited the consolidated financial statements of 8990 Holdings, Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 audit 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.

*SGVFS009249*

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 8990 Holdings, Inc. and its subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
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Building a better working world

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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 Board of Directors and the Stockholders
8990 Holdings, Inc.
11th Floor Liberty Center, 104 H.V. Dela Costa
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of 8990 Holdings, Inc. and Subsidiaries (the Group) as at December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014 and have issued our report thereon dated April 10, 2015. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-A (Group A),
July 1, 2013, valid until June 30, 2016
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751306, January 5, 2015, Makati City

April 10, 2015

*SGVFS009249*

## 8990 HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2014** | 2013 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash on hand and in banks (Note 7) | **₱605,148,136** | ₱249,040,092 |
| Current portion of trade and other receivables (Note 8) | **947,623,417** | 537,057,908 |
| Inventories (Note 9) | **3,078,106,185** | 2,243,559,834 |
| Available-for-sale securities (Note 10) | **1,155,111,934** | – |
| Due from related parties (Note 27) | **133,418,914** | 517,490,590 |
| Other current assets (Note 11) | **572,834,495** | 342,105,863 |
| Total Current Assets | **6,492,243,081** | 3,889,254,287 |
| **Noncurrent Assets** | | |
| Trade and other receivables - net of current portion (Note 8) | **13,477,108,808** | 9,473,832,351 |
| Land held for future development (Note 12) | **6,527,048,427** | 3,784,727,576 |
| Property and equipment (Note 13) | **227,132,351** | 208,870,467 |
| Investment properties (Note 14) | **296,316,181** | 141,928,584 |
| Other noncurrent assets (Note 11) | **126,853,526** | 117,010,245 |
| Total Noncurrent Assets | **20,654,459,293** | 13,726,369,223 |
| | **₱27,146,702,374** | ₱17,615,623,510 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of trade and other payables (Note 15) | **₱2,225,801,812** | ₱2,937,730,783 |
| Current portion of loans payable (Notes 17 and 27) | **2,380,816,677** | 3,332,250,211 |
| Deposits from customers (Note 16) | **274,371,315** | 47,746,763 |
| Due to related parties (Note 27) | **369,019,267** | 172,808,746 |
| Income tax payable | **137,315,630** | 31,209,903 |
| Total Current Liabilities | **5,387,324,701** | 6,521,746,406 |
| **Noncurrent Liabilities** | | |
| Trade and other payables - net of current portion (Note 15) | **18,288,452** | 263,089,121 |
| Loans payable - net of current portion (Note 17) | **6,453,061,864** | 3,980,588,104 |
| Deferred tax liability (Note 26) | **398,813,991** | 254,352,695 |
| Total Noncurrent Liabilities | **6,870,164,307** | 4,498,029,920 |
| Total Liabilities | **12,257,489,008** | 11,019,776,326 |
| **Equity** | | |
| Capital stock (Note 18) | **5,517,990,720** | 4,655,804,670 |
| Additional paid-in capital (Note 18) | **4,400,126,855** | – |
| Remeasurement loss on pension plan (Note 24) | **(3,559,308)** | (1,432,534) |
| Retained earnings (Note 18) | **4,974,655,099** | 1,941,475,048 |
| Total Equity | **14,889,213,366** | 6,595,847,184 |
| | **₱27,146,702,374** | ₱17,615,623,510 |

*See accompanying Notes to Consolidated Financial Statements.*

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## 8990 HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **REVENUE** (Note 19) | | | |
| **Real Estate Operations** | | | |
| Real estate sales | **₱7,530,055,629** | ₱5,226,269,751 | ₱3,736,124,087 |
| Rental income | **39,226,986** | 6,481,920 | 1,412,532 |
| Others | **38,924,774** | 70,498,659 | 45,580,609 |
| | **7,608,207,389** | 5,303,250,330 | 3,783,117,228 |
| **Timeshare and Hotel Operations** | **184,305,838** | 129,829,064 | 94,519,961 |
| | **7,792,513,227** | 5,433,079,394 | 3,877,637,189 |
| **COSTS** (Note 20) | | | |
| **Real Estate Operations** | | | |
| Cost of real estate sales | **3,052,559,962** | 1,914,839,795 | 1,418,657,872 |
| Cost of rental services | **7,211,795** | 657,382 | 203,740 |
| Others | **19,032,953** | 20,866,941 | 16,114,549 |
| | **3,078,804,710** | 1,936,364,118 | 1,434,976,161 |
| **Timeshare and Hotel Operations** | **56,058,035** | 52,207,674 | 29,914,000 |
| | **3,134,862,745** | 1,988,571,792 | 1,464,890,161 |
| **GROSS INCOME** | **4,657,650,482** | 3,444,507,602 | 2,412,747,028 |
| **OPERATING EXPENSES** (Note 21) | **1,580,843,903** | 1,155,340,069 | 677,934,507 |
| **FINANCE COSTS** (Note 22) | **(396,340,219)** | (406,466,175) | (216,312,630) |
| **OPERATING INCOME** | **2,680,466,360** | 1,882,701,358 | 1,518,499,891 |
| **OTHER INCOME** (Note 23) | **933,351,574** | 558,828,455 | 235,154,999 |
| **INCOME BEFORE INCOME TAX** | **3,613,817,934** | 2,441,529,813 | 1,753,654,890 |
| **PROVISION FOR INCOME TAX** (Note 26) | **304,738,347** | 257,845,583 | 49,168,859 |
| **NET INCOME** | **3,309,079,587** | 2,183,684,230 | 1,704,486,031 |
| **OTHER COMPREHENSIVE LOSS** | | | |
| *Item that do not recycle to profit or loss in subsequent periods:* | | | |
| Remeasurement loss on pension plan (Note 24) | **(2,126,774)** | (1,432,534) | – |
| **TOTAL COMPREHENSIVE INCOME** | **₱3,306,952,813** | ₱2,182,251,696 | ₱1,704,486,031 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 30) | **₱0.62** | ₱0.52 | ₱0.52 |

*See accompanying Notes to Consolidated Financial Statements.*

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## 8990 HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | For the Years Ended December 31, 2014, 2013 and 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 18) | **Subscribed Capital Stock** (Note 18) | **Additional Paid-in Capital** (Note 18) | **Equity Reserve** (Notes 2 and 18) | **Remeasurement Loss on Pension Plan** (Note 24) | **Retained Earnings** (Note 18) | **Total** |
| Balance at January 1, 2014 | **₱4,655,804,670** | **₱–** | **₱–** | **₱–** | **(₱1,432,534)** | **₱1,941,475,048** | **₱6,595,847,184** |
| Issuance of shares through follow-on offering (Note 18) | **862,186,050** | **–** | **4,400,126,855** | **–** | **–** | **–** | **5,262,312,905** |
| Cash dividends declared by Parent Company (Note 18) | **–** | **–** | **–** | **–** | **–** | **(275,899,536)** | **(275,899,536)** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **–** | **(2,126,774)** | **3,309,079,587** | **3,306,952,813** |
| **Balance at December 31, 2014** | **₱5,517,990,720** | **₱–** | **₱4,400,126,855** | **₱–** | **(₱3,559,308)** | **₱4,974,655,099** | **₱14,889,213,366** |
| Balance at January 1, 2013 | ₱221,866,669 | ₱– | ₱190,748,328 | ₱3,024,273,168 | ₱– | ₱511,126,856 | ₱3,948,015,021 |
| Stock dividends issued by a subsidiary (Note 18) | – | – | – | 420,000,000 | – | (420,000,000) | – |
| Issuance of shares through Shares Swap (Notes 2 and 18) | 3,968,357,534 | – | (190,748,328) | (3,444,273,168) | – | (333,336,038) | – |
| Issuance of shares through subscription (Note 18) | 465,580,467 | – | – | – | | – | 465,580,467 |
| Total comprehensive income (loss) | – | – | – | – | (1,432,534) | 2,183,684,230 | 2,182,251,696 |
| Balance at December 31, 2013 | ₱4,655,804,670 | ₱– | ₱– | ₱– | (₱1,432,534) | ₱1,941,475,048 | ₱6,595,847,184 |
| Balance at January 1, 2012 | ₱181,866,669 | ₱25,000,000 | ₱129,948,328 | ₱306,935,003 | ₱– | ₱624,290,825 | ₱1,268,040,825 |
| Issuance of shares by the Parent Company (Note 18) | 40,000,000 | (25,000,000) | 60,800,000 | (75,800,000) | – | – | – |
| Effect of acquisition of net assets of accounting acquiree (Parent Company) (Notes 1 and 2) | – | – | – | (12,011,835) | – | – | (12,011,835) |
| Cash dividends declared by a subsidiary (Note 18) | – | – | – | – | – | (400,000,000) | (400,000,000) |
| Stock dividends issued by a subsidiary (Note 18) | – | – | – | 1,417,650,000 | – | (1,417,650,000) | – |
| Issuance of shares by a subsidiary (Note 18) | – | – | – | 1,387,500,000 | – | – | 1,387,500,000 |
| Total comprehensive income | – | – | – | – | – | 1,704,486,031 | 1,704,486,031 |
| Balance at December 31, 2012 | ₱221,866,669 | ₱– | ₱190,748,328 | ₱3,024,273,168 | ₱– | ₱511,126,856 | ₱3,948,015,021 |

*See accompanying Notes to Consolidated Financial Statements.*

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## 8990 HOLDINGS, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱3,613,817,934** | ₱2,441,529,813 | ₱1,753,654,890 |
| Adjustments for: | | | |
| Interest income (Note 23) | **(901,811,810)** | (533,181,127) | (227,218,396) |
| Finance cost (Note 22) | **395,931,324** | 404,614,757 | 215,560,446 |
| Write-off of assets (Notes 8 and 21) | **–** | 64,945,573 | – |
| Provision for impairment losses (Note 21) | **130,857,268** | 58,414,812 | 2,076,561 |
| Provision for probable losses (Notes 21 and 29) | **77,282,541** | 26,340,946 | 10,680,718 |
| Loss (gain) on repossession (Note 19) | **56,972,328** | (1,122,087) | 1,256,353 |
| Depreciation and amortization (Note 21) | **36,629,536** | 22,566,268 | 15,138,560 |
| Gain on sale of building and improvements (Notes 9 and 23) | **(10,943,948)** | – | – |
| Provision for write-down (Notes 12 and 21) | **22,200,000** | 3,646,000 | – |
| Retirement expense (Note 24) | **1,387,016** | 442,531 | 444,200 |
| Unrealized foreign exchange loss | **2,879** | – | – |
| Loss on sale of a subsidiary (Notes 23 and 28) | **–** | – | 11,165,026 |
| Gain on sale of unquoted debt security classified as loans (Note 23) | **–** | – | (7,767,942) |
| Operating income before changes in working capital | **3,422,325,068** | 2,448,197,486 | 1,774,990,416 |
| Changes in operating assets and liabilities | | | |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(3,549,968,401)** | (4,275,829,919) | (3,412,201,469) |
| Inventories (Note 31) | **(1,409,098,313)** | (69,059,536) | 200,226,383 |
| Other assets (Note 31) | **(284,466,528)** | (404,424,065) | (77,168,052) |
| Increase (decrease) in: | | | |
| Trade and other payables (Note 31) | **(1,051,343,269)** | 177,998,680 | 17,715,084 |
| Deposits from customers | **226,624,552** | (57,140,966) | (56,337,659) |
| Net cash used in operations | **(2,645,926,891)** | (2,140,258,320) | (1,552,775,297) |
| Interest received | **901,811,810** | 533,181,127 | 227,218,396 |
| Interest paid | **(385,211,596)** | (364,210,661) | (174,133,174) |
| Income tax paid | **(30,455,229)** | (13,949,694) | (4,986,990) |
| Net cash used in operating activities | **(2,159,781,906)** | (1,985,237,548) | (1,504,677,065) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Land held for future development (Notes 12 and 31) | **(3,618,606,774)** | (1,185,093,610) | (396,892,465) |
| Available-for-sale securities (Notes 10 and 31) | **(788,755,357)** | – | – |
| Property and equipment (Note 13) | **(63,785,065)** | (81,948,759) | (37,494,702) |
| Investment properties (Note 14) | **(80,210)** | (2,201,516) | (6,293,155) |

(Forward)

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| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| Proceeds from: | | | |
| Disposal of building and hotel improvements (Notes 9 and 23) | **₱350,381,830** | ₱– | ₱– |
| Maturities/termination of long-term investments | **–** | 3,021,720 | 110,113,573 |
| Sale of unquoted debt securities classified as loans | **–** | – | 14,325,544 |
| Net cash outflow from disposal of investment in a subsidiary (Notes 28 and 31) | **–** | – | (61,680,350) |
| Net cash inflow from acquisition of net assets of acquiree (Parent Company) (Note 31) | **–** | – | 100,000 |
| Net cash used in investing activities | **(4,120,845,576)** | (1,266,222,165) | (377,821,555) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from availment of loans payable (Note 31) | **10,324,156,087** | 3,732,193,226 | 2,955,452,166 |
| Repayment of loans payable | **(8,803,115,861)** | (595,305,960) | (831,335,233) |
| Issuance of shares by the Parent Company | **5,262,312,905** | 465,580,467 | – |
| Payment of cash dividends by the Parent Company (Note 18) | **(275,899,536)** | – | – |
| Decrease (increase) in the amount of due from related parties (Note 31) | **(373,217,602)** | (370,090,338) | 393,750,716 |
| Increase (decrease) in the amount of due to related parties (Note 31) | **502,502,412** | 87,821,282 | (1,693,270,423) |
| Issuance of shares by subsidiaries (Note 18) | **–** | – | 1,387,500,000 |
| Payment of cash dividends by a subsidiary (Note 18) | **–** | – | (400,000,000) |
| Net cash provided by financing activities | **6,636,738,405** | 3,320,198,677 | 1,812,097,226 |
| **EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON HAND AND IN BANKS** | **(2,879)** | – | – |
| **NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS** | **356,108,044** | 68,738,964 | (70,401,394) |
| **CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR** | **249,040,092** | 180,301,128 | 250,702,522 |
| **CASH ON HAND AND IN BANKS AT END OF YEAR** (Note 7) | **₱605,148,136** | ₱249,040,092 | ₱180,301,128 |

*See accompanying Notes to Consolidated Financial Statements.*

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1. **Corporate Information**

8990 Holdings, Inc. (8990 Holdings or Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 8, 2005 and was listed in the Philippine Stock Exchange (PSE) on October 20, 2010.

In May 2012, iHoldings, Inc., Januarius Resources Realty Corp. and Kwantlen Development Corp., collectively known as the 'Stockholders of the 8990 Group', acquired 176,400,000 shares of the Parent Company from IP Ventures, Inc. (IPVI) and IPVG Corp. (IPVG) employees. As a result, iHoldings, Inc. became the new majority owner of the Parent Company having 60.53% holdings. iHoldings, Inc. is owned by Mr. Luis N. Yu Jr and family (the Controlling Shareholders).

The Parent Company was previously engaged in information technology and telecommunications business that provides a wide array of managed data services and business solutions. This business was discontinued prior to the acquisition of the Parent Company by the Stockholders of the 8990 Group.

On October 1, 2013, the Parent Company received the approval from the SEC of the following:

a. change of the Parent Company's name from IP Converge Data Center, Inc. to 8990 Holdings, Inc.; and
b. change in primary purpose from that of a data center to that of a financial holdings company.

*Business Combination*
The Parent Company entered into a Deed of Exchange of Shares with the Stockholders of the 8990 Group on May 6, 2013 as amended and supplemented on June 8, 2013 (the Shares Swap). The 8990 Group consists of:

- 8990 Housing Development Corporation (8990 HDC)
- Fog Horn, Inc. (FHI)
- 8990 Luzon Housing Development Corporation (8990 LHDC)
- 8990 Leisure and Resorts Corporation (8990 LRC)
- 8990 Mindanao Housing Development Corporation (8990 MHDC)
- 8990 Davao Housing Development Corporation (8990 DHDC)

Under the Deed of Exchange of Shares, all the economic and voting rights pertaining to the shares of the 8990 Group shall absolutely vest with the Parent Company on May 6, 2013. Thus, on the said date, the entities comprising 8990 Group became wholly-owned subsidiaries of the Parent Company.

After the Shares swap and the subscription of certain individual investors (Note 18), the Controlling Shareholder's interest was reduced from 60.53% to 50.65%.

*Secondary Offering*
On April 15, 2014, the Parent Company issued additional 862,186,050 shares by way of follow-on offering which resulted in dilution in the percentage of ownership of iHoldings, Inc. in the Parent

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Company from 50.65% to 43.44%. As a result, iHoldings, Inc. lost its control over the 8990 Group.
The 8990 Group is involved in the following relevant activities:

- construction of low-cost mass housing
- construction of medium-rise and high rise-condominium units
- issuance of timeshares
- hotel operations

The registered office address of the Parent Company is at 11th Floor Liberty Center, 104 H.V. Dela Costa, Salcedo Village, Makati City.

## 2. Summary of Significant Accounting Policies

Basis of Presentation
As discussed in Note 1, the Parent Company entered into a Deed of Exchange of Shares with the Stockholders of the 8990 Group, thus the Parent Company became a holding company of the 8990 Group. The Parent Company and its Subsidiaries, now comprising "the Group", are under common control of the Controlling Shareholders before and after the Shares Swap transaction on May 6, 2013.

*Acquisition of 8990 Group*
The Shares Swap transaction involving the Parent Company and 8990 Group were accounted for similar to a pooling of interests method and reverse acquisition with 8990 HDC as the accounting acquirer under Philippine Financial Reporting Standards (PFRS) 3, *Business Combination*. 8990 HDC is the largest 8990 entity comprising about 71.0% of the total assets of the 8990 entities. In a reverse acquisition, the legal parent is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the 8990 Group. Since the entities under the 8990 Group are under common control, the accounts and transactions as reflected in the stand-alone financial statements of these entities were combined using the pooling of interests method.

The 8990 Group consolidated the assets, liabilities, income and expenses of the Parent Company starting May 2012, which was the date when the Controlling Shareholders acquired or gained control over the Parent Company.

The 8990 Group has no basis to prepare the consolidated financial statements, prior to the Shares Swap transaction.

Basis of Preparation
The accompanying consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine peso, the Group's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with PFRS.

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Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned subsidiaries:

- 8990 HDC
- FHI
- 8990 LHDC
- 8990 DHDC
- 8990 MHDC
- 8990 LRC

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company’s share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

*Common control business combinations*
Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values in the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value consideration received is also accounted for as an equity transaction.

The Group records the above difference as ‘Equity reserve’ and is presented as a separate component of equity in the consolidated statement of financial position. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the combination.

<u>Equity Reserve</u>
Equity reserve represents the effect of the application of the pooling of interests method as discussed under the Basis of Presentation. This account was closed to capital stock, additional paid-in capital and retained earnings upon issuance of shares of 8990 Holdings to the Stockholders of 8990 Group under the Shares Swap transaction in 2013.

<u>Changes in Accounting Policies and Disclosures</u>
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

Except as otherwise indicated, these standards have no impact to the consolidated financial statements of the Group.

The nature and the impact of each new standard and amendment are described below:

Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 27, *Separate Financial Statements*)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These

amendments have no impact to the Group's consolidated financial position or performance, since the Group has no investment entity under PFRS 10.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's consolidated financial position or performance.

PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosure in the Group's consolidated financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group's consolidated financial position or performance as the Group has no derivatives during the current or prior periods.

Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)
In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no significant impact on the Group's consolidated financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)
In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group's consolidated financial position or performance as it is not a first-time PFRS adopter.

**Significant Accounting Policies**

Cash and Cash Equivalents
Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to insignificant risks of changes in value.

Fair Value Measurement
The Group measure financial instruments and nonfinancial assets at fair value when required by PFRS. Fair values of financial instruments measured at amortized cost as well as nonfinancial assets (i.e. investment properties) measured at cost are disclosed in Note 5.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as described in Note 5.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 5.

Financial Instruments - Initial Recognition and Subsequent Measurement
*Date of recognition*
The Group recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*
All financial instruments are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its investment at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2014 and 2013, the Group has no financial instruments at FVPL and HTM investments.

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognized only in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

*Loans and receivables*
This accounting policy relates to the consolidated statement of financial position captions 'Cash on hand and in banks', 'Trade and other receivables', 'Due from related parties' and 'Deposits'. Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in profit or loss in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in profit or loss in the statement of comprehensive income.

*AFS investments*
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial assets at FVPL', 'HTM investments' or 'Loans and receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the consolidated statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported in the consolidated statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in the consolidated statement of comprehensive income. Interest earned on holding AFS debt investments are reported using the EIR method. Dividends earned on holding AFS equity investments are recognized in the consolidated statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive income.

The Group's AFS investment represents investment in equities as disclosed in Note 10.

*Financial liabilities at amortized cost*
This accounting policy relates to the consolidated statement of financial position captions 'Trade and other payables', 'Loans payable' and 'Due to related parties'.

Financial liabilities at amortized cost pertain to issued financial instruments that are not classified or designated as financial liabilities at FVPL and contain contractual obligations to deliver cash or other financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and receivables*
For loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss in the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of counterparty, credit history, past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

*AFS investments*
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in OCI - is removed from equity and recognized in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the consolidated statement of comprehensive income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income, the impairment loss is reversed through the consolidated statement of comprehensive income.

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

a. the right to receive cash flows from the asset has expired;
b. 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
c. the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset; or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over 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 liability*
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 in the consolidated statement of comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories
Inventories include subdivision lots, houses and lots, land developments, medium-rise and high-rise condominium units and shares/units representing vacation ownership rights ("timeshare"). Timeshare represents the right to use a property for a specific number of days in a year. The cost of the property that is subject of the timeshare is allocated to the available timeshares for sale.

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

Cost includes:
- Land cost
- Amounts paid to contractors for the construction
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs
- Borrowing costs on loans directly attributable to the projects which were capitalized during construction

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

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

*Repossessed inventories*
Repossessed inventories represent the acquisition costs of properties sold but subsequently re-acquired by the Group due to buyer's default on payment of monthly amortization. These are measured at fair value less costs to sell at the time of repossession.

*Hotel inventories*
Hotel inventories are valued at the lower of cost or NRV which is the price at which inventories can be realized in the normal course of business.

Land Held for Future Development
Land held for future development consists of properties for future developments and is carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less costs to complete and costs of sale. Costs include costs incurred for development and improvements of the properties. Upon start of development, the related cost of land is transferred to real estate inventories.

Finance Costs
Finance costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Property and Equipment
Property and equipment, except for land and construction-in-progress, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land and construction-in-progress are carried at cost less any impairment value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Construction-in-progress includes cost of construction, other direct costs, furniture and fixtures and leasehold improvements under construction but not yet used in operations and is not depreciated until such time that the relevant asset is completed and ready for intended use.

Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year in which the costs are incurred. 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 and amortization, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are put into operational use and is computed on a straight-line basis over the estimated useful life (EUL) of the property and equipment as follows:

| | Years |
|---|---|
| Building | 25 |
| Land improvement | 3-5 |
| Motor vehicles | 1-5 |
| Machineries and equipment | 3-5 |
| Furniture and fixtures | 3-5 |
| Leasehold improvements | 3-5 or the lease term whichever is shorter |

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

Investment Properties

Investment properties, which include land, building, improvements and construction-in-progress, are initially recognized at cost including transaction costs.

Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against current operations in the year in which the costs are incurred.

Depreciation and amortization commences from the time of acquisition and is computed on a straight-line basis over the EUL of the investment properties as follows:

| | Years |
|---|---|
| Building | 20 |
| Improvements | 20 |

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.

Intangible Assets

Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

The EUL of intangible assets are assessed to be either finite or indefinite. The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives. The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (which are not an integral part of its related hardware) and costs to bring it to its intended use are capitalized as intangible assets. All other costs of maintaining computer software programs are recognized as expense when incurred. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

Investment in associate

Associate pertains to an entity over which the Company has significant influence but not control, generally accompanying a shareholding of between 20.0% to 50.0% of the voting rights.

Investment in an associate is accounted for under the equity method of accounting. Under the equity method, investment in an associate is carried in the statement of financial position at cost plus post acquisition changes in the Group’s share in the net assets of the associate. The Group’s share in the associate’s post-acquisition income or losses is recognized in the statement of income, and its share in post-acquisition movements in the associate’s OCI will be recognized directly in the Group’s OCI. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g., property and equipment, investment properties, input tax, intangible assets, creditable withholding tax, prepaid expenses and other assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting 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. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated 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 revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

*Capital stock*

The Group records common stock at par value and additional paid-in capital for the excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred that are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

*Retained earnings*

Retained earnings represent accumulated earnings of the Group less dividends declared, if any.

Revenue Recognition

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

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of houses and lots, subdivision lots and medium-rise condominium units*

Revenue from sales of houses and lots, subdivision lots and medium-rise condominium units is accounted for using the full accrual method when the Group has transferred all the risks and rewards and the possession of the houses and lots, subdivision lots and medium-rise condominium units to the buyer.

*Rental income*
Rental income is recognized in the consolidated statement of income on a straight-line basis over the lease term and the terms of the lease, respectively.

*Sale of timeshare*
Revenue is recognized using full accrual method when all of the following criteria are met:

a. A sale is consummated;
b. The buyers' initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
c. The Group's receivable is not subject to future subordination; and
d. The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Collections from accounts which are not yet qualified for revenue recognition are treated as customer deposits included in the 'Deposits from customers' account in the consolidated statement of financial position.

*Hotel operations*
Revenue is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

*Sale of hotel inventories*
Revenue from food and beverage sales is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

*Interest income*
Interest income is recognized as it accrues using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

*Gain (loss) on cancellation*
Revenue is recognized when the deposits from potential buyers are deemed nonrefundable due to prescription of the period for entering into a contracted sale. Such income is also recognized, subject to the provisions of Republic Act 6552, *Realty Installment Buyer Act*, upon prescription of the period for the payment of required amortizations from defaulting buyers.

*Gain (loss) on repossession*
Gain on repossession represents the difference between the fair value less cost to sell of the repossessed inventories and the carrying value of the installment contract receivable at the date of repossession.

*Other income*
Other customer-related fees such as water income, collection service fees and penalties are recognized as they accrue, taking into account the provisions of the related contract.

<u>Expense Recognition</u>
Expenses are recognized when it is probable that a decrease in the future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

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

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size.

*Cost of timeshare*
Cost of timeshare represents the total costs of the building and hotel facilities allocated among the available timeshares to be sold.

*Cost of hotel operations*
Cost of sale of hotel services are expensed as incurred. This also includes expenses incurred by the Group for the generation of revenue from food and beverage sales and other hotel income.

*Employee benefits*
Short-term employee benefits are expensed as incurred.

*Operating expenses*
Operating expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Pension Cost
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost recognized in profit or loss;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in other comprehensive income account 'Remeasurement gains (losses)' on retirement plans are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risks associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date and requires an assessment 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 the inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal of or extension of the arrangement;
(b) A renewal option is exercised or an extension is 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.

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

A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease.

*Group as lessee*
Operating lease payments are recognized as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

*Group as lessor*
Operating lease payments received are recognized as income in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income.

Income Tax
*Current tax*
Current 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 as of the reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and foreign associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 statement of financial position date.

Deferred tax relating to items recognized directly in the statement of comprehensive income is also recognized in the statement of comprehensive income and not in the statement of income.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’ in profit or loss in the consolidated statement of comprehensive income. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Segment Reporting

The Group’s operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on reporting segments is presented in Note 6 to the consolidated financial statements.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income of the Group by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net profit attributable to the Group (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of common shares used in the calculation of basic/diluted EPS in 2013 and 2012 is determined on the basis of the weighted average number of shares of the Subsidiaries outstanding during the period multiplied by the exchange ratio established in the Deed of Exchange of Shares as discussed in Note 1.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements but are 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 are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period
Post year-end events up to the date of when the financial statements are authorized for issue that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

Future Changes in Accounting Policies
The Group will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect that the adoption of these new and amended PFRS, PAS and Philippine Interpretations will have a significant impact on the consolidated financial statements. The Group will assess the impact of these amendments on its financial position or performance when they become effective.

PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. 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. The adoption of the first phase of PFRS 9 will not have a significant impact on the classification and measurement of the Group's financial assets.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Securities and Exchange Commission (SEC) and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

*The following new standards and amendments issued by the International Accounting Standards Board (IASB) were already adopted by the FRSC but are still for approval by BOA.*

Effective January 1, 2015

PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group, since the Group has no defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

<u>Effective January 1, 2016</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* - *Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants

will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as it does not have any bearer plants.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and

present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard would not apply.

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018
PFRS 9, *Financial Instruments* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of adopting this standard.

*The following new standard issued by the IASB has not yet been adopted by the FRSC*

International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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3. **Significant Accounting Judgments and Estimates**

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

a. *Business combinations*

The Parent Company acquired its subsidiaries that operate real estate business. At the time of acquisition, the Parent Company considered whether the transaction represents an acquisition of a business or an asset. The Parent Company accounts for the transaction as a business combination when there is an integrated set of activities or assets acquired together with the relevant processes. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory ("business combinations under common control"), the Group assesses whether the transaction has substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as non-controlling interest, if any, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity.

Management assessed that the subsidiaries acquired through the Shares Swap transaction qualified as business under the provisions of PFRS 3 and that the Shares Swap transaction was a business combination under common control.

b. *Revenue and cost recognition*
The Group recognizes sale of real estate inventories upon transfer of risks and rewards of the houses and lots, subdivision lots and condominium units which is upon delivery to and acceptance by the buyer.

Sale of timeshare is recognized as revenue when the Group has received a minimum of 25.0% of the purchase price.

c. *Distinction between inventories and land held for future development*
The Group determines whether a property will be classified as 'Inventories' or 'Land held for future development'. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land held for future development). Land that is to be developed in the subsequent year is classified as part of current assets.

d. *Distinction between investment properties and owner-occupied properties*
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

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

e. *Classification of leases*
*Operating lease commitments - Group as lessee*
Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to the ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

*Operating lease commitments - Group as lessor*
The Group has entered into commercial property leases on its investment property.
Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership of these properties. In determining significant risks and benefits of ownership, the Group considered, among others, the following: (i) the leases do not provide for an option to purchase; or (ii) transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. Accordingly, the Group accounted for the lease agreements as operating leases.

*f.* *Contingencies*
In the normal course of business, the Group also incurs certain contingent liabilities that are not presented in the consolidated financial statements. The Group does not anticipate any material losses as a result of the contingent liabilities (see Note 29).

Estimates

*a.* *Impairment of receivables*
The Group reviews its receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the consolidated statement of financial position and any changes thereto in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including, but are not limited to payment history, past due status and term. Actual results may also differ, resulting in future changes to the allowance.

The Group recognized provision for credit losses on its trade receivables amounting to ₱124.6 million, ₱2.8 million and nil in 2014, 2013 and 2012, respectively. The Group has also written-off receivables amounting to nil and ₱64.9 million in 2014 and 2013, respectively (see Notes 8 and 21). The carrying values of trade and other receivables are disclosed in Note 8.

b. *Estimating NRV of inventories and land held for future development*
The Group adjusts the cost of its inventories and land held for future development to NRV based on its assessment of the recoverability of the inventories.

NRV for inventories and land held for future development is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in light of recent market transactions.

NRV in respect of inventories and improvements under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction less an estimate of the time value of money to the date of completion. The estimates used take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

The Group recognized write-down (recorded under 'Provision for write-down' account under the operating expenses in the statements of comprehensive income) amounting to ₱22.2 million and ₱3.6 million on its land held for future development in 2014 and 2013, respectively (see Notes 12 and 21). The Group did not recognize any write-down on its inventory in 2014 and 2013.

The carrying values of the Group's inventories and land held for future development are disclosed in Notes 9 and 12, respectively.

*c.* *Impairment of AFS equity securities/valuation of unquoted equity securities*
The Group's investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment losses. As of December 31, 2014, the carrying value of AFS equity securities amounted to ₱1.20 billion. No impairment loss was recognized in 2014 (see Note 10).

d. *Impairment of nonfinancial assets*
The Group assesses impairment on property and equipment, investment property and other assets and considers the following important indicators:

- Significant changes in asset usage;
- Significant decline in assets' market value;
- Obsolescence or physical damage of an asset;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and
- Significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the asset's fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The Group recognized provision for impairment losses on its non-financial assets amounting to ₱6.3 million, ₱55.6 million, and ₱2.1 million in 2014, 2013 and 2012, respectively (see Note 21). The carrying values of the Group's property and equipment, investment properties and other assets are disclosed in Notes 13, 14 and 11, respectively.

e. *Estimating useful lives of property and equipment and investment properties*
The Group estimates the useful lives of its property and equipment and investment properties based on the period over which the assets are expected to be available for use. The Group reviews periodically the EUL based on factors that include 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 the factors mentioned. A reduction in the estimated useful lives of property and equipment and investment properties would increase depreciation and amortization expense and decrease noncurrent assets.

The EUL of the Group's property and equipment and investment properties are disclosed in Note 2.

The carrying values of property and equipment and investment properties are disclosed in Notes 13 and 14, respectively.

f. *Estimating pension obligation*
The cost of defined benefit pension plans as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each

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reporting date. The carrying value of the pension obligation as at December 31, 2014 and 2013, as well as the other details of the defined benefit pension plans is disclosed in Note 24.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 24.

g. *Recognition of deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets. Refer to Note 26 for the recognized and unrecognized deferred tax assets.

## 4. Financial Risk Management and Objectives

The Group has various financial assets and liabilities such as cash on hand and in banks (excluding cash on hand), trade and other receivables, deposits, trade and other payables, loans payable and due to and from related parties which arise directly from its operations.

Exposure to credit, market and liquidity risks arise in the normal course of the Group's business activities.

The main objectives of the Group's financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Parent Company's BOD reviews and approves the policies for managing each of these risks and they are summarized below:

*Credit risk*
Credit risk is the risk of financial loss to the Group if the counterparty to a financial instrument fails to meet its contractual obligation. To manage credit risk, the Group maintains credit policies and monitors its exposure to credit risk on a continuous basis.

Trade receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts. In addition, the credit risk for trade receivables is mitigated as the Group has only transferred the corresponding title of the subdivision lots, house and lot units, condominium units sold and timeshare to the buyers upon full payment of the contract price.

a. Maximum exposure to credit risk

The Group's maximum exposure to credit risk is equal to the carrying value of its financial assets except for the trade receivables from the sale of real estate inventories as of December 31, 2014 and 2013 which are fully secured by collateral (the subdivision lots, house and lots, medium-rise condominium units sold and the timeshares).

b. Credit risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

An analysis of concentration of credit risk by location of the Group's trade receivables, net of allowance, is shown below:

| | **2014** | 2013 |
|---|---:|---:|
| Davao | **₱4,633,698,532** | ₱3,506,378,940 |
| Cebu | **4,428,279,764** | 3,545,804,483 |
| Pampanga | **2,016,566,839** | 1,196,098,974 |
| Cavite | **1,820,861,188** | 607,727,277 |
| Iloilo | **925,703,181** | 883,749,812 |
| Metro Manila | **150,605,943** | – |
| Baguio | **12,527,462** | 3,895,790 |
| Others* | **66,085,328** | 35,366,398 |
| | **₱14,054,328,237** | ₱9,779,021,674 |

**Represents trade receivables from sale of timeshares.*

c. Credit quality

Generally, the Group classifies cash in banks as high grade as these are deposited with reputable banks.

Due from related parties and other assets are considered to be unrated and are neither past due nor impaired. For trade receivables, standard grade pertains to receivables with no default in payments.

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The tables below show the credit quality per class of financial assets as of December 31, 2014 and 2013:

| | **December 31, 2014** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | | | | | |
| | **High grade** | **Standard grade** | **Unrated** | **Past due but not impaired** | **Impaired** | **Total** |
| Cash in banks | **₱601,829,743** | **₱–** | **₱–** | **₱–** | **₱–** | **₱601,829,743** |
| Trade and other receivables: | | | | | | |
| Trade receivables: | | | | | | |
| Installment contract receivables | **–** | **12,378,465,378** | **–** | **345,465,552** | **1,389,150,891** | **14,113,081,821** |
| Other trade receivables | **–** | **–** | **–** | **12,527,462** | **–** | **12,527,462** |
| Retention receivables | **–** | **–** | **133,351,614** | **–** | **–** | **133,351,614** |
| Other receivables | **–** | **–** | **141,058,071** | **–** | **–** | **141,058,071** |
| Due from related parties | **–** | **–** | **133,418,914** | **–** | **–** | **133,418,914** |
| Deposits* | **–** | **71,445,333** | **21,902,301** | **–** | **2,511,974** | **95,859,608** |
| AFS equity investments | **–** | **–** | **1,178,857,434** | **–** | **–** | **1,178,857,434** |
| | **₱601,829,743** | **₱12,449,910,711** | **₱1,608,588,334** | **₱357,993,014** | **₱1,391,662,865** | **₱16,409,984,667** |

**Included in ‘Other noncurrent assets’ in the consolidated statements of financial position.*

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | |
| | High grade | Standard grade | Unrated | Past due but not impaired | Impaired | Total |
| Cash in banks | ₱248,350,167 | ₱– | ₱– | ₱– | ₱– | ₱248,350,167 |
| Trade and other receivables: | | | | | | |
| Installment contract receivables | – | 9,746,404,305 | – | 24,398,832 | 7,117,853 | 9,777,920,990 |
| Other trade receivables | – | – | – | 3,895,790 | – | 3,895,790 |
| Retention receivables | – | – | 54,276,385 | – | – | 54,276,385 |
| Other receivables | – | – | 94,608,279 | – | – | 94,608,279 |
| Due from related parties | – | – | 517,490,590 | – | – | 517,490,590 |
| Deposits* | – | 77,383,307 | 9,388,916 | – | 2,511,974 | 89,284,197 |
| AFS equity investments | – | – | 23,745,500 | – | – | 23,745,500 |
| | ₱248,350,167 | ₱9,823,787,612 | ₱699,509,670 | ₱28,294,622 | ₱9,629,827 | ₱10,809,571,898 |

**Included in ‘Other noncurrent assets’ in the consolidated statements of financial position.*

Impaired receivables represent receivables with specific allowance for credit losses.

d. Aging analysis of past due but not impaired trade receivables:

| | **December 31, 2014** | | | | |
|---|---|---|---|---|---|
| | **Less than 30 days** | **31-60 days** | **61-90 days** | **Over 90 days** | **Total** |
| Installment contract receivables | **₱81,846,133** | **₱52,986,665** | **₱33,226,944** | **₱177,405,810** | **₱345,465,552** |
| Other trade receivables | **–** | **4,963,489** | **1,652,774** | **5,911,199** | **12,527,462** |
| | **₱81,846,133** | **₱57,950,154** | **₱34,879,718** | **₱183,317,009** | **₱357,993,014** |

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
| Installment contract receivables | ₱3,824,739 | ₱2,403,551 | ₱2,177,276 | ₱15,993,266 | ₱24,398,832 |
| Other trade receivables | 433,476 | 930,911 | 808,911 | 1,722,492 | 3,895,790 |
| | ₱4,258,215 | ₱3,334,462 | ₱2,986,187 | ₱17,715,758 | ₱28,294,622 |

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or the counterparty failing on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

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The Group actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, the management measures and forecasts its cash commitments, maintains a diversity of funding sources with its access to bank financing, adoption of joint development agreements for property developments, and holds a sufficient level of cash reserves.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on contractual undiscounted cash flows:

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **On demand** | **Up to 1 month** | **More than 1 month to 6 months** | **More than 6 months to 12 months** | **Beyond 1 year** | **Total** |
| **Financial Assets** | | | | | | |
| Cash on hand and in banks | **₱605,148,136** | **₱–** | **₱–** | **₱–** | **₱–** | **₱605,148,136** |
| Trade and other receivables: | | | | | | |
| Installment contract receivables | **57,636,688** | **163,606,912** | **805,511,428** | **944,399,621** | **32,832,218,924** | **34,803,373,573** |
| Other trade receivables | **12,527,462** | **–** | **–** | **–** | **–** | **12,527,462** |
| Retention receivables | **8,284,056** | **–** | **–** | **125,067,558** | **–** | **133,351,614** |
| Other receivables | **117,174,562** | **134,000** | **18,059,999** | **5,689,510** | **–** | **141,058,071** |
| Due from related parties | **133,418,914** | **–** | **–** | **–** | **–** | **133,418,914** |
| Deposits* | **–** | **–** | **–** | **–** | **95,859,608** | **95,859,608** |
| AFS equity investments* | **–** | **–** | **–** | **1,155,111,934** | **23,745,500** | **1,178,857,434** |
| | **₱934,189,818** | **₱163,740,912** | **₱823,571,427** | **₱2,230,268,623** | **₱32,951,824,032** | **₱37,103,594,812** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables: | | | | | | |
| Trade payables | **₱–** | **₱22,326,370** | **₱253,865,546** | **₱203,720,596** | **₱–** | **₱479,912,512** |
| Accounts payable | **–** | **–** | **–** | **487,751,414** | **–** | **487,751,414** |
| Retention payable | **15,316,216** | **–** | **11,443,487** | **51,358,494** | **3,780,467** | **81,898,664** |
| Construction bonds | **–** | **–** | **–** | **24,481,434** | **–** | **24,481,434** |
| Accrued expenses | **49,468,756** | **34,193,027** | **75,560,902** | **586,693,169** | **–** | **745,915,854** |
| Due to related parties | **369,019,267** | **–** | **–** | **–** | **–** | **369,019,267** |
| Loans payable | **543,169,423** | **610,005,467** | **1,508,693,396** | **322,096,806** | **7,253,730,725** | **10,237,695,817** |
| | **₱976,973,662** | **₱666,524,864** | **₱1,849,563,331** | **₱1,676,101,913** | **₱7,257,511,192** | **₱12,426,674,962** |

**Amounts under beyond 1 year bucket are included in 'Other noncurrent assets' in the consolidated statements of financial position.*

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | More than 1 month to 6 months | More than 6 months to 12 months | Beyond 1 year | Total |
| **Financial Assets** | | | | | | |
| Cash on hand and in banks | ₱249,040,092 | ₱– | ₱– | ₱– | ₱– | ₱249,040,092 |
| Trade and other receivables: | | | | | | |
| Installment contract receivables | 27,576,233 | 104,496,899 | 522,263,800 | 622,576,136 | 22,564,234,565 | 23,841,147,633 |
| Other trade receivables | 3,895,790 | – | – | – | – | 3,895,790 |
| Retention receivables | – | – | – | 52,318,996 | 1,957,389 | 54,276,385 |
| Other receivables | 46,575,582 | 36,847,383 | 9,131,312 | 2,054,002 | – | 94,608,279 |
| Due from related parties | 517,490,590 | – | – | – | – | 517,490,590 |
| Deposits* | – | – | – | – | 89,284,197 | 89,284,197 |
| AFS Equity Securities* | – | – | – | – | 23,745,500 | 23,745,500 |
| | ₱844,578,287 | ₱141,344,282 | ₱531,395,112 | ₱676,949,134 | ₱22,679,221,651 | ₱24,873,488,466 |
| **Financial Liabilities** | | | | | | |
| Trade and other payables: | | | | | | |
| Trade payables | ₱19,169,690 | ₱7,699,416 | ₱24,106,021 | ₱1,889,910,567 | ₱– | ₱1,940,885,694 |
| Accounts payable | 131,089,365 | 10,122,180 | 90,944,115 | 79,530,756 | 281,357,829 | 593,044,245 |
| Retention payable | – | – | – | 57,744,129 | – | 57,744,129 |
| Construction bonds | – | – | – | 16,210,949 | – | 16,210,949 |
| Accrued expenses | 3,696,000 | 10,395,059 | 107,928,579 | 375,950,537 | – | 497,970,175 |
| Due to related parties | 172,808,746 | – | – | – | – | 172,808,746 |
| Loans payable | 175,000,000 | 621,188,004 | 1,619,126,286 | 972,499,321 | 5,616,782,815 | 9,004,596,426 |
| | ₱501,763,801 | ₱649,404,659 | ₱1,842,105,001 | ₱3,391,846,259 | ₱5,898,140,644 | ₱12,283,260,364 |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

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*Market risk*
Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

As of December 31, 2014 and 2013, the Group has no financial instruments that are exposed to significant interest rate risk and foreign currency risk. The Group's cash on hand and in banks, trade and other receivables and loans payable are subject to fixed interest rates and are denominated in peso.

