



Eton Properties Philippines, Inc.



**FIVE**  
YEARS OF INNOVATION

# ANNUAL REPORT 2011

## MISSION

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

## VISION

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

## VALUES

Integrity  
Innovation  
Passion for excellence  
Customer Focus  
Teamwork

## Statements of Income

(In Million Pesos)	2011	2010
Revenue	5,191.65	4,450.08
Cost and Expenses	4,510.68	3,732.19
Other Income	170.87	251.87
Income Before Income Tax	851.84	969.76
Provision For (Benefit From Income Tax)	118.55	238.15
<b>Net Income</b>	<b>733.29</b>	<b>731.61</b>

## Statements of Financial Position

(In Million Pesos)	As of December 31, 2011	As of December 31, 2010
Current Assets	6,892.89	6,513.10
Non-Current Assets	8,422.01	5,690.76
<b>Total Assets</b>	<b>15,314.90</b>	<b>12,203.86</b>
Current Liabilities	7,766.62	5,145.82
Non-Current Liabilities	1,420.00	1,709.89
Total Liabilities	9,186.62	6,855.71
Equity	6,128.28	5,348.15
<b>Total Liabilities and Equity</b>	<b>15,314.90</b>	<b>12,203.86</b>

# Chairman's Message

To my fellow Shareholders,

Let me start by thanking you for your support for Eton Properties Philippines. Now on its 5th year, Eton has achieved so many milestones. Our innovative thrust has served us well in the past five years. We introduced unique, trailblazing projects that offer residents a well rounded lifestyle – homes that are not only well-located, but also have excellent features and amenities. In so short a time, Eton grew into a full range property developer with a wide property portfolio ranging from residential, commercial and office projects to township developments.

In order to serve other segments of the residential market, we introduced our two other distinct brands - Belton Communities and First Homes. Through our Belton Communities brand, we launched several projects that cater to the fast growing mid-market segment. First Homes, on the other hand, cater to the broad affordable market with projects featuring unique compact homes located in the country's major cities.

Our leasing business also grew rapidly in the past five years due to the Philippines' emergence as the world's top outsourcing destination. Eton is building more office spaces to serve the specific needs of the BPO industry. Eton Cyberpod Corinthian and One Cyberpod Centris, our first BPO offices, are now fully-leased to top corporations and Fortune 500 companies. To date, the company has leased more than 60,000 square meters of office space. This year, we expect to bring to the market an additional 64,000 square meters of office space. The company also ventured into the commercial centers business with developments like Centris Walk and Centris Station.

We went through 2011 with successful project launches and the full blast construction of our various projects. Amidst the uncertainties posted by global economic difficulties, the past year saw encouraging results for the property industry. Increased consumer spending sustained by OFW remittances from across the globe and low interest rates fueled strong real estate growth.

This resulted to another record year for Eton in 2011. Your Company's consolidated revenues reached P5.2 billion, compared to the previous year's P4.5 billion, a result of strong property sales, increased leasing income and the substantial construction of our various projects.

Moving forward, we see 2012 as another good year for the industry. Despite concerns over global economic woes, there is reason to be optimistic in the continued growth of the Philippine economy. Sustained by remittances from OFWs, the expanding BPO sector and the growing tourism business, the prospects for the industry are brighter than ever. We do anticipate heightened competition as a challenge we will strive to overcome.

I would like to extend my heartfelt thanks to the Board of Directors for their unwavering support and guidance and the management and staff for their perseverance and hard work. I also thank our shareholders and customers for their continued trust in Eton. You provide the inspiration for every milestone and solid step we take to bring Eton Properties to new heights in property development.

Mabuhay!



Dr. Lucio C. Tan  
*Chairman*





# Management's Report

Dear Shareholders:

I am happy to report that in its first five years, your Company has gone a long way in making its mark in the highly competitive property industry.

## FIVE YEARS OF INNOVATION

Our commitment to innovation inspired us to offer ground-breaking developments showcased in Eton City, Eton Centris, 68 Roces, Eton Tower Makati and in our other distinctive projects. From the 10 projects we launched on our first year, Eton Properties Philippines now has 43 projects encompassing residential, township, commercial and office developments.

In the early part of 2012, your Company completed and turned over 1,300 residential units in its two high rise condominiums Belton Place and two-tower One Archers Place. Belton Place is a 39-storey prime residential condominium strategically located just steps from Makati's two main thoroughfares of Ayala and Gil Puyat avenues. One Archers Place is a twin-tower 31-storey residential condominium located beside De La Salle University along Taft Avenue in Manila.

Three more remarkable high rise projects are scheduled for completion this year. We will turn over 305 units from The Eton Residences Greenbelt and 229 units from the Eton Parkview Greenbelt, our first high rise projects within the Makati Central Business District, as well as 480 units from the Eton Emerald Lofts. The Eton Residences Greenbelt is a 38-storey luxury residential condominium right in front of the Greenbelt complex. Eton Parkview Greenbelt is also located just steps away from the Greenbelt complex, offering refreshing views of the Washington Sycip and Legaspi Parks. Eton Emerald Lofts is a prime address at the heart of Ortigas Center consisting of loft-style homes that has easy access to a number of the country's famous shopping centers.