## 5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of the assets and liabilities are:

*Cash in banks, other trade receivables and other receivables*
Carrying amounts approximate their fair values since these are subject to insignificant risks of changes in value and are short-term in nature

*Installment contract receivables*
Carrying amounts approximate fair values since current market lending rate is equal to the interest rate of the receivables being valued.

*Retention receivables and deposits*
Fair values are estimated using the discounted cash flow methodology using the prevailing market rates for similar types of instrument.

*AFS equity investment*
Fair values cannot be reliably determined due to unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. This investment is carried at cost.

*Due to and from related parties*
The carrying amounts of due to and from related parties, which are due on demand, approximate their fair values.

*Noninterest-bearing refundable security deposits*
Fair values are estimated based on the discounted cash flow methodology using the prevailing market rates for similar types of instrument.

*Investment Properties*
Fair values are determined based on recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

The table below summarizes the valuation technique and the significant unobservable inputs used in the valuation of investment properties held by the Group:

| **Account** | **Valuation Technique** | **Significant Unobservable Inputs** |
|---|---|---|
| Investment property | Market data approach | Price per square meter, size, shape, location, time element and discount |

Significant increases (decreases) in price per square meter and size of investment property would result in a significantly higher (lower) fair value of the property. Significant increases (decreases) in discount would significantly lower (higher) fair value of the property.

<u>Significant Unobservable Inputs</u>

| | |
|---|---|
| Size | Size of lot in terms of area. Evaluate if the lot size of property or comparable comforts to the average cut of the lots in the area and estimate the impact of the lot size differences on land value. |
| Shape | Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property. |
| Location | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road. |
| Time Element | An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data. |
| Discount | Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent. |

*Trade and other payables and retention payable*
Carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

*Accounts payable - BDO Strategic Holdings, Inc.*
Carrying amounts approximate fair values since current market lending rate is equal to the interest rate of the payables being valued.

*Retention payable*
Fair values are estimated based on the discounted cash flow methodology using the prevailing market rates of similar types of instrument.

*Loans payable*
Fair values are estimated using discounted cash flow methodology using incremental borrowing rates.

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Fair Value Hierarchy

The table below presents the assets and liabilities for which fair value is required to be disclosed, by valuation method as of December 31, 2014 and 2013. The different levels have been defined as follows:

a. Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities;
b. 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
c. Level 3: Techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| | **2014** | | | | |
|---|---|---|---|---|---|
| | **Carrying** | **Fair Value** | | | |
| | **Value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets for which fair value is disclosed:** | | | | | |
| *Financial assets* | | | | | |
| Trade and other receivables: | | | | | |
| Retention receivables | **₱133,351,614** | **₱–** | **₱–** | **₱126,398,073** | **₱126,398,073** |
| Deposits* | **95,859,608** | **–** | **–** | **87,892,134** | **87,892,134** |
| *Nonfinancial assets* | | | | | |
| Investment properties | **296,316,181** | **–** | **–** | **698,217,531** | **698,217,531** |
| *Financial liabilities* | | | | | |
| Trade and other payables: | | | | | |
| Retention payables | **81,898,664** | **–** | **–** | **78,997,475** | **78,997,475** |
| Loans payable | **8,833,878,541** | **–** | **–** | **8,874,175,144** | **8,874,175,144** |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value | | | |
| | Value | Level 1 | Level 2 | Level 3 | Total |
| **Assets for which fair value is disclosed:** | | | | | |
| *Financial assets* | | | | | |
| Trade and other receivables: | | | | | |
| Retention receivables | ₱54,276,385 | ₱– | ₱– | ₱53,697,533 | ₱53,697,533 |
| Deposits* | 89,284,197 | – | – | 84,947,504 | 84,947,504 |
| *Nonfinancial assets* | | | | | |
| Investment properties | 141,928,584 | – | – | 540,326,000 | 540,326,000 |
| *Financial liabilities* | | | | | |
| Trade and other payables: | | | | | |
| Retention payables | 57,744,129 | – | – | 55,108,114 | 55,108,114 |
| Loans payable | 7,312,838,315 | – | – | 7,249,625,807 | 7,249,625,807 |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

As of December 31, 2014 and 2013, the Group has no financial instruments carried at fair value.

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## 6. **Segment Information**

For management's purposes, the Group's operating segments are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has four reportable operating segments as follows:

*Low-cost Mass Housing*
This segment pertains to the housing market segment of the Group. It caters to the development and sale of residential lots and units.

*Medium-rise Condominium Units*
This segment pertains to the medium-rise condominium segment of the Group. It caters to the development and sale of condominium units of up to four (4) storeys.

*High-rise Condominium Units*
This segment pertains to the high-rise condominium segment of the Group. It caters to the development and sale of condominium units with more than four (4) storeys.

*Timeshare*
This segment pertains to sale of non-proprietary timeshares wherein the purchaser has a perpetual right to occupy one unit of the Group's vacation hotel for a specific number of days in a year. On August 1, 2014, the Group ceased selling its timeshare inventories as the property related to the timeshare business has been sold to Azalea Leisure and Resorts Corporation (ALRC) (see Notes 9 and 10). Subsequent to the disposal of the property, the Group acquired the preferred shares, with benefits similar to the benefits received by timeshare holders, of ALRC, which will in turn be sold to the secondary market.

*Hotel Operations*
This segment pertains to the activities from hotel operations, which are considered incidental revenues while the Group has not yet sold all of the timeshares of its vacation hotel, Azalea Baguio Residences. Ownership of preferred shares of ALRC entitles the purchaser for a perpetual right to occupy one unit of Azalea Baguio Residences for a day in a year, thus, allowing the Group to continue its hotel operations until such time that all preferred shares have been sold to secondary market.

The Group has only one geographical business segment as all the assets and liabilities are located in the Philippines. The Group derives all of its revenues from domestic operations. Thus, geographical business segment information is not presented. No operating segments have been aggregated to form the above operating business segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating income or loss. The presentation and classification of segment revenues and expenses are consistent with the consolidated statements of comprehensive income. This segment information is presented monthly to the Parent Company's BOD who is the Chief Operating Decision Maker.

Finance income consists of interest earned from installment contracts receivables and deposits in banks.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statements of financial position which is in accordance with PFRS.

Capital expenditures represent acquisitions of ‘Land held for future development’, ‘Property and equipment’ and ‘Investment properties’.

The Group has no significant customer which contributes 10% or more of their segment revenue.

The financial information about the operations of the business segments is summarized below:

| | 2014 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | High-rise Condominium | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Revenues | **₱6,740,826,880** | **₱789,228,749** | **₱–** | **₱78,663,869** | **₱105,641,969** | **₱78,151,760** | **₱7,792,513,227** | **₱–** | **₱7,792,513,227** |
| Costs | **2,806,403,463** | **265,189,452** | – | **15,130,146** | **40,927,889** | **7,211,795** | **3,134,862,745** | **–** | **3,134,862,745** |
| Gross income | **3,934,423,417** | **524,039,297** | – | **63,533,723** | **64,714,080** | **70,939,965** | **4,657,650,482** | **–** | **4,657,650,482** |
| Operating expenses | **1,357,959,556** | **82,664,909** | **8,385,197** | **41,857,657** | **54,820,974** | **35,155,610** | **1,580,843,903** | **–** | **1,580,843,903** |
| Net operating income (loss) | **2,576,463,861** | **441,374,388** | **(8,385,197)** | **21,676,066** | **9,893,106** | **35,784,355** | **3,076,806,579** | **–** | **3,076,806,579** |
| Finance income | **832,826,567** | **68,916,522** | – | **50,571** | **1,521** | **16,629** | **901,811,810** | **–** | **901,811,810** |
| Finance costs | **(377,513,754)** | **(18,787,730)** | – | **(25,515)** | **(9,150)** | **(4,070)** | **(396,340,219)** | **–** | **(396,340,219)** |
| Other income (loss) | **20,257,670** | **2,986,476** | – | **4,802,861** | **3,495,636** | **(2,879)** | **31,539,764** | **–** | **31,539,764** |
| Income (loss) before income tax | **3,052,034,344** | **494,489,656** | **(8,385,197)** | **26,503,983** | **13,381,113** | **35,794,035** | **3,613,817,934** | **–** | **3,613,817,934** |
| Provision for income tax | **278,028,075** | **16,072,785** | **–** | **9,686,212** | **947,951** | **3,324** | **304,738,347** | **–** | **304,738,347** |
| Net income (loss) | **₱2,774,006,269** | **₱478,416,871** | **(₱8,385,197)** | **₱16,817,771** | **₱12,433,162** | **₱35,790,711** | **₱3,309,079,587** | **₱–** | **₱3,309,079,587** |
| **Non-cash items** | | | | | | | | | |
| Depreciation and amortization | **₱30,261,827** | **₱14,549** | **₱537** | **₱2,857,016** | **₱2,817,063** | **₱678,544** | **₱36,629,536** | **₱–** | **₱36,629,536** |
| Provision for probable losses | **₱194,458,048** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱194,458,048** | **₱–** | **₱194,458,048** |
| Provision for credit and impairment losses | **₱9,067,209** | **₱4,614,552** | **₱–** | **₱–** | **₱–** | **₱–** | **₱13,681,761** | **₱–** | **₱13,681,761** |
| Provision for write-down | **₱22,200,000** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱22,200,000** | **₱–** | **₱22,200,000** |

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| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Revenues | ₱4,666,488,875 | ₱559,780,876 | ₱46,077,321 | ₱96,696,445 | ₱76,980,579 | ₱5,446,024,096 | (₱12,944,702) | ₱5,433,079,394 |
| Costs | 1,738,386,262 | 197,320,474 | 12,140,099 | 40,067,575 | 657,382 | 1,988,571,792 | – | 1,988,571,792 |
| Gross income | 2,928,102,613 | 362,460,402 | 33,937,222 | 56,628,870 | 76,323,197 | 3,457,452,304 | (12,944,702) | 3,444,507,602 |
| Operating expenses | 973,165,991 | 40,975,145 | 45,503,027 | 37,172,916 | 71,467,692 | 1,168,284,771 | (12,944,702) | 1,155,340,069 |
| Net operating income (loss) | 1,954,936,622 | 321,485,257 | (11,565,805) | 19,455,954 | 4,855,505 | 2,289,167,533 | – | 2,289,167,533 |
| Finance income | 514,519,942 | 17,745,054 | 911,401 | 230 | 4,500 | 533,181,127 | – | 533,181,127 |
| Finance costs | (402,215,704) | (4,179,754) | (70,717) | – | – | (406,466,175) | – | (406,466,175) |
| Other income | 20,441,603 | 4,115,594 | 194,514 | 895,617 | – | 25,647,328 | – | 25,647,328 |
| Income (loss) before income tax | 2,087,682,463 | 339,166,151 | (10,530,607) | 20,351,801 | 4,860,005 | 2,441,529,813 | – | 2,441,529,813 |
| Provision for income tax | 232,783,572 | 22,820,563 | 1,977,451 | 263,691 | 306 | 257,845,583 | – | 257,845,583 |
| Net income (loss) | ₱1,854,898,891 | ₱316,345,588 | (₱12,508,058) | ₱20,088,110 | 4,859,699 | ₱2,183,684,230 | ₱– | ₱2,183,684,230 |
| **Non-cash items** | | | | | | | | |
| Depreciation and amortization | ₱19,672,875 | ₱– | ₱1,484,939 | ₱951,002 | ₱457,452 | ₱22,566,268 | ₱– | ₱22,566,268 |
| Provision for probable losses | ₱26,340,946 | ₱– | ₱– | ₱– | ₱– | ₱26,340,946 | ₱– | ₱26,340,946 |
| Provision for credit and impairment losses | ₱55,619,706 | ₱– | ₱2,795,106 | ₱– | ₱– | ₱58,414,812 | ₱– | ₱58,414,812 |
| Write-off of assets | ₱64,945,573 | ₱– | ₱– | ₱– | ₱– | ₱64,945,573 | ₱– | ₱64,945,573 |
| Provision for write-down | ₱3,646,000 | ₱– | ₱– | ₱– | ₱– | ₱3,646,000 | ₱– | ₱3,646,000 |

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| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Revenues | ₱3,702,823,087 | ₱33,301,000 | ₱52,878,961 | ₱41,641,000 | ₱46,993,141 | ₱3,877,637,189 | ₱– | ₱3,877,637,189 |
| Costs | 1,421,950,018 | 12,822,403 | 16,375,980 | 13,538,020 | 203,740 | 1,464,890,161 | – | 1,464,890,161 |
| Gross income | 2,280,873,069 | 20,478,597 | 36,502,981 | 28,102,980 | 46,789,401 | 2,412,747,028 | – | 2,412,747,028 |
| Operating expenses | 620,059,554 | 11,393,292 | 14,896,257 | 17,515,428 | 14,069,976 | 677,934,507 | – | 677,934,507 |
| Net operating income | 1,660,813,515 | 9,085,305 | 21,606,724 | 10,587,552 | 32,719,425 | 1,734,812,521 | – | 1,734,812,521 |
| Finance income | 226,949,678 | 226,224 | 42,494 | – | – | 227,218,396 | – | 227,218,396 |
| Finance costs | (215,695,752) | – | (616,878) | – | – | (216,312,630) | – | (216,312,630) |
| Other income | 6,764,002 | 330,245 | 87,798 | 754,558 | – | 7,936,603 | – | 7,936,603 |
| Income before income tax | 1,678,831,443 | 9,641,774 | 21,120,138 | 11,342,110 | 32,719,425 | 1,753,654,890 | – | 1,753,654,890 |
| Provision for income tax | 43,907,741 | – | 6,134,476 | 1,203,203 | (2,076,561) | 49,168,859 | – | 49,168,859 |
| Net income (loss) | ₱1,634,923,702 | ₱9,641,774 | ₱14,985,662 | ₱10,138,907 | (₱34,795,986) | ₱1,704,486,031 | ₱– | ₱1,704,486,031 |
| **Non-cash items** | | | | | | | | |
| Depreciation and amortization | ₱15,138,560 | ₱– | ₱– | ₱– | ₱– | ₱15,138,560 | ₱– | ₱15,138,560 |
| Provision for probable losses | ₱10,680,718 | ₱– | ₱– | ₱– | ₱– | ₱10,680,718 | ₱– | ₱10,680,718 |
| Provision for credit and impairment losses | ₱– | ₱– | ₱– | ₱– | ₱2,076,561 | ₱2,076,561 | ₱– | ₱2,076,561 |

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Other information on the Group’s operating segment follows:

| | **2014** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Low-cost Mass Housing** | **Medium-rise Condominium Units** | **High-rise condominium Units** | **Timeshare** | **Hotel Operations** | **Others** | **Total Segment** | **Adjustments and Eliminations** | **Consolidated** |
| Segment assets | **₱28,029,131,397** | **₱1,379,592,118** | **₱239,980,296** | **₱1,576,980,804** | **₱637,799,752** | **₱13,637,560** | **₱31,877,121,927** | **(₱4,730,419,553)** | **₱27,146,702,374** |
| Segment liabilities | **₱14,013,238,407** | **₱680,092,113** | **₱218,565,493** | **₱1,440,496,603** | **₱597,041,212** | **₱38,474,733** | **₱16,987,908,561** | **(₱4,730,419,553)** | **₱12,257,489,008** |
| Capital expenditures | **₱3,668,889,744** | **₱689,511** | **₱1,352,054** | **₱3,699,546** | **₱5,715,541** | **₱2,125,654** | **₱3,682,472,050** | **₱–** | **₱3,682,472,050** |

| | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | High-rise condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Segment assets | ₱17,497,233,398 | ₱657,998,161 | ₱– | ₱528,015,703 | ₱69,387,237 | ₱16,722,642 | ₱18,769,357,141 | (₱1,153,733,631) | ₱17,615,623,510 |
| Segment liabilities | ₱11,201,273,427 | ₱334,847,412 | ₱– | ₱552,657,139 | ₱38,121,057 | ₱46,610,922 | ₱12,173,509,957 | (₱1,153,733,631) | ₱11,019,776,326 |
| Capital expenditures | ₱3,137,321,369 | ₱– | ₱– | ₱265,373 | ₱7,151,456 | ₱1,421,999 | ₱3,146,160,197 | ₱– | ₱3,146,160,197 |

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## 7. Cash on Hand and in Banks

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| Cash on hand | **₱3,318,393** | ₱689,925 |
| Cash in banks | **601,829,743** | 248,350,167 |
| | **₱605,148,136** | ₱249,040,092 |

Cash in banks earn interest at prevailing bank deposit annual rates ranging from 0.1% to 1.0% and from 0.3% to 1.0% in 2014 and 2013, respectively.

There are no restrictions on the Group's cash on hand and in banks as at December 31, 2014 and 2013.

## 8. Trade and Other Receivables

This account consists of:

| | 2014 | 2013 |
|---|---|---|
| **Current** | | |
| Trade receivables: | | |
| Installment contract receivables | **₱635,973,013** | ₱306,046,028 |
| Others | **12,527,462** | 3,895,790 |
| Advances to external marketing managers | **40,310,909** | 47,812,508 |
| Retention receivables | **133,351,614** | 52,318,996 |
| Receivables from employees | **111,775,722** | 35,171,413 |
| Other receivables | **141,058,071** | 94,608,279 |
| | **1,074,996,791** | 539,853,014 |
| Less: Allowance for credit losses | **127,373,374** | 2,795,106 |
| | **947,623,417** | 537,057,908 |
| **Noncurrent** | | |
| Trade receivables: | | |
| Installment contract receivables | **13,477,108,808** | 9,471,874,962 |
| Retention receivables | **–** | 1,957,389 |
| | **13,477,108,808** | 9,473,832,351 |
| | **₱14,424,732,225** | ₱10,010,890,259 |

Trade installment contract receivables pertain to receivables from the sale of residential houses and lots, condominium units and timeshares which are collectible in monthly installments over a period of 1 to 25 years. Titles to real estate properties and timeshares are transferred to the buyers upon full payment of the contract price.

Trade installment contract receivables bear annual interest ranging from 8.5% to 18.0% in 2014 and 2013. Interest income earned in 2014, 2013 and 2012 amounted to ₱900.9 million, ₱531.8 million and ₱218.3 million, respectively.

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On May 14, 2014, the Group executed a Deed of Assignment to acquire from Bon Giorno Homes, Inc., an entity owned by certain stockholders, its installment contract receivables (ICRs) amounting to ₱131.36 million, and the related liability for the conversion of titles amounting to ₱4.6 million for a contract price of ₱126.76 million (see Note 27).

On June 5, 2014, an amendment to the Deed of Assignment was made to include other assets related to the acquired ICRs amounting to ₱55.00 million.

On May 15, 2014, the Group entered into another contract with Urban Basic Housing Corporation (UBHC), an entity owned by certain stockholders, to acquire ICRs amounting to ₱77.49 million and the related liability for the conversion of titles amounting to ₱2.7 million for a contract price of ₱74.79 million (see Note 27).

On September 30, 2013, the Group acquired installment contract receivables amounting to ₱1.1 billion and assumed loans payable amounting to ₱601.3 million from 8990 Cebu Housing Development Corporation (8990 CHDC), an entity under common control, at book value.

Other trade receivables pertain to receivables from hotel customers.

Advances to external marketing managers are deductible against future commissions.

Retention receivables are amounts retained by HDMF from the proceeds of loans availed by real estate buyers in accordance with HDMF Circular No. 182-A to pay-off their obligations to the Group. This amount is normally released by HDMF to the Group upon the latter's execution of a Deed of Undertaking for the conversion of the Contract-to-Sell (CTS) accounts and presentation of the necessary documents.

Receivables from employees pertain to cash advances for retitling costs, taxes and other operational and corporate-related expenses. This account also includes short-term non-interest bearing salary and other loans granted to the employees and are recoverable through salary deductions.

Significant portion of other receivables pertain to taxes paid on the land acquired by the Group on behalf of the sellers.

The Group had directly written off receivables amounting to ₱64.9 million in 2013 recorded as 'Write-off of assets' under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 21). The Group did not write-off any trade receivables in 2014 and 2012.

As of December 31, 2014 and 2013, trade receivables used as collateral to secure borrowings from banks amounted to ₱4.2 billion and ₱6.1 billion, respectively (see Note 17).

Rollforward of the allowance for credit losses on trade and other receivables follows:

| | **2014** | | | |
|---|---|---|---|---|
| | **Trade** | **Others** | | |
| | **Installment Contract Receivables** | **Advances to external marketing managers** | **Advances to officers and employees** | **Total** |
| Balance at beginning of year | **₱2,795,106** | **₱–** | **₱–** | **₱2,795,106** |
| Provisions during the year (Note 21) | **68,485,940** | **19,499,300** | **36,593,028** | **124,578,268** |
| Balance at end of year | **₱71,281,046** | **₱19,499,300** | **₱36,593,028** | **₱127,373,374** |
| Gross amounts of receivables individually determined to be impaired | **₱1,389,150,891** | **₱19,499,300** | **₱36,593,028** | **₱1,445,243,219** |

| | 2013 | | | |
|---|---|---|---|---|
| | Trade | Others | | |
| | Installment Contract Receivables | Advances to external marketing managers | Advances to officers and employees | Total |
| Balance at beginning of year | ₱– | ₱– | ₱– | ₱– |
| Provision during the year (Note 21) | 2,795,106 | – | – | 2,795,106 |
| Balance at end of year | ₱2,795,106 | ₱– | ₱– | ₱2,795,106 |
| Gross amounts of receivables individually determined to be impaired | ₱7,117,853 | ₱– | ₱– | ₱7,117,853 |

## 9. **Inventories**

Details of this account follow:

| | **2014** | 2013 |
|---|---|---|
| Real estate inventories: | | |
| Low-cost mass housing: | | |
| Houses and lots: | | |
| At cost | **₱529,900,098** | ₱886,598,365 |
| At NRV | **281,611,875** | 158,647,248 |
| | **811,511,973** | 1,045,245,613 |
| Land development: | | |
| At cost | **2,071,614,040** | 317,254,856 |
| Subdivision lots: | | |
| At cost | **19,962,187** | 173,671,683 |
| At NRV | **32,886,993** | 9,420,907 |
| | **52,849,180** | 183,092,590 |
| | **2,935,975,193** | 1,545,593,059 |
| Medium-rise condominium units | | |
| At cost | **68,971,091** | 115,535,085 |
| At NRV | **11,189,080** | – |
| | **80,160,171** | 115,535,085 |
| High-rise condominium units | **61,970,821** | – |
| | **3,078,106,185** | 1,661,128,144 |
| Timeshares | **–** | 582,431,690 |
| | **₱3,078,106,185** | ₱2,243,559,834 |

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Real estate inventories represent the subdivision lots, housing units and medium-rise condominium units for which the Group has been granted license to sell by the Housing and Land Use Regulatory Board of the Philippines and the SEC.

High-rise condominium units pertain to the Group's first high-rise project located along Epifanio Delos Santos Avenue (EDSA), which intends to provide low cost condominium units to average earning individuals in Metro Manila. As of December 31, 2014, the construction of the condominium units is still ongoing.

Timeshares represent the right to use the property for a specific number of days in a year. The cost of the property that is subject to the timeshare is allocated to the available timeshares for sale.

The real estate inventories and timeshares are carried at cost. The Group did not recognize any provision for write-downs in 2014 and 2013.

In 2010, 8990 LHDC entered into a memorandum of agreement (MOA) for the construction and development of housing units for sale in a land property in General Trias, Cavite owned by BDO Strategic Holdings, Inc. (BSHI). The major provisions of the MOA include the following, among others:

- BSHI shall contribute the land;
- 8990 LHDC shall build, market, and sell the lots and housing units to third party buyers within four years;
- BSHI and 8990 LHDC shall agree on the price and payment terms of the house and lot packages provided that the price of the saleable lots due to BSHI shall be in accordance with the agreed contract price;
- 8990 LHDC shall remit to BSHI the proceeds of the sale of the land or the full contract price of the lots within a certain period of time from receipt of payment from the third party buyers (cash sales) or from reservation date of the third party buyers (installment sales);
- 8990 LHDC shall pay a penalty of 3.0% of the amount due for each period in arrears until fully paid;
- 8990 LHDC shall purchase all the remaining unsold saleable lots of BSHI at the end of the four-year term at the agreed price payable semi-annually over a two-year period commencing on the sixth month after the end of the four-year term; and
- The title of the lots shall be transferred to the third party buyers or 8990 LHDC upon full payment of the contract price.

Under PFRS, the above transaction is considered as purchase of inventories on deferred settlement terms. Accordingly, 8990 LHDC recorded the land at fair value (present value of the purchase price) amounting to ₱535.9 million. The present value of the purchase price was determined based on the projected sales of 8990 LHDC discounted at 6.0%. The difference between the purchase price and fair value of the land shall be accreted and recognized as interest expense over the term of the agreement.

On May 17, 2013, the parties mutually agreed to revise the commencement of the term of the Memorandum of Agreement to January 27, 2012, which coincides with the date of execution of the Special Power of Attorney issued by BSHI to 8990 LHDC, and will be in effect for four years, ending January 27, 2016.

A summary of the movements in real estate inventories for low-cost mass housing, medium-rise condominium units and timeshares are set out below:

*Real Estate Inventories - Low-cost Mass Housing*

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱1,545,593,059** | ₱1,262,937,464 |
| Cost of sales (Note 20) | **(2,787,370,510)** | (1,717,519,321) |
| Construction and development costs incurred | **2,556,294,464** | 1,214,331,033 |
| Transfers/reclassifications (Notes 12 and 14) | **803,776,184** | 284,110,587 |
| Repossessed inventories | **817,681,996** | 501,733,296 |
| Balance at end of year | **₱2,935,975,193** | ₱1,545,593,059 |

*Real Estate Inventories - Medium-rise Condominium Units*

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱115,535,085** | ₱189,099,680 |
| Cost of sales (Note 20) | **(265,189,452)** | (197,320,474) |
| Construction and development costs incurred | **207,164,972** | 123,755,879 |
| Repossessed inventories | **22,649,566** | – |
| Balance at end of year | **₱80,160,171** | ₱115,535,085 |

*Real Estate Inventories - High-rise Condominium Units*

| | **2014** | 2013 |
|---|---|---|
| Land transferred from land held for future development (Note 12) | **₱29,309,739** | ₱– |
| Construction and development costs incurred | **32,661,082** | – |
| Balance at end of year | **₱61,970,821** | ₱– |

*Timeshares*

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱582,431,690** | ₱588,495,452 |
| Cost of sales (Note 20) | **(15,130,146)** | (12,140,099) |
| Construction and development costs incurred | **–** | 6,076,337 |
| Land transferred to investment property (Note 14) | **(139,908,811)** | – |
| Disposal of building and hotel improvements | **(427,392,733)** | – |
| Balance at end of year | **₱–** | ₱582,431,690 |

On November 1, 2014, FHI and 8990 HDC executed a Deed of Assignment on the building and improvements located in Baguio and Boracay with ALRC, an associate, for a total consideration of ₱468.8 million. As a result of the transaction, a gain on sale amounting to ₱6.8 million and ₱4.1 million was recognized by FHI and 8990 HDC, respectively (see Note 23).

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On the same date, FHI and 8990 HDC entered into a contract of lease with ALRC on the land where the building and improvements sold to ALRC are constructed. This land was reclassified from inventory to investment property (see Note 14). The contract of lease provides a lease term of 50 years, with an annual rent of ₱5.0 million for the first 10 years. After 10 years, the lease rate shall increase to a rate agreed by both parties. As of December 31, 2014, FHI and 8990 HDC recognized a deferred rent booked under 'Trade and other payables' amounting to ₱16.4 million representing the outstanding balance of the advance payment received from ALRC (see Notes 15 and 27).

Inventories recognized as cost of real estate inventories and timeshares sales amounted to ₱3.1 billion, ₱1.9 billion, and ₱1.4 billion in 2014, 2013 and 2012, respectively, and are included under 'Costs' account in the consolidated statements of comprehensive income (see Note 20).

As of December 31, 2014 and 2013, the Group's real estate inventories amounting to nil and ₱7.0 million, respectively, are used as collateral for the Group's loans payable (see Note 17).

## 10. Available-for-sale-securities

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| Current | **₱1,155,111,934** | ₱– |
| Noncurrent (Note 11) | **23,745,500** | 23,745,500 |
| Balance at end of year | **₱1,178,857,434** | ₱23,745,500 |

AFS equity securities of the Group represent investments in preferred shares of ALRC and Azalea Resort and Vacation Club, Inc., and shares of stock of Pico de Loro Beach and Country Club.

As discussed in Note 9, ALRC acquired the building which is the subject of the timeshare inventory of the Group. The Group in turn invested in the common shares (representing 45% ownership) and in the preferred shares of ALRC. ALRC's primary purpose is to operate, maintain and/or manage a membership club. ALRC's preferred shares represent membership rights to the club including the right to use a specific unit of the building acquired from the Group and other facilities/amenities for one day per calendar year.

The Group shall start selling the AFS securities upon approval by the SEC of the planned offering to the public.

## 11. **Other Assets**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| **Current** | | |
| Advances to contractors and brokers | **₱565,281,388** | ₱295,972,057 |
| Input tax | **51,273,314** | 44,306,675 |
| Creditable withholding tax | **9,109,233** | 10,390,648 |
| Prepaid expenses | **2,347,706** | 4,604,870 |
| Advances to landowners | **–** | 32,500,000 |
| Hotel inventories | **–** | 3,419,922 |
| Others | **7,147** | 6,095,984 |
| | **628,018,788** | 397,290,156 |
| Less: Allowance for impairment losses | **55,184,293** | 55,184,293 |
| | **572,834,495** | 342,105,863 |
| **Noncurrent** | | |
| Deposits | **95,859,608** | 89,284,197 |
| AFS equity securities (Note 10) | **23,745,500** | 23,745,500 |
| Software cost | **1,492,522** | 1,492,522 |
| Others | **8,267,870** | 5,000,000 |
| | **129,365,500** | 119,522,219 |
| Less: Allowance for impairment losses | **2,511,974** | 2,511,974 |
| | **126,853,526** | 117,010,245 |
| | **₱699,688,021** | ₱459,116,108 |

Advances to contractors represent advance payments to contractors for the construction of subdivision houses and improvements. These advances are deductible from future billings.

Advances to brokers pertain to the advance payment made by the Group for the commissions of brokers for every confirmed reservations. Commission is computed based on percentage of the selling price depending on number of units sold for a certain period.

Input tax represents value-added tax (VAT) paid on purchases of goods and services subject to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue for output VAT on sale of goods and services subject to VAT.

Advances to land owners represent deposits made for future acquisition of land.

Hotel inventories consists of hotel supplies, food and beverage items. During the year, hotel inventories were derecognized upon sale of building and improvements to ALRC (see Note 9).

Prepaid expenses represent prepaid realty taxes, advertising and insurance.

Deposits constitute rental deposit and deposits for the connection of electricity on the Group's property locations and cash bond paid to the Department of Agrarian Reform made in 2009 as a requirement for the conversion of the agricultural land into a residential and commercial area.

Software costs represent costs of accounting system acquired by the Group to be implemented in 2015.

In 2013, the Group recognized allowance for impairment losses on the advances to contractors and deposits amounting to ₱53.1 million and ₱2.5 million, respectively, booked as provision for impairment losses under operating expenses (see Note 21).

Rollforward of allowance for impairment losses follows:

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱57,696,267** | ₱2,076,561 |
| Provision for impairment losses (Note 21) | **–** | 55,619,706 |
| Balance at end of year | **₱57,696,267** | ₱57,696,267 |

12. **Land Held for Future Development**

This account consists of land held for future development which will be sold in the ordinary course of business of the Group.

A summary of the movements in land held for future development is set out below:

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱3,784,727,576** | ₱1,010,474,241 |
| Acquisitions | **3,618,606,775** | 3,062,009,922 |
| Transfers/reclassifications (Notes 9 and 14) | **(854,085,924)** | (284,110,587) |
| Provision for write-down (Note 21) | **(22,200,000)** | (3,646,000) |
| Balance at end of year | **₱6,527,048,427** | ₱3,784,727,576 |

As of December 31, 2014 and 2013, the Group's land held for future development amounting to ₱5.2 billion and ₱332.1 million, respectively is used as collateral for the Group's loans payable (see Note 17).

In 2014, the Group reclassified parcel of lots amounting to ₱833.1 million to 'real estate inventories' at the commencement of construction. Also, the Group's land held for future development amounting to ₱21.0 million was transferred to 'Investment property' which is currently being leased to ALRC (Note 14).

On June 5, 2014, 8990 HDC entered into a Share Purchase Agreement (SPA) with the stockholders of Euson Realty & Development Corporation (ERDC) and Tondo Housing, Inc. (THI) (collectively referred to as 'Landowners') to acquire 100% of the outstanding shares of the latter for a total contract price of ₱1,614.7 million, with the intention of developing the land owned by the entities into mass housing/ condominium projects. The major provisions of the SPA include the following:

- The Landowners have the option to purchase the developed properties equivalent to 5% of the total saleable units per building for all residential buildings constructed on the properties at a fixed price agreed by the parties;
- The Landowners have the option to purchase one parking slot at a fixed price agreed by the parties;
- The Landowners have the option to purchase 5% of 8990 HDC's 50% share in the planned joint venture (JV) with an operator to build a commercial mall at a fixed price. Otherwise, 8990 HDC will give the landowners a combined 5% interest in its 50% share in JV at a fixed price.

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- The Landowners shall pay a deposit on the 5% share in the total saleable area of the residential and commercial buildings to be constructed by 8990 HDC payable in the following manner:
  i. 40% down payment (less the equivalent proportion of the ₱80.0 million deposit) upon issuance of the License to Sell;
  ii. Full payment of the balance (less the remaining proportion of the deposit) upon completion and turnover of the units.
- 8990 HDC commits to finish the development of the entire property within a 10-year payment and execution of the SPA.

As of the acquisition date, THI is at pre-operating stage while ERDC earns rental income from its investment properties, with the lease agreements to end in 2015.

Under PFRS, the acquisition of shares of stock of ERDC and THI are accounted for as acquisition of asset and assumption of liabilities as of acquisition date. Accordingly, the Group reflected the assets acquired as land held for future development amounting to ₱860.1 million and ₱909.2 million, respectively for ERDC and THI based on their relative fair values of the assets and liabilities assumed as of acquisition date.

13. **Property and Equipment**

The composition and movements of this account are as follows:

| | 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Land** | **Building** | **Land Improvements** | **Leasehold Improvements** | **Furniture and Fixtures** | **Machineries and Equipment** | **Transportation Vehicles** | **Waterlines** | **Construction in-Progress** | **Total** |
| **Cost** | | | | | | | | | | |
| Balances at beginning of year | **₱107,405,010** | **₱52,716,704** | **₱10,458,647** | **₱7,112,051** | **₱21,254,001** | **₱13,116,335** | **₱58,526,501** | **₱–** | **₱1,176,127** | **₱271,765,376** |
| Additions | – | **377,154** | – | **2,977,165** | **5,962,544** | **43,349,548** | **8,133,847** | **2,821,648** | **163,159** | **63,785,065** |
| Disposal | – | **(350,000)** | – | – | – | **(12,663,418)** | – | – | – | **(13,013,418)** |
| Balances at end of year | **107,405,010** | **52,743,858** | **10,458,647** | **10,089,216** | **27,216,545** | **43,802,465** | **66,660,348** | **2,821,648** | **1,339,286** | **322,537,023** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | |
| Balances at beginning of year | – | **9,495,048** | **3,422,013** | **4,140,404** | **11,432,376** | **4,479,529** | **29,925,539** | – | – | **62,894,909** |
| Depreciation and amortization (Note 21) | – | **2,442,735** | **2,091,729** | **3,800,565** | **3,586,808** | **8,590,079** | **9,468,373** | **47,823** | – | **30,028,112** |
| Disposal | – | – | – | – | – | **(3,797,349)** | – | – | – | **(3,797,349)** |
| Balances at end of year | – | **11,937,783** | **5,513,742** | **7,940,969** | **15,019,184** | **9,272,259** | **39,393,912** | **47,823** | – | **89,125,672** |
| **Accumulated impairment loss** | | | | | | | | | | |
| Balances at beginning of year | – | – | – | – | – | – | – | – | – | – |
| Provision for impairment loss (Note 21) | **6,279,000** | – | – | – | – | – | – | – | – | **6,279,000** |
| Balances at end of year | **6,279,000** | – | – | – | – | – | – | – | – | **6,279,000** |
| **Net Book Value at end of year** | **₱101,126,010** | **₱40,806,075** | **₱4,944,905** | **₱2,148,247** | **₱12,197,361** | **₱34,530,206** | **₱27,266,436** | **₱2,773,825** | **₱1,339,286** | **₱227,132,351** |

| | 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Leasehold Improvements | Furniture and Fixtures | Machineries and Equipment | Transportation Vehicles | Waterlines | Construction in-Progress | Total |
| Cost | | | | | | | | | | |
| Balances at beginning of year | ₱53,585,010 | ₱49,919,320 | ₱9,652,150 | ₱6,044,734 | ₱14,802,820 | ₱4,551,483 | ₱51,261,100 | ₱– | ₱– | ₱189,816,617 |
| Additions | 53,820,000 | 2,797,384 | 806,497 | 1,067,317 | 6,451,181 | 8,564,852 | 7,265,401 | – | 1,176,127 | 81,948,759 |
| Balances at end of year | 107,405,010 | 52,716,704 | 10,458,647 | 7,112,051 | 21,254,001 | 13,116,335 | 58,526,501 | – | 1,176,127 | 271,765,376 |
| Accumulated Depreciation and Amortization | | | | | | | | | | |
| Balances at beginning of year | – | 7,005,824 | 1,371,608 | 1,620,682 | 8,811,354 | 2,824,811 | 21,332,361 | – | – | 42,966,640 |
| Depreciation and amortization (Note 21) | – | 2,489,224 | 2,050,405 | 2,519,722 | 2,621,022 | 1,654,718 | 8,593,178 | – | – | 19,928,269 |
| Balances at end of year | – | 9,495,048 | 3,422,013 | 4,140,404 | 11,432,376 | 4,479,529 | 29,925,539 | – | – | 62,894,909 |
| Net Book Value at end of year | ₱107,405,010 | ₱43,221,656 | ₱7,036,634 | ₱2,971,647 | ₱9,821,625 | ₱8,636,806 | ₱28,600,962 | ₱– | ₱1,176,127 | ₱208,870,467 |

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One of the Group's buildings, with carrying value of ₱11.0 million as of December 31, 2012, located in Cebu Business Park, Cebu City is constructed on a land owned and controlled by one of the shareholders of the Group. Under the contract, the Group has no obligation to pay the land owner in cash but the building would become the property of the land owner after 25 years from the date of construction of building. However, the Group shall be responsible for paying the taxes for the land and building as well as the monthly dues and other expenses related to the use of the said land and building (see Note 27). In 2013, the contract was terminated since the Group already acquired the land from the shareholders.

As of December 31, 2014 and 2013, land and building with an aggregate carrying value of ₱136.0 million and ₱130.0 million, respectively, are currently mortgaged in relation to a loan obtained by the Group from a local commercial bank (see Note 17).

As of December 31, 2014 and 2013, the cost of fully depreciated property and equipment still in use amounted to ₱30.2 million and ₱19.6 million, respectively.

## 14. Investment Properties

Movements in this account follow:

| | **2014** | | | |
|---|---|---|---|---|
| | **Land** | **Building** | **Improvements** | **Total** |
| **Cost** | | | | |
| Balance at beginning of year | **₱54,468,615** | **₱8,604,750** | **₱89,291,791** | **₱152,365,156** |
| Transfers/reclassifications (Notes 9 and 12) | **160,908,811** | – | – | **160,908,811** |
| Additions | – | – | **80,210** | **80,210** |
| Balance at end of year | **215,377,426** | **8,604,750** | **89,372,001** | **313,354,177** |
| **Accumulated Depreciation and Amortization** | | | | |
| Balance at beginning of year | – | **1,766,676** | **8,669,896** | **10,436,572** |
| Depreciation and amortization (Note 21) | – | **430,238** | **6,171,186** | **6,601,424** |
| Balance at end of year | – | **2,196,914** | **14,841,082** | **17,037,996** |
| **Net Book Value at end of year** | **₱215,377,426** | **₱6,407,836** | **₱74,530,919** | **₱296,316,181** |

| | 2013 | | | |
|---|---|---|---|---|
| | Land | Building | Improvements | Total |
| Cost | | | | |
| Balance at beginning of year | ₱54,468,615 | ₱8,604,750 | ₱87,090,275 | ₱150,163,640 |
| Additions | – | – | 2,201,516 | 2,201,516 |
| Balance at end of year | 54,468,615 | 8,604,750 | 89,291,791 | 152,365,156 |
| Accumulated Depreciation and Amortization | | | | |
| Balance at beginning of year | – | 1,336,439 | 6,462,134 | 7,798,573 |
| Depreciation and amortization (Note 21) | – | 430,237 | 2,207,762 | 2,637,999 |
| Balance at end of year | – | 1,766,676 | 8,669,896 | 10,436,572 |
| Net Book Value at end of year | ₱54,468,615 | ₱6,838,074 | ₱80,621,895 | ₱141,928,584 |

The aggregate fair value of the Group's investment properties amounted to ₱698.2 million and ₱540.3 million as of December 31, 2014 and 2013, respectively.

The fair value of investment properties was determined by independent professional qualified appraisers based on highest and best use of the property being appraised. Valuations were derived on the basis of recent sales or similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. The inputs used in determining the fair value of the investment property is based on Level 3 of the fair value hierarchy as discussed in Note 5. There was no change in the valuation technique used in the fair value measurement.

Rent income from investment properties amounted to ₱39.2 million, ₱6.5 million, and ₱1.4 million in 2014, 2013 and 2012, respectively (see Notes 19 and 25).

Operating expenses directly related to investment properties recorded under ‘Security, messengerial and janitorial’, ‘Communication, light and water’ and ‘Transportation and travel’ amounted to ₱0.6 million, ₱0.3 million and ₱0.8 million in 2014, 2013 and 2012, respectively (see Note 21).