Construction in our two townships, Eton City and Eton Centris, is in full swing. Eton City, our flagship multi-billion peso project occupying 1,000 hectares of prime land takes inspiration from world-class waterfront cities only found abroad. It is home to South Lake Village, the country's first residential island lot development and other unique residential communities. The 35-hectare man-made lake at South Lake Village will be fully completed by mid 2012. Turnover of the island lots are currently ongoing. A number of buyers have already started construction of their dream homes. The Eton City master plan will also include a world class business district and dynamic leisure destinations.

Eton Centris, the gateway to the emerging 250-hectare Triangle Park Central Business District in Quezon City,

is a very promising development north of Manila. The 12-hectare mixed-use township project will offer a complete living experience - integrating business, residential, retail and recreational components in once choice setting. Two Cyberpod Centris, our second BPO building in Eton Centris will be operational by the fourth quarter of this year. Our 3rd and 4th BPO office buildings in Eton Centris called the Centris Cyberpod Exchange will be completed by 2013.

The introduction of our two other brands, Belton Communities and First Homes, generated strong interest from the mid-market and broad affordable segments of the residential market. Through these brands, we have extended our offerings further into Metro Manila in Quezon City with our well received projects North Belton Communities, West Wing Tropics, Aurora Heights Residences and in Makati with First Homes Makati.

Eton's inspiring leadership in the property industry reaped recognition from BCI Asia – a leading international award giving body. Your Company was cited as one of the country's top 10 property developers in 2011 and 2012, the youngest company to be given the award.

#### THE YEAR IN REVIEW

In 2011, the Philippine economy performed well, supported by the healthy growth in OFW remittances and revenues generated by the BPO sector. Low interest rates helped make housing affordable for most Filipinos. These factors helped build momentum for our business.

Eton's total revenues reached P5.2 billion, driven by strong residential sales, lease income from our BPO office and commercial properties and the substantial construction of our residential projects The Eton Residences Greenbelt, Eton Parkview Greenbelt, Eton Emerald Lofts, Belton Place, the second tower of One Archers Place, South Lake Village at Eton City and The Manors at North Belton Communities. We posted a net income of P733 million from the previous year's P732 million. Total assets grew to P15.3 billion, up 25% from the previous year's P12.2 billion.

During the year we completed Green Podium, the retail component of One Archers Place.

Five new projects were also introduced. We launched two projects in Eton City - TierraBela, an 18-hectare residential development and Village Walk, a modern commercial district. We likewise launched One Centris Place, a 26-storey condominium in Eton Centris, West Wing Tropics, a tropical inspired community in Quezon City under Belton Communities and Katrina Manor, the 10th mid-rise building in North Belton Communities in Quezon City.

Your Company also continued the full blast construction of its residential, commercial and office projects that are undergoing various stages of construction.

Moreover, Eton strengthened its business processes with the ongoing configuration and testing of its newly acquired Enterprise Resource Planning (ERP) software. The new system, considered as top-of-the-line, aims to streamline the company's operations through technological improvements in processes and turnaround time. Now nearing completion of its first phase, the earlier challenge of data migration has been largely resolved.

#### OUTLOOK FOR 2012

We are very optimistic about the Philippines' strong economic fundamentals. Our main drivers continue to be the strong flow of remittances from OFWs and the fast rising demand in BPO office spaces from outsourcing companies abroad. Being a part of the Lucio Tan Group of Companies, Eton has access to the group's huge land bank, an advantage in launching new projects. Given this optimistic outlook, Eton is in the middle of several concept studies for new projects in Makati and Quezon City. Eton will continue to introduce innovative projects – homes that help uplift the quality of life of more and more households across the country and integrated communities that exemplify the work-live-play concept.

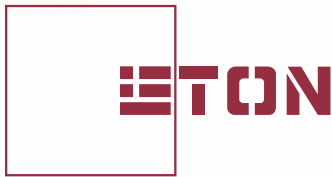
On this note, I wish to extend my gratitude to our Board of Directors for their continued guidance and good counsel, our shareholders for their trust, our management and staff for their dedication and our sister companies for all the help they have extended to us in our first five years.



Michael G. Tan  
*Officer In Charge*



# About Eton Properties Philippines, Inc.



Since its founding in the Philippines in 2007, Eton Properties has built its way to becoming one of the country's most respected property developers known for introducing innovative projects.

Eton Properties has completed remarkable high-rise projects like Eton Baypark Manila, One Archers Place, The Eton Residences Greenbelt, Eton Parkview Greenbelt, Eton Emerald Lofts, and Belton Place; commercial centers like Centris Walk and Centris Station and BPO office buildings One Cyberpod Centris, Two Cyberpod Centris and Eton Cyberpod Corinthian.

Eton Properties Philippines, Inc. (EPPI) partners with local and international design and architectural firms to further ensure quality as well as functionality in all of these projects. For one, EPPI's flagship development Eton City, is master planned by no less than one of the world's top design firms, US based RTKL Associates.

EPPI's recent awards are the 2012 and 2011 Top 10 Developer Award in the Philippines by BCI Asia, Inc.

The company is strengthening its leadership in the industry with the completion of the projects in the pipeline that are undergoing various stages of construction. Eton Properties is committed to building more quality projects in strategic locations in the Philippines with the same dedication to quality, attention to detail and fine craftsmanship.