In 2010, 8990 HDC entered into an agreement with 8990 Commercial Management Corporation (CMC), an entity owned by a stockholder, wherein investment property, with carrying value of ₱64.7 million and ₱67.3 million as of December 31, 2014 and 2013, respectively, of the former is used, managed and maintained by the latter. Any income generated by and any expenses related to the property shall be for the account of the related party (see Note 27).

As of December 31, 2014 and 2013, the Group’s investment properties amounting to nil and ₱36.0 million, respectively, are used as collateral for the Group’s loans payable (see Note 17).

## 15. **Trade and Other Payables**

This account consists of:

| | **2014** | 2013 |
|---|---|---|
| **Current** | | |
| Accrued expenses | **₱746,327,680** | ₱497,970,175 |
| Accounts payable | **487,751,414** | 268,218,197 |
| Trade payables | **479,912,512** | 1,940,885,694 |
| Net output tax | **79,041,811** | 6,661,147 |
| Retention payables | **78,118,197** | 57,744,129 |
| Withholding tax payable | **29,894,775** | 21,875,280 |
| Construction bonds | **24,069,608** | 16,210,949 |
| Deferred rent (Note 9) | **8,928,572** | – |
| Others (Note 29) | **291,757,243** | 128,165,212 |
| | **2,225,801,812** | 2,937,730,783 |
| **Noncurrent** | | |
| Deferred rent (Note 9) | **7,440,475** | – |
| Pension liability (Note 24) | **7,067,510** | 3,360,955 |
| Retention payables | **3,780,467** | – |
| Accounts payable | – | 259,389,316 |
| Others | – | 338,850 |
| | **18,288,452** | 263,089,121 |
| | **₱2,244,090,264** | ₱3,200,819,904 |

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Trade payables are mainly attributable to the Group's obligation to contractors for the construction of subdivision houses and improvements and purchase of land and materials. These are noninterest-bearing and are normally settled on 15 to 60-day terms.

Accrued expenses consist of the following:

| | **2014** | 2013 |
|---|---:|---:|
| Documentation | **₱461,413,830** | ₱381,401,946 |
| Commission | **206,343,595** | 81,420,455 |
| Interest | **20,921,431** | 13,187,625 |
| Management/professional fees | **15,804,719** | 16,255,779 |
| Construction costs | **11,034,487** | – |
| Rent | **4,500,000** | – |
| Contracted services | **3,890,446** | – |
| Security, messengerial and janitorial services | **2,507,510** | – |
| Light and water | **1,491,074** | – |
| Salaries and wages | **876,940** | 5,286,283 |
| Others | **17,543,648** | 418,087 |
| | **₱746,327,680** | ₱497,970,175 |

Accounts payable includes the amortized cost of the purchase price of the land acquired from BSHI in 2010 (see Note 9). The accretion of interest amounting to ₱45.6 million, ₱40.9 million and ₱34.4 million in 2014, 2013 and 2012, respectively, is recognized in the consolidated statements of comprehensive income as 'Finance costs' (see Note 22).

Retention payables are noninterest-bearing liabilities with contractors and brokers and are normally settled a year after the Group's completion of the relevant contracts.

Construction bonds pertain to a fixed amount of cash deposit paid by the buyers in cases where the buyers will have renovations of their units. In case of damages in relation to the Group's projects that occurred during construction, penalties will be applied against these accounts.

Other current liabilities mainly represent provision for probable losses related to contingencies (see Note 29).

## 16. Deposits from Customers

This account represents downpayments made by the real estate buyers for the purchase of residential housing units and timeshares. Once the residential unit is ready for occupancy, delivered and accepted by the buyer, the amount is removed from the liability account and is classified as part of sales. For timeshares, when the level of required payment is reached by the buyer, a sale is recognized.

## 17. **Loans Payable**

This account is broken into:

| | **2014** | 2013 |
|---|---|---|
| Short-term (Note 27) | **₱2,104,408,168** | ₱2,612,529,325 |
| Long-term loans payable - current portion | **276,408,509** | 719,720,886 |
| | **2,380,816,677** | 3,332,250,211 |
| Long-term loans payable - noncurrent portion | **6,453,061,864** | 3,980,588,104 |
| | **₱8,833,878,541** | ₱7,312,838,315 |

On various dates, the Group availed of loans from various banks. The Group also entered into an 'Agreement to Purchase Receivables' (APR) with recourse with various banks covering the receivables under CTS. The proceeds of the sale of receivables under CTS with recourse are recognized as "Long-term loans payable"

The loans payable bear interest rates ranging from 2.6% to 11.0% in 2014 and 2013, and from 6.0% to 11.0% in 2012. Interest rates are either fixed for the loan term or subject to annual repricing. Loans payable have various maturity dates ranging in maturity from 3 months to 5 years.

Interest expense on loans payable amounted to ₱350.1 million, ₱363.6 million, and ₱181.1 million in 2014, 2013, and 2012, respectively (see Note 22).

As of December 31, 2014 and 2013, the Group's loans payable is secured by the following assets with their corresponding carrying values:

| | **2014** | 2013 |
|---|---|---|
| **Short-term loans** | | |
| Collaterals owned by the Group: | | |
| Installment contract receivables (Note 8) | **₱1,769,093,946** | ₱1,602,288,894 |
| Land held for future development (Note 12) | **700,094,493** | 133,200,000 |
| Property and equipment (Note 13) | **135,970,142** | 130,031,597 |
| Investment properties | **–** | 35,983,027 |
| Collaterals owned by other related parties: | | |
| Installment contract receivable of a related party under common control | **–** | 216,987,624 |
| Land held for future development of affiliates | **–** | 239,315,826 |
| Other assets of entities under common control | **–** | 84,800,000 |
| Deposits of the Controlling Shareholders | **–** | 12,900,000 |
| Deposit of other affiliates | **–** | 6,000,000 |
| | **2,605,158,581** | 2,461,506,968 |
| **Long-term loans** | | |
| Collaterals owned by the Group: | | |
| Installment contract receivables (Note 8) | **2,408,270,201** | 4,533,928,162 |
| Land held for future development (Note 12) | **4,528,378,102** | 198,936,000 |
| Inventories | **–** | 7,048,952 |

(Forward)

| | 2014 | 2013 |
|---|---|---|
| Collaterals owned by other related parties: | | |
| Installment contract receivable of a related party under common control | ₱– | ₱1,272,180,395 |
| Deposits of the Controlling Shareholders | – | 207,630,000 |
| | **6,936,648,303** | 6,219,723,509 |
| | **₱9,541,806,884** | ₱8,681,230,477 |

Availment of the CTS purchase is done via promissory note secured by the APR over CTS. Amount of CTS purchase is up to 70.0% of the total contract price as stipulated in the CTS. The maximum term is four years with option to extend at the sole option of the bank. Interest rate is based on the prevailing bank rate at the time of availment and as mutually agreed upon between the local bank and the 8990 Group and related entities.

All monetary obligations of the 8990 Group and related entities are jointly and severally payable to the local bank when due without need of demand and presentment or notice of any kind. Whenever any of the members of the 8990 Group and related entities avail of the CTS purchase, and such member defaults, the local bank shall have the sole option to apply any payment received from any of the members of the 8990 Group and related entities or any other resource in behalf of any of the members of the 8990 Group and related entities, or any money or thing of value belonging to any of the members of the 8990 Group and related entities which may be in the possession or control of the bank, to any payable of any of the members of the 8990 Group and related entities that the local bank may choose notwithstanding that one payable may be more onerous than the other, or that member of the 8990 Group and related entities gives instructions to the contrary.

The MOA contains debt covenants, inclusive of, among others, paying taxes and charges upon properties and assets covered by CTS accounts, maintaining the properties and assets subject of the CTS accounts in good working condition before turning over to buyers, providing for the insurance of the subject properties and assets, advising the local bank in the event of buyer default, and submitting to the local bank reports of installment payments received from buyers whose CTS accounts are not covered by postdated checks.

As of December 31, 2014 and 2013, long-term loans payable include the loans payable of 8990 CHDC assumed by the Group in relation to the acquisition of installment contract receivables as discussed in Note 8.

The following tables show the recognized financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements:

| **2014** | | | | | | |
|---|---|---|---|---|---|---|
| | | | | **Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria** | | |
| **Financial liabilities recognized at end of year by type** | **Gross carrying amounts (before offsetting)** | **Gross amounts offset in accordance with the offsetting criteria** | **Net amount presented in statements of financial position [a-b]** | **Financial instruments** | **Fair value of financial collateral** | **Net exposure [c-d]** |
| | **[a]** | **[b]** | **[c]** | | **[d]** | **[e]** |
| Loans payable | | | | | | |
| Short-term loans | **₱1,238,365,762** | **₱–** | **₱1,238,365,762** | **₱–** | **₱1,769,093,946** | **₱–** |
| Long-term loans | **1,685,789,141** | **–** | **1,685,789,141** | **–** | **2,408,270,201** | **–** |

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| 2013 | | | | | | |
|---|---|---|---|---|---|---|
| Financial liabilities recognized at end of year by type | Gross carrying amounts (before offsetting) | Gross amounts offset in accordance with the offsetting criteria | Net amount presented in statements of financial position [a-b] | Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments | Fair value of financial collateral | Net exposure [c-d] |
| | [a] | [b] | [c] | [d] | | [e] |
| Loans payable | | | | | | |
| Short-term loans | ₱ 1,139,197,756 | ₱– | ₱1,139,197,756 | ₱– | ₱ 1,602,288,894 | ₱– |
| Long-term loans | 3,585,312,100 | – | 3,585,312,100 | – | 4,533,928,162 | – |

18. **Equity**

Capital Stock

As of December 31, 2014, 2013 and 2012, the details of the common stock of the Parent Company and the movements thereon follow:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Authorized, par value ₱1.00 | **7,000,000,000** | 7,000,000,000 | 460,000,000 |
| Issued and outstanding at beginning of year | **4,655,804,670** | 221,866,669 | 181,866,669 |
| Issuance of shares | **862,186,050** | 4,433,938,001 | 40,000,000 |
| Issued and outstanding at end of year | **5,517,990,720** | 4,655,804,670 | 221,866,669 |

Authorized Capital Stock

On August 25, 2011, the Parent Company entered into a Subscription Agreement (SA) with Intellectual Property Ventures Group (IPVG), wherein IPVG agrees to subscribe to 40.0 million shares of the common stock of the Parent Company at a subscription price of ₱2.52 per share or a total subscription of ₱100.8 million. IPVG paid ₱25.0 million in cash as partial payment and agreed to pay the remaining balance of the subscription price upon call thereon by the Parent Company's BOD. The ₱25.0 million partial payment was presented as subscribed capital stock.

As a result of the Asset Purchase Agreement dated September 28, 2011, the said SA and the related shares subscribed and partially paid were transferred to Intellectual Property Ventures, Inc. (IPVI).

On February 29, 2012, the stockholders approved the issuance of the 40.0 million shares in favor of IPVI. On the same date, the minority and unrelated stockholders also approved that the requirement to conduct a rights or public offering of the shares subscribed pursuant to a related party transaction is waived.

In April 2012, the Parent Company received the remaining subscription receivable and issued the corresponding shares to IPVI. These shares were part of the shares acquired by the Stockholders of the 8990 Group (see Note 1).

On September 23, 2013, the BOD of the Parent Company approved the subscriptions and issuance of 465,580,467 shares at ₱1.0 per share to new public investors to comply with the minimum public ownership requirement of the PSE. Such issuance is subject to following conditions: (i) the approval of the SEC of the Parent Company's application for the increase in authorized capital stock; and (ii) the issuance of 3,968,357,533 shares to the Stockholders of 8990 Group. The shares were issued subsequent to the approval by the SEC of the increase in authorized capital stock of the Parent Company on October 1, 2013.

As discussed in Note 1, on April 15, 2014, the Parent Company issued 862,186,050 shares by way of follow-on offering.

The total number of holders of outstanding common shares of the Parent Company is 26 and 23 as of December 31, 2014 and 2013, respectively.

Retained Earnings

As of December 31, 2014 and 2013, retained earnings represent the accumulated income of the 8990 Group and the losses of the Parent Company since May 2012.

On November 12, 2012, the BOD approved 8990 HDC's declaration of cash dividend for a total of ₱200.0 million or ₱0.06 per share to all shareholders as of record date of September 30, 2012.

On December 19, 2012, 8990 HDC's BOD and stockholders approved the Company's declaration of cash dividends and stock dividends for a total of ₱200.0 million or ₱0.06 per share and ₱1.4 billion or ₱0.44 per share, respectively, to all shareholders as of record date of December 31, 2012.

On March 8, 2013, the BOD approved FHI's declaration of stock dividends of 420.0 million shares equivalent to ₱420.0 million or ₱0.70 per share to all shareholders of record as of the same date.

On September 23, 2013, 8990 Holdings executed a subscription agreement with certain investors (the Subscribers) for the issuance of 465,580,467 shares out of the proposed increase in authorized capital stock.

On October 1, 2013, the Parent Company received the approval from the SEC for the increase in the authorized capital stock from ₱460.0 million to ₱7.0 billion divided into 7.0 billion shares with par value of ₱1.0 per share.

On November 4, 2014, the BOD approved the Parent Company's declaration of cash dividends for a total of ₱275.9 million or P0.05 per share, to all stockholders of record as of November 18, 2014.

Equity Reserve

As at January 1, 2011, as a result of the application of pooling of interest method, the 'Equity reserve' account, represent the difference between the paid-up capital of the consolidated subsidiaries and the legal acquirer. Subsequent to January 1, 2011 up to the date of the Shares Swap transaction, the movements of the equity accounts of the consolidated subsidiaries are adjusted to 'Equity reserve'.

Upon issuance of the capital stock under the Shares Swap transaction in 2013, the Parent Company recognized capital stock at total par value of ₱4.0 billion and offset this against the 'Equity reserve' account of ₱3.4 billion. The excess of ₱0.5 billion was closed to additional paid-in capital and retained earnings.

Capital Management
The primary objective of the Group's capital management is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for its business, and thus, allowing the necessary financial flexibility for its operations and providing sufficient cushion to absorb cyclical industry risks.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. The Group considers its equity as capital. The Group is not subject to externally-imposed capital requirements.

## 19. Revenue

This account consists of:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Revenue from: | | | |
| Real estate operations: | | | |
| Low-cost mass housing | | | |
| Houses and lots | **₱6,724,187,722** | ₱4,212,819,783 | ₱3,574,392,545 |
| Subdivision lots | **16,639,158** | 453,669,092 | 128,430,542 |
| Medium-rise condominium units | **789,228,749** | 559,780,876 | 33,301,000 |
| | **7,530,055,629** | 5,226,269,751 | 3,736,124,087 |
| Rental income (Notes 14 and 25) | **39,226,986** | 6,481,920 | 1,412,532 |
| Others | **38,924,774** | 70,498,659 | 45,580,609 |
| | **7,608,207,389** | 5,303,250,330 | 3,783,117,228 |
| Timeshare and hotel operations | | | |
| Timeshare | **78,663,869** | 46,077,321 | 52,878,961 |
| Hotel operations | | | |
| Rooms | **74,138,696** | 56,091,567 | 26,743,829 |
| Food and beverages | **31,503,273** | 27,660,176 | 14,897,171 |
| | **184,305,838** | 129,829,064 | 94,519,961 |
| | **₱7,792,513,227** | ₱5,433,079,394 | ₱3,877,637,189 |

Others consist of water income, penalties from default of payment of ICR, collection service fees, gain/loss on repossession, gain/loss on cancellation, maintenance fee and other income from reservation and processing cost.

Timeshares are in-house issuances of the Group that grants the purchaser a perpetual right to occupy one unit of the Group's vacation hotel in Baguio every year for a specific number of days. It also grants certain buyers the right to avail of the international exchange services offered by affiliated companies through the Group's Resorts Condominium International membership.

Classifications of timeshares are based on the accommodation types offered by the vacation hotel which range from deluxe to 3-bedroom units. The said accommodation units are offered under different pricing schemes.

Timeshares may be transferred, sold, assigned or pledged by delivery of the certificates duly indorsed by the timeshare holders or other legally authorized person subject to certain restrictions, terms and conditions.

Purchase of a timeshare does not result into any change in equity or ownership of the Group as the sale does not grant the purchaser any proprietary or voting right or residual interest in the Group. Income from hotel operations are incidental revenues while the Group has not yet sold all of the timeshares of its Azalea Project. Hotel operations of the Group is a Board of Investments (BOI)-registered activity.

## 20. Costs

This account consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Cost of sales: | | | |
| Real estate operations (Note 9): | | | |
| Low-cost mass housing | | | |
| Houses and lots | **₱2,776,821,318** | ₱1,554,106,908 | ₱1,362,854,304 |
| Subdivision lots | **10,549,192** | 163,412,413 | 42,981,165 |
| Medium-rise condominium units | **265,189,452** | 197,320,474 | 12,822,403 |
| | **3,052,559,962** | 1,914,839,795 | 1,418,657,872 |
| Cost of rental services | **7,211,795** | 657,382 | 203,740 |
| Others | **19,032,953** | 20,866,941 | 16,114,549 |
| | **3,078,804,710** | 1,936,364,118 | 1,434,976,161 |
| Timeshare and hotel operations | | | |
| Timeshare | **15,130,146** | 12,140,099 | 16,375,980 |
| Hotel operations | | | |
| Rooms | **16,522,468** | 19,085,469 | 8,621,563 |
| Food and beverages | **24,405,421** | 20,982,106 | 4,916,457 |
| | **56,058,035** | 52,207,674 | 29,914,000 |
| | **₱3,134,862,745** | ₱1,988,571,792 | ₱1,464,890,161 |

Others pertain to the costs of distribution of water to the subdivision projects of the Group.

## 21. Operating Expenses

This account consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Marketing and selling | **₱542,426,043** | ₱307,015,371 | ₱197,402,838 |
| Documentation | **288,924,371** | 292,188,702 | 232,054,087 |
| Provision for credit and impairment losses (Notes 8, 11 and 13) | **130,857,268** | 58,414,812 | 2,076,561 |
| Taxes and licenses | **117,708,870** | 102,911,135 | 38,605,092 |
| Salaries and employee benefits (Notes 24 and 27) | **104,765,286** | 75,943,647 | 55,249,493 |
| Provision for probable losses (Note 29) | **77,282,541** | 26,340,946 | 10,680,718 |
| Management and professional fees | **43,882,495** | 44,502,235 | 26,188,710 |
| Security, messengerial and janitorial (Note 14) | **43,785,292** | 25,369,411 | 23,590,909 |
| Depreciation and amortization (Notes 13 and 14) | **36,629,536** | 22,566,268 | 15,138,560 |
| Communication, light and water (Note 14) | **34,459,309** | 15,777,860 | 12,212,461 |
| Rent (Note 25) | **30,230,472** | 8,350,287 | 7,211,136 |
| Transportation and travel (Note 14) | **24,241,333** | 22,270,000 | 13,778,481 |

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| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Provision for write-down (Note 12) | **₱22,200,000** | ₱3,646,000 | ₱– |
| Repairs and maintenance | **17,851,228** | 9,611,827 | 6,057,675 |
| Entertainment, amusement and representation (Note 26) | **13,765,328** | 10,575,323 | 19,131,170 |
| Supplies | **8,679,627** | 7,750,140 | 4,604,354 |
| Subscription dues and fees | **2,283,923** | 876,704 | 789,447 |
| Write-off of assets (Note 8) | – | 64,945,573 | – |
| Miscellaneous | **40,870,981** | 56,283,828 | 13,162,815 |
| | **₱1,580,843,903** | ₱1,155,340,069 | ₱677,934,507 |

Marketing and selling expenses represent commissions paid to real estate brokers and agents and other expenses directly incurred in selling the inventories.

Documentation expenses consist of certification fees, registrations fees, tax clearances and other related expenses incurred in the processing of real estate inventories sales and transfer of titles to the buyers.

## 22. Finance Costs

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Borrowings (Notes 17 and 27) | **₱350,099,357** | ₱363,633,267 | ₱181,122,301 |
| Accretion (Note 15) | **45,639,202** | 40,918,456 | 34,410,141 |
| Bank charges | **408,895** | 1,851,418 | 752,184 |
| Net interest expense on pension obligation (Note 24) | **192,765** | 63,034 | 28,004 |
| | **₱396,340,219** | ₱406,466,175 | ₱216,312,630 |

## 23. Other Income

This account consists of:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest income from: | | | |
| Installment contract receivables (Note 8) | **₱900,894,912** | ₱531,811,849 | ₱218,340,111 |
| Cash in banks (Note 7) | **916,898** | 1,369,278 | 8,878,285 |
| Gain on sale of building and improvements (Note 9) | **10,943,948** | – | – |
| Loss on sale of a subsidiary (Note 28) | **–** | – | (11,165,026) |
| Gain on sale of unquoted debt security classified as loans | **–** | – | 7,767,942 |
| Miscellaneous | **20,595,816** | 25,647,328 | 11,333,687 |
| | **₱933,351,574** | ₱558,828,455 | ₱235,154,999 |

Miscellaneous income includes retrieval fee, association dues and transfer fee.

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## 24. Pension Cost

FHI and LHDC

FHI and LHDC have unfunded, noncontributory, defined benefit pension plan covering substantially all of their regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The benefits are based on the projected retirement benefit of 22.5 days pay per year service in accordance with Republic Act (RA) 7641. The benefits are based on current salaries and years of service and compensation on the last year of employment.

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Changes in the net defined benefit liability of FHI and LHDC's pension plan in 2014 and 2013 are as follows:

| | **2014** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Net benefit cost in consolidated statements of comprehensive income** | | | **Remeasurements in other comprehensive income** | | | |
| | **January 1, 2014** | **Current service cost** | **Interest cost** | **Subtotal** | **Experience adjustments** | **Actuarial changes arising from changes in financial assumptions** | **Subtotal** | **December 31, 2014** |
| **Present value of defined benefit obligation** | **₱1,134,000** | **₱666,589** | **₱66,942** | **₱733,531** | **(₱362,431)** | **₱284,800** | **(₱77,631)** | **₱1,789,900** |

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in consolidated statements of comprehensive income | | | Remeasurements in other comprehensive income | | | |
| | January 1, 2013 | Current service cost | Interest cost | Subtotal | Experience adjustments | Actuarial changes arising from changes in financial assumptions | Subtotal | December 31, 2013 |
| Present value of defined benefit obligation | ₱745,279 | ₱531,151 | ₱37,122 | ₱568,273 | (₱21,752) | (₱157,800) | (₱179,552) | ₱1,134,000 |

<u>8990 HDC</u>
8990 HDC has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on the projected retirement benefit of 22.5 days pay per year service in accordance with RA 7641. The benefits are based on current salaries and years of service and compensation on the last year of employment. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the retirement benefit obligation.

The defined benefit plan is administered by a third party trustee bank.

The pension plan exposes the Group to actuarial risks, such as longevity risk, and market (investment) risk.

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Changes in net defined benefit liability of HDC's pension plan are as follows:

| | **2014** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Net benefit cost in consolidated statements of income** | | | **Remeasurements in other comprehensive income** | | | | |
| | **January 1, 2014** | **Current service cost** | **Net interest** | **Subtotal** | **Return on plan assets (excluding amount included in net interest)** | **Actuarial changes arising from changes in demographic assumptions** | **Actuarial changes arising from changes in financial assumptions** | **Subtotal** | **December 31, 2014** |
| Present value of defined benefit obligation | **₱4,163,900** | **₱720,427** | **₱235,260** | **₱955,687** | **₱–** | **₱1,032,613** | **₱1,088,700** | **₱2,121,313** | **₱7,240,900** |
| Fair value of plan assets | **1,936,945** | **–** | **109,437** | **109,437** | **(83,092)** | **–** | **–** | **(83,092)** | **1,963,290** |
| Net defined benefit liability | **₱2,226,955** | **₱720,427** | **₱125,823** | **₱846,250** | **₱83,092** | **₱1,032,613** | **₱1,088,700** | **₱2,204,405** | **₱5,277,610** |

| | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in consolidated statements of income | | | Remeasurements in other comprehensive income | | | | |
| | January 1, 2013 | Current service cost | Net interest | Subtotal | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in financial assumptions | Subtotal | December 31, 2013 |
| Present value of defined benefit obligation | ₱2,211,400 | ₱164,172 | ₱134,895 | ₱299,067 | ₱– | ₱1,085,533 | ₱567,900 | ₱1,653,433 | ₱4,163,900 |
| Fair value of plan assets | 1,786,615 | – | 108,983 | 108,983 | 41,347 | – | – | 41,347 | 1,936,945 |
| Net defined benefit liability | ₱424,785 | ₱164,172 | ₱25,912 | ₱190,084 | ₱41,347 | ₱1,085,533 | ₱567,900 | ₱1,612,086 | ₱2,226,955 |

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Group's net defined benefit liability of ₱7.1 million and ₱3.1 million as of December 31, 2014 and 2013, respectively, is included in trade and other payables (see Note 15).

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The fair value of plan assets by class as at the end of the reporting period is as follows:

| | **2014** | 2013 |
|---|---|---|
| Cash | **₱–** | ₱809,434 |
| Available-for-sale securities | | |
| Debt instruments | **1,049,925** | 1,052,930 |
| UITF | **897,610** | 58,408 |
| Accrued interest receivable | **17,470** | 18,193 |
| Accrued expenses | **(1,715)** | (2,020) |
| | **₱1,963,290** | ₱1,936,945 |

8990 HDC has yet to formalize its investment policy and risk management procedures for the pension plan. Currently, the assets of the pension plan are composed of securities issued by the Philippine government and placements in banks. Available-for-sale securities are quoted instruments.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans, as well as the present value of the defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining the net pension liability for the defined benefit plans are shown below:

| | **2014** | 2013 |
|---|---|---|
| | **%** | % |
| Discount rates: | | |
| FHI | **5.95** | 6.04 |
| 8990 LHDC | **5.74** | 5.74 |
| 8990 HDC | **5.67** | 6.10 |
| Salary increase rates: | | |
| FHI | **2.00** | 2.00 |
| 8990 LHDC | **2.00** | 2.00 |
| 8990 HDC | **2.00** | 2.00 |

The Group does not expect that any reasonably possible changes to the assumptions used to calculate the defined benefit obligation as of the end of the reporting period would have a significant impact on the Group's net pension liability.

8990 HDC expects to contribute a minimum amount of ₱0.8 million in 2014.

Shown below is the maturity analysis of the undiscounted benefit payments:

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | ₱– | ₱307,493 |
| More than 1 year to 5 years | 180,541 | 3,829,482 |
| More than 5 years to 10 years | 6,149,868 | 24,726,700 |
| More than 10 years to 15 years | 4,707,038 | 1,062,031 |
| More than 15 years to 20 years | 10,597,320 | 29,037,143 |
| More than 20 years | 53,204,808 | 53,346,401 |

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The average duration of the defined benefit obligation at the end of the reporting period is 23.4 years and 18 years in 2014 and 2013, respectively.

## 25. Leases

8990 Holdings

*8990 Holdings as a lessee*

In 2012, 8990 Holdings entered into a non-cancellable operating lease as a lessee covering its office premises in Liberty Center Building in Makati City. The lease has a term of two years until 2014, with renewal options. During the year, the Company renewed the said contract for another two years ending July 31, 2016.

During the year, the Company entered into a non-cancellable operating lease as a lessee covering a corporate suite for a term of one year and will expire on June 22, 2015.

Future minimum rentals payable under non-cancellable operating lease follow:

| | **2014** | 2013 |
|---|---:|---:|
| Less than one year | **₱9,925,072** | ₱528,612 |
| More than one year but not more than five years | **555,044** | – |
| | **₱10,480,116** | ₱528,612 |

Rent expense arising from this operating lease agreement amounted to ₱14.5 million and ₱1.0 million in 2014 and 2013, respectively.

FHI

*FHI as a lessee*

FHI recognized rent expense amounting to ₱5.3 million, ₱3.6 million, and ₱4.4 million, in 2014, 2013 and 2012, respectively, pertaining to rental of FHI's office. The lease agreements are renewable annually upon mutual agreement of the parties. As of December 31, 2014, 2013 and 2012, FHI has no future minimum rentals payable under non-cancellable operating leases.

*FHI as a lessor*

In 2014, FHI leased its land to ALRC for a term of fifty (50) years which shall be renewable subject to the mutual agreement of the parties. Rent income recognized by FHI amounted to ₱0.7 million (see Notes 14 and 19).

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

| | **2014** | 2013 |
|---|---:|---:|
| Within one year | **₱–** | ₱– |
| After one year but not more than five years | **14,136,905** | – |
| More than five years | **200,148,809** | – |
| | **₱214,285,714** | ₱– |

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8990 HDC

*8990 HDC as a lessee*

8990 HDC recognized rent expense amounting to ₱1.3 million, ₱3.2 million, and ₱2.3 million in 2014, 2013 and 2012, respectively, pertaining to rental of 8990 HDC's office spaces and billboard. The lease agreements are renewable annually upon mutual agreement of the parties. As of December 31, 2014, 2013 and 2012, 8990 HDC has no future minimum rentals payable under non-cancellable operating leases.

*8990 HDC as a lessor*

8990 HDC owns a building and a portion of it is currently leased to a third party which is covered by an operating lease contract for a period of 10 years starting 2007. Rent income recognized by 8990 HDC amounted to ₱36.5 million, ₱4.2 million, and ₱1.0 million in 2014, 2013 and 2012, respectively (see Notes 14 and 19).

In 2014, 8990 HDC leased its land to ALRC for a term of fifty (50) years which shall be renewable subject to the mutual agreement of the parties. Rent income recognized by 8990 HDC amounted to ₱0.7 million (see Notes 14 and 19).

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

| | **2014** | 2013 |
|---|---|---|
| Within one year | **₱6,362,509** | ₱3,732,255 |
| After one year but not more than five years | **16,217,856** | 7,883,275 |
| More than five years | **206,580,885** | 1,074,221 |
| | **₱229,161,250** | ₱12,689,751 |

8990 LHDC

*8990 LHDC as a lessee*

8990 LHDC recognized rent expense amounting to ₱0.6 million in 2014 and ₱0.1 million in 2013 and 2012 pertaining to rentals for office space, staff house and generator set (see Note 21).

*8990 LHDC as a lessor*

In 2012, 8990 LHDC leased its investment properties for a period of five years, with provision for automatic annual renewal unless formally terminated by either party. The contract provided that Group shall waive the first six monthly lease fees for the first year. In addition to rental income, the Group shall be entitled to receive 10.0% of monthly gross sales of riding passes in excess of ₱2.0 million.

Rent income from investment properties amounted to ₱1.2 million and ₱1.1 million in 2014 and 2013, respectively (see Notes 14 and 19).

Future minimum rentals receivable under this non-cancellable operating lease follow:

| | **2014** | 2013 |
|---|---|---|
| Within one year | **₱1,320,000** | ₱1,080,000 |
| After one year but not more than five years | **1,650,000** | 2,430,000 |
| | **₱2,970,000** | ₱3,510,000 |

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## 26. Income Taxes

Provision for income tax consists of:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Current: | | | |
| RCIT | **₱160,094,668** | ₱34,169,799 | ₱23,045,001 |
| MCIT | **–** | 1,057,214 | 90,104 |
| Final | **182,383** | 46,875 | 86,139 |
| | **160,277,051** | 35,273,888 | 23,221,244 |
| Deferred | **144,461,296** | 222,571,695 | 25,947,615 |
| | **₱304,738,347** | ₱257,845,583 | ₱49,168,859 |

Current income taxes include corporate income tax and final taxes paid at the rate of 20.0% on peso-denominated cash in banks, which is a final withholding tax on gross interest income.

RA 9337, an act amending the National Internal Revenue Code (NIRC) of 1997, provides that the RCIT rate shall be 30.0% and interest allowed as deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of MCIT of 2.0% on gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the entities in the Group commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Details of the Group's MCIT follow:

| Inception Year | Amount | Expired/Used | Balance | Expiry Year |
|---|---|---|---|---|
| 2012 | ₱90,104 | ₱– | ₱90,104 | 2015 |
| 2013 | 1,057,214 | – | 1,057,214 | 2016 |
| | ₱1,147,318 | ₱– | ₱1,147,318 | |

In addition, the NIRC of 1997 allows each of the entities in the Group to deduct from its taxable income for the current year its accumulated NOLCO for the immediately preceding three consecutive taxable years.

Details of the Group's NOLCO follow:

| Inception Year | Amount | Expired/Used | Balance | Expiry Year |
|---|---|---|---|---|
| 2011 | ₱14,909,611 | ₱14,909,611 | ₱– | 2014 |
| 2012 | 44,335,797 | 43,558,575 | 777,222 | 2015 |
| 2013 | 4,143,861 | – | 4,143,861 | 2016 |
| 2014 | 377,042,350 | | 377,042,350 | 2017 |
| | ₱440,431,619 | ₱58,468,186 | ₱381,963,433 | |

RA 9504, an act amending the NIRC of 1997, provides that an optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The entities in the Group did not claim the OSD in lieu of the itemized deductions.

The Group recognized net deferred tax liability as follows:

| | **2014** | 2013 |
|---|---|---|
| Deferred tax liability on: | | |
| Excess of accounting basis over tax basis of deferred gross profit on real estate sales | **₱468,218,117** | ₱336,299,944 |
| Effect of straight line recognition of rental income | **627,180** | 222,000 |
| | **468,845,297** | 336,521,944 |
| Deferred tax asset on: | | |
| Accrued expenses | **55,087,440** | 56,677,039 |
| Allowance for impairment losses | **13,994,912** | 16,685,912 |
| Retirement liability | **668,087** | 668,087 |
| NOLCO | **274,340** | 6,990,893 |
| MCIT | **6,527** | 1,147,318 |
| | **70,031,306** | 82,169,249 |
| Net deferred tax liability | **₱398,813,991** | ₱254,352,695 |

The Group did not set up deferred tax assets on the following temporary differences since management believes that it is not probable that the related benefits will be realized in the future:

| | **2014** | 2013 |
|---|---|---|
| NOLCO | **₱381,048,966** | ₱4,091,970 |
| Allowance for impairment and probable losses | **48,500,868** | 2,795,106 |
| Deferred rent | **16,369,047** | – |
| Accrued expenses | **11,811,739** | 29,348,070 |
| Retirement liability | **2,460,981** | 881,200 |
| MCIT | **1,140,791** | – |
| Foreign exchange revaluation | **2,879** | – |
| | **₱461,335,271** | ₱37,116,346 |

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a seller of goods and properties is limited to the actual EAR paid or incurred but not to exceed 0.5% of net sales or 1.0% of net revenue. EAR expenses amounted to ₱13.8 million, ₱10.6 million, and ₱19.1 million in 2014, 2013 and 2012, respectively (see Note 20).

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A reconciliation of the Group's statutory income tax rate to effective income tax rate follows:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Income under income tax holiday | **(21.98)** | (20.42) | (26.95) |
| Costs directly incurred in the issuance of shares | **(2.84)** | – | – |
| Nontaxable income | – | (0.57) | (6.49) |
| Nondeductible expenses | **0.64** | 3.21 | 4.08 |
| Change in unrecognized deferred tax assets | **0.38** | 1.15 | 2.20 |
| Income subjected to final tax | | (0.02) | (0.04) |
| Others | **2.23** | (2.79) | – |
| | **8.43%** | 10.56% | 2.80% |

*Registration with BOI*

The Group has registered the following projects with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226) as of December 31, 2014:

| Project Name | Reg. No. | Date Registered | ITH Period | Registered Activity |
|---|---|---|---|---|
| Deca Homes Minglanilla Subdivision Phase 3 | 2008-158 | July 14, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Subdivision Phase 4 | 2008-159 | July 14, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Mandaue Prime | 2008-309 | November 14, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Mactan 3 | 2008-315 | November 20, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences | 2009-038 | May 4, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Homes | 2009-082 | June 19, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Talisay | 2009-193 | December 17, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Subdivision Phase 5 | 2010-003 | January 8, 2010 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Subdivision Phase 6 | 2010-004 | January 8, 2010 | 3 years | Developer of Low-cost Mass Housing Project |
| Savannah Green Plains - Phase 3 | 2010-068 | March 22, 2010 | 3 years | Expanding Developer of Low-cost Mass Housing Project |
| Deca Homes Mactan 4 | 2010-127 | July 13, 2010 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Pavia | 2010-128 | July 13, 2010 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Esperanza | 2011-009 | January 10, 2011 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Mactan 5 | 2011-008 | January 10, 2011 | 4 years | New Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 10 | 2011-007 | January 10, 2011 | 3 years | Developer of Low-cost Mass Housing Project |
| Bon Giorno Homes | 2011-035 | February 8, 2011 | 4 years | New Developer of Low-cost |

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| Project Name | Reg. No. | Date Registered | ITH Period | Registered Activity |
|---|---|---|---|---|
| Subdivision | | | | Mass Housing Project |
| Deca Homes Resort Residences Phase 8-A | 2011-119 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 8-B | 2011-120 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Northfield Estates | 2009-157 | November 11, 2009 | | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 8-C | 2012-121 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Azalea Baguio Residences | 2012-174 | August 22, 2012 | 4 years | New Operator of Tourist Accommodation Facility - Apartment Hotel |
| Bella Vista Subdivision | 2013-049 | February 18, 2013 | 4 years | New Developer of Low-cost Mass Housing Project |
| Urban Homes Tipolo Condominium | 2013-062 | March 8, 2013 | 3 years | New developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 9 | 2014-109 | July 22, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |
| Deca Homes Indangan Phase 1 | 2014-128 | August 15, 2014 | 4 years | New Developer of Low-Cost Mass Housing Project |
| Deca Homes Resort Residences Phase 12 | 2014-129 | August 15, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |
| Deca Homes Baywalk – Talisay II | 2014-172 | October 8, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |
| Deca Homes Resort Residences Executive | 2014-174 | October 9, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |
| Deca Homes Pavia Phase 2 | 2014-189 | October 28, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |
| Deca Homes Indangan Phase 2 | 2014-190 | October 28, 2014 | 3 years | Expanding Developer of Low-Cost Mass Housing Project |

Pursuant to the above registrations, the Group had been granted income tax holiday (ITH) for a certain period of time subject to certain conditions. Interest income from in-house financing is not covered by ITH.

The Group shall be entitled to ITH provided that it maintains a 75:25 debt-equity ratio as required by the BOI. In the event that the Group fails to maintain the ratio requirement, the Group shall present evidence that the construction of housing units have been completed and delivered to the buyers prior to the availment of ITH, otherwise, the Group shall not be entitled to ITH and shall be required to refund any capital incentives availed.

The Group's debt-to-equity ratio per subsidiary with BOI registered project is as follows:

| | 8990 HDC | | 8990 LHDC | | FHI | | 8990 DHDC | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Total liabilities | **₱16,871,379,200** | ₱8,206,313,543 | **₱4,599,832,045** | ₱1,741,513,025 | **₱3,415,484,097** | ₱1,501,667,894 | **₱899,921,560** | ₱196,354,592 |
| Total equity | **5,462,324,605** | 5,127,751,684 | **1,419,706,677** | 305,336,305 | **1,747,527,228** | 1,187,800,012 | **590,667,996** | 2,535,042 |
| Debt to equity ratio | **76:24** | 62:38 | **76:24** | 85:15 | **66:34** | 56:44 | **60:40** | 99:01 |

The Group plans to further increase the capitalization of HDC and LHDC to address the requirement of BOI with regard to the debt to equity ratio.

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## 27. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group has entered into transactions with related parties principally consisting of advances and reimbursement of expenses. Settlement of outstanding balances of advances occurs in cash. As of December 31, 2014 and 2013, the Group has not made any provision for impairment losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Other related parties are entities owned and controlled by the Controlling Shareholders of the Group. These entities are in effect sister companies of the Group by virtue of ownership.

There are no restrictions, resulting from guarantees or any other form of agreements entered into by the entities within the Group, on the ability of the Parent Company or its subsidiaries to transfer cash or other assets to or from other entities within the Group.

The details of the Group's related party transactions follow:

| | | **2014** | |
|---|---|---|---|
| **Category** | **Amount/ Volume** | **Outstanding Balance** | **Terms and Conditions** |
| Stockholders | | | |
| Due from related parties | | **₱4,522,399** | **Non - interest bearing, payable on demand, unsecured, no impairment** |
| Loans Payable | | **25,000,000** | **On demand, 5.50% per annum, unsecured** |
| Finance costs | **₱347,569** | | |
| Entities owned by shareholders | | | |
| Due from related parties | | **128,896,515** | **Non - interest bearing, payable on demand, unsecured, no impairment** |
| Due to related parties | | **369,019,267** | **Non - interest bearing, payable on demand, unsecured** |

| | | 2013 | |
|---|---|---|---|
| Category | Amount/ Volume | Outstanding Balance | Terms and Conditions |
| Stockholders | | | |
| Due from related parties | | ₱205,790,884 | Non - interest bearing, payable on demand, unsecured, no impairment |
| Loans Payable | | 113,850,000 | On demand, 7.50% per annum, unsecured |
| Finance costs | ₱19,447,799 | | |
| Entities owned by shareholders | | | |
| Due from related parties | | 311,699,706 | Non - interest bearing, payable on demand, unsecured, no impairment |
| Due to related parties | | 172,808,746 | Non - interest bearing, payable on demand, unsecured |

The Group has transactions with stockholders which are subject to offsetting as follows:

| | **2014** | 2013 |
|---|---|---|
| Gross amount of due from (to) stockholders | **₱4,522,399** | ₱223,006,493 |
| Gross amount of due from (to) stockholders offset in the consolidated statement of financial position | – | (17,215,609) |
| Net amount of due from (to) stockholders included in 'Due to related parties' as presented in the consolidated statement of financial position | **₱4,522,399** | ₱205,790,884 |

On May 2014, the Group executed deed of assignments to acquire the ICRs of BGH and UBHC, entities under common control as discussed in Note 8.

During the year, 8990 HDC and FHI executed a deed of sale on the building and hotel improvements to ALRC, an associate of the Group. On the same date, a contract of lease was executed by the parties and ALRC on the land where the building is erected (see Notes 9 and 14).

As discussed in Note 17, the 8990 Group and related entities entered into a MOA with a local bank for the CTS purchase. The 8990 Group is jointly and severally liable with related entities for any obligation arising from this MOA.

As discussed also in Note 17, certain loans payable of the Group is secured by the assets of the Shareholders and entities under common control.

The building located in Cebu Business Park, Cebu City is constructed on a land owned by the Controlling Shareholders of the Group. Under the contract, 8990 HDC has no obligation to pay the land owner in cash but the building would become the property of the land owner after 25 years from the date of construction of building. However, the Group shall be responsible for paying the taxes for the land and building as well as the monthly dues and other expenses related to the use of the said land and building. In 2013, the Group already acquired the land for ₱53.8 million, accordingly the contract was terminated (see Note 13).

8990 HDC entered into an agreement with 8990 CMC, an entity under common control, wherein, the investment property of the former will be used, managed and maintained by the latter (see Note 14). Any income generated by and any expenses related to the property shall be for the account of the related party.

As discussed in Note 8, on September 30, 2013, the Group acquired ICRs amounting to ₱1.1 billion and assumed the loans payable amounting to ₱601.3 million from 8990 CHDC at book value.

The Group shoulders the administrative/accounting cost of certain other related parties.

*Key management compensation*

The key management personnel of the Group include all directors, executive, and senior management. The compensation and short-term benefits of key management personnel amounted to ₱31.1 million, ₱11.6 million, and ₱5.2 million in 2014, 2013 and 2012, respectively. Post-employment benefits of key management personnel amounted to ₱0.9 million, ₱0.2 million, and ₱62.7 thousand in 2014, 2013 and 2012, respectively.

## 28. Disposal of a Subsidiary

In 2012, 8990 LHDC and its stockholders executed a Deed of Assignment of Shares for the shares of Bon Giorno Homes, Inc. (BGHI) for a consideration amounting to ₱115.2 million. The total net asset disposed amounted to ₱116.06 million which resulted to loss on sale amounting to ₱11.17 million. The total net cash outflow from the disposal amounted to P61.68 million.

## 29. Commitments and Contingencies

Commitments
The Group, and its related entities, has a contractual commitment to be jointly and severally liable for all of its monetary obligations to a local bank as disclosed in Note 17.

Contingencies
In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements. The Group recognized provision for probable losses amounting to ₱77.3 million, ₱26.3 million, and ₱10.7 million in 2014, 2013 and 2012, respectively (see Note 21).

Below is the summary of movements in the provision for probable losses recognized by the Group:

| | **2014** | 2013 |
|---|---|---|
| Balance at beginning of year | **₱90,931,807** | ₱64,590,861 |
| Provisions during the year (Note 21) | **77,282,541** | 26,340,946 |
| Balance at end of year | **₱168,214,348** | ₱90,931,807 |

## 30. Earnings Per Share

Basic EPS is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Net income | **₱3,309,079,587** | ₱2,183,684,230 | ₱1,704,486,031 |
| Divided by weighted average number of common shares | **5,302,444,208** | 4,232,663,764 | 3,255,182,544 |
| | **₱0.62** | ₱0.52 | ₱0.52 |

There were no potential dilutive common shares in 2014, 2013 and 2012.

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31. **Notes to Statements of Cash Flows**

The following are the significant noncash transactions of the Group:

*2014*

- In May 2014, the Group acquired the installment contract receivables amounting to ₱208 million, related deposits of ₱1.1 million and assumed liability on conversion of its title amounting to ₱6.8 million from related parties under common control, which resulted in an increase in due to related parties amounting to ₱203.1 million.

- During the year, the Group subscribed in the preferred shares of an associate carried in the books at ₱1.2 billion resulting to an increase in due to related parties amounting to ₱788.8 million.

- In October, 2014, the Group sold its building and hotel improvements with carrying value of ₱457.8 million for ₱468.8 million which resulted in an increase in due from a related party of ₱34.0 million.

- During the year, the Group reclassified parcel of lots amounting to ₱833.1 million from land held for future development to inventories at the commencement of construction.

- The Group reclassified a parcel of lot amounting to ₱21.0 million booked under 'Land held for future development' to 'Investment property'.

- The Group also reclassified its land amounting to ₱139.9 million booked under 'Inventories' to Investment property' due to a change of intention for the use of the property.

- In December 2014, the Group used its creditable withholding tax certificates amounting to ₱23.7 million to pay its income tax liability.

- The inventories increased by ₱840.3 million as a result of repossession of inventories of the Group during the year.

*2013*

- During the year, the Group reclassified a piece of land amounting to ₱284.1 million booked under 'Land held for future development' to 'Inventories'.

- In August 2013, the Group acquired parcels of land (booked as part of 'Land held for future development') for a contract price of ₱2.2 billion which resulted in an increase in accounts payable amounting to ₱1.9 billion.

- Accretion on the Group's accounts payable amounting to ₱40.9 million in relation with the acquisition of a parcel of land booked as part of the Group's 'Finance cost' for the period.

- In September 2013, the Group used its creditable withholding tax certificates amounting to ₱4.0 million to pay its income tax liability.

- In 2013, the Group acquired the installment contract receivables amounting to ₱1.1 billion and assumed the loans payable amounting to ₱601.3 million of 8990 CHDC which resulted in an increase in due to related party amounting to ₱27.8 million.

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- In 2013, repossessed inventories of the Group resulted in an increase in inventories amounting to 150.1 million.

*2012*

- Accretion on the Group's accounts payable amounting to ₱34.4 million in relation with the acquisition of a parcel of land booked as part of the Group's 'Finance costs' for the period.

- In December 2012, the Group used its creditable withholding tax certificates amounting to ₱7.9 million to pay its income tax liability.

- The transferred assets and liabilities of BGHI amounting to ₱194.9 million and ₱78.8 million, respectively, as discussed in Note 28, were considered as noncash items for each of the specific assets and liabilities affected, for purposes of the 2012 statement of cash flows.

- The consolidation of the following asset and liabilities of the Parent Company as a result of the reverse acquisition of its net assets in May 2012 did not have cash consideration on the part of the Group:

| | |
|---|---|
| Cash in bank | ₱100 |
| Trade and other payables | 12,111,835 |
| Equity reserve | (₱12,111,735) |

- In 2012, repossessed inventories of the Group resulted in an increase in inventories amounting to ₱150.1 million.

## 32. Subsequent Events after the Reporting Date but before the BOD's Approval of the Consolidated Financial Statements

On January 15, 2015, the respective BOD of 8990 HDC, FHI, and 8990 DHDC approved the cash dividends amounting to ₱510.00 million, ₱90.00 million, and 400.00 million, respectively, to be paid to the Parent Company on or before March 30, 2015.

On February 17, 2015, the BOD of the Group approved the following:

- Declaration of cash dividends of the Parent Company of ₱0.18 per share or ₱993.2 million to stockholders of record as of March 4, 2015 to be paid on March 30, 2015.
- Offering and issuance by the Group of registered corporate notes in the amount of up to ₱5 billion with a potential for an oversubscription in the amount of ₱4 billion.
- Investment of the Parent Company in a new or existing subsidiary which will provide cable and internet services to the housing development projects of the Group, under the terms and conditions as may be approved by the management.

## 33. Approval for the Release of the Financial Statements

The accompanying consolidated financial statements of the Group were authorized for issue by the Parent Company's BOD on April 10, 2014.

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**



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Schedule I

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**11th Floor Liberty Center, 104 H.V. Dela Costa**
**Salcedo Village, Makati City**

**RECONCILIATION OF RETAINED EARNINGS**
**AVAILABLE FOR DIVIDEND DECLARATION**
**AS OF DECEMBER 31, 2014**

| | |
|---|---|
| Unappropriated retained earnings (deficit), as adjusted, beginning | (₱499,468,996) |
| Add: Net income during the year | 796,235,999 |
| Less: Cash dividend declaration | (275,899,536) |
| Unappropriated retained earnings (deficit), as adjusted, ending | ₱20,867,467 |

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**Schedule II**

# 8990 HOLDINGS, INC. AND SUBSIDIARIES
# SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS UNDER PFRS
## DECEMBER 31, 2014

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| **PFRSs Practice Statement Management Commentary** | | | | ✓ |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | | | ✓ |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | ✓ | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | ✓ | |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| **PFRS 11** | Joint Arrangements | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| **PAS 2** | Inventories | ✓ | | |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Date | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Amended)** | Employee Benefits | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | | | ✓ |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |
| **PAS 28** | Investment in Associates | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures | ✓ | | |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | | ✓ |
| **PAS 33** | Earnings per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| **PAS 39** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | ✓* | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |

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| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | ✓ | | |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 15** | Agreements for the Construction of Real Estate | | ✓* | |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **IFRIC 21** | Levies | ✓ | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

✓*- Not early adopted

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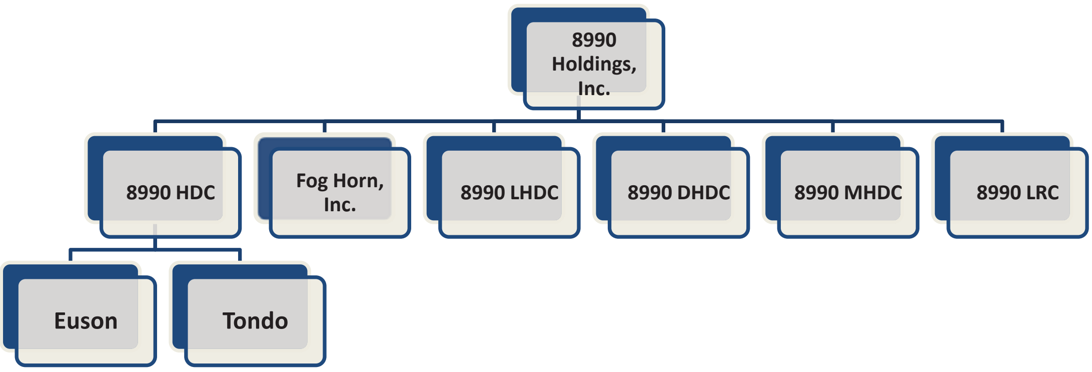
Schedule III

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG**
**THE PARENT COMPANY AND ITS SUBSIDIARIES**
**DECEMBER 31, 2014**

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**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE A - FINANCIAL ASSETS**
**DECEMBER 31, 2014**

| Name of Issuing Entity and Description of Each Issue | Amount Shown in the Balance Sheet/Notes | Value Based on Market Quotations at Balance Sheet Date | Income Received and Accrued |
|---|---|---|---|
| **Azalea Resorts and Vacation Club, Inc.** | | | |
| Preferred shares | ₱23,112,000 | ₱–* | ₱– |
| **Azalea Leisure Residences Corporation** | | | |
| Preferred shares | 1,155,111,934 | –* | – |
| **Pico de Loro Beach and Country Club** | | | |
| Club shares | 633,500 | –* | – |

*The shares are unquoted instruments

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**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**
**DECEMBER 31, 2014**

| Name and Designation of Debtor | Balance at Beginning of Year | Additions | Collections | Write Offs | Balance at End of Year | | |
|---|---|---|---|---|---|---|---|
| | | | | | Current | Noncurrent | Total |
| Individual Stockholders | **₱75,291,325** | ₱– | ₱(75,291,325) | ₱– | ₱– | ₱– | **₱–** |
| 8990 Commercial Management Corporation | **7,662,124** | – | (2,902,018) | – | 4,760,106 | – | **4,760,106** |
| 8990 Iloilo Housing Development Corporation | **11,852,089** | 37,761 | – | – | 11,889,850 | – | **11,889,850** |
| 8990 Visayas Housing Development Corporation | **70,841** | – | (70,841) | – | – | – | – |
| Bon Giorno Homes, Inc. | **226,374,930** | – | (214,670,983) | – | 11,703,947 | – | **11,703,947** |
| LYRR Realty Development Corporation | **5,000,000** | – | (5,000,000) | – | – | – | – |
| Modernland | **52,204,241** | – | (52,204,241) | – | – | – | – |
| IHoldings, Inc. | **114,503,335** | – | (114,503,335) | – | – | – | – |
| Januarius Corporation | **301** | – | (301) | – | – | – | – |
| Kwantlen Development Corporation | **15,695,224** | – | (15,695,224) | – | – | – | – |
| Urban Basic Housing Corporation | – | 4,042,845 | – | – | 4,042,845 | | **4,042,845** |
| Azalea Leisure Residences Corporation | – | 42,356,598 | – | – | 42,356,599 | – | **42,356,599** |
| Azalea Resorts and Vacation Club | – | 30,702,200 | – | | 30,702,200 | | **30,702,200** |
| Others | **8,535,481** | 19,427,887 | – | – | 27,963,368 | – | **27,963,368** |

*SGVFS009249*

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**
**DECEMBER 31, 2014**

| Name and Designation of Debtor | Balance at Beginning of Year | Additions | Collections | Write Offs | Balance at End of Year | | |
|---|---|---|---|---|---|---|---|
| | | | | | Current | Noncurrent | Total |
| 8990 Holdings, Inc. | ₱25,743,258 | ₱ 55,817,673.00 | ₱– | ₱– | ₱81,560,931 | ₱– | **₱78,301,863** |
| Fog Horn, Inc. | 13,067,005 | 2,209,797,815 | (441,843,437) | – | 1,781,021,383 | – | **1,781,021,383** |
| 8990 Housing Development Corporation | 353,408,793 | 8,875,147,817 | (5,148,798,811) | – | 4,079,757,800 | – | **4,079,757,800** |
| 8990 LHDC | 31,965,257 | 2,012,551,798 | (18,871,883) | – | 2,025,645,171 | – | **2,025,645,171** |
| 8990 Leisure and Resorts Corporation | 12,788,750 | 172,152 | – | – | 12,960,902 | – | **12,960,902** |
| 8990 Davao HDC | 186,114,482 | 390,985,016 | (230,168,048) | – | 346,931,450 | – | **346,931,450** |
| 8990 Mindanao HDC | 54,926,848 | 451,402 | – | – | 55,378,250 | – | **55,378,250** |
| Tondo Holdings, Inc. | | 5,035,176 | – | – | 5,035,176 | – | **5,035,176** |
| Euson Realty | | 92,562,636 | – | | 92,562,636 | | **92,562,636** |

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**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**
**DECEMBER 31, 2014**

| Description | Beginning Balance | Additions at Cost | Charged to Cost and Expenses | Charged to Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Software costs | ₱– | ₱1,492,522 | ₱– | ₱– | ₱– | ₱1,492,522 |

*SGVFS009249*

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE E - LONG-TERM DEBT**
**DECEMBER 31, 2014**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Amount Shown under Caption "Current Portion of Long Term Debt" in Related Balance Sheet | Amount Shown under Caption "Long-Term Debt" in Related Balance Sheet | Remarks |
|---|---|---|---|---|
| Loans payable | ₱6,729,470,373 | ₱276,408,509 | ₱6,453,061,864 | Interest rates ranging from 3.5% to 6%; Maturity dates ranging in maturity from 3 months to 5 years. |

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**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)**
**DECEMBER 31, 2014**

| Name of Related Party | Balance at Beginning of the Period | Balance at End of the Period |
|---|---|---|

**NONE TO REPORT**

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**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**
**DECEMBER 31, 2014**

| Name of issuing entity of securities guaranteed by the Company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which this statement is filed | Nature of guarantee |
|---|---|---|---|---|

**NONE TO REPORT**

*SGVFS009249*

**8990 HOLDINGS, INC. AND SUBSIDIARIES**
**SCHEDULE H - CAPITAL STOCK**
**DECEMBER 31, 2014**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by | | |
|---|---|---|---|---|---|---|
| | | | | Related parties | Directors, Officers and Employees | Others |
| Common Shares at ₱1 par value | 7,000,000,000 | 5,517,990,720 | – | – | 470,683,934 | |

*SGVFS009249*

# 8990 HOLDINGS, INC. AND SUBSIDIARIES
## FINANCIAL RATIOS
## DECEMBER 31, 2014

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Current ratio | **120.51%** | 59.64% |
| Book value per share | **2.70** | 1.42 |
| Debt-to-equity ratio | **0.59** | 1.11 |

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Gross margin | **59.77%** | 63.40% |
| EBITDA margin | **46.85%** | 45.35% |
| Net income margin | **42.46%** | 40.19% |

**Ratios:**
- Current ratio is computed by dividing current assets by current liabilities.
- Net book value is computed by dividing stockholders' equity by total outstanding shares.
- Debt-to-equity ratio is computed by dividing the sum of short-term and long-term interest bearing loans by total stockholders' equity.

*SGVFS009249*

# 8990 Holdings, Inc.
*(Formerly IP Converge Data Center, Inc.)*
# and Subsidiaries

Consolidated Financial Statements
December 31, 2013 and 2012
(With Comparative Figures for the Year Ended December 31, 2011)

and

Independent Auditors' Report

SGV

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A member firm of Ernst & Young Global Limited

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

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.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 Board of Directors and the Stockholders
8990 Holdings, Inc.

We have audited the consolidated financial statements of 8990 Holdings, Inc. (formerly IP Converge Data Center, Inc.) and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the 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 audit 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.

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***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 8990 Holdings, Inc. and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

***Other Matter***

The stand-alone financial statements of the subsidiaries for the year ended December 31, 2011 were audited by other auditors, whose reports dated in 2012 expressed an unqualified opinion on those financial statements, except for certain adjustments made by management as discussed in Note 33 to the consolidated financial statements in the preparation of the comparative consolidated financial statements of the Group for the year ended December 31, 2011. As part of our audit of the 2012 consolidated financial statements, we also audited the adjustments described in Note 33 and the consolidation entries that were applied to the 2011 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2011 consolidated financial statements of the Group other than with respect to those adjustments. Accordingly, we do not express an opinion or any other form of assurance on the 2011 consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez

Janeth T. Nuñez
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-A (Group A),
July 1, 2013, valid until June 30, 2016
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 4225198, January 2, 2014, Makati City

March 20, 2014

## 8990 HOLDINGS, INC.
**(Formerly IP Converge Data Center, Inc.)**
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2013** | 2012 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash on hand and in banks (Note 7) | **₱249,040,092** | ₱180,301,128 |
| Current portion of trade and other receivables (Note 8) | **537,057,908** | 537,242,552 |
| Inventories (Note 9) | **2,243,559,834** | 2,040,532,596 |
| Due from related parties (Note 27) | **517,490,590** | 147,400,252 |
| Current portion of long-term investments (Note 14) | – | 3,021,720 |
| Other current assets (Note 10) | **342,105,863** | 137,141,546 |
| Total Current Assets | **3,889,254,287** | 3,045,639,794 |
| **Noncurrent Assets** | | |
| Trade and other receivables - net of current portion (Note 8) | **9,473,832,351** | 4,421,033,597 |
| Land held for future development (Note 11) | **3,784,727,576** | 1,010,474,241 |
| Property and equipment (Note 12) | **208,870,467** | 146,849,977 |
| Investment properties (Note 13) | **141,928,584** | 142,365,067 |
| Other noncurrent assets (Note 10) | **117,010,245** | 81,582,994 |
| Total Noncurrent Assets | **13,726,369,223** | 5,802,305,876 |
| | **₱17,615,623,510** | ₱8,847,945,670 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of trade and other payables (Note 15) | **₱2,937,730,783** | ₱617,715,984 |
| Current portion of loans payable (Notes 17 and 27) | **3,332,250,211** | 1,257,747,508 |
| Deposits from customers (Note 16) | **47,746,763** | 104,887,729 |
| Due to related parties (Note 27) | **172,808,746** | 57,176,899 |
| Income tax payable | **31,209,903** | 13,899,640 |
| Total Current Liabilities | **6,521,746,406** | 2,051,427,760 |
| **Noncurrent Liabilities** | | |
| Trade and other payables - net of current portion (Note 15) | **263,089,121** | 499,874,001 |
| Loans payable - net of current portion (Note 17) | **3,980,588,104** | 2,316,847,888 |
| Deferred tax liability (Note 26) | **254,352,695** | 31,781,000 |
| Total Noncurrent Liabilities | **4,498,029,920** | 2,848,502,889 |
| Total Liabilities | **11,019,776,326** | 4,899,930,649 |
| **Equity** | | |
| Capital stock (Note 18) | **4,655,804,670** | 221,866,669 |
| Additional paid-in capital (Note 18) | – | 190,748,328 |
| Equity reserve (Notes 2 and 18) | – | 3,024,273,168 |
| Remeasurement loss on pension plan (Note 24) | **(1,432,534)** | – |
| Retained earnings (Note 18) | **1,941,475,048** | 511,126,856 |
| Total Equity | **6,595,847,184** | 3,948,015,021 |
| | **₱17,615,623,510** | ₱8,847,945,670 |

*See accompanying Notes to Consolidated Financial Statements.*

## 8990 HOLDINGS, INC.
**(Formerly IP Converge Data Center, Inc.)**
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
| **SALES** (Note 19) | **₱5,356,098,815** | ₱3,830,644,048 | ₱2,348,649,231 |
| **COST OF SALES AND SERVICES** (Note 20) | **1,967,047,469** | 1,448,571,872 | 1,340,030,404 |
| **GROSS INCOME** | **3,389,051,346** | 2,382,072,176 | 1,008,618,827 |
| **OPERATING EXPENSES** (Note 21) | **1,176,864,392** | 694,252,796 | 555,386,354 |
| **NET OPERATING INCOME** | **2,212,186,954** | 1,687,819,380 | 453,232,473 |
| **FINANCE COSTS** (Notes 15, 17, 22, 24 and 27) | **(406,466,175)** | (216,312,630) | (84,733,384) |
| **OTHER INCOME** (Note 23) | **635,809,034** | 282,148,140 | 77,410,184 |
| **INCOME BEFORE INCOME TAX** | **2,441,529,813** | 1,753,654,890 | 445,909,273 |
| **PROVISION FOR INCOME TAX** (Note 26) | **257,845,583** | 49,168,859 | 6,923,810 |
| **NET INCOME** | **2,183,684,230** | 1,704,486,031 | 438,985,463 |
| **OTHER COMPREHENSIVE LOSS** | | | |
| *Item that do not recycle to profit or loss in subsequent periods* | | | |
| Remeasurement loss on pension plan (Note 24) | **(1,432,534)** | – | – |
| **TOTAL COMPREHENSIVE INCOME** | **₱2,182,251,696** | ₱1,704,486,031 | ₱438,985,463 |
| **BASIC/DILUTED EARNINGS PER SHARE** (Note 30) | **₱0.52** | ₱0.52 | ₱0.17 |

*See accompanying Notes to Consolidated Financial Statements.*

# 8990 HOLDINGS, INC.
## (Formerly IP Converge Data Center, Inc.)
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | For the Years Ended December 31, 2013 and 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 18) | Subscribed Capital Stock (Note 18) | Additional Paid-in Capital (Note 18) | Equity Reserve (Notes 2 and 18) | Other Comprehensive Loss (Note 24) | Retained Earnings (Note 18) | Total |
| Balance at January 1, 2013 | **₱221,866,669** | **₱–** | **₱190,748,328** | **₱3,024,273,168** | **₱–** | **₱511,126,856** | **₱3,948,015,021** |
| Stock dividends issued by a subsidiary (Note 18) | **–** | **–** | **–** | **420,000,000** | **–** | **(420,000,000)** | **–** |
| Issuance of shares through Shares Swap (Notes 2 and 18) | **3,968,357,534** | **–** | **(190,748,328)** | **(3,444,273,168)** | **–** | **(333,336,038)** | **–** |
| Issuance of shares by the Parent Company (Note 18) | **465,580,467** | **–** | **–** | **–** | **–** | **–** | **465,580,467** |
| Total comprehensive income (loss) | **–** | **–** | **–** | **–** | **(1,432,534)** | **2,183,684,230** | **2,182,251,696** |
| **Balance at December 31, 2013** | **₱4,655,804,670** | **₱–** | **₱–** | **₱–** | **(₱1,432,534)** | **₱1,941,475,048** | **₱6,595,847,184** |
| Balance at January 1, 2012 | ₱181,866,669 | ₱25,000,000 | ₱129,948,328 | ₱306,935,003 | ₱– | ₱624,290,825 | ₱1,268,040,825 |
| Issuance of shares by the Parent Company (Note 18) | 40,000,000 | (25,000,000) | 60,800,000 | (75,800,000) | – | – | – |
| Effect of acquisition of net assets of accounting acquiree (Parent Company) (Notes 1 and 2) | – | – | – | (12,011,835) | – | – | (12,011,835) |
| Cash dividends declared by a subsidiary (Note 18) | – | – | – | – | – | (400,000,000) | (400,000,000) |
| Stock dividends issued by a subsidiary (Note 18) | – | – | – | 1,417,650,000 | – | (1,417,650,000) | – |
| Issuance of shares by a subsidiary (Note 18) | – | – | – | 1,387,500,000 | – | – | 1,387,500,000 |
| Total comprehensive income | – | – | – | – | – | 1,704,486,031 | 1,704,486,031 |
| **Balance at December 31, 2012** | ₱221,866,669 | ₱– | ₱190,748,328 | ₱3,024,273,168 | ₱– | ₱511,126,856 | ₱3,948,015,021 |

| | For the Year Ended December 31, 2011 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 18) | **Subscribed Capital Stock** (Note 18) | **Additional Paid-in Capital** | **Equity Reserve** (Notes 2 and 18) | **Retained Earnings** (Note 18) | **Total** |
| Balance at January 1, 2011 | ₱181,866,669 | ₱– | ₱129,948,328 | ₱242,744,723 | ₱200,873,862 | ₱755,433,582 |
| Subscription of shares of the Parent Company (Note 18) | – | 25,000,000 | – | (25,000,000) | – | – |
| Cash dividends declared by a subsidiary (Note 18) | – | – | – | – | (15,568,500) | (15,568,500) |
| Issuance of shares by a subsidiary (Note 18) | – | – | – | 89,190,280 | – | 89,190,280 |
| Total comprehensive income | – | – | – | – | 438,985,463 | 438,985,463 |
| Balance at December 31, 2011 | ₱181,866,669 | ₱25,000,000 | ₱129,948,328 | ₱306,935,003 | ₱624,290,825 | ₱1,268,040,825 |

*See accompanying Notes to Consolidated Financial Statements.*

**8990 HOLDINGS, INC.**
**(Formerly IP Converge Data Center, Inc.)**
**AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱2,441,529,813** | ₱1,753,654,890 | ₱445,909,273 |
| Adjustments for: | | | |
| Interest income (Note 23) | **(533,181,127)** | (227,218,396) | (22,055,962) |
| Finance cost (Note 22) | **404,614,757** | 215,560,446 | 84,058,647 |
| Write-off of assets (Notes 8, 10 and 21) | **64,945,573** | – | 3,515,943 |
| Provision for impairment losses (Note 21) | **58,414,812** | 2,076,561 | – |
| Provision for probable losses (Notes 21 and 29) | **26,340,946** | 10,680,718 | 11,296,035 |
| Depreciation and amortization (Note 21) | **22,566,268** | 15,138,560 | 11,760,003 |
| Provision for inventory write-down (Notes 11 and 21) | **3,646,000** | – | – |
| Loss (gain) on repossession (Note 21) | **(1,122,087)** | 1,256,353 | (6,360,112) |
| Retirement expense (Note 24) | **442,531** | 444,200 | 535,800 |
| Loss on sale of a subsidiary (Notes 23 and 28) | **–** | 11,165,026 | – |
| Gain on sale of unquoted debt security classified as loans (Note 23) | **–** | (7,767,942) | – |
| Operating income before changes in working capital | **2,488,197,486** | 1,774,990,416 | 528,659,627 |
| Changes in operating assets and liabilities | | | |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(4,275,829,919)** | (3,412,201,469) | (1,419,690,252) |
| Inventories (Note 31) | **(69,059,536)** | 200,226,383 | (322,550,612) |
| Other assets (Note 31) | **(404,424,065)** | (77,168,052) | (14,803,403) |
| Increase (decrease) in: | | | |
| Trade and other payables (Note 31) | **177,998,680** | 17,715,084 | (346,716,316) |
| Deposits from customers | **(57,140,966)** | (56,337,659) | (16,728,609) |
| Net cash used in operations | **(2,140,258,320)** | (1,552,775,297) | (1,591,829,565) |
| Interest received | **533,181,127** | 227,218,396 | 22,055,962 |
| Interest paid | **(364,210,661)** | (174,133,174) | (51,398,310) |
| Income tax paid | **(13,949,694)** | (4,986,990) | (7,729,240) |
| Net cash used in operating activities | **(1,985,237,548)** | (1,504,677,065) | (1,628,901,153) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of: | | | |
| Land held for future development (Notes 11 and 31) | **(1,185,093,610)** | (396,892,465) | (359,949,722) |
| Property and equipment (Note 12) | **(81,948,759)** | (37,494,702) | (17,733,589) |
| Investment properties (Note 13) | **(2,201,516)** | (6,293,155) | (21,672,445) |
| Long-term investments (Note 14) | **–** | – | (37,203,504) |
| Unquoted debt securities classified as loans | **–** | – | (6,557,602) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
| Proceeds from: | | | |
| Maturities/termination of long-term investments (Note 14) | **₱3,021,720** | ₱110,113,573 | ₱136,977,986 |
| Sale of unquoted debt securities classified as loans | **–** | 14,325,544 | – |
| Disposal of property and equipment | **–** | – | 425,451 |
| Net cash outflow from disposal of investment in a subsidiary (Notes 28 and 31) | **–** | (61,680,350) | – |
| Net cash inflow from acquisition of net assets of acquire (Parent Company) (Note 31) | **–** | 100,000 | – |
| Net cash used in investing activities | **(1,266,222,165)** | (377,821,555) | (305,713,425) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from availment of loans payable (Note 31) | **3,732,193,226** | 2,955,452,166 | 1,221,043,676 |
| Repayment of loans payable | **(595,305,960)** | (831,335,233) | (472,011,538) |
| Issuance of shares by the Parent Company | **465,580,467** | – | – |
| Decrease (increase) in the amount of due from related parties (Note 31) | **(370,090,338)** | 393,750,716 | (430,113,200) |
| Increase (decrease) in the amount of due to related parties (Note 31) | **87,821,282** | (1,693,270,423) | 1,663,883,325 |
| Issuance of shares by subsidiaries (Note 18) | **–** | 1,387,500,000 | 89,190,280 |
| Payment of cash dividends by a subsidiary (Note 18) | **–** | (400,000,000) | (15,568,500) |
| Net cash provided by financing activities | **3,320,198,677** | 1,812,097,226 | 2,056,424,043 |
| **NET INCREASE (DECREASE) IN CASH ON HAND AND IN BANKS** | **68,738,964** | (70,401,394) | 121,809,465 |
| **CASH ON HAND AND IN BANKS AT BEGINNING OF YEAR** | **180,301,128** | 250,702,522 | 128,893,057 |
| **CASH ON HAND AND IN BANKS AT END OF YEAR** (Note 7) | **₱249,040,092** | ₱180,301,128 | ₱250,702,522 |

*See accompanying Notes to Consolidated Financial Statements.*

## 8990 HOLDINGS, INC.
**(Formerly IP Converge Data Center, Inc.)**
## AND SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

8990 Holdings, Inc., formerly IP Converge Data Center, Inc., (8990 Holdings or Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on July 8, 2005 and was listed in the Philippine Stock Exchange (PSE) on October 20, 2010.

In May 2012, iHoldings, Inc., Januarius Resources Realty Corp. and Kwantlen Development Corp., collectively known as the 'Stockholders of the 8990 Group', acquired 176,400,000 shares of the Parent Company from IP Ventures, Inc. (IPVI) and IPVG Corp. (IPVG) employees. As a result, iHoldings, Inc. is the new majority owner of the Parent Company having 60.53% holdings. iHoldings, Inc. is owned by Mr. Luis N. Yu Jr and family (the Controlling Shareholders).

The Parent Company was previously engaged in information technology and telecommunications business that provides a wide array of managed data services and business solutions. This business was discontinued prior to the acquisition of the Parent Company by the Stockholders of the 8990 Group.

On December 21, 2012, the Board of Directors (BOD) and stockholders of the Parent Company approved the amendments to the articles of incorporation to:

- Change the corporate name from IP Converge Data Center Inc. to 8990 Holdings, Inc.;
- Change the primary purpose of the Parent Company from that of a data center to that of a financial holding company; and
- Increase the authorized capital stock of the Parent Company from ₱460.0 million divided into 460.0 million shares with ₱1.0 par value per share to up to ₱15.0 billion divided into 15.0 billion shares with ₱1.0 par value per share.

On the same date, the BOD and stockholders of the Parent Company approved the following:

- Issuance of shares to be issued out of the current unissued and/or the increase in the authorized capital stock of the Parent Company to new investors and/or existing stockholders and the listing thereof on the PSE; and
- Issuance of the Parent Company's shares at par value in favor of the Stockholders of 8990 Group in exchange for the shares of the companies comprising the 8990 Group.

*Business Combination*
The Parent Company entered into a Deed of Exchange of Shares with the Stockholders of the 8990 Group on May 6, 2013 as amended and supplemented on June 8, 2013 (the Shares Swap). The 8990 Group consists of:

- 8990 Housing Development Corporation (8990 HDC)
- Fog Horn, Inc. (FHI)
- 8990 Luzon Housing Development Corporation (8990 LHDC)
- 8990 Leisure and Resorts Corporation (8990 LRC)
- 8990 Mindanao Housing Development Corporation (8990 MHDC)
- 8990 Davao Housing Development Corporation (8990 DHDC)

Under the Deed of Exchange of Shares, all the economic and voting rights pertaining to the shares of the 8990 Group shall absolutely vest with the Parent Company on May 6, 2013. Thus, on the said date, the entities comprising 8990 Group became wholly-owned subsidiaries of the Parent Company.

On September 23, 2013, 8990 Holdings executed a subscription agreement with certain investors (the Subscribers) for the issuance of 465,580,467 shares out of the proposed increase in authorized capital stock.

On October 1, 2013, the Parent Company received the approval from the SEC of the following:

a. change of the Parent Company's name from IP Converge Data Center, Inc. to 8990 Holdings, Inc.;
b. change in primary purpose from that of a data center to that of a financial holdings company; and
c. increase in the authorized capital stock from ₱460.0 million to ₱7.0 billion divided into 7.0 billion shares with par value of ₱1.0 per share.

After the issuance of shares related to the Shares Swap and to the Subscribers, the Controlling Shareholders remain to be the majority owner of 8990 Holdings, having 50.65% holdings.

The 8990 Group is involved in the following relevant activities:

- construction of low-cost mass housing
- construction of medium-rise condominium units
- issuance of timeshares
- hotel operations

The registered office address of the Parent Company is at 11th Floor Liberty Center,
104 H.V. Dela Costa, Salcedo Village, Makati City.

## 2. Summary of Significant Accounting Policies

Basis of Presentation
As discussed in Note 1, the Parent Company entered into a Deed of Exchange of Shares with the Stockholders of the 8990 Group, thus the Parent Company became a holding company of the 8990 Group. The Parent Company and its Subsidiaries, now comprising "the Group", are under common control of the Controlling Shareholders before and after the Shares Swap transaction on May 6, 2013.

*Acquisition of 8990 Group*
The Shares Swap transaction involving the Parent Company and 8990 Group were accounted for similar to a pooling of interests method and reverse acquisition with 8990 HDC as the accounting acquirer under Philippine Financial Reporting Standards (PFRS) 3, *Business Combination*. 8990 HDC is the largest 8990 entity comprising about 71.0% of the total assets of the 8990 entities. In a reverse acquisition, the legal parent is identified as the acquiree for accounting purposes because based on the substance of the transaction, the legal subsidiary is adjudged to be the entity that gained control over the legal parent. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the financial statements of the 8990 Group. Since the entities under the 8990 Group are under common control, the accounts and transactions as

reflected in the stand-alone financial statements of these entities were combined using the pooling of interests method.

The comparative December 31, 2011 information presented in the consolidated financial statements (i.e., prior to the Controlling Shareholders' acquisition of the Parent Company) is that of the 8990 Group, not originally presented in the previous financial statements of the legal parent (the Parent Company - accounting acquiree) and is also retroactively adjusted to reflect the legal capital (i.e., paid-up capital) of the Parent Company. The assets, liabilities and retained earnings of the 8990 Group are consolidated and the difference between the paid-up capital of the 8990 Group and the Parent Company prior to May 2012 is recognized as 'Equity reserve' in the consolidated statements of financial position. Refer to Note 18 for the movements in the 'Equity reserve' account.

The 8990 Group consolidated the assets, liabilities, income and expenses of the Parent Company starting May 2012, which was the date when the Controlling Shareholders acquired or gained control over the Parent Company.

The 8990 Group has no basis to prepare the consolidated financial statements, prior to the Shares Swap transaction.

Basis of Preparation
The accompanying consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Philippine peso, the Group's functional currency. All values are rounded to the nearest peso except when otherwise indicated.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with PFRS.

Basis of Consolidation
The consolidated financial statements include the financial statements of the Parent Company and the following wholly owned subsidiaries:

- 8990 HDC
- FHI
- 8990 LHDC
- 8990 DHDC
- 8990 MHDC
- 8990 LRC

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

*Common control business combinations*
Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e., controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values in the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

The Group recorded the above difference as 'Equity reserve' and is presented as a separate component of equity in the consolidated statement of financial position. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of the combination.

Equity Reserve
Equity reserve represents the effect of the application of the pooling of interests method as discussed under the Basis of Presentation. This account were closed to capital stock, additional paid-in capital and retained earnings upon issuance of shares of 8990 Holdings to the Stockholders of 8990 Group under the Shares Swap transaction.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended PFRS and PAS, which were adopted as of January 1, 2013. The adoption of the new and amended standards did not have any significant impact on the accounting policies, financial position or performance and disclosures of the Group.

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

  a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  c) The net amounts presented in the statement of financial position;
  d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
     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 disclosures related to the amendments to PFRS are disclosed in Notes 16 and 27.

- PFRS 10, *Consolidated Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee (SIC) 12, *Consolidation - Special Purpose Entities.* PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to

exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

- PFRS 11, *Joint Arrangements*
  PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 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.

- PFRS 12, *Disclosure of Interests in Other Entities*
  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under PFRSs 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. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 5.

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

- PAS 19, *Employee Benefits* (Revised)

  On 1 January 2013, the Group adopted the Revised PAS 19.

  For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

  Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

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

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact to the Group's financial position and financial performance.

The adoption of the revised standard did not have a material impact on the Group's financial position or performance or cash flows. Accordingly, the Group adopted the revised standards prospectively (see Note 24).

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation 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. This new interpretation is not relevant to the Group.

- PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards – Government Loans* (Amendments)
  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, Financial Instruments: *Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.

Annual Improvements to PFRSs (2009-2011 cycle)
The Annual Improvements to PFRSs (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. The adoption of these annual improvements to PFRS and PAS has no significant impact on the consolidated financial statements.

- PFRS 1, *First-time Adoption of PFRS - Borrowing costs*
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*

**Significant Accounting Policies**

Cash and Cash Equivalents
Cash represents cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placement and that are subject to insignificant risks of changes in value.

Fair Value Measurement
The Group measure financial instruments and nonfinancial assets at fair value when required by PFRS. Fair values of financial instruments measured at amortized cost as well as nonfinancial assets (i.e. investment properties) measured at cost are disclosed in Note 5.

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

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as described in Note 5.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 5.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
*Date of recognition*
The Group recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

*Initial recognition of financial instruments*
All financial instruments are initially recognized at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables. The Group classifies its financial liabilities into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. The Group determines the classification of its investment at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

*Determination of fair value*
Fair value is the price that would be received to sell an asset or that would be paid to transfer a liability in an orderly transaction between market participants under current market conditions (i.e., an exit price) at the measurement date.

The fair values of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the statement of financial position date. Where an instrument measured at fair value has a bid and an ask price, the Group used the price within that range that is most representative of the fair value.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The valuation techniques used aim to make minimum use of market inputs and rely as little as possible on entity-specific inputs and may include reference to other instruments that are judged to be substantially the same.

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from an observable market, the Group recognizes the difference

between the transaction price and fair value (a 'Day 1' difference) in profit or loss unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is recognized only in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

*Loans and receivables*
This accounting policy relates to the consolidated statement of financial position captions 'Cash on hand and in banks', 'Trade and other receivables', 'Long-term investments', 'Due from related parties' and 'Deposits'. Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS investments or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in profit or loss in the statement of comprehensive income. The losses arising from impairment are recognized in profit or loss in the statement of comprehensive income.

*AFS investments*
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial assets at FVPL', 'HTM investments' or 'Loans and receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of comprehensive income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized in the statement of comprehensive income. Interest earned on holding AFS debt investments are reported using the EIR method. Dividends earned on holding AFS equity investments are recognized in the statement of comprehensive income when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income.

The Group's AFS investment represents investment in equities as disclosed in Note 10.

*Financial liabilities at amortized cost*
This accounting policy relates to the consolidated statement of financial position captions 'Trade and other payables', 'Loans payable' and 'Due to related parties'.

Financial liabilities at amortized cost pertain to issued financial instruments that are not classified or designated as financial liabilities at FVPL and contain contractual obligations to deliver cash or other financial assets to the holder or to settle the obligation other than the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and receivables*

For loans and receivables, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss in the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. 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 for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as type of counterparty, credit history, past due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

*AFS investments*
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in OCI - is removed from equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of comprehensive income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

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

a. the right to receive cash flows from the asset has expired;
b. 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
c. the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset; or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred the control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over 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 liability*
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 in the consolidated statement of comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset

the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

Inventories include subdivision lots, houses and lots, land developments, medium-rise condominium units and vacation ownership rights ("timeshare"). Timeshare represents the right to use a property for a specific number of days in a year. The cost of the property that is subject of the timeshare is allocated to the available timeshares for sale.

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

Cost includes:
- Land cost
- Amounts paid to contractors for the construction
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs
- Borrowing costs on loans directly attributable to the projects which were capitalized during construction

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

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

*Repossessed inventories*

Repossessed inventories represent the acquisition costs of properties sold but subsequently re-acquired by the Group due to buyer's default on payment of monthly amortization. These are measured at fair value less costs to sell at the time of repossession.

*Hotel inventories*

Hotel inventories are valued at the lower of cost or NRV which is the price at which inventories can be realized in the normal course of business.

Land Held for Future Development

Land held for future development consists of properties for future developments and is carried at the lower of cost or NRV. NRV is the estimated selling price in the ordinary course of business, less costs to complete and costs of sale. Costs include costs incurred for development and improvements of the properties. Upon start of development, the related cost of land is transferred to real estate inventories.

Finance Costs

Finance costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year in which the costs are incurred. 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 and amortization, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation and amortization of property and equipment commences once the property and equipment are put into operational use and is computed on a straight-line basis over the estimated useful life (EUL) of the property and equipment as follows:

| | Years |
|---|---|
| Building | 25 |
| Land improvement | 3-5 |
| Motor vehicles | 1-5 |
| Machineries and equipment | 3-5 |
| Furniture and fixtures | 3-5 |
| Leasehold improvements | 3-5 or the lease term whichever is shorter |

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

Construction-in-progress represents an office space under construction and is stated at cost. Construction-in-progress is not depreciated until such time that the relevant asset is completed and ready for intended use.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated property and equipment are retained in the accounts until they are no longer in use.

Investment Properties
Investment properties, which include land, building, improvements and construction-in-progress, are initially recognized at cost including transaction costs.

Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged against current operations in the year in which the costs are incurred.

Depreciation and amortization commences from the time of acquisition and is computed on a straight-line basis over the EUL of the investment properties as follows:

| | Years |
|---|---|
| Building | 20 |
| Improvements | 20 |

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.

Intangible Assets
Intangible assets (other than goodwill) acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the acquisition date. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment loss, if any.

The EUL of intangible assets are assessed to be either finite or indefinite. The useful lives of intangible assets with finite lives are assessed at the individual asset level. Intangible assets with finite lives are amortized on a straight-line basis over their useful lives. The period and the method of amortization of an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with finite lives are assessed for impairment, whenever there is an indication that the intangible assets may be impaired. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortized. The intangible asset with an indefinite useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If the indefinite useful life is no longer appropriate, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Costs incurred to acquire computer software (which are not an integral part of its related hardware) and costs to bring it to its intended use are capitalized as intangible assets. All other costs of maintaining computer software programs are recognized as expense when incurred. A gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the intangible asset and is recognized in profit or loss in the consolidated statement of comprehensive income when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its nonfinancial assets (e.g., property and equipment, investment properties, input tax, intangible assets, creditable withholding tax, prepaid expenses and other assets) may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at each reporting 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. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated 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 revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

*Capital stock*

The Group records common stock at par value and additional paid-in capital for the excess of the total contributions received over the aggregate par values of the equity share. Incremental costs incurred that are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

*Retained earnings*
Retained earnings represent accumulated earnings of the Group less dividends declared, if any.