South Lake Village  
at Eton City



Centris Walk  
at Eton Centris





## Township Communities



Eton City, a 1,000 hectare carefully master planned township development, is Eton Properties' flagship project. Conveniently located along the South Luzon Expressway in Sta. Rosa, Laguna, Eton City enjoys an advantageous location providing residents easy access to the business districts of Alabang, Makati and Taguig.

Eton City will offer unique residential enclaves catering to various markets, vibrant commercial centers and a world-class business district.



### *South Lake Village* AT ETON CITY

At the heart of Eton City is South Lake Village, a first-of-its-kind residential development in the Philippines inspired by world-class waterfront cities only found abroad. It is the country's first and only high-end community of 16 exclusive islands situated in a 35-hectare man-made lake.



Eton City's second residential project, RiverBend, is an exclusive enclave inspired by modern contemporary architecture. Notable are its world-class community features such as underground utilities, from electricity to Fiber to the Home telephone and internet facilities. Lifestyle amenities within the enclave include landscaped parks and tree-lined roads, a village clubhouse, playgrounds, adult and kiddie pools, a basketball court, and a future service oriented commercial strip.





### WEST WING RESIDENCES AT ETON CITY

West Wing Residences, the third community to rise within Eton City, features modern contemporary-inspired homes. Its expansive one-hectare amenity area will include a village clubhouse, swimming pool, basketball court, children's playground and an extensive outdoor field for sports activities.



Eton City's fourth and newest residential community, TierraBela, offers residents a chance to live in harmony with nature with a large portion of its land devoted to greens and

open spaces. TierraBela is a sprawling 18-hectare residential development offering lot sizes averaging 250 square meters.

Inside its very own charming community filled with open spaces are modern conveniences and amenities from clear skylines with underground utilities (power, internet, cable TV and telephone lines) and centralized water system to a clubhouse, adult and kiddie swimming pool, basketball court, open parks, fitness trail and children's playground.



Another distinct component of Eton City is Village Walk, a modern commercial district adjacent to South Lake Village. It offers commercial lots that will soon house a unique mix of shops that will address the diverse needs of residents within the community.

Eton City is envisioned to be a complete, self-sustaining community, providing all the necessities for a well-rounded, privileged lifestyle.





Situated at the gateway of Quezon City's emerging Triangle Park Central Business District, Eton Centris is a 12-hectare mixed-use township development seen to boost progress in the North.

Eton Centris will be a complete development integrating business, residential and recreational components in one choice setting. The project supports the QC Government's vision to develop the 250-hectare Triangle Park CBD, soon to be Manila's largest CBD, as a globally-competitive business district.

Eton Centris currently houses 2 commercial centers, 2 BPO office buildings, 2 ongoing BPO office projects and an events venue.

Within Eton Centris is One Cyberpod Centris, Eton Properties' first office building development in the township designed to cater to the unique office space requirements of Business Process Outsourcing (BPO) and

Information Technology firms. One Cyberpod Centris and Two Cyberpod Centris house a number of the country's top corporations and multinational companies. The unprecedented growth of the outsourcing industry gave way to the construction of two more office buildings called the Centris Cyberpod Exchange.

Eton Centris boasts of 600 meters of frontage along EDSA. Situated at the corner of two major arteries connecting the metropolis - EDSA and Quezon Avenue, it is envisioned to be the preferred convergence point in Quezon City.



Centris Walk, an open air commercial strip, is Quezon City's newest dining, lifestyle and entertainment hub. It caters to Metro Manila's food enthusiasts with its unique mix of restaurants.



Centris Station is a two-level commercial center with a direct link to the Quezon Avenue MRT station. It is anchored by SM Hypermarket and hosts an interesting mix of specialty food outlets, specialty stores and service-oriented shops.



Elements at Centris is an events venue that caters to private as well as corporate events, business functions, concerts, shows, among others. Each of its two air-conditioned halls can accommodate 350 guests. Soon to be launched are two additional halls that will cater to smaller events like seminars and business meetings.



One Centris Place, the newest addition to Eton Centris and the first residential project in the township, is a high-rise condominium master planned for two towers. The condominium's ground floor will house commercial establishments. With top notch amenities such as an adult lap pool and kiddie pool, a well-equipped fitness gym, children's play area and open green spaces, residents are never wanting of leisure activities to do.

Convenience is one of the key benefits of living at One Centris Place. A few minutes' walk will lead residents to the MRT through Centris Station, providing residents quick and easy access to various destinations. Residents and visitors of every interest and fancy may plan their day around the many dining and leisure destinations in Eton Centris' lifestyle strip, Centris Walk.



# Residential Projects

Embodying the ideal home for an active city lifestyle, Eton Properties' residential condominiums are strategically located within the country's major cities. Carefully thought out details and exciting amenities offer a comfortable and luxurious haven for the modern homeowner.