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

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of houses and lots, subdivision lots and medium-rise condominium units*
Revenue from sales of houses and lots, subdivision lots and medium-rise condominium units is accounted for using the full accrual method when the Group has transferred all the risks and rewards and the possession of the houses and lots, subdivision lots and medium-rise condominium units to the buyer.

*Sale of timeshare*
Revenue is recognized using full accrual method when all of the following criteria are met:

a. A sale is consummated;
b. The buyers' initial and continuing investments are adequate to demonstrate a commitment to pay for the property;
c. The Group's receivable is not subject to future subordination; and
d. The Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Collections from accounts which are not yet qualified for revenue recognition are treated as customer deposits included in the 'Deposits from customers' account in the consolidated statement of financial position.

*Hotel operations*
Revenue is recognized when services are rendered. Revenue from banquets and other special events are recognized when the events take place.

*Sale of hotel inventories*
Revenue from food and beverage sales is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

*Interest income*
Interest income is recognized as it accrues using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial instrument.

*Income from cancelled sales*
Revenue is recognized when the deposits from potential buyers are deemed nonrefundable due to prescription of the period for entering into a contracted sale. Such income is also recognized, subject to the provisions of Republic Act 6552, *Realty Installment Buyer Act*, upon prescription of the period for the payment of required amortizations from defaulting buyers.

*Gain (loss) on repossession*
Gain on repossession represents the difference between the fair value less cost to sell of the repossessed inventories and the carrying value of the installment contract receivable at the date of repossession.

*Other income*
Other customer-related fees such as water income, collection service fees and penalties are recognized as they accrue, taking into account the provisions of the related contract.

Expense Recognition
Expenses are recognized when it is probable that a decrease in the future economic benefits related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably.

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

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size.

*Cost of timeshare*
Cost of timeshare represents the total costs of the building and hotel facilities allocated among the available timeshares to be sold.

*Cost of hotel operations*
Cost of sale of hotel services are expensed as incurred. This also includes expenses incurred by the Group for the generation of revenue from food and beverage sales and other hotel income.

*Employee benefits*
Short-term employee benefits are expensed as incurred.

*Operating expenses*
Operating expenses constitute costs of administering the business. These are recognized as expenses when incurred.

Pension Cost
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost recognized in profit or loss;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset .

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements recognized in other comprehensive income account 'Remeasurement gains (losses)' on retirement plans are not reclassified to another equity account in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risks associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

<u>Leases</u>
The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date and requires an assessment 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 the inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal of or extension of the arrangement;
(b) A renewal option is exercised or an extension is 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.

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

A lease where the lessor retains substantially all the risks and benefits of ownership of the asset is classified as an operating lease.

*Group as lessee*
Operating lease payments are recognized as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

*Group as lessor*
Operating lease payments received are recognized as income in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same basis as the lease income.

<u>Income Tax</u>
*Current tax*
Current 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 as of the reporting date.

*Deferred tax*
Deferred tax is provided using the liability method on temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry forward benefit of unused tax credits from the excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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 reporting date.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’ in profit or loss in the consolidated statement of comprehensive income. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Segment Reporting

The Group’s operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on reporting segments is presented in Note 6 to the consolidated financial statements.

Earnings Per Share (EPS)

Basic EPS is computed by dividing net income of the Group by the weighted average number of common shares issued and outstanding during the year, adjusted for any subsequent stock dividends declared.

Diluted EPS amounts are calculated by dividing the net profit attributable to the Group (after deducting interest on the convertible preferred shares, if any) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The weighted average number of common shares used in the calculation of basic/diluted EPS is determined on the basis of the weighted average number of shares of the Subsidiaries (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the Deed of Exchange of Shares as discussed in Note 1.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements but are 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 are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events up to the date of when the financial statements are authorized for issue that provide additional information about the Group’s position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

Future Changes in Accounting Policies

The Group will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect that the adoption of these new and amended PFRS, PAS and Philippine Interpretations will have a significant impact on the consolidated financial statements. The Group will assess the impact of these amendments on its financial position or performance when they become effective.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets - Amendments*
  The amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, the amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided PFRS 13 is also applied. The Group does not expect that these amendments will have significant impact on the Group's financial position or performance.

  PAS 39, *Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39*
  The amendment provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group assessed that the amendment will not have significant impact to the Group's financial position or performance.

- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27)
  These amendments are effective for annual periods beginning on or after January 1, 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under PFRS 10.

- Philippine Interpretation IFRIC 21, *Levies*
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Philippine Interpretation IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group

does not expect that Philippine Interpretation IFRIC 21 will have material financial impact in future financial statements.

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)
  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The Group does not expect that these amendments will have significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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.

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

- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

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

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*
  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

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

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

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

- PFRS 13, *Fair Value Measurement – Portfolio Exception*
  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

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

## 3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

a. *Business combinations*
The Parent Company acquired its subsidiaries that operate real estate business. At the time of acquisition, the Parent Company considered whether the transaction represents an acquisition of a business or an asset. The Parent Company accounts for the transaction as a business combination when there is an integrated set of activities or assets acquired together with the relevant processes. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory ("business combinations under common control"), the Group assesses whether the transaction has substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as non-controlling interest, if any, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity.

Management assessed that the subsidiaries acquired through the Shares Swap transaction qualified as business under the provisions of PFRS 3 and that the Shares Swap transaction was a business combination under common control.

b. *Assessment of control over investees*
The Group has wholly owned subsidiaries as discussed in Note 2. Management concluded that the Group controls these subsidiaries.

c. *Going concern*
The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

d. *Revenue and cost recognition*
The Group recognizes sale of real estate inventories upon transfer of risks and rewards of the houses and lots, subdivision lots and condominium units which is upon delivery to and acceptance by the buyer.

Sale of timeshare is recognized as revenue when the Group has received a minimum of 25.0% of the purchase price.

e. *Distinction between inventories and land held for future development*
The Group determines whether a property will be classified as 'Inventories' or 'Land held for future development'. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Inventories) or whether it will be retained as part of the Group's strategic landbanking activities for development or sale in the medium or long-term (Land held for future development). Land that is to be developed in the subsequent year is classified as part of current assets.

f. *Distinction between investment properties and owner-occupied properties*
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property is not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other assets used in the production or supply process.

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

g. *Classification of leases*
*Operating lease commitments - Group as lessee*
Management exercises judgment in determining whether substantially all the significant risks and rewards of ownership of the leased assets are transferred to the Group. Lease contracts, which transfer to the Group substantially all the risks and rewards incidental to the ownership of the leased items, are capitalized. Otherwise, they are considered as operating leases.

*Operating lease commitments - Group as lessor*
The Group has entered into commercial property leases on its investment property.
Based on the evaluation of the terms and conditions of the arrangements, the Group has determined that it retains all significant risks and rewards of ownership of these properties. In determining significant risks and benefits of ownership, the Group considered, among others, the following: (i) the leases do not provide for an option to purchase; or (ii) transfer ownership of the property at the end of the lease and the related lease terms do not approximate the EUL of the assets being leased. Accordingly, the Group accounted for the lease agreements as operating leases.

h. *Contingencies*
In the normal course of business, the Group also incurs certain contingent liabilities that are not presented in the consolidated financial statements. The Group does not anticipate any material losses as a result of the contingent liabilities (see Note 29).

Estimates

a. *Impairment on receivables*
The Group reviews its receivables at each reporting date to assess whether an allowance for impairment losses should be recorded in the consolidated statement of financial position and any changes thereto in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors. Actual results may also differ, resulting in future changes to the allowance.

The Group recognized provision for impairment losses on its trade receivables amounting to ₱2.8 million in 2013 and nil in 2012 and 2011. The Group has also written-off receivables amounting to ₱64.9 million, nil and ₱2.8 million in 2013, 2012 and 2011, respectively (see Notes 8 and 21). The carrying values of trade and other receivables are disclosed in Note 8.

b. *Estimating NRV of inventories and land held for future development*
The Group adjusts the cost of its inventories and land held for future development to NRV based on its assessment of the recoverability of the inventories.

NRV for inventories and land held for future development is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in light of recent market transactions.

NRV in respect of inventories and improvements under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction less an estimate of the time value of money to the date of completion. The estimates used take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

The Group recognized write-down (recorded under 'Provision for write-down' account under the operating expenses in the statements of comprehensive income) amounting to ₱3.6 million on its land held for future development in 2013 (see Notes 11 and 21). The Group did not recognize any write-down on its inventory and land held for future development in 2012 and 2011.

The carrying values of the Group's inventories and land held for future development are disclosed in Notes 9 and 11, respectively.

c. *Impairment of nonfinancial assets*
The Group assesses impairment on property and equipment, investment property and other assets and considers the following important indicators:

- Significant changes in asset usage;
- Significant decline in assets' market value;
- Obsolescence or physical damage of an asset;
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and
- Significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the asset's fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The Group recognized provision for impairment losses on its other assets amounting to ₱55.6 million, ₱2.1 million and nil in 2013, 2012 and 2011, respectively. The Group has also written-off input taxes (part of "Other assets) amounting to ₱0.7 million in 2011 (see Note 10).

The Group did not recognize impairment losses on its property and equipment and investment properties. The carrying values of the Group's property and equipment, investment properties and other assets are disclosed in Notes 12, 13 and 10, respectively.

d. *Estimating useful lives of property and equipment and investment properties*
The Group estimates the useful lives of its property and equipment and investment properties based on the period over which the assets are expected to be available for use. The Group reviews periodically the EUL based on factors that include 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 the factors mentioned. A reduction in the estimated useful lives of property and equipment and investment properties would increase depreciation and amortization expense and decrease noncurrent assets.

The EUL of the Group's property and equipment and investment properties are disclosed in Note 2.

The carrying values of property and equipment and investment properties are disclosed in Notes 12 and 13, respectively.

e. *Estimating pension obligation*
The cost of defined benefit pension plans as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The carrying value of the pension obligation as at December 31, 2013 as well as the other details of the defined benefit pension plans is disclosed in Note 24.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 24.

f. *Recognition of deferred tax assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces the amounts to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized based upon the likely timing and level of future taxable income together with future planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets. Refer to Note 26 for the recognized and unrecognized deferred tax assets.

## 4. Financial Risk Management and Objectives

The Group has various financial assets and liabilities such as cash on hand and in banks (excluding cash on hand), trade and other receivables, deposits, trade and other payables, loans payable and due to and from related parties which arise directly from its operations.

Exposure to credit, market and liquidity risks arise in the normal course of the Group’s business activities.

The main objectives of the Group’s financial risk management are as follows:

- to identify and monitor such risks on an ongoing basis;
- to minimize and mitigate such risks; and
- to provide a degree of certainty about costs.

The Parent Company's BOD reviews and approves the policies for managing each of these risks and they are summarized below:

*Credit risk*
Credit risk is the risk of financial loss to the Group if the counterparty to a financial instrument fails to meet its contractual obligation. To manage credit risk, the Group maintains credit policies and monitors its exposure to credit risk on a continuous basis.

Trade receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts. In addition, the credit risk for trade receivables is mitigated as the Group has only transferred the corresponding title of the subdivision lots, house and lot units, condominium units sold and timeshare to the buyers upon full payment of the contract price.

a. Maximum exposure to credit risk

The Group's maximum exposure to credit risk is equal to the carrying value of its financial assets except for the trade receivables from the sale of real estate inventories as of December 31, 2013 and 2012 which are fully secured by collateral (the subdivision lots, house and lots and medium-rise condominium units sold).

b. Credit risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

An analysis of concentration of credit risk by location of the Group's trade receivables, net of allowance, is shown below:

| | **2013** | 2012 |
|---|---|---|
| Davao | **₱3,506,378,940** | ₱1,944,071,919 |
| Cebu | **3,545,804,483** | 1,320,101,284 |
| Pampanga | **1,196,098,974** | 594,297,807 |
| Iloilo | **883,749,812** | 648,292,208 |
| Cavite | **607,727,277** | 144,462,276 |
| Baguio | **3,895,790** | 8,484,481 |
| Others* | **35,366,398** | 20,883,703 |
| | **₱9,779,021,674** | ₱4,680,593,678 |

**Represents trade receivables from sale of timeshares.*

c. Credit quality

Generally, the Group classifies cash on hand and in banks and long-term investments as high grade as these are deposited with reputable banks.

Due from related parties and other assets are considered to be unrated and are neither past due nor impaired. For trade receivables, standard grade pertains to receivables with no default in payments.

The tables below show the credit quality per class of financial assets as of December 31, 2013 and 2012:

| | **December 31, 2013** | | | | | |
|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | | | | | |
| | **High grade** | **Standard grade** | **Unrated** | **Past due but not impaired** | **Impaired** | **Total** |
| Cash on hand and in banks* | **₱248,350,167** | **₱–** | **₱–** | **₱–** | **₱–** | **₱248,350,167** |
| Trade and other receivables: | | | | | | |
| Trade receivables: | | | | | | |
| Installment contract receivables | **–** | **9,746,404,305** | **–** | **24,398,832** | **7,117,853** | **9,777,920,990** |
| Other trade receivables | **–** | **–** | **–** | **3,895,790** | **–** | **3,895,790** |
| Retention receivables | **–** | **–** | **54,276,385** | **–** | **–** | **54,276,385** |
| Other receivables | **–** | **–** | **94,608,279** | **–** | **–** | **94,608,279** |
| Due from related parties | **–** | **–** | **517,490,590** | **–** | **–** | **517,490,590** |
| Deposits** | **–** | **77,383,307** | **9,388,916** | **–** | **2,511,974** | **89,284,197** |
| AFS equity investments** | **–** | **–** | **23,745,500** | **–** | **–** | **23,745,500** |
| | **₱248,350,167** | **₱9,823,787,612** | **₱699,509,670** | **₱28,294,622** | **₱9,629,827** | **₱10,809,571,898** |

**Excludes cash on hand amounting to ₱689,925.*
***Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | |
| | High grade | Standard grade | Unrated | Past due but not impaired | Total |
| Cash on hand and in banks* | ₱179,825,998 | ₱– | ₱– | ₱– | ₱179,825,998 |
| Trade and other receivables: | | | | | |
| Installment contract receivables | – | 4,636,364,866 | – | 35,744,330 | 4,672,109,196 |
| Other trade receivables | – | 1,995,002 | – | 6,489,479 | 8,484,481 |
| Retention receivables | – | – | 115,253,952 | – | 115,253,952 |
| Other receivables | – | – | 1,676,211 | – | 1,676,211 |
| Due from related parties | – | – | 147,400,252 | – | 147,400,252 |
| Long-term investments | 3,021,720 | – | – | – | 3,021,720 |
| Deposits** | – | – | 75,949,494 | – | 75,949,494 |
| | ₱182,847,718 | ₱4,638,359,868 | ₱340,279,909 | ₱42,233,809 | ₱5,203,721,304 |

**Excludes cash on hand amounting to ₱475,130.*
***Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

d. Aging analysis of past due but not impaired trade receivables:

| | **December 31, 2013** | | | | |
|---|---|---|---|---|---|
| | **Less than 30 days** | **31-60 days** | **61-90 days** | **Over 90 days** | **Total** |
| Installment contract receivables | **₱3,824,739** | **₱2,403,551** | **₱2,177,276** | **₱15,993,266** | **₱24,398,832** |
| Other trade receivables | **433,476** | **930,911** | **808,911** | **1,722,492** | **3,895,790** |
| | **₱4,258,215** | **₱3,334,462** | **₱2,986,187** | **₱17,715,758** | **₱28,294,622** |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Less than 30 days | 31-60 days | 61-90 days | Over 90 days | Total |
| Installment contract receivables | ₱18,426,966 | ₱5,049,846 | ₱5,910,360 | ₱6,357,158 | ₱35,744,330 |
| Other trade receivables | 1,701,850 | 2,377,760 | 75,003 | 2,334,866 | 6,489,479 |
| | ₱20,128,816 | ₱7,427,606 | ₱5,985,363 | ₱8,692,024 | ₱42,233,809 |

*Liquidity risk*
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values or the counterparty failing on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Group actively manages its liquidity position so as to ensure that all operating, investing and financing needs are met. In mitigating liquidity risk, the management measures and forecasts its cash commitments, maintains a diversity of funding sources with its access to bank financing, adoption of joint development agreements for property developments, and holds a sufficient level of cash reserves.

The tables below summarize the maturity profile of the Group's financial assets and liabilities based on contractual undiscounted cash flows:

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **On demand** | **Up to 1 month** | **More than 1 month to 6 months** | **More than 6 months to 12 months** | **Beyond 1 year** | **Total** |
| **Financial Assets** | | | | | | |
| Cash on hand and in banks | **₱249,040,092** | **₱–** | **₱–** | **₱–** | **₱–** | **₱249,040,092** |
| Trade and other receivables: | | | | | | |
| Installment contract receivables | **27,576,233** | **104,496,899** | **522,263,800** | **622,576,136** | **22,564,234,565** | **23,841,147,633** |
| Other trade receivables | **3,895,790** | **–** | **–** | **–** | **–** | **3,895,790** |
| Retention receivables | **–** | **–** | **–** | **52,318,996** | **1,957,389** | **54,276,385** |
| Other receivables | **46,575,582** | **36,847,383** | **9,131,312** | **2,054,002** | **–** | **94,608,279** |
| Due from related parties | **517,490,590** | **–** | **–** | **–** | **–** | **517,490,590** |
| Deposits* | **–** | **–** | **–** | **–** | **89,284,197** | **89,284,197** |
| AFS equity investments* | **–** | **–** | **–** | **–** | **23,745,500** | **23,745,500** |
| | **₱844,578,287** | **₱141,344,282** | **₱531,395,112** | **₱676,949,134** | **₱22,679,221,651** | **₱24,873,488,466** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables: | | | | | | |
| Trade payables | **₱19,169,690** | **₱7,699,416** | **₱24,106,021** | **₱1,889,910,567** | **₱–** | **₱1,940,885,694** |
| Accounts payable | **131,089,365** | **10,122,180** | **90,944,115** | **79,530,756** | **281,357,829** | **593,044,245** |
| Retention payable | **–** | **–** | **–** | **57,744,129** | **–** | **57,744,129** |
| Construction bonds | **–** | **–** | **–** | **16,210,949** | **–** | **16,210,949** |
| Accrued expenses | **3,696,000** | **10,395,059** | **107,928,579** | **346,602,467** | **–** | **468,622,105** |
| Due to related parties | **172,808,746** | **–** | **–** | **–** | **–** | **172,808,746** |
| Loans payable | **175,000,000** | **621,188,004** | **1,619,126,286** | **972,499,321** | **5,616,782,815** | **9,004,596,426** |
| | **₱501,763,801** | **₱649,404,659** | **₱1,842,105,001** | **₱3,362,498,189** | **₱5,898,140,644** | **₱12,253,912,294** |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | More than 1 month to 6 months | More than 6 months to 12 months | Beyond 1 year | Total |
| **Financial Assets** | | | | | | |
| Cash on hand and in banks | ₱180,301,128 | ₱– | ₱– | ₱– | ₱– | ₱180,301,128 |
| Trade and other receivables: | | | | | | |
| Trade receivables: | | | | | | |
| Installment contract receivables | 35,744,330 | 50,379,889 | 240,626,967 | 295,207,832 | 9,883,947,258 | 10,505,906,276 |
| Other trade receivables | 6,489,479 | 1,995,002 | – | – | – | 8,484,481 |
| Retention receivables | – | – | – | 100,239,272 | 15,014,680 | 115,253,952 |
| Other receivables | – | 1,291,956 | – | 384,255 | – | 1,676,211 |
| Due from related parties | 147,400,252 | – | – | – | – | 147,400,252 |
| Long-term investments | – | – | 3,052,567 | – | – | 3,052,567 |
| Deposits* | – | – | – | – | 75,949,494 | 75,949,494 |
| AFS Equity Securities* | – | – | – | – | 633,500 | 633,500 |
| | ₱369,935,189 | ₱53,666,847 | ₱243,679,534 | ₱395,831,359 | ₱9,975,544,932 | ₱11,038,657,861 |

(Forward)

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | More than 1 month to 6 months | More than 6 months to 12 months | Beyond 1 year | Total |
| **Financial Liabilities** | | | | | | |
| Trade and other payables: | | | | | | |
| Trade payables | ₱– | ₱24,662,905 | ₱66,039,152 | ₱– | ₱– | ₱90,702,057 |
| Accounts payable | 12,370,743 | 15,201,842 | 76,009,208 | 91,211,050 | 535,702,300 | 730,495,143 |
| Retention payable | – | – | – | 24,392,140 | 37,559,937 | 61,952,077 |
| Construction bonds | – | – | – | 20,410,237 | – | 20,410,237 |
| Accrued expenses | 622,817 | 12,244,582 | 2,329,206 | 224,376,709 | – | 239,573,314 |
| Due to related parties | 57,176,899 | – | – | – | – | 57,176,899 |
| Loans payable | – | 554,173,146 | 545,000,550 | 234,253,512 | 2,630,691,356 | 3,964,118,564 |
| | ₱70,170,459 | ₱606,282,475 | ₱689,378,116 | ₱594,643,648 | ₱3,203,953,593 | ₱5,164,428,291 |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

*Market risk*
Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

As of December 31, 2013 and 2012, the Group has no financial instruments that are exposed to significant interest rate risk and foreign currency risk. The Group's cash on hand and in banks, trade and other receivables and loans payable are subject to fixed interest rates and are denominated in peso.

## 5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are:

*Cash on hand and in banks, other trade receivables and other receivables*
Carrying amounts approximate their fair values since these are subject to insignificant risks of changes in value and are short-term in nature.

*Installment contract receivables and long-term investments*
Carrying amounts approximate fair values since current market lending rate is equal to the interest rate of the receivables being valued.

*Retention receivables*
Fair values are estimated using the discounted cash flow methodology.

*AFS equity investment*
Fair values cannot be reliably determined due to unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. This investment is carried at cost.

*Due to and from related parties*
The carrying amounts of due to and from related parties, which are due on demand, approximate their fair values.

*Noninterest-bearing refundable security deposits*
Fair values are estimated using the discounted cash flow methodology.

*Trade and other payables*
Carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

*Accounts payable - BDO Strategic Holdings, Inc.*
Carrying amounts approximate fair values since current market lending rate is equal to the interest rate of the payables being valued.

*Retention payable*
Fair values are estimated using the discounted cash flow methodology.

*Loans payable*
Fair values are estimated using discounted cash flow methodology using incremental borrowing rates.

Fair Value Hierarchy
The table below presents the assets and liabilities for which fair value is required to be disclosed, by valuation method as of December 31, 2013 and 2012. The different levels have been defined as follows:

a. Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities;
b. 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
c. Level 3: Techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value | | | |
| | Value | Level 1 | Level 2 | Level 3 | Total |
| **Assets for which fair value is disclosed:** | | | | | |
| *Financial assets* | | | | | |
| Trade and other receivables: | | | | | |
| Retention receivables | **₱54,276,385** | **₱–** | **₱–** | **₱53,697,533** | **₱53,697,533** |
| Deposits* | **89,284,197** | **–** | **–** | **84,947,504** | **84,947,504** |
| *Nonfinancial assets* | | | | | |
| Investment properties | **141,928,584** | **–** | **–** | **540,326,000** | **540,326,000** |
| *Financial liabilities* | | | | | |
| Trade and other payables: | | | | | |
| Retention payables | **57,744,129** | **–** | **–** | **55,108,114** | **55,108,114** |
| Loans payable | **7,312,838,315** | **–** | **–** | **7,249,625,807** | **7,249,625,807** |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value | | | |
| | Value | Level 1 | Level 2 | Level 3 | Total |
| **Assets for which fair value is disclosed:** | | | | | |
| *Financial assets* | | | | | |
| Trade and other receivables: | | | | | |
| Retention receivables | ₱115,253,952 | ₱– | ₱– | ₱113,395,038 | ₱113,395,038 |
| Deposits* | 75,949,494 | – | – | 71,509,541 | 71,509,541 |
| *Nonfinancial assets* | | | | | |
| Investment properties | 142,365,067 | – | – | 540,326,000 | 540,326,000 |
| *Financial liabilities* | | | | | |
| Trade and other payables: | | | | | |
| Retention payables | 61,952,077 | – | – | 59,517,594 | 59,517,594 |
| Loans payable | 3,574,595,396 | – | – | 3,600,083,328 | 3,600,083,328 |

**Included in 'Other noncurrent assets' in the consolidated statements of financial position.*

As of December 31, 2013 and 2012, the Group has no financial instruments carried at fair value.

## 6. Segment Information

For management's purposes, the Group's operating segments are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has four reportable operating segments as follows:

*Low-cost Mass Housing*
This segment pertains to the housing market segment of the Group. It caters to the development and sale of residential lots and units.

*Medium-rise Condominium Units*
This segment pertains to the medium-rise condominium segment of the Group. It caters to the development and sale of condominium units.

*Timeshare*
This segment pertains to sale of non-proprietary timeshares wherein the purchaser has a perpetual right to occupy one unit of the Group's vacation hotel for a specific number of days in a year.

*Hotel Operations*
This segment pertains to the activities from hotel operations, which are considered incidental revenues while the Group has not yet sold all of the timeshares of its vacation hotel, Azalea Baguio Residences.

The Group has only one geographical business segment as all the assets and liabilities are located in the Philippines. The Group derives all of its revenues from domestic operations. Thus, geographical business segment information is not presented. No operating segments have been aggregated to form the above operating business segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating income or loss. The presentation and classification of segment revenues and expenses are consistent with the consolidated statements of comprehensive income. This segment information is presented monthly to the Parent Company's BOD who is the Chief Operating Decision Maker.

Finance income consists of interest earned from installment contracts receivables and deposits in banks.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statement of financial position which is in accordance with PFRS.

Capital expenditures represent acquisitions of 'Land held for future development', 'Property and equipment' and 'Investment properties'.

The Group has no significant customer which contributes 10% or more of their segment revenue.

The financial information about the operations of the business segments is summarized below:

| | 2013 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Sales | ₱4,666,488,875 | ₱559,780,876 | ₱46,077,321 | ₱96,696,445 | ₱– | ₱5,369,043,517 | (₱12,944,702) | ₱5,356,098,815 |
| Cost of sales and services | 1,717,519,321 | 197,320,474 | 12,140,099 | 40,067,575 | – | 1,967,047,469 | – | 1,967,047,469 |
| Gross income | 2,948,969,554 | 362,460,402 | 33,937,222 | 56,628,870 | – | 3,401,996,048 | (12,944,702) | 3,389,051,346 |
| Operating expenses | 994,690,314 | 40,975,145 | 45,503,027 | 37,172,916 | 71,467,692 | 1,189,809,094 | (12,944,702) | 1,176,864,392 |
| Net operating income (loss) | 1,954,279,240 | 321,485,257 | (11,565,805) | 19,455,954 | (71,467,692) | 2,212,186,954 | – | 2,212,186,954 |
| Finance income | 514,519,941 | 17,745,054 | 911,401 | 230 | 4,500 | 533,181,126 | – | 533,181,126 |
| Finance costs | (402,215,704) | (4,179,754) | (70,717) | – | – | (406,466,175) | – | (406,466,175) |
| Other income | 97,422,183 | 4,115,594 | 194,514 | 895,617 | – | 102,627,908 | – | 102,627,908 |
| Income (loss) before income tax | 2,164,005,660 | 339,166,151 | (10,530,607) | 20,351,801 | (71,463,192) | 2,441,529,813 | – | 2,441,529,813 |
| Provision for income tax | 232,783,572 | 22,820,563 | 1,977,451 | 263,691 | 306 | 257,845,583 | – | 257,845,583 |
| Net income (loss) | ₱1,931,222,088 | ₱316,345,588 | (₱12,508,058) | ₱20,088,110 | (71,463,498) | ₱2,183,684,230 | ₱– | ₱2,183,684,230 |
| **Non-cash items** | | | | | | | – | |
| Depreciation and amortization | ₱19,672,875 | ₱– | ₱1,484,939 | ₱951,002 | ₱457,452 | ₱22,566,268 | ₱– | ₱22,566,268 |
| Provision for probable losses | ₱26,340,946 | ₱– | ₱– | ₱– | ₱– | ₱26,340,946 | ₱– | ₱26,340,946 |
| Provision for impairment losses | ₱55,619,706 | ₱– | ₱2,795,106 | ₱– | ₱– | ₱58,414,812 | ₱– | ₱58,414,812 |
| Write-off of assets | ₱64,945,573 | ₱– | ₱– | ₱– | ₱– | ₱64,945,573 | ₱– | ₱64,945,573 |

| | 2012 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Sales | ₱3,702,823,087 | ₱33,301,000 | ₱52,878,961 | ₱41,641,000 | ₱– | ₱3,830,644,048 | ₱– | ₱3,830,644,048 |
| Cost of sales and services | 1,405,835,469 | 12,822,403 | 16,375,980 | 13,538,020 | – | 1,448,571,872 | – | 1,448,571,872 |
| Gross income | 2,296,987,618 | 20,478,597 | 36,502,981 | 28,102,980 | – | 2,382,072,176 | – | 2,382,072,176 |
| Operating expenses | 636,377,843 | 11,393,292 | 14,896,257 | 17,515,428 | 14,069,976 | 694,252,796 | – | 694,252,796 |
| Net operating income (loss) | 1,660,609,775 | 9,085,305 | 21,606,724 | 10,587,552 | (14,069,976) | 1,687,805,488 | – | 1,687,805,488 |
| Finance income | 226,949,678 | 226,224 | 42,494 | – | – | 227,218,396 | – | 227,218,396 |
| Finance costs | (215,695,752) | – | (616,878) | – | – | (216,312,630) | – | (216,312,630) |
| Other income | 53,757,143 | 330,245 | 87,798 | 754,558 | – | 54,929,744 | – | 54,929,744 |
| Income (loss) before income tax | 1,725,620,844 | 9,641,774 | 21,120,138 | 11,342,110 | (14,069,976) | 1,753,654,890 | – | 1,753,654,890 |
| Provision for income tax | 43,907,741 | – | 6,134,476 | 1,203,203 | (2,076,561) | 49,168,859 | – | 49,168,859 |
| Net income (loss) | ₱1,681,713,103 | ₱9,641,774 | ₱14,985,662 | ₱10,138,907 | (₱11,993,415) | ₱1,704,486,031 | ₱– | ₱1,704,486,031 |
| **Non-cash items** | | | | | | | – | |
| Depreciation and amortization | ₱15,138,560 | ₱– | ₱– | ₱– | ₱– | ₱15,138,560 | ₱– | ₱15,138,560 |
| Provision for probable losses | ₱10,680,718 | ₱– | ₱– | ₱– | ₱– | ₱10,680,718 | ₱– | ₱10,680,718 |
| Provision for impairment losses | ₱– | ₱– | ₱– | ₱– | ₱2,076,561 | ₱2,076,561 | ₱– | ₱2,076,561 |

| | 2011 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Sales | ₱2,348,649,231 | ₱– | ₱– | ₱– | ₱– | ₱2,348,649,231 | ₱– | ₱2,348,649,231 |
| Cost of sales and services | 1,340,030,404 | – | – | – | – | 1,340,030,404 | – | 1,340,030,404 |
| Gross income | 1,008,618,827 | – | – | – | – | 1,008,618,827 | – | 1,008,618,827 |
| Operating expenses | 547,450,678 | 400,000 | 4,641,218 | 2,894,458 | – | 555,386,354 | – | 555,386,354 |
| Net operating income (loss) | 461,168,149 | (400,000) | (4,641,218) | (2,894,458) | – | 453,232,473 | – | 453,232,473 |
| Finance income | 22,055,962 | – | – | – | – | 22,055,962 | – | 22,055,962 |
| Finance costs | (84,733,384) | – | – | – | – | (84,733,384) | – | (84,733,384) |
| Other income | 55,296,588 | – | 2,725 | 54,909 | – | 55,354,222 | – | 55,354,222 |
| Income (loss) before income tax | 453,787,315 | (400,000) | (4,638,493) | (2,839,549) | – | 445,909,273 | – | 445,909,273 |
| Provision for income tax | 6,912,828 | – | – | 10,982 | – | 6,923,810 | – | 6,923,810 |
| Net income (loss) | ₱446,874,487 | (₱400,000) | (₱4,638,493) | (₱2,850,531) | ₱– | ₱438,985,463 | ₱– | ₱438,985,463 |
| **Non-cash items** | | | | | | | – | |
| Depreciation and amortization | ₱11,760,003 | ₱– | ₱– | ₱– | ₱– | ₱11,760,003 | ₱– | ₱11,760,003 |
| Provision for probable losses | ₱11,296,035 | ₱– | ₱– | ₱– | ₱– | ₱11,296,035 | ₱– | ₱11,296,035 |
| Provision for impairment losses | ₱3,515,943 | ₱– | ₱– | ₱– | ₱– | ₱3,515,943 | ₱– | ₱3,515,943 |

Other information on the Group's operating segment follows:

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Low-cost Mass Housing** | **Medium-rise Condominium Units** | **Timeshare** | **Hotel Operations** | **Others** | **Total Segment** | **Adjustments and Eliminations** | **Consolidated** |
| Segment assets | **₱17,497,233,398** | **₱657,998,161** | **₱528,015,703** | **₱69,387,237** | **₱16,722,642** | **₱18,769,357,141** | **(₱1,153,733,631)** | **₱17,615,623,510** |
| Segment liabilities | **₱11,201,273,427** | **₱334,847,412** | **₱552,657,139** | **₱38,121,057** | **₱46,610,922** | **₱12,173,509,957** | **(₱1,153,733,631)** | **₱11,019,776,326** |
| Capital expenditures | **₱3,137,321,369** | **₱–** | **₱265,373** | **₱7,151,456** | **₱1,421,999** | **₱3,146,160,197** | **₱–** | **₱3,146,160,197** |

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Low-cost Mass Housing | Medium-rise Condominium Units | Timeshare | Hotel Operations | Others | Total Segment | Adjustments and Eliminations | Consolidated |
| Segment assets | ₱8,740,594,960 | ₱220,932,219 | ₱461,164,599 | ₱34,549,950 | ₱1,021,948 | ₱9,458,263,676 | (₱610,318,006) | ₱8,847,945,670 |
| Segment liabilities | ₱4,775,473,784 | ₱214,099,549 | ₱472,276,244 | ₱23,371,880 | ₱25,027,198 | ₱5,510,248,655 | (₱610,318,006) | ₱4,899,930,649 |
| Capital expenditures | ₱360,946,648 | ₱– | ₱– | ₱– | ₱343,674 | ₱361,290,322 | ₱– | ₱361,290,322 |

## 7. Cash on Hand and in Banks

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| Cash on hand | **₱689,925** | ₱475,130 |
| Cash in banks | **248,350,167** | 179,825,998 |
| | **₱249,040,092** | ₱180,301,128 |

Cash in banks earn interest at prevailing bank deposit annual rates ranging from 0.3% to 1.0% in 2013 and 2012.

There are no restrictions on the Group's cash on hand and in banks as at December 31, 2013 and 2012.

## 8. Trade and Other Receivables

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| **Current** | | |
| Trade receivables: | | |
| Installment contract receivables | **₱306,046,028** | ₱266,090,280 |
| Others | **3,895,790** | 8,484,481 |
| Advances to external marketing managers | **47,812,508** | 157,085,699 |
| Retention receivables | **52,318,996** | 100,239,272 |
| Receivables from employees | **35,171,413** | 3,666,609 |
| Other receivables | **94,608,279** | 1,676,211 |
| | **539,853,014** | 537,242,552 |
| Less: Allowance for impairment losses | **2,795,106** | – |
| | **537,057,908** | 537,242,552 |
| **Noncurrent** | | |
| Trade receivables: | | |
| Installment contract receivables | **9,471,874,962** | 4,406,018,917 |
| Retention receivables | **1,957,389** | 15,014,680 |
| | **9,473,832,351** | 4,421,033,597 |
| | **₱10,010,890,259** | ₱4,958,276,149 |

Trade installment contract receivables pertain to receivables from the sale of residential houses and lots, condominium units and timeshares which are collectible in monthly installments over a period of 2 to 25 years. Trade installment contract receivables bear annual interest ranging from 8.5% to 18.0% in 2013 and 2012. Titles to real estate properties and timeshares are transferred to the buyers upon full payment of the contract price.

On September 30, 2013, the Group acquired installment contract receivables amounting to ₱1.1 billion from 8990 Cebu Housing Development Corporation (8990 CHDC), an entity under common control, at book value payable under the following terms (see Note 27):

a. Downpayment of ₱350.0 million payable upon signing of the agreement;
b. ₱134.8 million shall be payable not later than December 31, 2013;
c. 8990 CHDC's bank loans amounting to ₱601.3 million will be assumed by the Group; and
d. the remaining balance amounting to ₱27.8 million will be payable on demand.

Other trade receivables pertain to receivables from hotel customers.

Advances to external marketing managers are deductible against future commissions.

Retention receivables are amounts retained by Home Development Mutual Fund (HDMF) from the proceeds of loans availed by real estate buyers in accordance with HDMF Circular No. 182-A to pay-off their obligations to the Group. This amount is normally released by HDMF to the Group upon the latter's execution of a Deed of Undertaking for the conversion of the Contract-to-Sell (CTS) accounts and presentation of the necessary documents.

Receivables from employees pertain to cash advances for retitling costs, taxes and other operational and corporate-related expenses. This account also includes short-term non-interest bearing salary and other loans granted to the employees and are recoverable through salary deductions.

Significant portion of other receivables pertains to unremitted payments from HDMF amounting to ₱73.2 million for CTS accounts taken out near cutoff period.

In 2013, the Group recognized provision for impairment losses amounting to ₱2.8 million on its trade receivables, recorded as 'Provision for impairment losses' under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 21).

The Group had written off receivables amounting to ₱64.9 million and ₱2.8 million in 2013 and 2011, respectively, recorded as 'Write-off of assets' under 'Operating expenses' in the consolidated statements of comprehensive income (see Note 21). The Group did not write-off any trade receivables in 2012.

As of December 31, 2013 and 2012, trade receivables used as collateral to secure borrowings from banks amounted to ₱6.1 billion and ₱3.8 billion, respectively (see Note 17).

## 9. **Inventories**

Details of this account follow:

| | **2013** | 2012 |
|---|---|---|
| Real estate inventories | | |
| Low-cost mass housing | | |
| Houses and lots | | |
| At cost | **₱886,598,365** | ₱834,285,752 |
| At NRV | **158,647,248** | 77,391,153 |
| | **1,045,245,613** | 911,676,905 |
| Land development | | |
| At cost | **507,258,896** | 452,635,222 |
| At NRV | **9,420,907** | – |
| | **516,679,803** | 452,635,222 |
| Subdivision lots | | |
| At cost | **173,671,683** | 78,959,973 |
| At NRV | **–** | 9,669,404 |
| | **173,671,683** | 88,629,377 |
| | **1,735,597,099** | 1,452,941,504 |
| Medium-rise condominium units | **115,535,085** | 189,099,680 |
| | **1,851,132,184** | 1,642,041,184 |
| Timeshares | **392,427,650** | 398,491,412 |
| | **₱2,243,559,834** | ₱2,040,532,596 |

Real estate inventories represent the subdivision lots, housing units and medium-rise condominium units for which the Group has been granted license to sell by the Housing and Land Use Regulatory Board of the Philippines and the SEC.

Timeshares represent the right to use the property for a specific number of days in a year. The cost of the property that is subject to the timeshare is allocated to the available timeshares for sale.

The real estate inventories and timeshares are carried at cost. The Group did not recognize provision for write-downs during the reporting periods.

In 2010, 8990 LHDC entered into a memorandum of agreement (MOA) for the construction and development of housing units for sale in a land property in General Trias, Cavite owned by BDO Strategic Holdings, Inc. (BSHI). The major provisions of the MOA include the following, among others:

- BSHI shall contribute the land;
- 8990 LHDC shall build, market, and sell the lots and housing units to third party buyers within four years;
- BSHI and 8990 LHDC shall agree on the price and payment terms of the house and lot packages provided that the price of the saleable lots due to BSHI shall be in accordance with the agreed contract price;
- 8990 LHDC shall remit to BSHI the proceeds of the sale of the land or the full contract price of the lots within a certain period of time from receipt of payment from the third party buyers (cash sales) or from reservation date of the third party buyers (installment sales);

- 8990 LHDC shall pay a penalty of 3.0% of the amount due for each period in arrears until fully paid;
- 8990 LHDC shall purchase all the remaining unsold saleable lots of BSHI at the end of the four-year term at the agreed price payable semi-annually over a two-year period commencing on the sixth month after the end of the four-year term; and
- The title of the lots shall be transferred to the third party buyers or 8990 LHDC upon full payment of the contract price.

Under PFRS, the above transaction is considered as purchase of inventories on deferred settlement terms. Accordingly, 8990 LHDC recorded the land at fair value (present value of the purchase price) amounting to ₱535.9 million. The present value of the purchase price was determined based on the projected sales of 8990 LHDC discounted at 6.0%. The difference between the purchase price and fair value of the land shall be accreted and recognized as interest expense over the term of the agreement.

A summary of the movements in real estate inventories for low-cost mass housing, medium-rise condominium units and timeshares are set out below:

*Real Estate Inventories - Low-cost Mass Housing*

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱1,452,941,504** | ₱1,656,824,041 |
| Cost of sales (Note 20) | **(1,717,519,321)** | (1,405,835,469) |
| Construction and development costs incurred | **1,547,996,174** | 1,138,620,947 |
| Land transferred from land held for future development (Note 11) | **284,110,587** | – |
| Repossessed inventories | **168,068,155** | 94,770,973 |
| Acquisition of land | **–** | 15,375,227 |
| Effect of disposal of a subsidiary (Note 28) | **–** | (46,814,215) |
| Balance at end of year | **₱1,735,597,099** | ₱1,452,941,504 |

*Real Estate Inventories - Medium-rise Condominium Units*

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱189,099,680** | ₱152,293,799 |
| Cost of sales (Note 20) | **(197,320,474)** | (12,822,403) |
| Construction and development costs incurred | **123,755,879** | 49,628,284 |
| Balance at end of year | **₱115,535,085** | ₱189,099,680 |

*Timeshares*

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱398,491,412** | ₱367,515,334 |
| Cost of sales (Note 20) | **(12,140,099)** | (16,375,980) |
| Construction and development costs incurred | **6,076,337** | 47,352,058 |
| Balance at end of year | **₱392,427,650** | ₱398,491,412 |

Inventories recognized as cost of real estate inventories and timeshares sales amounted to ₱1.9 billion, ₱1.4 billion and ₱1.3 billion for the years ended December 31, 2013, 2012 and 2011, respectively, and are included under 'Cost of sales and services' account in the consolidated statements of comprehensive income (see Note 20).

As of December 31, 2013 and 2012, the Group's real estate inventories amounting to ₱7.0 million and ₱7.9 million, respectively, are used as collateral for the Group's loans payable (see Note 17).