**THE ETON RESIDENCES**  
GREENBELT

Makati



**ETON PARKVIEW**  
GREENBELT

Makati



**BELTON PLACE**  
MAKATI

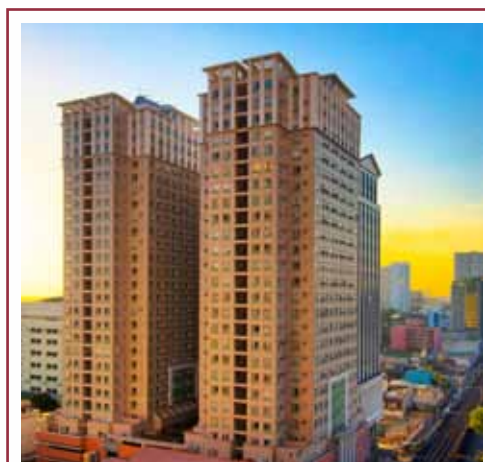


**ETON EMERALD LOFTS**

Ortigas

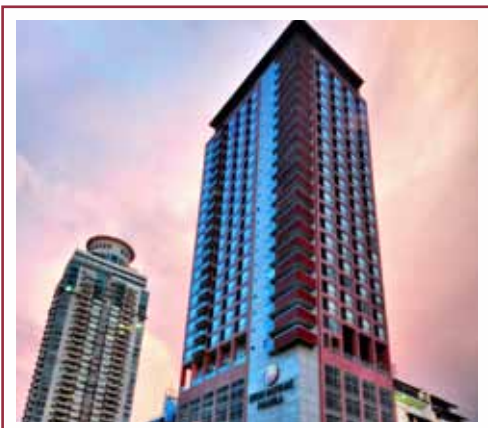


one *Archers*  
PLACE  
MANILA





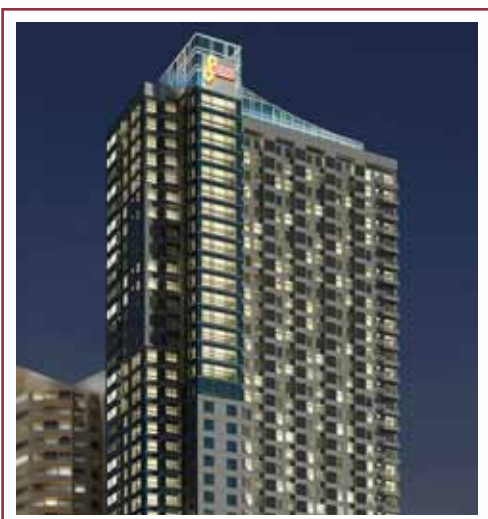
ETON BAYPARK MANILA



Quezon City



Manila



ROCES  
Quezon City



ETON TOWER  
MAKATI





## Commercial Centers



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

Providing convenience and accessibility, Eton Properties' commercial centers are vibrant transit-oriented projects located within its township developments, offering a fully-integrated lifestyle for residents, tenants and visitors.



Centris Station – a transit-oriented commercial center in Eton Centris anchored by SM Hypermarket and a host of specialty stores and service-oriented shops. The two-level mall has direct access to the Quezon Avenue MRT Station.



E-Life – a retail hub that is part of Eton Cyberpod Corinthian, a Business Process Outsourcing (BPO) campus in Ortigas Center, featuring an interesting mix of fastfood chains, service-oriented shops and specialty stores.



Green Podium – a two-level commercial center located at One Archers Place, Eton's two-tower high-rise condominium project situated beside De La Salle University.





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

Eton Properties' BPO offices cater to the specific needs of outsourcing companies. Designed to support extensive IT-based operations, all of Eton's BPO offices are granted special economic zone status by the Philippine Economic Zone Authority (PEZA). Strategically-located and transit-oriented, these office buildings are anchored by retail stores to complement the 24/7 operations of the outsourcing trade.

Eton Cyberpod Corinthian – a 3-building development situated at the corner of EDSA and Ortigas Avenue, provides immediate access to various public transports.







A fully-owned subsidiary catering to the mid-market segment, Belton Communities Inc. offers well-located communities with excellent features and amenities.

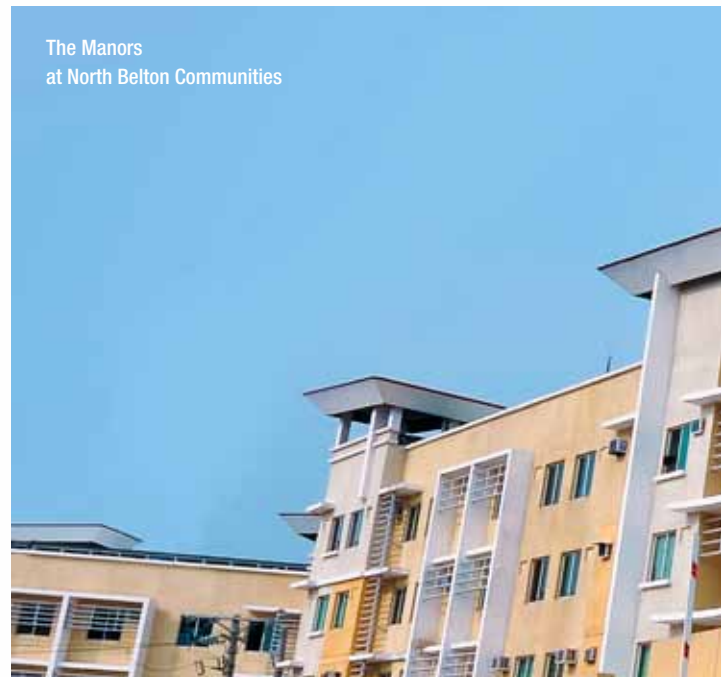
Its first project, North Belton Communities (NBC), is a 10.8 hectare development consisting of three residential enclaves: The Manors, West Wing Residences and West Wing Villas. In front of the community will rise a commercial center managed by SM. It is 10 minutes away from lifestyle destinations such as Eton Centris, SM North EDSA and Trinoma. Schools such as UP Diliman, Miriam College, Ateneo de Manila University and St. James College are also nearby. NBC is accessible through main thoroughfares such as EDSA, NLEX, Quirino Highway, Tandang Sora and Congressional Road.



## *The Manors*

AT NORTH BELTON COMMUNITIES

The Manors features 14 clusters of 5-storey mid-rise condominiums offering studio, 2 & 3 bedroom units in a 3.3 hectare property. The first 6 clusters are already completed and 4 clusters are under construction.



The Manors  
at North Belton Communities



## WEST WING

RESIDENCES  
AT NORTH BELTON COMMUNITIES

West Wing Residences is a 2.2 hectare development featuring 2 & 3 bedroom house units inspired by contemporary American architecture. There are 120 prime residential units in the community, ranging from 60 square meters to 96 square meters in size.



## WEST WING

VILLAS

Occupying 5.2 hectares of prime land, West Wing Villas offers 3 to 6 bedroom house and lot units with larger lot cuts designed to accommodate bigger families.



**WEST WING**  
RESIDENCES  
AT ETON CITY

West Wing Residences at Eton City, the second project of Belton Communities, is a 20-hectare development featuring 2 & 3 bedroom units. Apart from its modern inspired homes, the project boasts of its one-hectare amenity area that will include an eco-park and open field, a village clubhouse, landscaped gardens, children's playground, a barbeque area, swimming pool and multi-purpose court.



**WEST WING**  
TROPICS

Belton Communities' newest offering, West Wing Tropics, is an 8.6 hectare subdivision nestled in one of the last remaining prime properties of Quezon City. It offers 2 to 3-bedroom house models, with expansive amenities and features suited for growing families. Situated very near schools, supermarkets, hospitals, lifestyle centers and work places, West Wing Tropics offers families a life of convenience within a nurturing family-friendly community. The project is just 5 minutes away from SM City Novaliches.





First Homes aims to serve the broad affordable market segment specifically first time home buyers who want to own a home inside the city.

First Homes offer affordable and fully-furnished compact homes with amenities to support its residents' active lifestyle. Amenities include a large clubhouse with receiving areas for guests, an adult and kiddie pool, landscaped gardens and a set of retail outlets at the ground floor.





# Aurora Heights

## RESIDENCES

Loyola Heights, Quezon City

Aurora Heights Residences, is a transit-oriented 21-storey residential condominium, located at Villa Aurora Road, Quezon City, near schools, hospitals and malls. The project is just 5 minutes away from the LRT Katipunan station.



# First Homes

## MAKATI

Master planned for two towers, First Homes Makati is located just a few steps away from Ayala Avenue at the corner of Chino Roces Avenue and Malugay Streets.



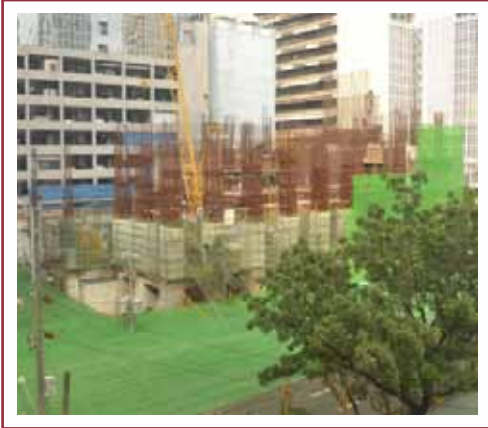


# Construction Updates



**ETON TOWER**  
MAKATI

*Turnover date:*  
Starts October 2014



*Turnover date:*  
Starts September 2014



**WEST WING**  
RESIDENCES  
AT NORTH BELTON COMMUNITIES

*Turnover date:*  
Started May 2012



*The Manors*  
AT NORTH BELTON COMMUNITIES

*Turnover date:*  
Started November 2009



Julia Manor



**ROCES**

*Turnover date:*  
Started May 2012





- A sprawling 18-hectare residential development within Eton City
- Only a half hour drive from the business districts of Alabang, Makati and Taguig
- Features include underground utilities (power, internet, cable TV and telephone lines) and centralized water system to a clubhouse, adult and kiddie swimming pool, basketball court, fitness trail, a river park and children's playground.



- Puts residents right in the middle of one of the most exciting townships in Quezon City, Eton Centris.
- Master planned for two towers, the project will be a showcase of modern architecture.
- The condominium's ground floor will house commercial establishments. With top notch amenities such as an adult lap pool and kiddie pool, a well-equipped fitness gym, children's play area and open green spaces, residents are never wanting of leisure activities to do.