## 10. Other Assets

This account consists of:

| | **2013** | 2012 |
|---|---|---|
| **Current** | | |
| Advances to contractors | **₱295,972,057** | ₱87,758,629 |
| Input tax | **44,306,675** | 37,607,319 |
| Advances to landowners | **32,500,000** | – |
| Creditable withholding tax | **10,390,648** | 124,444 |
| Prepaid expenses | **4,604,870** | 3,507,124 |
| Hotel inventories | **3,419,922** | 1,839,338 |
| Others | **6,095,984** | 8,381,253 |
| | **397,290,156** | 139,218,107 |
| Less: Allowance for impairment losses | **55,184,293** | 2,076,561 |
| | **342,105,863** | 137,141,546 |
| **Noncurrent** | | |
| Deposits | **89,284,197** | 75,949,494 |
| AFS equity investment | **23,745,500** | 633,500 |
| Software cost | **1,492,522** | – |
| Others | **5,000,000** | 5,000,000 |
| | **119,522,219** | 81,582,994 |
| Less: Allowance for impairment losses | **2,511,974** | – |
| | **117,010,245** | 81,582,994 |
| | **₱459,116,108** | ₱218,724,540 |

Advances to contractors represent advance payments to contractors for the construction of subdivision houses and improvements. These advances are deductible from future billings.

Input tax represents value-added tax (VAT) paid on purchases of goods and services subject to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue for output VAT on sale of goods and services subject to VAT.

Advances to land owners represent deposits made for future acquisition of land.

Hotel inventories consists of hotel supplies, food and beverage items.

Prepaid expenses represent prepaid realty taxes, advertising and insurance.

Deposits constitute rental deposit and deposits for the connection of electricity on the Group's property locations and cash bond paid to the Department of Agrarian Reform made in 2009 as a requirement for the conversion of the agricultural land into a residential and commercial area.

AFS equity investment represents investment made by the Group in preferred stocks of Azalea Resort & Vacation Club, Inc. and shares of stock of Pico de Loro Beach and Country Club.

Software costs represent costs of accounting system acquired by the Group to be implemented in 2014.

In 2013, the Group recognized allowance for impairment losses on the advances to contractors and deposits amounting to ₱53.1 million and ₱2.5 million, respectively, booked as provision for impairment losses under operating expenses (see Note 21).

In 2012, the Group recognized provision for impairment losses on its prepaid tax assets amounting to ₱2.1 million (see Note 21).

In 2011, the Group has written off input taxes amounting to ₱0.7 million which are included in 'Write-off of assets' account (see Note 21).

Rollforward of allowance for impairment losses follows:

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱2,076,561** | ₱– |
| Provision for impairment losses (Note 21) | **55,619,706** | 2,076,561 |
| Balance at end of year | **₱57,696,267** | ₱2,076,561 |

## 11. Land Held for Future Development

This account consists of land held for future development which will be sold in the ordinary course of business of the Group.

A summary of the movements in land held for future development is set out below:

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱1,010,474,241** | ₱692,971,776 |
| Land acquired during the year | **3,062,009,922** | 317,502,465 |
| Land transferred to inventories (Note 9) | **(284,110,587)** | – |
| Provision for write-down (Note 21) | **(3,646,000)** | – |
| Balance at end of year | **₱3,784,727,576** | ₱1,010,474,241 |

On August 5, 2013, the Group entered into a CTS with third parties to acquire parcels of land for a total contract price of ₱2.2 billion. On August 20, 2013, the Group paid a down payment representing 20.0% of the total contract price. The remaining 80.0% of the contract price will be paid by the Group in 2014 (see Note 15).

As of December 31, 2013, the Group's land held for future development amounting to ₱332.1 million is used as collateral for the Group's loans payable (see Note 17).

## 12. **Property and Equipment**

The composition and movements of this account are as follows:

| | **2013** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Land** | **Building** | **Land Improvements** | **Leasehold Improvements** | **Furniture and Fixtures** | **Machineries and Equipment** | **Transportation Vehicles** | **Construction in-Progress** | **Total** |
| **Cost** | | | | | | | | | |
| Balances at beginning of year | **₱53,585,010** | **₱49,919,320** | **₱9,652,150** | **₱6,044,734** | **₱14,802,820** | **₱4,551,483** | **₱51,261,100** | **₱–** | **₱189,816,617** |
| Additions | **53,820,000** | **2,797,384** | **806,497** | **1,067,317** | **6,451,181** | **8,564,852** | **7,265,401** | **1,176,127** | **81,948,759** |
| Balances at end of year | **107,405,010** | **52,716,704** | **10,458,647** | **7,112,051** | **21,254,001** | **13,116,335** | **58,526,501** | **1,176,127** | **271,765,376** |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| Balances at beginning of year | – | **7,005,824** | **1,371,608** | **1,620,682** | **8,811,354** | **2,824,811** | **21,332,361** | – | **42,966,640** |
| Depreciation and amortization (Note 21) | – | **2,489,224** | **2,050,405** | **2,519,722** | **2,621,022** | **1,654,718** | **8,593,178** | – | **19,928,269** |
| Balances at end of year | – | **9,495,048** | **3,422,013** | **4,140,404** | **11,432,376** | **4,479,529** | **29,925,539** | – | **62,894,909** |
| **Net Book Value** | **₱107,405,010** | **₱43,221,656** | **₱7,036,634** | **₱2,971,647** | **₱9,821,625** | **₱8,636,806** | **₱28,600,962** | **₱1,176,127** | **₱208,870,467** |

| | 2012 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Leasehold Improvements | Furniture and Fixtures | Machineries and Equipment | Transportation Vehicles | Construction in-Progress | Total |
| **Cost** | | | | | | | | | |
| Balances at beginning of year | ₱53,585,010 | ₱42,756,368 | ₱9,652,150 | ₱4,165,906 | ₱11,996,428 | ₱3,982,651 | ₱26,089,500 | ₱392,870 | ₱152,620,883 |
| Additions | – | 6,770,082 | – | 1,936,736 | 3,047,452 | 568,832 | 25,171,600 | – | 37,494,702 |
| Transfers | – | 392,870 | – | – | – | – | – | (392,870) | – |
| Effect of disposal of a subsidiary (Note 28) | – | – | – | (57,908) | (241,060) | – | – | – | (298,968) |
| Balances at end of year | 53,585,010 | 49,919,320 | 9,652,150 | 6,044,734 | 14,802,820 | 4,551,483 | 51,261,100 | – | 189,816,617 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| Balances at beginning of year | – | 4,740,502 | 808,500 | 102,891 | 6,801,757 | 2,190,147 | 16,385,908 | – | 31,029,705 |
| Depreciation and amortization (Note 21) | – | 2,265,322 | 563,108 | 1,534,198 | 2,059,119 | 634,664 | 4,946,453 | – | 12,002,864 |
| Effect of disposal of a subsidiary (Note 28) | – | – | – | (16,407) | (49,522) | – | – | – | (65,929) |
| Balances at end of year | – | 7,005,824 | 1,371,608 | 1,620,682 | 8,811,354 | 2,824,811 | 21,332,361 | – | 42,966,640 |
| **Net Book Value** | ₱53,585,010 | ₱42,913,496 | ₱8,280,542 | ₱4,424,052 | ₱5,991,466 | ₱1,726,672 | ₱29,928,739 | ₱– | ₱146,849,977 |

One of the Group's buildings, with carrying value of ₱11.0 million as of December 31, 2012, located in Cebu Business Park, Cebu City is constructed on a land owned and controlled by the Controlling Shareholders of the Group. Under the contract, the Group has no obligation to pay the land owner in cash but the building would become the property of the land owner after 25 years from the date of construction of building. However, the Group shall be responsible for paying the taxes for the land and building as well as the monthly dues and other expenses related to the use of the said land and building (see Note 27). In 2013, the contract was terminated since the Group already acquired the land from the controlling shareholders.

As of December 31, 2013 and 2012, land and building with an aggregate carrying value of ₱130.0 million and ₱76.6 million, respectively, are currently mortgaged in relation to a loan obtained by the Group from a local commercial bank (see Note 17).

As of December 31, 2013 and 2012, the cost of fully depreciated property and equipment still in use amounted to ₱30.4 million and ₱21.2 million, respectively.

## 13. Investment Properties

Movements in this account follow:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | **Land** | **Building** | **Improvements** | **Construction in Progress** | **Total** |
| **Cost** | | | | | |
| Balance at beginning of year | **₱54,468,615** | **₱8,604,750** | **₱87,090,275** | **₱–** | **₱150,163,640** |
| Additions | – | – | **2,201,516** | – | **2,201,516** |
| Balance at end of year | **54,468,615** | **8,604,750** | **89,291,791** | – | **152,365,156** |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | – | **1,336,439** | **6,462,134** | – | **7,798,573** |
| Depreciation and amortization (Note 21) | – | **430,237** | **2,207,762** | – | **2,637,999** |
| Balance at end of year | – | **1,766,676** | **8,669,896** | – | **10,436,572** |
| **Net Book Value** | **₱54,468,615** | **₱6,838,074** | **₱80,621,895** | **₱–** | **₱141,928,584** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Land | Building | Improvements | Construction in Progress | Total |
| **Cost** | | | | | |
| Balance at beginning of year | ₱54,468,615 | ₱8,604,750 | ₱44,155,223 | ₱36,641,897 | ₱143,870,485 |
| Additions | – | – | – | 6,293,155 | 6,293,155 |
| Transfers | – | – | 42,935,052 | (42,935,052) | – |
| Balance at end of year | 54,468,615 | 8,604,750 | 87,090,275 | – | 150,163,640 |
| **Accumulated Depreciation and Amortization** | | | | | |
| Balance at beginning of year | – | 906,202 | 3,756,675 | – | 4,662,877 |
| Depreciation and amortization (Note 21) | – | 430,237 | 2,705,459 | – | 3,135,696 |
| Balance at end of year | – | 1,336,439 | 6,462,134 | – | 7,798,573 |
| **Net Book Value** | ₱54,468,615 | ₱7,268,311 | ₱80,628,141 | ₱– | ₱142,365,067 |

The aggregate fair value of the Group's investment properties amounted to ₱540.3 million as of December 31, 2013.

The fair value of investment properties was determined by independent professional qualified appraisers based on highest and best use of the property being appraised. Valuations were derived on the basis of recent sales or similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. The inputs used in determining the fair value of the investment property is based on Level 3 of the fair value hierarchy as discussed in Note 5. There was no change in the valuation technique used in the fair value measurement.

Rent income from investment properties amounted to ₱5.3 million, ₱1.4 million, and ₱0.9 million in 2013, 2012 and 2011, respectively (see Notes 23 and 25).

Operating expenses directly related to investment properties recorded under 'Security, messengerial and janitorial', 'Communication, light and water' and 'Transportation and travel' amounted to ₱0.3 million, ₱0.8 million and ₱3.5 thousand in 2013, 2012 and 2011, respectively (see Note 21).

In 2012, transfers represent the completion of the Deca Clark Cable Park of 8990 LHDC which was leased to a third party in November 2012 (see Note 25).

8990 HDC entered into an agreement with 8990 Commercial Management Corporation (CMC), an entity under common control, wherein investment property, with carrying value of ₱67.3 million and ₱69.9 million as of December 31, 2013 and 2012, respectively, of the former will be used, managed and maintained by the latter. Any income generated by and any expenses related to the property shall be for the account of the related party (see Note 27).

As of December 31, 2013 and 2012, the Group's investment properties amounting to ₱36.0 million and nil, respectively, are used as collateral for the Group's loans payable (see Note 17).

## 14. **Long-Term Investments**

This account represents two-year time deposits with certain banks. The long-term investments have varying maturity dates and interest rates ranging from 2.3% to 5.0% in 2013, 2012 and 2011. Under the Group's Funding Commitment Agreement with HDMF, 5.0% to 7.5% of the amount of delivered CTS shall be withheld as retention pending submission of required documentation. The Group has opted to assign certificates of time deposits in lieu of the retention amounts. These long-term investments matured in 2013.

## 15. Trade and Other Payables

This account consists of:

| | 2013 | 2012 |
|---|---|---|
| **Current** | | |
| Trade payables | **₱1,940,885,694** | ₱90,702,057 |
| Accrued expenses | **497,970,175** | 239,573,314 |
| Accounts payable | **268,218,197** | 146,615,694 |
| Retention payables | **57,744,129** | 24,392,140 |
| Withholding tax payable | **21,875,280** | 6,899,773 |
| Construction bonds | **16,210,949** | 20,410,237 |
| Net output tax | **6,661,147** | 6,661,147 |
| Others | **128,165,212** | 82,461,622 |
| | **2,937,730,783** | 617,715,984 |
| **Noncurrent** | | |
| Accounts payable | **259,389,316** | 461,296,790 |
| Retention payables | – | 37,559,937 |
| Others | **3,699,805** | 1,017,274 |
| | **263,089,121** | 499,874,001 |
| | **₱3,200,819,904** | ₱1,117,589,985 |

Trade payables are mainly attributable to the Group's obligation to contractors for the construction of subdivision houses and improvements and purchase of land and materials. These are noninterest-bearing and are normally settled on 15 to 60-day terms. Trade payables also include the unpaid purchase price of pieces of land acquired for future development amounting to ₱1.9 billion as of December 31, 2013. Portion of the payable for the land was already paid in 2014.

Accrued expenses consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Documentation expenses | **₱381,401,946** | ₱187,421,850 |
| Commission expenses | **81,420,455** | 33,207,200 |
| Management/professional fees | **16,255,779** | 5,638,480 |
| Interest | **13,187,625** | 10,908,828 |
| Salaries and wages | **5,286,283** | – |
| Others | **418,087** | 2,396,956 |
| | **₱497,970,175** | ₱239,573,314 |

Accounts payable includes the amortized cost of the purchase price of the land acquired from BSHI in 2010 (see Note 9). The accretion of interest amounting to ₱40.9 million, ₱34.4 million and ₱32.5 million in 2013, 2012 and 2011, respectively, is recognized in the consolidated statements of comprehensive income as 'Finance costs' (see Note 22). Retention payables are noninterest-bearing liabilities with contractors and brokers and are normally settled a year after the Group's completion of the relevant contracts.

Construction bonds pertain to a fixed amount of cash deposit paid by the buyers in cases where the buyers will have renovations of their units. In case of damages in relation to the Group's projects that occurred during construction, penalties will be applied against these accounts.

Other current liabilities mainly represent provision for probable losses related to contingencies (see Note 29). Other noncurrent payables include retirement liability of the Group (see Note 24).

## 16. Deposits from Customers

This account represents downpayments made by the real estate buyers for the purchase of residential housing units and timeshares. Once the residential unit is ready for occupancy, delivered and accepted by the buyer, the amount is removed from the liability account and is classified as part of sales. For timeshares, when the level of required payment is reached by the buyer, a sale is recognized.

## 17. Loans Payable

This account is broken into:

| | **2013** | 2012 |
|---|---|---|
| Short-term (Note 27) | **₱2,612,529,325** | ₱1,239,648,027 |
| Long-term loans payable - current portion | **719,720,886** | 18,099,481 |
| | **3,332,250,211** | 1,257,747,508 |
| Long-term loans payable - noncurrent portion | **3,980,588,104** | 2,316,847,888 |
| | **₱7,312,838,315** | ₱3,574,595,396 |

On various dates, the Group availed of loans from various banks. The Group also entered into an ‘Agreement to Purchase Receivables’ (APR) with recourse with various banks covering the receivables under CTS. The proceeds of the sale of receivables under CTS with recourse are recognized as “Long-term loans payable”

The loans payable bear interest rates ranging from 2.6% to 11.0% in 2013, from 6.0% to 11.0% in 2012 and from 7.5% to 11.0% in 2011. Interest rates are either fixed for the loan term or subject to annual repricing. Loans payable have various maturity dates ranging in maturity from 3 months to 5 years.

Interest expense on loans payable amounted to ₱363.6 million, ₱181.1 million and ₱51.6 million in 2013, 2012, and 2011, respectively (see Note 22).

As of December 31, 2013 and 2012, the Group's loans payable is secured by the following assets with their corresponding carrying values:

| | 2013 | 2012 |
|---|---|---|
| **Short-term loans** | | |
| Collaterals owned by the Group: | | |
| Installment contract receivables | **₱1,602,288,894** | ₱503,167,953 |
| Land held for future development | **133,200,000** | – |
| Property and equipment | **130,031,597** | 76,630,101 |
| Investment properties | **35,983,027** | – |
| Collaterals owned by other related parties: | | |
| Installment contract receivable of a related party under common control | **216,987,624** | – |
| Land held for future development of affiliates | **239,315,826** | – |
| Other assets of entities under common control | **84,800,000** | – |
| Deposits of the Controlling Shareholders | **12,900,000** | 586,207,210 |
| Deposit of other affiliates | **6,000,000** | – |
| | **2,461,506,968** | 1,166,005,264 |
| **Long-term loans** | | |
| Collaterals owned by the Group: | | |
| Installment contract receivables | **4,533,928,162** | 2,686,411,931 |
| Land held for future development | **198,936,000** | – |
| Inventories | **7,048,952** | 7,923,637 |
| Collaterals owned by other related parties: | | |
| Installment contract receivable of a related party under common control | **1,272,180,395** | 564,492,898 |
| Deposits of the Controlling Shareholders | **207,630,000** | – |
| | **6,219,723,509** | 3,258,828,466 |
| | **₱8,681,230,477** | ₱4,424,833,730 |

On December 12, 2011, the 8990 Group, Bon Giorno Homes, Inc. 8990 CHDC and 8990 Iloilo Housing Development Corporation (the 8990 Group and related entities), entered into a MOA with a local bank to execute a deed of assignment known as APR, wherein, the 8990 Group and related entities sells, assigns, transfers and conveys unto the local bank, certain CTS accounts and the local bank has agreed to purchase the same (CTS purchase), subject to certain terms and conditions. CTS accounts pertain to amounts which the 8990 Group and related entities will be entitled to receive from a buyer, which consist of installments payable on the purchase by the buyer of real estate inventory from the 8990 Group and related entities.

Availment of the CTS purchase is done via promissory note secured by the APR over CTS. Amount of CTS purchase is up to 70.0% of the total contract price as stipulated in the CTS. The maximum term is four years with option to extend at the sole option of the bank. Interest rate is based on the prevailing bank rate at the time of availment and as mutually agreed upon between the local bank and the 8990 Group and related entities.

All monetary obligations of the 8990 Group and related entities are jointly and severally payable to the local bank when due without need of demand and presentment or notice of any kind. Whenever any of the members of the 8990 Group and related entities avail of the CTS purchase, and such member defaults, the local bank shall have the sole option to apply any payment received from any of the members of the 8990 Group and related entities or any other resource in behalf of any of the members of the 8990 Group and related entities, or any money or thing of value belonging to any of the members of the 8990 Group and related entities which may be in the possession or control of the bank, to any payable of any of the members of the 8990 Group and related entities that the local bank may choose notwithstanding that one payable may be more onerous than the other, or that member of the 8990 Group and related entities gives instructions to the contrary.

The MOA contains debt covenants, inclusive of, among others, paying taxes and charges upon properties and assets covered by CTS accounts, maintaining the properties and assets subject of the CTS accounts in good working condition before turning over to buyers, providing for the insurance of the subject properties and assets, advising the local bank in the event of buyer default, and submitting to the local bank reports of installment payments received from buyers whose CTS accounts are not covered by postdated checks.

As of December 31, 2013, long-term loans payable include the loans payable of 8990 CHDC assumed by the Group in relation to the acquisition of installment contract receivables as discussed in Note 8.

The following tables show the recognized financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements:

| **2013** | | | | | | |
|---|---|---|---|---|---|---|
| **Financial liabilities recognized at end of year by type** | **Gross carrying amounts (before offsetting)** | **Gross amounts offset in accordance with the offsetting criteria** | **Net amount presented in statements of financial position [a-b]** | **Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria** | | **Net exposure [c-d]** |
| | | | | **Financial instruments** | **Fair value of financial collateral** | |
| | **[a]** | **[b]** | **[c]** | **[d]** | | **[e]** |
| Loans payable | | | | | | |
| Short-term loans | **₱ 1,139,197,756** | **₱–** | **₱1,139,197,756** | **₱–** | **₱ 1,602,288,894** | **₱–** |
| Long-term loans | **3,585,312,100** | **–** | **3,585,312,100** | **–** | **4,533,928,162** | **–** |

| 2012 | | | | | | |
|---|---|---|---|---|---|---|
| Financial liabilities recognized at end of year by type | Gross carrying amounts (before offsetting) | Gross amounts offset in accordance with the offsetting criteria | Net amount presented in statements of financial position [a-b] | Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria | | Net exposure [c-d] |
| | | | | Financial instruments | Fair value of financial collateral | |
| | [a] | [b] | [c] | [d] | | [e] |
| Loans payable | | | | | | |
| Short-term loans | ₱345,560,517 | ₱– | ₱345,560,517 | ₱– | ₱503,167,953 | ₱– |
| Long-term loans | 1,692,236,261 | – | 1,692,236,261 | – | 2,686,411,931 | – |

## 18. **Equity**

Capital Stock
As of December 31, 2013, 2012 and 2011, the details of the common stock of the Parent Company and the movements thereon follow:

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Authorized, par value ₱1.00 | **7,000,000,000** | 460,000,000 | 460,000,000 |
| Issued and outstanding at beginning of year | **221,866,669** | 181,866,669 | 181,866,669 |
| Issuance of shares | **4,433,938,001** | 40,000,000 | – |
| Issued and outstanding at end of year | **4,655,804,670** | 221,866,669 | 181,866,669 |

The subscribed capital stock of the Parent Company follows:

| | **2013 (Audited)** | | 2012 (Audited) | | 2011 (Unaudited) | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| Balance at beginning of year | – | ₱– | 40,000,000 | ₱100,800,000 | – | ₱– |
| Subscriptions | – | – | – | – | 40,000,000 | 100,800,000 |
| Issuance of shares | – | – | (40,000,000) | (100,800,000) | – | – |
| Balance at end of year | – | – | – | – | 40,000,000 | 100,800,000 |
| Less: subscription receivable | – | – | – | – | – | (75,800,000) |
| | – | ₱– | – | ₱– | 40,000,000 | ₱25,000,000 |

Authorized Capital Stock
On August 25, 2011, the Parent Company entered into a Subscription Agreement (SA) with IPVG, wherein IPVG agrees to subscribe to 40.0 million shares of the common stock of the Parent Company at a subscription price of ₱2.52 per share or a total subscription of ₱100.8 million. IPVG paid ₱25.0 million in cash as partial payment and agreed to pay the remaining balance of the subscription price upon call thereon by the Parent Company's BOD. The ₱25.0 million partial payment was presented as subscribed capital stock.

As a result of the Asset Purchase Agreement dated September 28, 2011, the said SA and the related shares subscribed and partially paid were transferred to IPVI.

On February 29, 2012, the stockholders approved the issuance of the 40.0 million shares in favor of IPVI. On the same date, the minority and unrelated stockholders also approved that the requirement to conduct a rights or public offering of the shares subscribed pursuant to a related party transaction is waived.

In April 2012, the Parent Company received the remaining subscription receivable and issued the corresponding shares to IPVI. These shares were part of the shares acquired by the Stockholders of the 8990 Group (see Note 1).

On September 23, 2013, the BOD of the Parent Company approved the subscriptions and issuance of 465,580,467 shares at ₱1.0 per share to new public investors to comply with the minimum public ownership requirement of the PSE. Such issuance is subject to following conditions: (i) the approval of the SEC of the Parent Company's application for the increase in authorized capital stock; and (ii) the issuance of 3,968,357,533 shares to the Stockholders of 8990 Group. The shares were issued subsequent to the approval by the SEC of the increase in authorized capital stock of the Parent Company on October 1, 2013.

The total number of holders of outstanding common shares of the Parent Company is 23 as of December 31, 2013 and 14 as of December 31, 2012.

Retained Earnings
As of December 31, 2013 and 2012, retained earnings represent the accumulated income of the 8990 Group and the losses of the Parent Company since May 2012. As of December 31, 2011 retained earnings represent the accumulated income of the 8990 Group.

On December 20, 2011, the BOD approved 8990 HDC's declaration of cash dividends for a total of ₱15.6 million or ₱0.01 per share to all shareholders as of record date of December 31, 2011.

On November 12, 2012, the BOD approved 8990 HDC's declaration of cash dividend for a total of ₱200.0 million or ₱0.06 per share to all shareholders as of record date of September 30, 2012.

On December 19, 2012, 8990 HDC's BOD and stockholders approved the Company's declaration of cash dividends and stock dividends for a total of ₱200.0 million or ₱0.06 per share and ₱1.4 billion or ₱0.44 per share, respectively, to all shareholders as of record date of December 31, 2012.

On March 8, 2013, the BOD approved FHI's declaration of stock dividends of 420.0 million shares equivalent to ₱420.0 million or ₱0.70 per share to all shareholders of record as of the same date.

Equity Reserve
As at January 1, 2011, as a result of the application of pooling of interest method, the 'Equity reserve' account, represent the difference between the paid-up capital of the consolidated subsidiaries and the legal acquirer. Subsequent to January 1, 2011 up to the date of the Shares Swap transaction, the movements of the equity accounts of the consolidated subsidiaries are adjusted to 'Equity reserve'.

Below is the summary of the movements of the 'Equity reserve' account of the Group:

| | |
|---|---|
| Paid-up capital of consolidated subsidiaries | |
| 8990 HDC | ₱430,000,000 |
| 8990 LHDC | 25,000,000 |
| FHI | 90,809,720 |
| 8990 LRC | 6,250,000 |
| 8990 DHDC | 1,250,000 |
| 8990 MHDC | 1,250,000 |
| | 554,559,720 |
| Paid-up capital of the legal acquirer (the Parent Company) | |
| 8990 Holdings | (311,814,997) |
| **Balance at December 31, 2010** | ₱242,744,723 |
| **Balance at January 1, 2011** | ₱242,744,723 |
| Issuance of capital stock by FHI | 89,190,280 |
| Subscription of capital stock of the legal acquirer | (25,000,000) |
| **Balance at December 31, 2011** | ₱306,935,003 |

(Forward)

| | |
|---|---|
| **Balance at January 1, 2012** | ₱306,935,003 |
| Stock dividend declaration by 8990 HDC | 1,417,650,000 |
| Issuance of capital stock by 8990 HDC | 1,387,500,000 |
| Issuance of capital stock by the legal acquirer | (75,800,000) |
| Acquisition of net assets of the accounting acquire | (12,011,835) |
| **Balance at December 31, 2012** | ₱3,024,273,168 |
| **Balance at January 1, 2013** | ₱3,024,273,168 |
| Stock dividend declaration by FHI | 420,000,000 |
| Issuance through Shares Swap | (3,444,273,168) |
| **Balance at December 31, 2013** | ₱– |

Upon issuance of the capital stock under the Shares Swap transaction, the Parent Company recognized capital stock at total par value of ₱4.0 billion and offset this against the 'Equity reserve' account of ₱3.4 billion. The excess of ₱0.5 billion was closed to additional paid-in capital and retained earnings.

Capital Management

The primary objective of the Group's capital management is to ensure that debt and equity capital are mobilized efficiently to support business objectives and maximize shareholder value. The Group establishes the appropriate capital structure for its business, and thus, allowing the necessary financial flexibility for its operations and providing sufficient cushion to absorb cyclical industry risks.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. The Group considers its equity as capital. The Group is not subject to externally-imposed capital requirements.

## 19. **Sales**

This account consists of:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| | **(Audited)** | (Audited) | (Unaudited) |
| Sale of: | | | |
| Real estate: | | | |
| Low-cost mass housing | | | |
| Houses and lots | **₱4,212,819,783** | ₱3,574,392,545 | ₱2,223,672,994 |
| Subdivision lots | **453,669,092** | 128,430,542 | 124,976,237 |
| Medium-rise condominium units | **559,780,876** | 33,301,000 | – |
| Timeshares | **46,077,321** | 52,878,961 | – |
| | **5,272,347,072** | 3,789,003,048 | 2,348,649,231 |
| Hotel operations | | | |
| Rooms | **56,091,567** | 26,743,829 | – |
| Food and beverages | **27,660,176** | 14,897,171 | – |
| | **83,751,743** | 41,641,000 | – |
| | **₱5,356,098,815** | ₱3,830,644,048 | ₱2,348,649,231 |

Timeshares are in-house issuances of the Group that grants the purchaser a perpetual right to occupy one unit of the Group's vacation hotel in Baguio every year for a specific number of days. It also grants certain buyers the right to avail of the international exchange services offered by affiliated companies through the Group's Resorts Condominium International membership.

Classifications of timeshares are based on the accommodation types offered by the vacation hotel which range from deluxe to 3-bedroom units. The said accommodation units are offered under different pricing schemes.

Purchase of a timeshare does not result into any change in equity or ownership of the Group as the sale does not grant the purchaser any proprietary or voting right or residual interest in the Group. Income from hotel operations are incidental revenues while the Group has not yet sold all of the timeshares of its Azalea Project. Hotel operations of the Group is a Board of Investments (BOI)-registered activity.

## 20. **Cost of Sales and Services**

This account consists of:

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Costs of sales | | | |
| Real estate | | | |
| Low-cost mass housing | | | |
| Houses and lots | **₱1,554,106,908** | ₱1,362,854,304 | ₱1,284,516,870 |
| Subdivision lots | **163,412,413** | 42,981,165 | 55,513,534 |
| Medium-rise condominium units | **197,320,474** | 12,822,403 | – |
| Timeshares | **12,140,099** | 16,375,980 | – |
| | **1,926,979,894** | 1,435,033,852 | 1,340,030,404 |
| Cost of services | | | |
| Hotel operations | | | |
| Rooms | **19,085,469** | 8,621,563 | – |
| Food and beverages | **20,982,106** | 4,916,457 | – |
| | **40,067,575** | 13,538,020 | – |
| | **₱1,967,047,469** | ₱1,448,571,872 | ₱1,340,030,404 |

21. **Operating Expenses**

This account consists of:

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Marketing and selling | **₱307,015,371** | ₱197,402,838 | ₱65,473,502 |
| Documentation | **292,188,702** | 232,054,087 | 237,250,143 |
| Taxes and licenses | **103,568,517** | 38,808,832 | 22,039,744 |
| Salaries and employee benefits (Notes 24 and 27) | **75,943,647** | 55,249,493 | 41,002,190 |
| Write-off of assets (Notes 8 and 10) | **64,945,573** | – | 3,515,943 |
| Provision for impairment losses (Notes 8 and 10) | **58,414,812** | 2,076,561 | – |
| Management and professional fees | **44,502,235** | 26,188,710 | 3,193,141 |
| Communication, light and water (Note 13) | **34,961,571** | 27,272,814 | 28,129,895 |
| Provision for probable losses (Note 29) | **26,340,946** | 10,680,718 | 11,296,035 |
| Security, messengerial and janitorial (Note 13) | **25,369,411** | 23,590,909 | 5,502,716 |
| Depreciation and amortization (Notes 12 and 13) | **22,566,268** | 15,138,560 | 11,760,003 |
| Transportation and travel (Note 13) | **22,270,000** | 13,778,481 | 55,725,846 |
| Repairs and maintenance | **11,295,057** | 7,111,871 | 35,706,214 |
| Entertainment, amusement and representation (Note 26) | **10,575,323** | 19,131,170 | 6,246,477 |
| Rent (Note 25) | **8,350,287** | 7,211,136 | 6,532,647 |
| Supplies | **7,750,140** | 4,604,354 | 9,957,041 |
| Provision for write-down (Note 11) | **3,646,000** | – | – |
| Subscription dues and fees | **876,704** | 789,447 | 540,762 |
| Miscellaneous | **56,283,828** | 13,162,815 | 11,514,055 |
| | **₱1,176,864,392** | ₱694,252,796 | ₱555,386,354 |

Marketing and selling expenses represent commissions paid to real estate brokers and agents and other expenses directly incurred in selling the inventories.

Documentation expenses consist of certification fees, registrations fees, tax clearances and other related expenses incurred in the processing of real estate inventories sales and transfer of titles to the buyers.

## 22. **Finance Costs**

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Borrowings (Notes 17 and 27) | **₱363,633,267** | ₱181,122,301 | ₱51,572,381 |
| Accretion (Note 15) | **40,918,456** | 34,410,141 | 32,462,397 |
| Bank charges | **1,851,418** | 752,184 | 674,737 |
| Net interest expense on pension obligation (Note 24) | **63,034** | 28,004 | 23,869 |
| | **₱406,466,175** | ₱216,312,630 | ₱84,733,384 |

## 23. **Other Income**

This account consists of:

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Interest income from: | | | |
| Installment contract receivables (Note 8) | **₱531,811,849** | ₱218,340,111 | ₱20,792,514 |
| Cash in banks and long-term investments (Notes 7 and 14) | **1,369,278** | 8,878,285 | 1,263,448 |
| Water income | **52,873,719** | 31,327,458 | 24,833,534 |
| Penalties | **13,676,202** | 2,447,857 | 727,079 |
| Rent income (Note 25) | **6,481,920** | 1,412,532 | 854,115 |
| Collection service fees | **2,826,651** | 11,805,294 | 4,680,240 |
| Gain on repossession | **1,122,087** | – | 6,360,112 |
| Loss on sale of a subsidiary (Note 28) | – | (11,165,026) | – |
| Gain on sale of unquoted debt security classified as loans | – | 7,767,942 | – |
| Miscellaneous | **25,647,328** | 11,333,687 | 17,899,142 |
| | **₱635,809,034** | ₱282,148,140 | ₱77,410,184 |

Miscellaneous income includes gain from sales cancellations, retrieval fee, association dues and transfer fee.

## 24. **Pension Cost**

<u>FHI</u>
FHI has an unfunded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The benefits are based on the projected retirement benefit of 22.5 days pay per year service in accordance with Republic Act (RA) 7641. The benefits are based on current salaries and years of service and compensation on the last year of employment.

Changes in the net defined benefit liability of FHI's pension plan in 2013 and 2012 are as follows:

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Net benefit cost in consolidated statements of income** | | | **Remeasurements in other comprehensive income** | | | |
| | **January 1, 2013** | **Current service cost** | **Interest cost** | **Subtotal** | **Experience adjustments** | **Actuarial changes arising from changes in financial assumptions** | **Subtotal** | **December 31, 2013** |
| **Present value of defined benefit obligation** | **₱745,271** | **₱278,351** | **₱37,122** | **₱315,473** | **(₱21,752)** | **(₱157,800)** | **(₱179,552)** | **₱881,192** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Net benefit cost in consolidated statements of income | | | | |
| | January 1, 2012 | Current service cost | Interest cost | demographic assumptions | Actuarial changes arising from changes in financial assumptions | December 31, 2012 |
| Present value of defined benefit obligation | ₱548,073 | ₱187,400 | ₱21,241 | (₱11,443) | ₱– | ₱745,721 |

<u>8990 HDC</u>

8990 HDC has a funded, noncontributory, defined benefit pension plan covering substantially all of its regular employees. The benefits are based on the projected retirement benefit of 22.5 days pay per year service in accordance with RA 7641. The benefits are based on current salaries and years of service and compensation on the last year of employment. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the retirement benefit obligation.

The defined benefit plan is administered by a third party trustee bank.

The pension plan exposes the Group to actuarial risks, such as longevity risk, and market (investment) risk.

Changes in net defined benefit liability of HDC's pension plan are as follows:

| | 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Net benefit cost in consolidated statements of income | | | Remeasurements in other comprehensive income | | | | |
| | **January 1, 2013** | **Current service cost** | **Net interest** | **Subtotal** | **Return on plan assets (excluding amount included in net interest)** | **Actuarial changes arising from changes in demographic assumptions** | **Actuarial changes arising from changes in financial assumptions** | **Subtotal** | **December 31, 2013** |
| Present value of defined benefit obligation | **₱2,211,400** | **₱164,172** | **₱134,895** | **₱299,067** | **₱–** | **₱1,085,533** | **₱567,900** | **₱1,653,433** | **₱4,163,900** |
| Fair value of plan assets | **1,786,615** | **–** | **108,983** | **108,983** | **41,347** | **–** | **–** | **41,347** | **1,936,945** |
| Net defined benefit liability | **₱424,785** | **₱164,172** | **₱25,912** | **₱190,084** | **₱41,347** | **₱1,085,533** | **₱567,900** | **₱1,612,086** | **₱2,226,955** |

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Pension cost in consolidated statements of income | | | | |
| | January 1, 2012 | Current service cost | Net interest | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumptions | December 31, 2012 |
| Present value of defined benefit obligation | ₱1,549,700 | ₱256,800 | ₱105,999 | ₱– | ₱298,901 | ₱2,211,400 |
| Fair value of plan assets | 1,653,920 | – | – | 99,235 | 33,460 | 1,786,615 |
| Net defined benefit liability (asset) | (₱104,220) | ₱256,800 | ₱105,999 | (₱99,235) | ₱265,441 | ₱424,785 |

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Group's net defined benefit liability of ₱3.1 million and ₱1.2 million as of December 31, 2013 and 2012, respectively, is included in other liabilities (non-current) under trade and other payable.

The fair value and carrying value of plan assets by class as at the end of the reporting period are as follows:

| | **2013** | 2012 |
|---|---|---|
| Cash | **₱809,434** | ₱26,612 |
| Available-for-sale securities | | |
| Debt instruments | **1,052,930** | 1,737,172 |
| UITF | **58,408** | – |
| Accrued interest receivable | **18,193** | 24,479 |
| Accrued expenses | **(2,020)** | (1,648) |
| | **₱1,936,945** | ₱1,786,615 |

8990 HDC is yet to formalize its investment policy and risk management procedures for the pension plan. Currently, the assets of the pension plan are composed of securities issued by the Philippine government and placements in banks. Available-for-sale securities are quoted instruments.

The plan assets have diverse investments and do not have any concentration risk.

The cost of defined benefit pension plans, as well as the present value of the defined benefit obligation, is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining the net pension liability for the defined benefit plans are shown below:

| | **2013** | 2012 |
|---|---|---|
| | **%** | % |
| Discount rates: | | |
| FHI | 6.04 | 6.04 |
| 8990 HDC | 6.10 | 6.10 |
| Salary increase rates: | | |
| FHI | 2.00 | 2.00 |
| 8990 HDC | 2.00 | 2.00 |

The Group does not expect that any reasonably possible changes to the assumptions used to calculate the defined benefit obligation as of the end of the reporting period would have a significant impact on the Group's net pension liability.

8990 HDC expects to contribute a minimum amount of ₱0.8 million in 2014.

Shown below is the maturity analysis of the undiscounted benefit payments:

| | |
|---|---|
| Less than 1 year | ₱307,493 |
| More than 1 year to 5 years | 3,829,482 |
| More than 5 years to 10 years | 24,726,700 |
| More than 10 years to 15 years | 1,062,031 |
| More than 15 years to 20 years | 29,037,143 |
| More than 20 years | 53,346,401 |

The average duration of the defined benefit obligation at the end of the reporting period is 18 years.

## 25. **Leases**

8990 Holdings

*8990 Holdings as a lessee*

In 2012, 8990 Holdings entered into a non-cancellable operating lease contract covering its office premises in Liberty Center Building in Makati City. The lease has a term of two years until 2014, with renewal options.

Future minimum rentals payable under non-cancellable operating lease follow:

| | **2013** | 2012 |
|---|---|---|
| Less than one year | **₱528,612** | ₱881,020 |
| More than one year but not more than five years | – | 528,612 |
| | **₱528,612** | ₱1,409,632 |

Rent expense arising from this operating lease agreement amounted to ₱1.0 million and ₱0.4 million in 2013 and 2012, respectively.

FHI

*FHI as a lessee*

FHI recognized rent expense amounting to ₱3.6 million, ₱4.4 million and ₱3.8 million, in 2013, 2012 and 2011, respectively, pertaining to rental of FHI's office. The lease agreements are renewable annually upon mutual agreement of the parties. As of December 31, 2013, 2012 and 2011, FHI has no future minimum rentals payable under non-cancellable operating leases.

8990 HDC

*8990 HDC as a lessee*

8990 HDC recognized rent expense amounting to ₱3.2 million, ₱2.3 million and ₱2.3 million in 2013, 2012 and 2011, respectively, pertaining to rental of 8990 HDC's office spaces and billboard. The lease agreements are renewable annually upon mutual agreement of the parties. As of December 31, 2013, 2012 and 2011, 8990 HDC has no future minimum rentals payable under non-cancellable operating leases.

*8990 HDC as a lessor*

8990 HDC owns a building and a portion of it is currently leased to a third party which is covered by an operating lease contract for a period of 10 years starting 2007. Rent income recognized by 8990 HDC amounted to ₱4.2 million, ₱1.0 million and ₱0.9 million in 2013, 2012 and 2011, respectively (see Notes 13 and 23).

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

| | **2013** | 2012 |
|---|---|---|
| Within one year | **₱3,732,255** | ₱649,106 |
| After one year but not more than five years | **7,883,275** | 2,733,062 |
| More than five years | **1,074,221** | – |
| | **₱12,689,751** | ₱3,382,168 |

8990 LHDC

*8990 LHDC as a lessee*

8990 LHDC recognized rent expense amounting to ₱0.1 million in 2013 and 2012, and ₱0.4 million in 2011 pertaining to rentals for office space, staff house and generator set (see Note 21).

*8990 LHDC as a lessor*
In 2012, 8990 LHDC leased its investment properties for a period of five years, with provision for automatic annual renewal unless formally terminated by either party. The contract provided that Group shall waive the first six monthly lease fees for the first year. In addition to rental income, the Group shall be entitled to receive 10.0% of monthly gross sales of riding passes in excess of ₱2.0 million.

Rent income from investment properties amounted to ₱1.1 million and ₱0.4 million in 2013 and 2012, respectively (see Notes 13 and 23).

Future minimum rentals receivable under this non-cancellable operating lease follow:

| | **2013** | 2012 |
|---|---|---|
| Within one year | **₱1,080,000** | ₱1,080,000 |
| After one year but not more than five years | **2,430,000** | 3,960,000 |
| | **₱3,510,000** | ₱5,040,000 |

## 26. Income Taxes

Provision for income tax consists of:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| | **(Audited)** | (Audited) | (Unaudited) |
| Current: | | | |
| RCIT | **₱34,169,799** | ₱23,045,001 | ₱3,922,923 |
| MCIT | **1,057,214** | 90,104 | – |
| Final | **46,875** | 86,139 | 91,708 |
| | **35,273,888** | 23,221,244 | 4,014,631 |
| Deferred | **222,571,695** | 25,947,615 | 2,909,179 |
| | **₱257,845,583** | ₱49,168,859 | ₱6,923,810 |

Current income taxes include corporate income tax and final taxes paid at the rate of 20.0% on peso-denominated cash in banks, which is a final withholding tax on gross interest income.

RA 9337, an act amending the National Internal Revenue Code (NIRC) of 1997, provides that the RCIT rate shall be 30.0% and interest allowed as deductible expense shall be reduced by 33.0% of interest income subjected to final tax.

The NIRC of 1997 also provides for rules on the imposition of MCIT of 2.0% on gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the entities in the Group commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

Details of the Group's MCIT follow:

| Inception Year | Amount | Expired/Used | Balance | Expiry Year |
|---|---|---|---|---|
| 2012 | ₱90,104 | ₱– | ₱90,104 | 2015 |
| 2013 | 1,057,214 | – | 1,057,214 | 2016 |
| | ₱1,147,318 | ₱– | ₱1,147,318 | |

In addition, the NIRC of 1997 allows each of the entities in the Group to deduct from its taxable income for the current year its accumulated NOLCO for the immediately preceding three consecutive taxable years.

Details of the Group's NOLCO follow:

| Inception Year | Amount | Expired/Used | Balance | Expiry Year |
|---|---|---|---|---|
| 2010 | ₱4,405,113 | ₱4,405,113 | ₱– | 2013 |
| 2011 | 14,909,611 | 14,824,257 | 85,354 | 2014 |
| 2012 | 44,335,797 | 21,170,065 | 23,165,732 | 2015 |
| 2013 | 4,143,861 | – | 4,143,861 | 2016 |
| | ₱67,794,382 | ₱40,399,435 | ₱27,394,947 | |

RA 9504, an act amending the NIRC of 1997, provides that an optional standard deduction (OSD) equivalent to 40.0% of gross income may be claimed as an alternative deduction in computing for the RCIT. The entities in the Group did not claim the OSD in lieu of the itemized deductions.

The Group recognized net deferred tax liability as follows:

| | **2013** | 2012 |
|---|---|---|
| Deferred tax liability on: | | |
| Excess of accounting basis over tax basis of deferred gross profit on real estate sales | **₱336,299,944** | ₱64,631,223 |
| Effect of straight line recognition of rental income | **222,000** | 108,000 |
| | **336,521,944** | 64,739,223 |
| Deferred tax asset on: | | |
| Accrued expenses | **56,677,039** | 14,035,335 |
| Allowance for impairment losses | **16,685,912** | – |
| NOLCO | **6,990,893** | 18,832,784 |
| MCIT | **1,147,318** | 90,104 |
| Retirement liability | **668,087** | – |
| | **82,169,249** | 32,958,223 |
| Net deferred tax liability | **₱254,352,695** | ₱31,781,000 |

The Group did not set up deferred tax assets on the following temporary differences since management believes that it is not probable that the related benefits will be realized is the future:

| | **2013** | 2012 |
|---|---|---|
| Accrued documentation | **₱29,348,070** | ₱– |
| NOLCO | **4,091,970** | 262,454 |
| Allowance for impairment and probable losses | **2,795,106** | – |
| Pension liability | **881,200** | 1,017,274 |
| | **₱37,116,346** | ₱1,279,728 |

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a seller of goods and properties is limited to the actual EAR paid or incurred but not to exceed 0.5% of net sales. EAR expenses amounted to ₱10.6 million, ₱19.1 million and ₱6.2 million in 2013, 2012 and 2011, respectively (see Note 21).

A reconciliation of the Group's statutory income tax rate to effective income tax rate follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| | **(Audited)** | (Audited) | (Unaudited) |
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Income under income tax | | | (27.49) |
| holiday | **(20.42)** | (26.95) | |
| Nontaxable income | **(0.57)** | (6.49) | (21.40) |
| Nondeductible expenses | **3.21** | 4.08 | 18.69 |
| Change in unrecognized | | | 1.77 |
| deferred tax assets | **1.15** | 2.20 | |
| Income subjected to final tax | **(0.02)** | (0.04) | (0.02) |
| Others | **(2.79)** | – | – |
| | **10.56%** | 2.80% | 1.55% |

*Registration with BOI*

The Group has registered the following projects with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226) as of December 31, 2013:

| Project Name | Reg. No. | Date Registered | ITH Period | Registered Activity |
|---|---|---|---|---|
| Deca Homes Minglanilla Subdivision Phase 4 | 2008-159 | July 14, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Mandaue Prime | 2008-309 | November 14, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Mactan 3 | 2008-315 | November 20, 2008 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences | 2009-038 | May 4, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Homes | 2009-082 | June 19, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Talisay | 2009-193 | December 17, 2009 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Subdivision Phase 5 | 2010-003 | January 8, 2010 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Minglanilla Subdivision Phase 6 | 2010-004 | January 8, 2010 | 3 years | Developer of Low-cost Mass Housing Project |
| Savannah Green Plains - Phase 3 | 2010-068 | March 22, 2010 | 3 years | Expanding Developer of Low-cost Mass Housing Project |
| Deca Homes Mactan 4 | 2010-127 | July 13, 2010 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Pavia | 2010-128 | July 13, 2010 | 4 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 10 | 2011-007 | January 10, 2011 | 3 years | Developer of Low-cost Mass Housing Project |

(Forward)

| Project Name | Reg. No. | Date Registered | ITH Period | Registered Activity |
|---|---|---|---|---|
| Deca Homes Esperanza | 2011-009 | January 10, 2011 | 4 years | Developer of Low-cost Mass Housing Project |
| Bon Giorno Homes Subdivision | 2011-035 | February 8, 2011 | 4 years | New Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 8-A | 2011-119 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 8-B | 2011-120 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Deca Homes Resort Residences Phase 8-C | 2012-121 | July 5, 2012 | 3 years | Developer of Low-cost Mass Housing Project |
| Azalea Baguio Residences | 2012-174 | August 22, 2012 | 4 years | New Operator of Tourist Accommodation Facility - Apartment Hotel |
| Bella Vista Subdivision | 2013-049 | February 18, 2013 | 4 years | New Developer of Low-cost Mass Housing Project |
| Urban Homes Tipolo Condominium | 2013-062 | March 8, 2013 | 3 years | New developer of Low-cost Mass Housing Project |

Pursuant to the above registrations, the Group had been granted income tax holiday (ITH) for a certain period of time subject to certain conditions. Interest income from in-house financing is not covered by ITH.

The Group shall be entitled to ITH provided that it maintains a 75:25 debt-to-equity ratio as required by the BOI. In the event that the Group fails to maintain the ratio requirement, the Group shall present evidence that the construction of housing units have been completed and delivered to the buyers prior to the availment of ITH, otherwise, the Group shall not be entitled to ITH and shall be required to refund any capital incentives availed.

The Group's debt-to-equity ratio per subsidiary with BOI registered project is as follows:

| | 8990 HDC | | 8990 LHDC | | FHI | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 | **2013** | 2012 |
| Total liabilities | **₱8,206,313,543** | ₱2,702,506,818 | **₱1,741,513,025** | ₱1,287,940,928 | **₱1,501,667,894** | ₱994,463,147 |
| Total equity | **5,127,751,684** | 3,409,033,204 | **305,336,305** | 25,679,816 | **1,187,800,012** | 610,704,999 |
| Debt to equity ratio | **40:25** | 20:25 | **143:25** | 1254:25 | **32:25** | 41:25 |

The Group plans to increase the capitalization of LHDC to address the requirement of BOI with regard to the debt to equity ratio.

## 27. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Group has entered into transactions with related parties principally consisting of advances and reimbursement of expenses. Settlement of outstanding balances of advances occurs in cash. As of December 31, 2013 and 2012, the Group has not made any provision for impairment losses relating to amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Other related parties are entities owned and controlled by the Controlling Shareholders of the Group. These entities are in effect sister companies of the Group by virtue of ownership.

There are no restrictions, resulting from guarantees or any other form of agreements entered into by the entities within the Group, on the ability of the Parent Company or its subsidiaries to transfer cash or other assets to or from other entities within the Group.

The details of the Group's related party transactions follow:

**2013**
**(Audited)**

| **Related Party** | **Nature of Transaction** | **Account** | **Outstanding Balance/Amount** | **Terms** | **Conditions** |
|---|---|---|---|---|---|
| Stockholders | Advances | Due from related parties | **₱205,790,884** | Non - interest bearing, payable on demand | Unsecured, no impairment |
| | Borrowings | Loans payable | **113,850,000** | On demand; 7.50% per annum | Unsecured |
| | Interest on borrowings | Finance costs | **19,447,799** | | |
| Entities under common control | Advances | Due from related parties | **311,699,706** | Non - interest bearing, payable on demand | Unsecured, no impairment |
| Entities under common control | Advances | Due to related parties | **172,808,746** | Non - interest bearing, payable on demand | Unsecured |

2012
(Audited)

| Related Party | Nature of Transaction | Account | Outstanding Balance/Amount | Terms | Conditions |
|---|---|---|---|---|---|
| Stockholders | Advances | Due to related parties | ₱57,176,899 | Non - interest bearing, payable on demand | Unsecured |
| Entities under common control | Advances | Due from related parties | 147,400,252 | Non - interest bearing, payable on demand | Unsecured, no Impairment |

2011
(Unaudited)

| Related Party | Nature of Transaction | Account | Outstanding Balance/Amount | Terms | Conditions |
|---|---|---|---|---|---|
| Stockholders | Advances | Due to related parties | ₱1,786,773,265 | Non - interest bearing, payable on demand | Unsecured |
| | Borrowings | Loans payable | 481,268,385 | On demand; 7.50% per annum | Unsecured |
| | Interest on borrowings | Finance costs | 2,481,715 | | |
| Entities under common control | Advances | Due from related parties | 436,251,603 | Non - interest bearing, payable on demand | Unsecured, no impairment |

The Group has transactions with stockholders which are subject to offsetting as follows:

| | **2013** | 2012 |
|---|---|---|
| Gross amount of due from (to) stockholders | **₱223,006,493** | (₱172,426,222) |
| Gross amount of due from (to) stockholders offset in the consolidated statement of financial position (Note 28) | **(17,215,609)** | 115,249,323 |
| Net amount of due from (to) stockholders included in 'Due to related parties' as presented in the consolidated statement of financial position | **₱205,790,884** | (₱57,176,899) |

As discussed in Note 17, the 8990 Group and related entities entered into a MOA with a local bank for the CTS purchase. The 8990 Group is jointly and severally liable with related entities for any obligation arising from this MOA.

As discussed also in Note 17, certain loans payable of the Group is secured by the assets of the Controlling Shareholders and entities under common control.

The building located in Cebu Business Park, Cebu City is constructed on a land owned by the Controlling Shareholders of the Group. Under the contract, 8990 HDC has no obligation to pay the land owner in cash but the building would become the property of the land owner after 25 years from the date of construction of building. However, the Group shall be responsible for paying the taxes for the land and building as well as the monthly dues and other expenses related to the use of the said land and building. In 2013, the Group already acquired the land for ₱53.8 million, accordingly the contract was terminated (see Note 12).

8990 HDC entered into an agreement with 8990 CMC, an entity under common control, wherein, the investment property of the former will be used, managed and maintained by the latter (see Note 13). Any income generated by and any expenses related to the property shall be for the account of the related party.

As discussed in Note 8, on September 30, 2013, the Group acquired installment contract receivables amounting to ₱1.1 billion and assumed the loans payable amounting to ₱601.3 million from 8990 CHDC at book value.

The Group shoulders the administrative/accounting cost of certain other related parties.

*Key management compensation*
The key management personnel of the Group include all directors, executive, and senior management. The compensation and short-term benefits of key management personnel amounted to ₱11.6 million, ₱5.2 million and ₱4.0 million in 2013, 2012 and 2011, respectively. Post-employment benefits of key management personnel amounted to ₱0.2 million, ₱62.7 thousand and ₱73.4 thousand in 2013, 2012 and 2011, respectively.

## 28. Disposal of a Subsidiary

In 2012, 8990 LHDC and its stockholders executed a Deed of Assignment of Shares for the shares of Bon Giorno Homes, Inc. (BGHI) for a consideration amounting to ₱115.2 million.

The impact of the disposal of BGHI on the consolidated financial statements of the Group as of December 31, 2012 is as follows:

| | |
|---|---|
| Assets | |
| Cash on hand and in banks | ₱61,680,350 |
| Trade and other receivables | 71,157,022 |
| Inventories | 46,814,215 |
| Other current assets | 13,209,079 |
| Property and equipment | 233,039 |
| Other noncurrent assets | 1,805,121 |
| | 194,898,826 |
| Liabilities | |
| Trade and other payables | 18,357,377 |
| Advances from a related party | 36,325,943 |
| Deposits from customers | 4,716,559 |
| Loans payable | 19,434,556 |
| | 78,834,435 |
| Net Assets Disposed | 116,064,391 |
| Consideration - net of transaction costs | 104,899,365 |
| Loss on sale of a subsidiary | ₱11,165,026 |
| Net cash outflow from disposal | |
| Cash on hand and in banks | ₱61,680,350 |

The consideration from the Deed of Assignment of Shares is still outstanding and was recorded as part of 'Due to related parties' as of December 31, 2012.

## 29. **Commitments and Contingencies**

Commitments

The Group, and its related entities, has a contractual commitment to be jointly and severally liable for all of its monetary obligations to a local bank as disclosed in Note 17.

Contingencies

In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements. The Group recognized provision for probable losses amounting to ₱26.3 million, ₱10.7 million and ₱11.3 million in 2013, 2012 and 2011, respectively.

Below is the summary of movements in the provision for probable losses recognized by the Group:

| | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **₱64,590,861** | ₱53,910,143 |
| Provisions during the year (Note 21) | **26,340,946** | 10,680,718 |
| Balance at end of year | **₱90,931,807** | ₱64,590,861 |

30. **Earnings Per Share**

Basic EPS is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for any stock dividends).

The following tables reflect the net income and share data used in the basic/dilutive EPS computations:

| | **2013 (Audited)** | 2012 (Audited) | 2011 (Unaudited) |
|---|---|---|---|
| Net income | **₱2,183,684,230** | ₱1,704,486,031 | ₱438,985,463 |
| Divided by weighted average number of common shares | **4,232,663,764** | 3,255,182,544 | 2,526,890,010 |
| | **₱0.52** | ₱0.52 | ₱0.17 |

There were no potential dilutive common shares for the periods ended December 31, 2013 and 2012.

31. **Notes to Statements of Cash Flows**

The following are the significant noncash transactions of the Group:

*2013*

- During the year, the Group reclassified a piece of land amounting to ₱284.1 million booked under 'Land held for future development' to 'Inventories'.

- In August 2013, the Group acquired parcels of land (booked as part of 'Land held for future development') for a contract price of ₱2.2 billion which resulted in an increase in accounts payable amounting to ₱1.9 billion.

- Accretion on the Group's accounts payable amounting to ₱40.9 million in relation with the acquisition of a parcel of land booked as part of the Group's 'Finance cost' for the period.

- In September 2013, the Group used its creditable withholding tax certificates amounting to ₱4.0 million to pay its income tax liability.

- In 2013, the Group acquired the installment contract receivables amounting to ₱1.1 billion and assumed the loans payable amounting to ₱601.3 million of 8990 CHDC which resulted in an increase in due to related party amounting to ₱27.8 million.

- In 2013, repossessed inventories of the Group resulted in an increase in inventories amounting to 150.1 million.

*2012*

- Accretion on the Group's accounts payable amounting to ₱34.4 million in relation with the acquisition of a parcel of land booked as part of the Group's 'Finance costs' for the period.

- In December 2012, the Group used its creditable withholding tax certificates amounting to ₱7.9 million to pay its income tax liability.

- The transferred assets and liabilities of BGHI amounting to ₱194.9 million and ₱78.8 million, respectively, as discussed in Note 28, were considered as noncash items for each of the specific assets and liabilities affected, for purposes of the 2012 statement of cash flows.

- The consolidation of the following asset and liabilities of the Parent Company as a result of the reverse acquisition of its net assets in May 2012 did not have cash consideration on the part of the Group:

| | |
|---|---|
| Cash in bank | ₱100 |
| Trade and other payables | 12,111,835 |
| Equity reserve | (₱12,111,735) |

- In 2012, repossessed inventories of the Group resulted in an increase in inventories amounting to 150.1 million.

*2011*

- Accretion on the Group's accounts payable amounting to ₱32.5 million in relation with the acquisition of a parcel of land booked as part of the Group's 'Finance cost' for the period.

- In 2011, the Group acquired a piece of land recorded under 'Land held for future development' for a partial consideration. The remaining amount of the contract price amounting to ₱79.4 million was paid by the Group in 2012.

- In December 2011, the Group used its creditable withholding tax certificates amounting to ₱0.4 million to pay its income tax liability.

- In 2012, repossessed inventories of the Group resulted in an increase in inventories amounting to 20.2 million.

## 32. Subsequent Event after the Reporting Date but before the BOD's Approval of the Consolidated Financial Statements

On March 17, 2014, the Board of Directors approved the securitization of up to ₱1.0 billion of the Group's receivables arising from CTS accounts.

## 33. Prior Period Adjustments

Certain prior period adjustments were included in the comparative consolidated financial statements which resulted in the net increase amounting to ₱117.3 million of retained earnings as of December 31, 2011. Further, certain prior period adjustments resulted in an increase in income of ₱37.4 million in 2011. Details are as follows:

a. The Group adjusted its reported sales in 2011 in the amount of ₱166.8 million and related cost of sales amounting to ₱66.9 million in 2011 to comply with the revenue recognition policy of the Group.

b. The Group recognized interest income from payments of monthly amortization of buyers and revenue from water distribution system totaling to ₱13.0 million in 2011 to comply with the revenue recognition policy of the Group.

c. The Group recognized various expenses amounting to ₱24.7 million in 2011 to comply with accrual method of accounting.

d. The Group has written off long outstanding accounts receivables and input taxes amounting to ₱3.5 million in 2011 (see Note 21).

e. The Group adjusted various expenses previously capitalized as part of 'Real estate inventories' which did not comply with the capitalization policy of the Group amounting to ₱8.8 million in 2011.

f. Land amounting to ₱24.3 million and land held for future development amounting to ₱97.3 million was charged to the beginning retained earnings in 2010 to correct the cost of sold inventories.

g. In 2011, the Group recognized additional cost of sales amounting to ₱7.2 million to properly record the cost of resale of repossessed inventories.

h. Reversal of sales recognized for timeshares amounting to ₱7.0 million in 2011 was recorded since the hotel facility is still under construction as of December 31, 2011.

i. Recognition of interest paid to related parties amounting to ₱5.0 million was recorded in 2011.

j. The Group recognized provisions for losses amounting to ₱11.3 million in 2011 (see Note 21).

k. Recognition of deferred tax liability on excess of book basis over tax basis of deferred gross profit on real estate sales amounting to ₱2.9 million was made in 2011.

l. Recognition of 'Real estate inventories' and 'Accounts payable' amounting to ₱517.7 million which pertains to the present value of the contact price of certain acquired residential lots. In relation with the acquisition of land, accretion of interest amounting to ₱32.5 million was recognized in 2011, respectively.

m. The Group adjusted its reported sales and cost of sales in 2011 amounting to ₱51.8 million and ₱18.5 million, respectively, pertaining to unrecorded sales. In addition, the Group adjusted the retained earnings as of December 31, 2011 amounting to ₱2.1 million to correct the ending balance of inventory.

n. The Group's retained earnings decreased due to additional cost of sales recognized in 2011 amounting to ₱1.6 million. The Group also recorded as expense the organization cost of the subsidiary in 2010 amounting to ₱0.5 million. These are related to the acquisition of a subsidiary that was capitalized in the 2010 consolidated financial statements under 'Goodwill' amounting to ₱3.0 million. In 2011, the Group reversed amortization of goodwill amounting to ₱0.3 million.

o. Reversal of expenses amounting to ₱10,184 has been made to correct the balance of input VAT in 2011 and ₱7,943 has been made to recognize advances to affiliates for the expenses paid by the Group on behalf of a related party in 2011.

p. Additional depreciation on property and equipment and investment properties amounting to ₱2.6 million for 2011 was recorded due to error in calculation of depreciation on depreciable property and equipment and investment properties.

Below is the summary of the effects of the prior period adjustments to the retained earnings:

| | | 2011 |
|---|---|---|
| Recognition of additional sales (net of cost of sales) | a | ₱165,385,420 |
| Recognition of other income | b | 26,337,847 |
| Adjustment on recognized and accrued expense | c | (30,676,692) |
| Write-off of assets | d | (15,508,653) |
| Reversal of capitalized expenses | e | (34,729,997) |
| Proper costing of land and land development sold | f | 121,593,907 |
| Proper costing of repossessed inventories | g | (17,293,780) |
| Reversal of timeshare sales | h | (6,995,366) |
| Recognition of finance cost | i | (4,977,790) |
| Provision for probable losses | j | (53,910,143) |
| Recognition of deferred tax liability | k | (5,833,385) |
| Accretion expense on accounts payable related to the acquisition of land | l | (55,760,768) |
| Recognition of unrecorded sales and proper costing of inventory | m | 35,961,227 |
| Recognition of additional cost of sales and reversal of goodwill amortization | n | (1,871,688) |
| Reversal of expenses paid on behalf of related party | o | 208,488 |
| Additional of depreciation on property and equipment and investment properties | p | (4,642,654) |
| Net increase in retained earnings | | ₱117,285,973 |

Below is the summary of the effects of the prior period adjustments to the net income:

| | | 2011 |
|---|---|---|
| Recognition of additional sales (net of cost of sales) | a | ₱99,933,399 |
| Recognition of other income | b | 13,008,637 |
| Adjustment on recognized and accrued expense | c | (24,732,459) |
| Write-off of assets | d | (3,515,943) |
| Reversal of capitalized expenses | e | (8,780,958) |
| Proper costing of repossessed inventories | g | (7,191,275) |
| Reversal of timeshare sales | h | (6,995,366) |
| Recognition of finance cost | i | (4,977,790) |
| Provision for probable losses | j | (11,296,035) |
| Recognition of deferred tax liability | k | (2,909,179) |
| Accretion expense on accounts payable related to the acquisition of land | l | (32,462,397) |
| Recognition of unrecorded sales and proper costing of inventory | m | 31,220,266 |
| Recognition of additional cost of sales and reversal of goodwill amortization | n | (1,284,229) |
| Reversal of expenses paid on behalf of related party | o | 18,127 |
| Additional depreciation on property equipment and investment properties | p | (2,637,996) |
| Net increase in net income | | ₱37,396,802 |

## 34. **Approval for the Release of the Financial Statements**

The accompanying consolidated financial statements of the Group were authorized for issue by the Parent Company's BOD on March 20, 2014.

110302014001215

# SECURITIES AND EXCHANGE COMMISSION

SECBuilding,EDSA,Greenhills,MandaluyongCity,MetroManila,Philippines
Tel:(632) 726-0931 to 39 Fax:(632) 725-5293 Email: mis@sec.gov.ph

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Company Information

| | |
|---|---|
| SEC Registration No. | CS200511816 |
| Company Name | 8990 HOLDINGS, INC. |
| Industry Classification | Wholesale On A Free Or Contract Basis |
| Company Type | Stock Corporation |

**Document Information**

| | |
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| Document ID | 110302014001215 |
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COVER SHEET

C S 2 0 0 5 1 1 8 1 6

S.E.C. Registration Number

8 9 9 0 H O L D I N G S , I N C .

( F O R M E R L Y I P C O N V E R G E D A T A

C E N T E R , I N C .

(Company's Full Name)

1 1 F L I B E R T Y C E N T E R , 1 0 4 H V D E L A

C O S T A , S A L C E D O V I L L A G E , M A K A T I

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

**Teresa C. Secuya**
Compliance Officer
Contact Person/s

**(632) 4789659/5333915/5333917**
Company Telephone Number

| 0 9 | 3 0 |
|---|---|
| Month | Day |

Calendar Year

**SEC Form 17-Q**
**September 30, 2014**
FORM TYPE

| 0 7 | 2 8 |
|---|---|
| Month | Day |

Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

**22**
Total No. of Stockholders

**21**
Domestic

**1**
Foreign

---

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended **September 30, 2014**

2. Commission identification number **CS 2005 11 816**

3. BIR Tax Identification No **239-508-223-000**

4. Exact name of issuer as specified in its charter

**8990 HOLDINGS, INC. (formerly IP CONVERGE DATA CENTER, INC.)**

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

6. Industry Classification Code: (SEC Use Only)

7. Address of issuer's principal office Postal Code

**11F Liberty Center, 104 HV Dela Costa, Salcedo Village, Makati City, 1200 Philippines**

8. Issuer's telephone number, including area code **(632) 4789659/5333915/5333917**

9. Former name, former address and former fiscal year, if changed since last report **N/A**

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

| Title of each Class | Number of shares of common stock outstanding and amount of debt outstanding |
|---|---|
| **Common** | **5,517,990,720** |

11. Are any or all of the securities listed on a Stock Exchange?

Yes [√] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Name of Stock Exchange:** **Philippine Stock Exchange**
**Class of Securities Listed:** **Common Shares**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [√] No [ ]

## PART I--FINANCIAL INFORMATION

### Item 1. Financial Statements.

### 8990 HOLDINGS, INC. (formerly IP Converge Data Center, Inc.) AND SUBSIDIARIES
### Unaudited Consolidated Statements of Financial Position (in Philippine Peso)

| | 30-Sep | | 31-Dec | | |
|---|---|---|---|---|---|
| | 2014 (Unaudited) | 2013 (Unaudited) | 2013 (Audited) | 2012 (Audited) | 2011 Unaudited |
| **ASSETS** | | | | | |
| **Current Assets** | | | | | |
| Cash on hand and in banks (Note 4) | 374,004,626 | 285,806,529 | 249,040,092 | 180,301,128 | 250,702,522 |
| Current portion of trade and other receivables (Note 5) | 1,074,509,745 | 865,850,258 | 537,057,908 | 537,242,552 | 177,653,141 |
| Inventories (Note 6) | 2,647,860,558 | 2,081,143,259 | 2,243,559,834 | 2,040,532,596 | 2,176,633,174 |
| Due from related parties (Note 20) | 220,902,601 | 601,129,271 | 517,490,590 | 147,400,252 | 436,251,603 |
| Current portion of long-term investments | - | - | - | 3,021,720 | 110,113,573 |
| Other current assets (Note 7) | 1,129,572,120 | 185,714,979 | 342,105,863 | 137,141,546 | 89,762,177 |
| Total Current Assets | 5,446,849,650 | 4,019,644,296 | 3,889,254,287 | 3,045,639,794 | 3,241,116,190 |
| **Noncurrent Assets** | | | | | |
| Trade and other receivables - net of current portion (Not | 12,146,100,975 | 7,603,302,372 | 9,473,832,351 | 4,421,033,597 | 1,558,332,536 |
| Land held for future development (Note 8) | 4,817,993,586 | 3,605,811,050 | 3,784,727,576 | 1,010,474,241 | 692,971,776 |
| Property and equipment (Note 9) | 230,017,274 | 151,139,810 | 208,870,467 | 146,849,977 | 121,591,178 |
| Investment properties (Note 10) | 138,402,209 | 140,860,631 | 141,928,584 | 142,365,067 | 139,207,608 |
| Long term investments, net of current portion | - | - | - | - | 3,021,720 |
| Investment in shares | 2,379,083,131 | - | | | |
| Other noncurrent assets (Note 7) | 90,397,244 | 106,676,054 | 117,010,245 | 81,582,994 | 76,906,243 |
| Total Noncurrent Assets | 19,801,994,419 | 11,607,789,917 | 13,726,369,223 | 5,802,305,876 | 2,592,031,061 |
| | 25,248,844,069 | 15,627,434,213 | 17,615,623,510 | 8,847,945,670 | 5,833,147,251 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current Liabilities** | | | | | |
| Current portion of trade and other payables (Note 11) | 1,934,798,202 | 3,033,015,716 | 2,937,730,783 | 617,715,984 | 517,376,695 |
| Current portion of loans payable (Note 13) | 1,769,393,688 | 2,156,327,847 | 3,332,250,211 | 1,257,747,508 | 499,128,411 |
| Deposits from customers (Note 12) | 209,843,694 | 155,506,518 | 47,746,763 | 104,887,729 | 165,941,947 |
| Due to related parties (Note 20) | 9,567,220 | 19,336,293 | 172,808,746 | 57,176,899 | 1,786,773,265 |
| Income tax payable | 246,500,171 | 52,078,645 | 31,209,903 | 13,899,640 | 3,568,445 |
| Total Current Liabilities | 4,170,102,975 | 5,416,265,019 | 6,521,746,406 | 2,051,427,760 | 2,972,788,763 |
| **Noncurrent Liabilities** | | | | | |
| Trade and other payables - net of current portion (Note : | 434,811,208 | 307,520,413 | 263,089,121 | 499,874,001 | 615,699,670 |
| Loans payable - net of current portion (Note 13) | 5,699,680,319 | 3,733,718,653 | 3,980,588,104 | 2,316,847,888 | 970,784,608 |
| Deferred tax liability | 254,352,695 | 120,827,033 | 254,352,695 | 31,781,000 | 5,833,385 |
| Total Noncurrent Liabilities | 6,388,844,222 | 4,162,066,099 | 4,498,029,920 | 2,848,502,889 | 1,592,317,663 |
| Total Liabilities | 10,558,947,197 | 9,578,331,118 | 11,019,776,326 | 4,899,930,649 | 4,565,106,426 |
| **Equity** | | | | | |
| Capital Stock (Note 14) | 5,517,990,720 | 221,866,669 | 4,655,804,670 | 221,866,669 | 181,866,669 |
| Subscribed Capital Stock | - | - | - | - | 25,000,000 |
| Additional paid-in capital | 4,400,126,855 | 190,748,328 | - | 190,748,328 | 129,948,328 |
| Equity reserve | | 3,444,273,168 | - | 3,024,273,168 | 306,935,003 |
| Remeasurement loss on pension plan | (1,432,534) | | (1,432,534) | - | - |
| Retained earnings | 4,773,211,831 | 2,192,214,930 | 1,941,475,048 | 511,126,856 | 624,290,825 |
| Total Equity | 14,689,896,872 | 6,049,103,095 | 6,595,847,184 | 3,948,015,021 | 1,268,040,825 |
| | 25,248,844,069 | 15,627,434,213 | 17,615,623,510 | 8,847,945,670 | 5,833,147,251 |

**8990 HOLDINGS, INC. (formerly IP Converge Data Center, Inc.) AND SUBSIDIARIES**
**Unaudited Consolidated Statements of Comprehensive Income (in Philippine Peso)**

| | For nine months ended September 30 | | For the three months ended September 30 | |
|---|---|---|---|---|
| | 2014 Unaudited | 2013 Unaudited | 2014 Unaudited | 2013 Unaudited |
| Sales (Note 15) | 6,328,509,846 | 4,367,429,533 | 2,232,776,197 | 1,230,344,186 |
| Cost of Sales (Note 16) | 2,522,144,265 | 1,646,420,393 | 939,362,316 | 459,426,327 |
| Gross Income | 3,806,365,581 | 2,721,009,140 | 1,293,413,880 | 770,917,859 |
| Operating Expenses (Note 17) | 1,020,797,460 | 663,411,648 | 317,565,496 | 167,060,159 |
| Net Operating Income | 2,785,568,120 | 2,057,597,492 | 975,848,384 | 603,857,700 |
| Finance Costs (Note 18) | (311,951,367) | (281,679,963) | (89,204,949) | (104,755,178) |
| Other Income (Note 19) | 592,061,427 | 468,011,881 | 223,128,965 | 191,784,238 |
| Income Before Income Tax | 3,065,678,181 | 2,243,929,410 | 1,109,772,400 | 690,886,760 |
| Provision for Income Tax | 233,941,398 | 142,841,336 | 86,553,445 | 101,924,212 |
| Net Income | 2,831,736,783 | 2,101,088,074 | 1,023,218,955 | 588,962,548 |
| Other Comprehensive Loss | - | - | - | - |
| Total Comprehensive Income | 2,831,736,783 | 2,101,088,074 | 1,023,218,955 | 588,962,548 |

**8990 HOLDINGS, INC. (formerly IP Converge Data Center, Inc.) AND SUBSIDIARIES**
**Unaudited Consolidated Statements of Changes in Equity (in Philippine Peso)**

For nine months ended September 30, 2014

| | Capital Stock | Subscribed Capital Stock | Additional Paid in Capital | Equity Reserve | Other Comprehensive Loss | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | 4,655,804,670 | - | - | - | (1,432,534) | 1,941,475,048 | 6,595,847,184 |
| Issuance of shares through follow on offering | 862,186,050 | | 4,400,126,855 | | | - | 5,262,312,905 |
| Total comprehensive income (loss) | - | - | - | - | - | 2,831,736,783 | 2,831,736,783 |
| **Balance at September 30, 2014** | 5,517,990,720 | - | 4,400,126,855 | - | (1,432,534) | 4,773,211,831 | 14,689,896,871 |
| Balance at January 1, 2013 | 221,866,669 | - | 190,748,328 | 3,024,273,168 | - | 511,126,856 | 3,948,015,021 |
| Stock dividends issued by a subsidiary | - | | - | 420,000,000 | - | (420,000,000) | - |
| Issuance of shares through Shares Swap | 3,968,357,534 | | (190,748,328) | (3,444,273,168) | - | (333,336,038) | - |
| Issuance of shares by Parent Company | 465,580,467 | | - | - | - | - | 465,580,467 |
| Total comprehensive income (loss) | - | | - | - | (1,432,534) | 2,183,684,230 | 2,182,251,696 |
| **Balance at December 31, 2013** | 4,655,804,670 | - | - | - | (1,432,534) | 1,941,475,048 | 6,595,847,184 |
| Balance at January 1, 2012 | 181,866,669 | 25,000,000 | 129,948,328 | 306,935,003 | - | 624,290,825 | 1,268,040,825 |
| Issuance of shares by Parent Company | 40,000,000 | (25,000,000) | 60,800,000 | (75,800,000) | - | - | - |
| Effect of acquisition of net assets of accounting acquiree (Parent Company) | - | - | - | (12,011,835) | - | - | (12,011,835) |
| Cash dividends declared by a subsidiary | - | - | - | - | - | (400,000,000) | (400,000,000) |
| Stock dividends issued by a subsidiary | - | - | - | 1,417,650,000 | - | (1,417,650,000) | - |
| Issuance of shares by a Subsidiary | - | - | - | 1,387,500,000 | - | - | 1,387,500,000 |
| Total comprehensive income (loss) | - | - | - | - | - | 1,704,486,031 | 1,704,486,031 |
| **Balance at December 31, 2012** | 221,866,669 | - | 190,748,328 | 3,024,273,168 | - | 511,126,856 | 3,948,015,021 |

For nine months ended September 30, 2013

| | Capital Stock | Subscribed Capital Stock | Additional Paid in Capital | Equity Reserve | Other Comprehensive Loss | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | 221,866,669 | - | 190,748,328 | 3,024,273,168 | - | 511,126,856 | 3,948,015,021 |
| Stock dividends issued by a subsidiary | - | - | - | 420,000,000 | | (420,000,000) | - |
| Total comprehensive income (loss) | - | - | - | - | - | 2,101,088,074 | 2,101,088,074 |
| **Balance at September 30, 2013** | 221,866,669 | - | 190,748,328 | 3,444,273,168 | - | 2,192,214,930 | 6,049,103,095 |

**8990 HOLDINGS, INC. (formerly IP Converge Data Center, Inc.) AND SUBSIDIARIES**
**Unaudited Consolidated Statements of Cash Flows (in Philippine Peso)**

| | For nine months ended September 30 | | For years ended December 31 | |
|---|---|---|---|---|
| | 2014 Unaudited | 2013 Unaudited | 2013 Audited | 2012 Audited |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income before income tax | 3,065,678,181 | 2,243,929,410 | 2,441,529,813 | 1,753,654,890 |
| Adjustments for: | | | | |
| Interest Income | (655,541,718) | (385,997,012) | (533,181,127) | (227,218,396) |
| Finance cost | 311,626,713 | 281,679,963 | 404,614,757 | 215,560,446 |
| Write-off of assets | - | - | 64,945,573 | - |
| Provision for impairment losses | - | 3,646,000 | 58,414,812 | 2,076,561 |
| Provision for probable losses | - | 4,683,167 | 26,340,946 | 10,680,718 |
| Depreciation and amortization | 24,749,523 | 18,156,004 | 22,566,268 | 15,138,560 |
| Provision for inventory write-down | - | | 3,646,000 | - |
| Loss (gain) on repossession | - | | (1,122,087) | 1,256,353 |
| Retirement Expense | - | 417,551 | 442,531 | 444,200 |
| Loss on sale of a subsidiary | - | - | - | 11,165,026 |
| Gain on sale of unquoted debt security classified as loan: | - | - | - | (7,767,942) |
| Operating income before changes in working capital | 2,746,512,699 | 2,166,515,083 | 2,488,197,486 | 1,774,990,416 |
| Changes in operating assets and liabilities | | | | |
| Decrease (increase) in: | | | | |
| Trade and other receivables | (3,209,720,461) | (3,510,876,481) | (4,275,829,919) | (3,412,201,469) |
| Inventories | (404,300,724) | 243,499,924 | (69,059,536) | 200,226,383 |
| Other assets | (760,853,255) | (75,352,737) | (404,424,065) | (77,168,052) |
| Increase (decrease) in: | | | | |
| Trade and other payables | (831,210,493) | 445,381,608 | 177,998,680 | 17,715,084 |
| Deposits from customers | 162,096,931 | 50,618,789 | (57,140,966) | (56,337,659) |
| Net cash used in operations | (2,297,475,303) | (680,213,814) | (2,140,258,320) | (1,552,775,297) |
| Interest received | 655,467,951 | 385,997,012 | 533,181,127 | 227,218,396 |
| Interest paid | (311,626,713) | (251,616,145) | (364,210,661) | (174,133,174) |
| Income tax paid | (18,577,365) | (13,930,054) | (13,949,694) | (4,986,990) |
| Net cash used in operating activities | (1,972,211,430) | (559,763,001) | (1,985,237,548) | (1,504,677,065) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisitions of: | | | | |
| Land held for future development | (1,033,266,010) | (1,140,693,396) | (1,185,093,610) | (396,892,465) |
| Property and equipment | (42,289,745) | (18,790,730) | (81,948,759) | (37,494,702) |
| Investment properties | (80,210) | (2,150,671) | (2,201,516) | (6,293,155) |
| Investment in shares | (2,379,083,131) | | | |
| Proceeds from: | | | | |
| Maturities/termination of long term investments | - | 3,021,720 | 3,021,720 | 110,113,573 |
| Sale of unquoted debt securities classified as loans | - | - | - | 14,325,544 |
| Disposal of property and equipment | - | - | - | - |
| Net cash outflow from disposal of investment in a subsidiary | - | - | - | (61,680,350) |
| Net cash inflow from acquisition of net assets of acquiree | - | - | - | 100,000 |
| Net cash used in investing activities | (3,454,719,096) | (1,158,613,077) | (1,266,222,165) | (377,821,555) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Availment (retirement) of loans payable | 156,235,692 | 2,315,451,104 | 3,136,887,266 | 2,124,116,933 |
| Issuance of shares by the Parent Company | 5,262,312,905 | - | 465,580,467 | - |
| Issuance of shares by subsidiaries | - | - | - | 1,387,500,000 |
| Decrease (increase) in the amount of due from related parties | 296,587,989 | (453,729,019) | (370,090,338) | 393,750,716 |
| Increase (decrease) in the amount of due to related parties | (163,241,526) | (37,840,606) | 87,821,282 | (1,693,270,423) |
| Payment of cash dividends | - | - | - | (400,000,000) |
| Net cash provided by financing activities | 5,551,895,060 | 1,823,881,479 | 3,320,198,677 | 1,812,097,226 |
| Net increase (decrease) in cash on hand and in banks | 124,964,534 | 105,505,401 | 68,738,964 | (70,401,394) |
| Cash Balance at the beginning of the year | 249,040,092 | 180,301,128 | 180,301,128 | 250,702,522 |
| Cash Balance at the end of the year | 374,004,626 | 285,806,529 | 249,040,092 | 180,301,128 |

**8990 HOLDINGS, INC. (formerly IP Converge Data Center, Inc.) AND SUBSIDIARIES**
**Notes to Unaudited Consolidated Financial Statements**

## 1. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2013.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying reports. The estimates and assumptions used on the accompanying unaudited financial statements are based upon management's evaluation of relevant facts and circumstances which are used as indicators affecting the results as of the date of the unaudited financial statements. Actual results could differ from such estimates.

The accompanying unaudited financial statements have been prepared on a historical cost basis. Further, this has been presented in Philippine peso, the functional currency of Fog Horn, Inc. All values are rounded to the nearest peso except when otherwise indicated.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2013.

The following standards and interpretations were adopted beginning January 1, 2013, but do not have significant impact on the financial position or performance of the Company.

- PFRS 7, *Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments)*
- PFRS 10, *Consolidated Financial Statements*
- PFRS 11, *Joint Arrangements*
- PFRS 12, *Disclosure of Interests in Other Entities*
- PFRS 13, *Fair Value Measurement*
- PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income or OCI (Amendments)*
- PAS 1, *Presentation of Financial Statements – Clarification of the requirements for comparative information*
- PAS 27, *Separate Financial Statements (as revised in 2011)*
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
- PRFS 1, *First-time Adoption of PFRS – Borrowing Costs*

- PAS 16, *Property, Plant and Equipment – Classification of servicing equipment*
- PAS 32, *Financial Instruments: Presentation – Tax effect of distribution to holders of equity instruments*
- PAS 19, *Employee Benefits (Revised)*
- PAS 34, *Interim Financial Reporting – Interim financial reporting and segment information for assets and liabilities*

The following standard and interpretation was adopted beginning January 1, 2014, but does not have significant impact on the financial position or performance of the Company.

- PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)*
  The amendments clarify the meaning of "currently has a legally enforceable right to set off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance.

The following standards and interpretations will be effective on January 1, 2015.

- PFRS 9, *Financial Instruments*
  PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. 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 a 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. 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.

  The adoption of the first phase of PFRS 9 will have no impact on the classification and measurement of financial assets and liabilities.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The accompanying unaudited consolidated financial statements have been prepared on a historical cost basis. Further, this has been presented in Philippine peso, the functional currency of 8990 Holdings, Inc. and its subsidiaries. All values are rounded to the nearest peso except when otherwise indicated.

## 2. Basis of Consolidation

The unaudited consolidated financial statements include the financial statements of the Parent Company and the following wholly owned subsidiaries:

- 8990 Housing Development Corporation
- Fog Horn, Inc.
- 8990 Luzon Housing Development Corporation
- 8990 Davao Housing Development Corporation
- 8990 Mindanao Housing Development Corporation
- 8990 Leisure and Resorts Corporation

Control is achieved when the Parent Company is exposed, or has the rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Parent Company controls an investee if and only if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has the power over an investee, including:

- The contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

When there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent (i.e. controlling shareholders) before and after the business combination and the control is not transitory (business combinations under common control), the Group accounts for such business combinations similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values in the stand-alone financial statements of the investee companies. The difference in the amount recognized and the fair value of the consideration given is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction without loss of control, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

The Group recorded the above difference as Equity Reserve and is presented as a separate component of equity in the consolidated statement of financial position. Comparatives shall be restated to include balances and transactions as if the entities had been acquired at the beginning of the earliest period presented in the consolidated financial statements, regardless of the actual date of combination.

The Group consolidated the assets, liabilities, income and expenses of the Parent Company starting May 2012, which was the date when the controlling shareholders acquired or gained control over the Parent Company.

3. **Segment Information**

For management's purposes, the Group's operating segments are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has four reportable operating segments as follows:

*Low-cost mas Mass Housing*
This segment pertains to the housing market segment of the Group. It caters to the development and sale of residential lots and units.

*Medium-rise Condominium Units*
This segment pertains to the medium-rise condominium segment of the Group. It caters to the development and sale of condominium units.