- An 8.6 hectare subdivision nestled in one of the last remaining prime properties in Quezon City. It offers 2 and 3 bedroom house models nestled within lush greenery and inspiring outdoors.
- Strategically located 5 minutes away from SM Novaliches and just a short hop to the best of Quezon City.
- The project's expansive amenities include a tropics-inspired landscaped entrance, a modern clubhouse, multi-purpose court for basketball, volleyball and badminton, swimming pool and kids' playground, pocket gardens, linear parks and 24-hour security.



# Board of Directors

Domingo T. Chua



Wilson T. Young



Reynaldo A. Maclang



Lucio K. Tan, Jr.



Harry C. Tan



Dr. Lucio C. Tan

*Chairman*

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

Harry C. Tan

*Vice Chairman*

Vice Chairman of Tanduary Holdings, Inc., Eton City, Inc., Belton Communities, Inc., FirstHomes, Inc., Pan Asia Securities, Inc., and Lucky Travel Corp.; Vice Chairman/Treasurer of Philippine Airlines, Inc.; Managing Director of The Charter House, Inc.; Director/Chairman for Tobacco Board of Fortune Tobacco Corp.; Director/President of Century Park Hotel and Landcom Realty Corp.; Director of Allied Banking Corp., Asia Brewery Inc., Basic Holdings Corp., PAL Holdings, Inc., Foremost Farms, Inc., Himmel Industries, Inc., Asian Alcohol Corp., Absolut Distillers, Inc., Progressive Farms, Inc., Manufacturing Services & Trade Corp., PMFTC Inc., REM Development Corp., Grandspan Development Corp., Dominion Realty & Construction Corp., Fortune Tobacco International Corp., Shareholdings, Inc., Sipalay Trading Corp., Tanduary Brands International, Inc. and Tanduary Distillers, Inc.

Danilo E. Ignacio

*Director & President / 21 February 2007 to 19 March 2012*

Former Director and President of Belton Communities, Inc., Eton City, Inc., and FirstHomes, Inc.

Juanita T. Tan Lee

*Director & Treasurer*

Director/ Corporate Secretary of Asia Brewery, Inc., Fortune Tobacco Corp., Dominion Realty and Construction Corp., and Shareholdings, Inc.; Corporate Secretary of Asian Alcohol Corp., Absolut Distillers, Inc., The Charter House, Inc., Far East Molasses Corp., Foremost Farms, Inc., Fortune Tobacco Int'l Corp., Grandspan Development Corp., Himmel Industries, Inc., Landcom Realty Corp., Lucky Travel Corp., Manufacturing Services & Trade Corp.,



Danilo E. Ignacio

Michael G. Tan

Juanita T. Tan Lee

Wilfrido E. Sanchez

Antonino L. Alindogan, Jr.

Ma. Cecilia L. Pesayco



Marcuenco Realty & Development Corp., PMFTC Inc., Progressive Farms, Inc., REM Development Corp., Tanduary Distillers, Inc., Tanduary Brands International Inc., Tobacco Recyclers Corp., Total Bulk Corp., Zebra Holdings, Inc.; Assistant Corporate Secretary of Basic Holdings Corp. and Tanduary Holdings, Inc.

Lucio K. Tan, Jr.

*Director*

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

Michael G. Tan

*Director*

*Appointed Officer-in-Charge on 19 March 2012*

Director/President of Tanduary Holdings, Inc.; Director/Chief Operating Officer of Asia Brewery, Inc.; Director of Allied Banking Corporation, AlliedBankers Insurance Corp., PMFTC Inc., Grandway Construct, Inc., Lucky Travel Corp., Philippine Airlines, Inc., Philippine Airlines Foundation, Inc., PAL Holdings, Inc., Tanduary Brands International, Inc., Absolut Distillers, Inc., Eton City, Inc., Victorias Milling Company, Inc., and Shareholdings, Inc.; Director and Treasurer of Air Philippines

Domingo T. Chua

*Director*

Chairman of Allied Banking Corp., and PNB Securities, Inc.; Vice Chairman of PNB General Insurers Co., Inc.; Managing Director/Treasurer of Himmel Industries, Inc.; Director/Treasurer of Dominion Realty & Construction Corp., Asia Brewery, Inc., Manufacturing Services & Trade Corp., Grandspan Development Corp., Foremost Farms, Inc., The Charter House, Inc., Progressive Farms, Inc., Fortune Tobacco Corp., Fortune Tobacco International Corp., Lucky Travel Corp., Tanduary Holdings, Inc., Tanduary Distillers, Inc., Tanduary Brands International, Inc., Absolut Distillers, Inc., Asian Alcohol Corp., Eton City, Inc., and Belton Communities, Inc.; Director of Pan Asia Securities Corp., Allied Commercial Bank, Allied Bankers Insurance Corp., Maranaw Hotels & Resort Corp., Eurotiles Industrial Corp., and PNB Life Insurance Inc.;

Former Chairman of Air Philippines Corporation; Former Director of Philippine National Bank and PAL Holdings, Inc.

Reynaldo A. Maclang

*Director*

Director of Allied Banking Corp., Allied Savings Bank, and Allied Leasing and Finance Corp.