*Timeshare*
This segment pertains to sale of non-proprietary timeshares wherein the purchaser has a perpetual right to occupy one unit of the Group's vacation hotel for a specific number of days in a year.

*Hotel Operations*
This segment pertains to the activities from hotel operations, which are considered incidental revenues while the Group has not yet sold all of the timeshares of its vacation hotel, Azalea Baguio Residences.

The hotel operation's peak season is during the holiday and summer seasons. For other supplementary businesses, there is no significant seasonality that would materially affect their operations. This information is provided to allow for a proper appreciation of the results of the Company's operations.

The Group has only one geographical business segment as all the assets and liabilities are located in the Philippines. The Group derives all of its revenues from domestic operations. Thus, geographical business segment information is not presented. No operating segments have been aggregated to form the above operating business segments.

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating income or loss. The presentation and classification of segment revenues and expenses are consistent with the consolidated statements of comprehensive income. This segment information is presented monthly to the Parent Company' BOD who is the Chief Operating Decision Maker.

Finance income consists on interest earned from installment contract receivables and deposits in banks.

The amount of segment assets and liabilities are based on the measurement principles that are similar with those used in measuring the assets and liabilities in the statement of financial position which is in accordance with PFRS. Capital expenditures represent acquisitions of 'Land held for

**4. Cash on Hand and in Banks**

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Cash on hand | 1,093,208 | 672,130 | 689,925 | 475,130 |
| Cash in banks | 372,911,418 | 285,134,399 | 248,350,167 | 179,825,998 |
| | 374,004,626 | 285,806,529 | 249,040,092 | 180,301,128 |

**5. Trade and Other Receivables**

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Current | | | | |
| Trade Receivables | | | | |
| Installment contract receivables | 723,781,851 | 563,748,720 | 306,046,028 | 266,090,280 |
| Others | 32,120,165 | 7,751,632 | 3,895,790 | 8,484,481 |
| Advances to external marketing managers | 89,529,642 | 181,536,330 | 47,812,508 | 157,085,699 |
| Retention Receivables | 113,091,115 | 59,411,003 | 52,318,996 | 100,239,272 |
| Receivables from employees | 15,217,297 | 31,329,072 | 35,171,413 | 3,666,609 |
| Other Receivables | 103,564,781 | 22,073,501 | 94,608,279 | 1,676,211 |
| | 1,077,304,851 | 865,850,258 | 539,853,014 | 537,242,552 |
| Less: Allowance for impairment losses | 2,795,106 | - | 2,795,106 | - |
| | 1,074,509,745 | 865,850,258 | 537,057,908 | 537,242,552 |
| Non current | | | | |
| Trade Receivables | | | | |
| Installment contract receivables | 12,146,100,975 | 7,601,451,270 | 9,471,874,962 | 4,406,018,917 |
| Retention Receivables | - | 1,851,102 | 1,957,389 | 15,014,680 |
| | 12,146,100,975 | 7,603,302,372 | 9,473,832,351 | 4,421,033,597 |
| | 13,220,610,720 | 8,469,152,630 | 10,010,890,259 | 4,958,276,149 |

Ninety two percent (92%) of total receivables of the Company are on long term basis. Current portion of installment contract receivables stands at PhP724 million which pertains to portion of receivables from buyers due within one (1) year.

**6. Inventories**

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Real estate inventories | | | | |
| Low-cost mass housing | 1,990,240,048 | 1,547,856,727 | 1,735,597,099 | 1,452,941,504 |
| Medium-rise condominium units | 105,951,585 | 138,431,212 | 115,535,085 | 189,099,680 |
| | 2,096,191,633 | 1,686,287,939 | 1,851,132,184 | 1,642,041,184 |
| Timeshares | 552,549,374 | 394,855,320 | 392,427,650 | 398,491,412 |
| | 2,648,741,007 | 2,081,143,259 | 2,243,559,834 | 2,040,532,596 |

## 7. Other Assets

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Current | | | | |
| Advances to contractors | 1,028,913,217 | 133,539,785 | 295,972,057 | 87,758,629 |
| Input tax | 64,561,370 | 37,557,839 | 44,306,675 | 37,607,319 |
| Advances to landowners | 32,500,000 | - | 32,500,000 | - |
| Creditable withholding tax | 30,310,150 | 1,797,831 | 10,390,648 | 124,444 |
| Prepaid expenses | 5,069,139 | 6,818,128 | 4,604,870 | 3,507,124 |
| Hotel inventories | 15,368,937 | 3,408,526 | 3,419,922 | 1,839,338 |
| Others | 8,033,599 | 2,592,870 | 6,095,984 | 8,381,253 |
| | 1,184,756,413 | 185,714,979 | 397,290,156 | 139,218,107 |
| Less: Allowance for impairment losses | 55,184,293 | - | 55,184,293 | 2,076,561 |
| | 1,129,572,120 | 185,714,979 | 342,105,863 | 137,141,546 |
| Non-current | | | | |
| Deposits | 91,015,243 | 77,930,554 | 89,284,197 | 75,949,494 |
| Software cost | 1,492,522 | | 1,492,522 | - |
| Others | 401,453 | 28,745,500 | 28,745,500 | 5,633,500 |
| | 92,909,218 | 106,676,054 | 119,522,219 | 81,582,994 |
| Less: Allowance for impairment losses | 2,511,974 | - | 2,511,974 | - |
| | 90,397,244 | 106,676,054 | 117,010,245 | 81,582,994 |
| | 1,219,969,363 | 292,391,033 | 459,116,108 | 218,724,540 |

## 8. Land Held for Future Development

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Balance at beginning of year | 3,784,727,576 | 1,010,474,241 | 1,010,474,241 | 692,971,776 |
| Land acquired during the year | 1,033,266,010 | 2,883,093,396 | 3,062,009,922 | 317,502,465 |
| Land transferred to inventories | - | (284,110,587) | (284,110,587) | - |
| Provision for write down | - | (3,646,000) | (3,646,000) | - |
| **Balance at end of year** | **4,817,993,586** | **3,605,811,050** | **3,784,727,576** | **1,010,474,241** |

## 9. Property and Equipment

This account consists of:

30-Sep-14 (Unaudited)

| | Land | Building | Land Improvements | Leasehold Improvements | Furnitures and Fixtures | Machineries and Equipment | Transportation Vehicles | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balances at beginning of year | 107,405,010 | 52,716,704 | 10,458,647 | 7,112,051 | 21,254,001 | 13,116,335 | 58,526,501 | 1,176,127 | 271,765,376 |
| Additions | - | 354,963 | - | 2,984,385 | 3,572,752 | 29,591,847 | 5,785,797 | | 42,289,745 |
| Balances at end of year | 107,405,010 | 53,071,667 | 10,458,647 | 10,096,436 | 24,826,753 | 42,708,182 | 64,312,298 | 1,176,127 | 314,055,121 |
| Accumulated Depreciation and Amortization | | | | | | | | | |
| Balances at beginning of year | - | 9,495,048 | 3,422,013 | 4,140,404 | 11,432,376 | 4,479,529 | 29,925,539 | - | 62,894,909 |
| Depreciation and Amortization | - | 1,581,617 | 1,568,797 | 2,395,075 | 2,655,179 | 5,916,802 | 7,025,467 | | 21,142,938 |
| Balances at end of year | - | 11,076,665 | 4,990,810 | 6,535,479 | 14,087,555 | 10,396,331 | 36,951,006 | - | 84,037,847 |
| **Net Book Value** | **107,405,010** | **41,995,002** | **5,467,837** | **3,560,957** | **10,739,198** | **32,311,850** | **27,361,292** | **1,176,127** | **230,017,274** |

30-Sep-13 (Unaudited)

| | Land | Building | Land Improvements | Leasehold Improvements | Furnitures and Fixtures | Machineries and Equipment | Transportation Vehicles | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balances at beginning of year | 53,585,010 | 49,919,320 | 9,652,150 | 6,044,734 | 14,802,820 | 4,551,483 | 51,261,100 | - | 189,816,617 |
| Additions | - | - | 806,497 | 1,067,317 | 3,852,393 | 5,553,816 | 6,363,601 | 1,147,106 | 18,790,730 |
| Balances at end of year | 53,585,010 | 49,919,320 | 10,458,647 | 7,112,051 | 18,655,213 | 10,105,299 | 57,624,701 | 1,147,106 | 208,607,347 |
| Accumulated Depreciation and Amortization | | | | | | | | | |
| Balances at beginning of year | - | 7,005,824 | 1,371,608 | 1,620,682 | 8,811,354 | 2,824,811 | 21,332,361 | - | 42,966,640 |
| Depreciation and Amortization | - | 1,766,328 | 1,673,026 | 1,680,627 | 2,016,823 | 1,080,899 | 6,283,194 | - | 14,500,897 |
| Balances at end of year | - | 8,772,152 | 3,044,634 | 3,301,309 | 10,828,177 | 3,905,710 | 27,615,555 | - | 57,467,537 |

31-Dec-13
(Audited)

| | Land | Building | Land Improvements | Leasehold Improvements | Furnitures and Fixtures | Machineries and Equipment | Transportation Vehicles | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balances at beginning of year | 53,585,010 | 49,919,320 | 9,652,150 | 6,044,734 | 14,802,820 | 4,551,483 | 51,261,100 | - | 189,816,617 |
| Additions | 53,820,000 | 2,797,384 | 806,497 | 1,067,317 | 6,451,181 | 8,564,852 | 7,265,401 | 1,176,127 | 81,948,759 |
| Balances at end of year | 107,405,010 | 52,716,704 | 10,458,647 | 7,112,051 | 21,254,001 | 13,116,335 | 58,526,501 | 1,176,127 | 271,765,376 |
| Accumulated Depreciation and Amortization | | | | | | | | | |
| Balances at beginning of year | - | 7,005,824 | 1,371,608 | 1,620,682 | 8,811,354 | 2,824,811 | 21,332,361 | - | 42,966,640 |
| Depreciation and Amortization | - | 2,489,224 | 2,050,405 | 2,519,722 | 2,621,022 | 1,654,718 | 8,593,178 | - | 19,928,269 |
| Balances at end of year | - | 9,495,048 | 3,422,013 | 4,140,404 | 11,432,376 | 4,479,529 | 29,925,539 | - | 62,894,909 |
| **Net Book Value** | **107,405,010** | **43,221,656** | **7,036,634** | **2,971,647** | **9,821,625** | **8,636,806** | **28,600,962** | **1,176,127** | **208,870,467** |

31-Dec-12
(Audited)

| | Land | Building | Land Improvements | Leasehold Improvements | Furnitures and Fixtures | Machineries and Equipment | Transportation Vehicles | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balances at beginning of year | 53,585,010 | 42,756,368 | 9,652,150 | 4,165,906 | 11,996,428 | 3,982,651 | 26,089,500 | 392,870 | 152,620,883 |
| Additions | - | 6,770,082 | - | 1,936,736 | 3,047,452 | 568,832 | 25,171,600 | - | 37,494,702 |
| Transfers | - | 392,870 | - | - | - | - | - | (392,870) | - |
| Effect of disposal of a subsidiary | - | - | - | (57,908) | (241,060) | - | - | - | (298,968) |
| Balances at end of year | 53,585,010 | 49,919,320 | 9,652,150 | 6,044,734 | 14,802,820 | 4,551,483 | 51,261,100 | - | 189,816,617 |
| Accumulated Depreciation and Amortization | | | | | | | | | |
| Balances at beginning of year | - | 4,740,502 | 808,500 | 102,891 | 6,801,757 | 2,190,147 | 16,385,908 | - | 31,029,705 |
| Depreciation and Amortization | - | 2,265,322 | 563,108 | 1,534,198 | 2,059,119 | 634,664 | 4,946,453 | - | 12,002,864 |
| Effect of disposal of a subsidiary | | - | - | (16,407) | (49,522) | - | - | - | (65,929) |
| Balances at end of year | - | 7,005,824 | 1,371,608 | 1,620,682 | 8,811,354 | 2,824,811 | 21,332,361 | - | 42,966,640 |
| **Net Book Value** | **53,585,010** | **42,913,496** | **8,280,542** | **4,424,052** | **5,991,466** | **1,726,672** | **29,928,739** | **-** | **146,849,977** |

**10. Investment Properties**

This account consists of:

| | 30-Sep-14 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | |
| Balances at beginning of year | 54,468,615 | 8,604,750 | 89,291,791 | - | 152,365,156 |
| Additions | - | - | 80,210 | - | 80,210 |
| Balances at end of year | 54,468,615 | 8,604,750 | 89,372,001 | - | 152,445,366 |
| Accumulated Depreciation and Amortization | | | | | |
| Balances at beginning of year | - | 1,766,676 | 8,669,896 | - | 10,436,572 |
| Depreciation and Amortization | | 258,143 | 3,348,442 | | 3,606,585 |
| Balances at end of year | - | 2,024,819 | 12,018,338 | - | 14,043,157 |
| **Net Book Value** | **54,468,615** | **6,579,932** | **77,353,663** | **-** | **138,402,209** |

| | 30-Sep-13 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | |
| Balances at beginning of year | 54,468,615 | 8,604,750 | 87,090,275 | - | 150,163,640 |
| Additions | | | 210,677 | 1,939,994 | 2,150,671 |
| Transfers | | | 1,939,994 | (1,939,994) | - |
| Balances at end of year | 54,468,615 | 8,604,750 | 89,240,946 | - | 152,314,311 |
| Accumulated Depreciation and Amortization | | | | | |
| Balances at beginning of year | - | 1,336,439 | 6,462,134 | - | 7,798,573 |
| Depreciation and Amortization | | 322,678 | 3,332,429 | | 3,655,107 |
| Balances at end of year | - | 1,659,117 | 9,794,563 | - | 11,453,680 |
| **Net Book Value** | **54,468,615** | **6,945,633** | **79,446,383** | **-** | **140,860,631** |

| | 31-Dec-13 (Audited) | | | | |
|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | |
| Balances at beginning of year | 54,468,615 | 8,604,750 | 89,291,791 | - | 152,365,156 |
| Additions | | | - | - | - |
| Balances at end of year | 54,468,615 | 8,604,750 | 89,291,791 | - | 152,365,156 |
| Accumulated Depreciation and Amortization | | | | | |
| Balances at beginning of year | - | 1,336,439 | 6,462,134 | - | 7,798,573 |
| Depreciation and Amortization | - | 430,237 | 2,207,762 | - | 2,637,999 |
| Balances at end of year | - | 1,766,676 | 8,669,896 | - | 10,436,572 |
| **Net Book Value** | **54,468,615** | **6,838,074** | **80,621,895** | **-** | **141,928,584** |

| | 31-Dec-12 (Audited) | | | | |
|---|---|---|---|---|---|
| | Land | Building | Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | |
| Balances at beginning of year | 54,468,615 | 8,604,750 | 44,155,223 | 36,641,897 | 143,870,485 |
| Additions | - | - | - | 6,293,155 | 6,293,155 |
| Transfers | - | - | 42,935,052 | (42,935,052) | - |
| Balances at end of year | 54,468,615 | 8,604,750 | 87,090,275 | - | 150,163,640 |
| Accumulated Depreciation and Amortization | | | | | |
| Balances at beginning of year | - | 906,202 | 3,756,675 | - | 4,662,877 |
| Depreciation and Amortization | - | 430,237 | 2,705,459 | - | 3,135,696 |
| Balances at end of year | - | 1,336,439 | 6,462,134 | - | 7,798,573 |
| **Net Book Value** | **54,468,615** | **7,268,311** | **80,628,141** | **-** | **142,365,067** |

## 11. Trade and Other Payables

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Current | | | | |
| Trade and accounts payables | 802,730,859 | 2,425,764,684 | 2,209,103,891 | 237,317,751 |
| Accrued expenses | 811,456,811 | 400,461,884 | 497,970,175 | 239,573,314 |
| Retention payables | 82,658,061 | 44,239,946 | 57,744,129 | 24,392,140 |
| Withholding tax payables | 49,157,141 | 12,710,871 | 21,875,280 | 6,899,773 |
| Construction bonds | 22,935,126 | 11,328,993 | 16,210,949 | 20,410,237 |
| Net output tax | 6,661,147 | 6,661,147 | 6,661,147 | 6,661,147 |
| Others | 159,199,057 | 131,848,191 | 128,165,212 | 82,461,622 |
| | 1,934,798,202 | 3,033,015,716 | 2,937,730,783 | 617,715,984 |
| Non-current | | | | |
| Trade and accounts payables | 431,450,253 | 276,045,802 | 259,389,316 | 461,296,790 |
| Retention payables | | 29,782,244 | - | 37,559,937 |
| Others | 3,360,955 | 1,692,367 | 3,669,805 | 1,017,274 |
| | 434,811,208 | 307,520,413 | 263,059,121 | 499,874,001 |
| | 2,369,609,411 | 3,340,536,129 | 3,200,789,904 | 1,117,589,985 |

## 12. Deposits from Customers

This account represents downpayments made by the real estate buyers for the purchase of residential housing units and timeshares. Once the residential unit is ready for occupancy, delivered and accepted by the buyer, the amount is removed from the liability account and is classified as part of sales. For timehares, when the level of required payment is reached by a buyer, a sale is recognized.

## 13. Loans Payable

This account consists of:

| | 30-Sep 2014 (Unaudited) | 30-Sep 2013 (Unaudited) | 31-Dec 2013 (Audited) | 31-Dec 2012 (Audited) |
|---|---|---|---|---|
| Short term loans payable and current portion of long term | 1,769,393,688 | 2,156,327,847 | 2,612,529,325 | 1,239,648,027 |
| Long-term loans payable | 5,699,680,319 | 3,733,718,653 | 4,700,308,990 | 2,334,947,369 |
| | 7,469,074,007 | 5,890,046,500 | 7,312,838,315 | 3,574,595,396 |

## 14. Equity

This account consists of:

| | 30-Sep | 30-Sep | 31-Dec | |
|---|---|---|---|---|
| | 2014 | 2013 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Audited) | (Audited) |
| Authorized, par value PhP1.00 | 7,000,000,000 | 460,000,000 | 7,000,000,000 | 460,000,000 |
| Issued and outstanding at beginning of year | 4,655,804,670 | 221,866,669 | 221,866,669 | 181,866,669 |
| Issuance of shares | 862,186,050 | - | 4,433,938,001 | 40,000,000 |
| Issued and outstanding at end of year | 5,517,990,720 | 221,866,669 | 4,655,804,670 | 221,866,669 |

## 15. Sales

This account consists of:

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Unadited | Unaudited | Unadited | Unaudited |
| Real estate | | | | |
| Low-cost mass housing | 5,510,768,483 | 3,879,308,364 | 2,012,067,068 | 1,042,828,620 |
| Medium-rise condominium units | 652,249,449 | 398,264,925 | 192,462,300 | 158,050,500 |
| Timeshares | 95,072,313 | 32,761,758 | 9,470,265 | 13,719,628 |
| | 6,258,090,244 | 4,310,335,047 | 2,213,999,633 | 1,214,598,748 |
| Hotel Operations | | | | |
| Rooms | 50,206,215 | 38,182,438 | 12,619,549 | 10,121,768 |
| Food and Beverages | 20,213,387 | 18,912,048 | 6,157,014 | 5,623,670 |
| | 70,419,602 | 57,094,486 | 18,776,564 | 15,745,438 |
| | 6,328,509,846 | 4,367,429,533 | 2,232,776,197 | 1,230,344,186 |

## 16. Cost of Sales and Services

This account consists of:

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Unadited | Unaudited | Unadited | Unaudited |
| Real estate | | | | |
| Low-cost mass housing | 2,263,979,762 | 1,467,921,649 | 865,854,780 | 389,178,992 |
| Medium-rise condominium units | 217,548,936 | 138,941,553 | 62,964,046 | 53,697,426 |
| Timeshares | 19,925,044 | 8,710,621 | 1,980,128 | 3,525,339 |
| | 2,501,453,742 | 1,615,573,823 | 930,798,955 | 446,401,757 |
| Hotel Operations | | | | |
| Rooms | 11,720,628 | 15,895,136 | 6,136,053 | 5,014,629 |
| Food and Beverages | 8,969,895 | 14,951,434 | 2,427,309 | 8,009,941 |
| | 20,690,523 | 30,846,570 | 8,563,361 | 13,024,570 |
| | 2,522,144,265 | 1,646,420,393 | 939,362,316 | 459,426,327 |

## 17. Operating Expenses

This account consists of:

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Unadited | Unaudited | Unadited | Unaudited |
| Marketing and selling | 419,450,804 | 222,673,962 | 156,899,438 | 51,070,654 |
| Documentation | 222,236,803 | 174,059,118 | 58,424,689 | 18,882,185 |
| Taxes and licenses | 76,143,660 | 56,937,817 | 13,615,878 | 23,799,649 |
| Salaries and employee benefits | 74,818,811 | 49,175,008 | 22,293,735 | 16,513,561 |
| Write-off of assets | - | - | - | - |
| Provision for impairment losses | - | - | - | - |
| Management and professional fees | 27,498,248 | 12,245,288 | (5,664,463) | 7,095,667 |
| Communication, light and water | 38,886,575 | 24,569,352 | 12,423,053 | 9,187,604 |
| Provision for probable losses | - | 4,683,167 | - | - |
| Security, messengerial and janitorial | 39,148,216 | 19,054,732 | 12,990,715 | 5,177,081 |
| Depreciation and amortization | 24,749,523 | 18,156,004 | 8,645,169 | 6,113,379 |
| Transportation and travel | 23,036,219 | 15,833,398 | 6,303,502 | 6,036,477 |
| Repairs and maintenance | 19,943,917 | 8,194,965 | 9,981,961 | 3,076,380 |
| Entertainment, amusement and representation | 18,387,177 | 8,054,265 | 15,647,469 | 2,178,148 |
| Rent | 14,895,729 | 5,871,184 | 2,912,138 | 720,674 |
| Supplies | 6,411,368 | 4,350,595 | 1,507,331 | 1,542,150 |
| Provision for write-down | - | 3,646,000 | - | 3,646,000 |
| Subscription dues and fees | 3,800,691 | - | 816,223 | - |
| Miscellaneous | 11,389,721 | 35,906,793 | 768,659 | 12,020,550 |
| | 1,020,797,460 | 663,411,648 | 317,565,496 | 167,060,159 |

## 18. Finance Costs

This account consists of:

| | Nine Months Ended September 30 | | Three Months Ended September 30 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Unadited | Unaudited | Unadited | Unaudited |
| Borrowings | 289,820,829 | 253,410,413 | 81,881,040 | 94,746,579 |
| Accretion | 21,805,884 | 28,315,924 | 7,268,628 | 10,078,550 |
| Others | 324,653 | (46,374) | 55,281 | (69,951) |
| | 311,951,367 | 281,679,963 | 89,204,949 | 104,755,178 |

## 19. Other Income

This account consists of:

| | Nine Months Ended September 30 2014 Unadited | Nine Months Ended September 30 2013 Unaudited | Three Months Ended September 30 2014 Unadited | Three Months Ended September 30 2013 Unaudited |
|---|---|---|---|---|
| Interest Income from: | | | | |
| Installment contract receivables | 655,076,476 | 384,670,440 | 249,234,735 | 153,593,370 |
| Cash in banks and long term investments | 391,475 | 1,326,572 | 180,641 | 964,282 |
| Water income | 42,756,582 | 32,903,904 | 17,492,363 | 14,482,520 |
| Penalties | 17,681,077 | 6,251,176 | 7,661,193 | 1,457,021 |
| Rent income | 12,893,600 | 2,790,654 | 75,002 | 600,932 |
| Collection service fees | 711,702 | 1,949,409 | 163,455 | 540,797 |
| Gain (loss) on repossession | (161,747,602) | 14,763,902 | (60,958,228) | 9,277,557 |
| Loss on sale of a subsidiary | | - | - | - |
| Gain on sale of unquoted debt security classified as loans | | - | - | - |
| Miscellaneous | 24,298,117 | 23,355,824 | 9,279,804 | 10,867,759 |
| | 592,061,427 | 468,011,881 | 223,128,965 | 191,784,238 |

## 20. Related Party Transactions

This account consists of:

30-Sep-14 (Unaudited)

| Related Party | Nature of Transaction | Account | Outstanding Balance/Amount | Terms | Conditons |
|---|---|---|---|---|---|
| Stockholders | Advances | Due from related parties | - | Non-interest bearing, payable on demand | Unsecured, no impairment |
| Entities under common control | Advances | Due from related parties | 220,902,601 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| Entities under common control | Advances | Due to related parties | 9,567,220 | Non-interest bearing, payable on demand | Unsecured |

30-Sep-13 (Unaudited)

| Related Party | Nature of Transaction | Account | Outstanding Balance/Amount | Terms | Conditons |
|---|---|---|---|---|---|
| Parent Company | Advances | Due from related parties | 114,577,335 | Non-interest bearing, payable | Unsecured, no impairment |
| | Interest in borrowings | Finance Costs | 410,959 | | |
| Stockholders | Advances | Due from related parties | 59,626,814 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| Entities under common control | Advances | Due from related parties | 426,925,122 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| Entities under common control | Advances | Due to related parties | 19,336,293 | Non-interest bearing, payable on demand | Unsecured |

| Related Party | Nature of Transaction | Account | 2013 (Audited) Outstanding Balance/Amount | Terms | Conditons |
|---|---|---|---|---|---|
| Parent Company | Advances | Due from related parties | 110,582,715 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| | Advances | Due to related parties | 4,381 | Non-interest bearing, payable on demand | Unsecured |
| Stockholders | Advances | Due from related parties | 101,955,791 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| | Advances | Due to related parties | 16,800,000 | Non-interest bearing, payable on demand | Unsecured |
| Entities under common control | Advances | Due from related parties | 381,285,822 | Non-interest bearing, payable on demand | Unsecured, no impairment |
| | Advances | Due to related parties | 28,938,709 | Non-interest bearing, payable on demand | Unsecured |

| Related Party | Nature of Transaction | Account | 2012 (Audited) Outstanding Balance/Amount | Terms | Conditons |
|---|---|---|---|---|---|
| Stockholders | Advances | Due from related parties | 57,176,899 | Non-interest bearing, payable on demand | Unsecured |
| Entities under common control | Advances | Due from related parties | 147,400,252 | Non-interest bearing, payable on demand | Unsecured, no impairment |

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**Financial Highlights and Key Performance Indicators**

Table below shows comparative consolidated balance sheet financial highlights of 8990 Holdings, Inc. (the Company) for nine months ended September 30, 2014 and 2013, both unaudited.

| Consolidated Balance Sheet | As of September 30, 2014 Unaudited | As of September 30, 2013 Unaudited | Increase Amount | % |
|---|---|---|---|---|
| Total Assets | 25,248,844,069 | 15,627,434,213 | 9,621,409,856 | 61.57% |
| Current Assets | 5,446,849,650 | 4,019,644,296 | 1,427,205,354 | 35.51% |
| Trade Receivables | 13,220,610,720 | 10,339,682,609 | 2,880,928,111 | 27.86% |
| Total Liabilities | 10,558,947,197 | 9,578,331,118 | 980,616,079 | 10.24% |
| Current Liabilities | 4,170,102,975 | 5,416,265,019 | (1,246,162,044) | -23.01% |
| Loans Payable | 7,469,074,007 | 5,890,046,500 | 1,579,027,507 | 26.81% |
| Stockholder's Equity | 14,689,896,872 | 6,595,847,184 | 8,094,049,688 | 122.71% |

Table below shows comparative consolidated statement of income financial highlights of 8990 Holdings, Inc. (the Company) for nine months ended September 30, 2014 and 2013 (both unaudited).

| Consolidated Statements of Income | As of September 30, 2014 Unaudited | As of September 30, 2013 Unaudited | Increase Amount | % |
|---|---|---|---|---|
| Sales | 6,328,509,846 | 4,367,429,533 | 1,961,080,313 | 44.90% |
| Gross Profit | 3,806,365,581 | 2,721,009,140 | 1,085,356,441 | 39.89% |
| Operating Expenses | 1,020,797,460 | 663,411,648 | 357,385,812 | 53.87% |
| Net Operating Income | 2,785,568,120 | 2,057,597,492 | 727,970,628 | 35.38% |
| EBITDA | 3,402,379,070 | 2,543,765,377 | 858,613,693 | 33.75% |
| Net Income Before Tax | 3,065,678,181 | 2,243,929,410 | 821,748,771 | 36.62% |
| Net Income After Tax | 2,831,736,783 | 2,101,088,074 | 730,648,709 | 34.77% |

Tables below show quarter three 2014 key performance indicators of the Company, with relevant comparative figures.

| Key Performance Indicators | As of September 30, 2014 Unaudited | As of September 30, 2013 Unaudited | As of December 31, 2013 Audited |
|---|---|---|---|
| Current Ratio | 1.31 | 0.74 | 0.60 |
| Book Value Per Share | 2.66 | 29.73 | 1.42 |
| Debt to Equity Ratio | 0.51 | 0.89 | 1.67 |
| Asset to Equity Ratio | 1.72 | 2.37 | 2.67 |
| Asset to Debt Ratio | 2.39 | 1.63 | 1.60 |
| Interest Coverage Ratio | 11.65 | 9.97 | 7.83 |

| Key Performance Indicators | As of September 30, 2014 Unaudited | As of September 30, 2013 Unaudited |
|---|---|---|
| Gross Margin | 60.15% | 62.30% |
| EBITDA Margin | 53.76% | 58.24% |
| Net Income Margin | 44.75% | 48.11% |

**Description of Consolidated Statements of Comprehensive Income Line Items**

**Sales**

8990 Holdings, Inc.'s (the Company) sales primarily comprise revenues received from its sales of low-cost mass housing units and subdivision lots and medium-rise building housing units, as well as revenues derived from its timeshare and hotel operations.

**Cost of Sales and Services**

Cost of sales and services comprise: [1] the Company's costs of sales from its low-cost mass housing sales of housing units and subdivision lots, costs of sales from sales of medium-rise condominium units and costs of sales from sales of timeshares; and [2] the Company's costs of services from its hotel operations (including room and food and beverage sales).

**Operating Expenses**

Operating expenses generally include selling and administrative costs that are not directly attributable to the services rendered. Operating expenses of the Company comprise expenses related to marketing and selling, documentation, taxes and licenses, salaries and employment benefits, write-off of assets, provisions for impairment losses, management and professional fees, communication, light and water, provisions for probable losses, security, messengerial and janitorial services, depreciation and amortization, transportation and travel, repairs and maintenance, rent, entertainment, amusement and representation, supplies, provisions for write-down, subscription dues and fees and miscellaneous expenses (such as extraordinary documentation expenses, liquidation and donation expenses, as well as other expenses).

**Finance Costs**

Finance costs comprise costs associated with the Company's borrowings, accretion of interest, bank charges and net interest expense on its pension obligations.

**Other Income**

Other income comprises the Company's interest income from its installment contract receivables, cash in bank and long-term investments. Other income of the Company also comprises income from water supply, gain on repossession of delinquent units and associated penalties, rent income, collection service fees and other miscellaneous income (such as gain from sales cancellations, retrieval fees, association due and transfer fee). The Company also recorded other gains and losses such as a gain from the sale of unquoted debt security classified as loans, and other expenses such as a loss on the sale of a subsidiary.

**Provision for Income Tax**

Provision for income tax comprises the Company's provisions for regular and minimum corporate income taxes, final taxes to be paid as well as deferred income tax liabilities recognized.

**Results of Operations**

***Nine months ended September 30, 2014 compared to nine months ended September 30, 2013***

*Sales*

For the nine months ended September 30, 2014, the Company recorded consolidated sales of PhP6,329 million, an increase of 44.90% from consolidated sales of PhP4,367 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to increased sales in the Company's low-cost mass housing, MRB and hotel operations businesses. The Company's low-cost mass housing segment generated PhP5,511 million in revenues for the nine months ended September 30, 2014, an increase of 42.06% from the PhP3,879 million in revenues recorded for the nine months ended September 30, 2013. The sales growth was mainly due to an increase in the number of units sold during the quarter, supported by the increasing nationwide market acceptance of the Company's CTS Gold program, as well as price increases. The Company's MRB segment generated PhP652 million in revenues for the nine months ended September 30, 2014, a 63.77% increase from the PhP398 million in revenues from the MRB segment recorded for the nine months ended September 30, 2013. The increase was mainly due to higher sales during the year as the Company sold more MRB units.

*Cost of Sales and Services*

The Company's consolidated cost of sales and services for the nine months ended September 30, 2014 was PhP2,522 million, an increase of 53.19% from consolidated cost of sales and services of PhP1,646 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to increases in costs of sales in the Company's low-cost mass housing and MRB segments, consistent with the sales growth of these segments. The Company's low-cost mass housing segment recorded PhP2,264 million in costs of sales for the nine months ended September 30, 2014, an increase of 54.23% from the PhP1,468 million in costs of sales recorded for the nine months ended September 30, 2013. The increase was mainly due to an increase in sales of housing units and subdivision lots. The Company's MRB segment recorded PhP218 million in costs of sales for the nine months ended September 30, 2014, an increase from the PhP77 million in costs of sales from the MRB segment recorded for the nine months ended September 30, 2013. This growth was generally consistent with the higher number of MRB condominium units completed by the Company during the year.

*Gross Income*

The Company's consolidated gross income for the nine months ended September 30, 2014 was PhP3,806 million, an increase of 53.19% from consolidated gross income of PhP2,721 million recorded for the nine months ended September 30, 2013. The Company's gross income margin for the nine months ended September 30, 2014 was 60.15%, compared to a gross income margin of 62.30% recorded for the nine months ended September 30, 2013. The Company attributes its strong and maintained gross income margin to its sound internal financial planning policies with respect to land banking activities and project budgeting process.

*Operating Expenses*

For the nine months ended September 30, 2014, the Company recorded consolidated operating expenses of PhP1,021 million, an increase of 53.87% from consolidated operating expenses of PhP663 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to increases in marketing and selling expenses, documentation and management and professional fees.

> *Marketing and selling expenses*. The Company's consolidated marketing and selling expenses were PhP419 million for the nine months ended September 30, 2014, an increase of 88.37% from the PhP223 million recorded for the nine months ended September 30, 2013. The increase was mainly due to sales commissions paid to the Company's agents and unit managers, as well as increased media advertisements and expenses related to marketing efforts in shopping malls.
>
> *Taxes and Licenses*. The Company's consolidated expenses related to taxes and licenses were PhP76 million for the nine months ended September 30, 2014, an 33.73% increase from the PhP57 million consolidated taxes and licenses expenses recorded for the nine months ended September 30, 2013. The increase was mainly due to increased cost brought about by securing permits and licenses for the companies' new projects.
>
> *Management and Professional Fees*. The Company's management and professional fees were PhP27 million in the nine months ended September 30, 2014, compared to management and professional fees of PhP12 million in the nine months ended September 30, 2013. The increase was mainly due to acquired services of BPO International, Inc. to perform bookkeeping activities for the Company.

*Net Operating Income*

The Company's consolidated net operating income for the nine months ended September 30, 2014 was PhP2,786 million, an increase of 35.38% from consolidated net operating income of PhP2,058 million recorded for the nine months ended September 30, 2013. The Company's consolidated net operating margin was 44.02%, compared to a consolidated net operating margin of 47.11% for the nine months ended September 30, 2013.

*Finance Costs*

The Company's consolidated finance costs for the nine months ended September 30, 2014 were PhP312 million, an increase of 10.75% from consolidated finance costs of PhP282 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to interest expense resulting from the Company's increased short-term and long-term loans entered into during the year to support its operations.

*Other Income*

For the nine months ended September 30, 2014, the Company recorded consolidated other income of PhP592 million, an increase of 26.51% from the consolidated other income of PhP468 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to interest income on the Company's higher level of installment contract receivables under its CTS Gold program during the year, consistent with its higher sales volumes.

*Income before Income Tax*

The Company's consolidated income before income tax for the nine months ended September 30, 2014 was PhP3,066 million, an increase of 36.62% from consolidated income before income tax of PhP2,244 million recorded for the nine months ended September 30, 2013.

*Provision for Income Tax*

The Company's consolidated provision for income tax for the nine months ended September 30, 2014 was PhP234 million, an increase from consolidated provision for income tax of PhP143 million recorded for the nine months ended September 30, 2013. The increase was mainly attributable to the Company's increased other income which are subject to income tax.

*Net Income*

As a result of the foregoing, the Company's consolidated net income for the nine months ended September 30, 2014 was PhP2,832 million, an increase of 34.77% from consolidated net income of PhP2,101 million recorded for the nine months ended September 30, 2013. The Company's consolidated net income margin for the nine months ended September 30, 2014 was 44.75%, compared to a consolidated net income margin of 48.11% for the nine months ended September 30, 2013.

**Financial Position**

***As at September 30, 2014 compared to as at September 30, 2013***

***Assets***

*Cash on Hand and in Banks*

The Company's consolidated cash on hand and in banks were PhP374 million as at September 30, 2014, an increase of 30.86% from consolidated cash on hand and in banks of PhP286 million as at September 30, 2013.

*Current portion of trade and other receivables*

The Company's consolidated current portion of trade and other receivables were PhP1,075 million as at September 30, 2014, an increase from consolidated current portion of trade and other receivables of PhP866 million as at September 30, 2013.

*Inventories*

The Company's consolidated inventories were PhP2,648 million as at September 30, 2014, an increase from consolidated inventories of PhP2,081 million as at September 30, 2013.

*Due from related parties*

The Company's consolidated due from related parties were PhP221 million as at September 30, 2014, a decrease of 63.25% from consolidated due from related parties of PhP601 million as at September 30, 2013.

*Other current assets*

The Company's consolidated other current assets were PhP1,130 million as at September 30, 2014, a significant increase from consolidated other current assets of PhP136 million as at September 30, 2013, primarily due to increased advances to contractors in relation to construction on the Company's development projects.

*Trade and other receivables – net of current portion*

The Company's consolidated trade and other receivables-net of current portion were PhP12,146 million as at September 30, 2014, an increase of 59.75% from consolidated trade and other receivables - net of current portion of PhP7,603 million as at September 30, 2013. This increase was due mainly to higher receivables under the Company's CTS Gold program, in line with its higher sales.

*Land held for future development*

The Company's consolidated land held for future development was PhP4,818 million as at September 30, 2014, an increase of 33.62% from consolidated land held for future development of PhP3,606 million as at September 30, 2013, as the Company acquired certain real properties as part of its land banking.

*Property and equipment*

The Company's consolidated property and equipment was PhP230 million as at September 30, 2014, an increase of 52.19% from consolidated property and equipment of PhP151 million as at September 30, 2013.

*Investment properties*

The Company's consolidated investment properties were PhP138 million as at September 30, 2014, a decrease of 1.75% from consolidated investment properties of PhP141 million as at September 30, 2013.

*Investment in shares*

The Company's consolidated investment properties were PhP2,379 million as at September 30, 2014. This is attributed to 100% shares purchase of two companies of the Company's subsidiary 8990 Housing Development Corporation.

*Other noncurrent assets*

The Company's other noncurrent assets were PhP90 million as at September 30, 2014, a decrease of 15.26% from other noncurrent assets of PhP107 million as at September 30, 2013.

***Liabilities***

*Current portion of trade and other payables*

The Company's consolidated current portion of trade and other payables were PhP1,935 million as at September 30, 2014, a decrease of 36.21% from consolidated current portion of trade and other payables of PhP3,033 million as at September 30, 2013.

*Current portion of loans payable*

The Company's consolidated current portion of loans payable were PhP1,769 million as at September 30, 2014, a decrease of 17.94% from consolidated current portion of loans payable of PhP2,156 million as at September 30, 2013. The decrease was due to payment of loans with the use of proceeds from the follow on offering in May 2014.

*Deposits from customers*

The Company's consolidated deposits from customers were PhP210 million as at September 30, 2014, an increase of 34.94% from consolidated deposits from customers of PhP156 million as at September 30, 2013.

*Due to related parties*

The Company's consolidated due to related parties were PhP10 million as at September 30, 2014, a decrease from consolidated due to related parties of PhP19 million as at September 30, 2013.

*Income tax payable*

The Company's consolidated income tax payable was PhP247 million as at September 30, 2014, an increase from consolidated income tax payable of PhP52 million as at September 30, 2013.

*Trade and other payables - net of current portion*

The Company's consolidated trade and other payables - net of current portion were PhP435 million as at September 30, 2014, an increase from consolidated trade and other payables - net of current portion of PhP308 million as at September 30, 2013.

*Loans payable - net of current portion*

The Company's consolidated loans payable - net of current portion was PhP5,700 million as at September 30, 2014, an 52.65% increase from consolidated loans payable - net of current portion of PhP3,734 million as at September 30, 2013. The Company entered into additional loan transactions during the quarter to fund purchase of land for future development.

*Deferred tax liability*

The Company's consolidated deferred tax liability was PhP254 million as at September 30, 2014, an increase from consolidated deferred tax liability of PhP121 million as at September 30, 2013. This deferred tax liability was attributable to provision for income tax resulting from the delay in the income tax holiday accreditation for certain Company projects. Accreditation for these projects has since been obtained.

**Liquidity and Capital Resources**

The Company mainly relies on the following sources of liquidity: [1] cash flow from operations, [2] cash generated from the sale or transfer of receivables to private financial institutions such as banks or to government housing related institutions such as the Home Development Mutual Fund ("PAG-IBIG"), and [3] financing lines provided by banks. The Company knows of no demands, commitments, events, or uncertainties that are reasonably likely to result in a material increase or decrease in liquidity. The Company is current on all of its loan accounts, and has not had any issues with banks to date. The Company does not anticipate having any cash flow or liquidity problems over the next twelve (12) months. The Company is not in breach or default on any loan or other form of indebtedness.

The Company expects to meet its operating assets and liabilities, capital expenditure, dividend payment and investment requirements for the next twelve (12) months primarily from its operating cash flows, borrowings and proceeds of the shares issuance. It may also from time to time seek other sources of funding, which may include debt or equity financings, depending on its financing needs and market conditions.

**Cash Flows**

***Cash flow used in operating activities***

The Company's consolidated net cash used in operating activities is primarily affected by the revenues generated from its operations, primarily the sale of residential housing units, subdivision lots and MRB condominium units. The Company's consolidated net cash used in operating activities were PhP1,972 million and PhP560 million for the periods ended September 30, 2014 and September 30, 2013, respectively.

***Cash flows used in investing activities***

Consolidated net cash flow used in investing activities for the periods ended September 30, 2014 and September 30, 2013 were PhP3,455 million and PhP1,159 million, respectively.

For the nine months ended September 30, 2014, consolidated net cash flow used in investing activities reflected acquisitions of land for future development, investment in shares, as well as purchases of property and equipment.

***Cash flow provided by financing activities***

Consolidated net cash flow provided by financing activities for the periods ended September 30, 2014 and September 30, 2013 were PhP5,552 million and PhP1,824 million, respectively. Majority of the funds were from the issuance of shares by the Company in May 2014.

## PART II--OTHER INFORMATION

**On Timeshare Business**

On August 1, 2014, the Company ceased timeshare selling as the property related to the timeshare business has been sold to Azalea Leisure and Resorts Corporation.

**SIGNATURES**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: 8990 Holdings, Inc. (formerly IP Converge Data Center, Inc.)

By:

**RICHARD L. HAOSEN**
Chief Finance Officer

Date: October 29, 2014