Wilson T. Young

*Director*

Managing Director/Deputy CEO of Tanduary Holdings, Inc. and Tanduary Brands International, Inc.; Chief Operating Officer of Tanduary Distillers, Inc.; Chief Operating Officer of Asian Alcohol Corp., Absolut Distillers, Inc., and Total Bulk Corp.; Director of Flor De Caña Shipping, Inc.; Chairman of Victorias Milling Co., Inc.; Vice Chairman of the Board of Trustees of UERM Medical Center and Board of Trustees Member of the University of the East; Former Director of PAL Holdings, Inc.

Antonino L. Alindogan, Jr.

*Independent Director*

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

Wilfrido E. Sanchez

*Independent Director*

Tax Counsel of Quiason Makalintal Barot Torres Ibarra & Sison Law Offices; Vice Chairman of Center for Leadership & Change, Inc.; Director of Adventure International Tours, Inc., Amon Trading Corp., EEI Corporation, Grepalife Asset Management Corp., Grepalife Fixed Income Fund Corp., House of Investments, JVR Foundation, Inc., Kawasaki Motor Corp., Magellan Capital Holdings, Corp., Omico Corporation, PETNET, Inc., PETPLANS, Inc., Rizal Commercial Banking Corporation, Transnational Diversified Corp., Transnational Diversified Group, Inc., Transnational Financial Services, Inc. and Universal Rubina Corp.

Ma. Cecilia L. Pesayco

*Corporate Secretary*

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



# Management Team

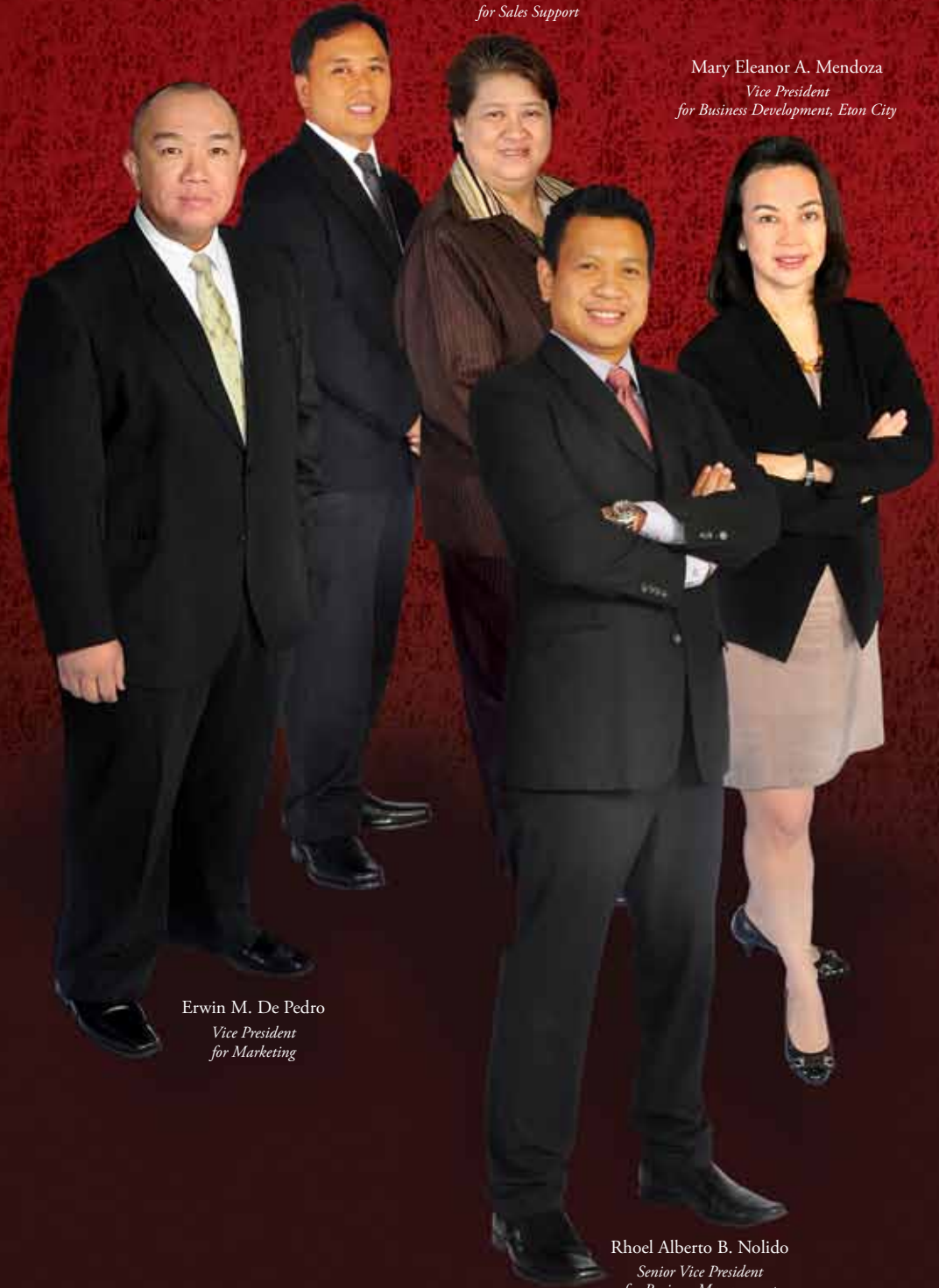
Engr. Nathaniel I. Cabungcal  
*Vice President  
for Property Management*

Cecilia M. Magugat  
*Vice President  
for Sales Support*

Mary Eleanor A. Mendoza  
*Vice President  
for Business Development, Eton City*

Erwin M. De Pedro  
*Vice President  
for Marketing*

Rhoel Alberto B. Nolido  
*Senior Vice President  
for Business Management*



Jesus S. Recasata III  
*Head of Sales*

Engr. Rolando R. Amparado  
*Vice President  
for Project Management*

Emmanuel D. Pablo  
*Vice President  
for Brokers Network*

Christine L. Ong  
*Vice President  
for Treasury*



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

Josephine A. Martinez  
*Chief Finance Officer*



## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Eton Properties Philippines, Inc. and its subsidiaries** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

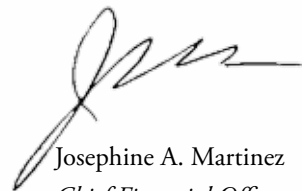
SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders has examined the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon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



Lucio C. Tan  
*Chairman of the Board*



Michael G. Tan  
*Director – Officer In Charge*



Josephine A. Martinez  
*Chief Financial Officer*



SyCip Gorres Velayo & Co.  
6760 Ayala Avenue 1226 Makati City Philippines  
Phone: (632) 891 0307 Fax: (632) 819 0872 www.sgv.com.ph  
BOA/PRC Reg. No. 0001,  
January 25, 2010, valid until December 31, 2012  
SEC Accreditation No. 0012-FR-2 (Group A), February 4, 2010, valid until February 3, 2013

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Eton Properties Philippines, Inc. and its Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

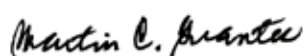


# Financial Statements

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Eton Properties Philippines, Inc. and its Subsidiaries as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

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

March 15, 2012, valid until March 14, 2015 Tax Identification No. 152-884-272

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

April 11, 2012, valid until April 10, 2015 PTR No. 3174599, January 2, 2012, Makati City

July 16, 2012

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

	December 31	
	2011	2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 5, 25 and 28)	P594,787,078	P370,082,638
Trade and other receivables (Notes 6, 13 and 28)	1,901,217,813	2,245,413,735
Real estate inventories (Note 7)	3,289,982,329	3,187,224,711
Other current assets (Notes 8 and 28)	1,106,902,957	710,376,522
<b>Total Current Assets</b>	<b>6,892,890,177</b>	<b>6,513,097,606</b>
<b>Noncurrent Assets</b>		
Receivables - net of current portion (Notes 6 and 28)	2,052,868,887	—
Investment properties (Note 10)	5,928,275,327	5,413,121,166
Property and equipment (Note 11)	54,252,483	61,065,300
Deferred income tax assets - net (Note 22)	145,086,165	119,385,978
Other noncurrent assets (Notes 12 and 28)	241,523,346	97,193,095
<b>Total Noncurrent Assets</b>	<b>8,422,006,208</b>	<b>5,690,765,539</b>
<b>TOTAL ASSETS</b>	<b>P15,314,896,385</b>	<b>P12,203,863,145</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 13 and 28)	P3,872,137,080	P2,126,430,479
Payables to related parties (Note 25)	614,304,617	624,887,912
Income tax payable	37,725,771	12,653,028
Customers' deposits (Note 14)	1,744,780,410	1,831,888,928
Current portion of:		
Loans payable (Notes 15 and 28)	1,447,150,795	530,000,000
Deposits and other liabilities (Notes 16 and 28)	50,522,329	19,965,425
<b>Total Current Liabilities</b>	<b>7,766,621,002</b>	<b>5,145,825,772</b>
<b>Noncurrent Liabilities</b>		
Loans payable - net of current portion (Notes 15 and 28)	1,343,778,818	1,561,285,827
Other noncurrent liabilities (Notes 16 and 28)	76,222,950	148,600,079
<b>Total Noncurrent Liabilities</b>	<b>1,420,001,768</b>	<b>1,709,885,906</b>
<b>Total Liabilities</b>	<b>9,186,622,770</b>	<b>6,855,711,678</b>
<b>Equity</b>		
Capital stock - P1 par value (Note 17)		
Issued	723,798,267	723,798,267
Subscribed (net of subscriptions receivable amounting to P573,657,672)	1,607,892,762	7,892,762
Additional paid-in capital (Note 17)	2,400,000,000	—
Deposit for future stock subscription (Note 17)	—	3,953,169,000
Retained earnings (Note 17)	1,396,590,541	663,299,393
Treasury shares (Note 17)	(7,955)	(7,955)
<b>Total Equity</b>	<b>6,128,273,615</b>	<b>5,348,151,467</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P15,314,896,385</b>	<b>P12,203,863,145</b>

See accompanying Notes to Consolidated Financial Statements.



# Financial Statements

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

	Years Ended December 31		
	2011	2010	2009
<b>REVENUE</b>			
Real estate sales	<b>P4,884,774,211</b>	P4,282,939,433	P1,956,837,898
Rental income (Notes 10, 16 and 23)	<b>306,877,063</b>	167,136,751	12,826,649
	<b>5,191,651,274</b>	4,450,076,184	1,969,664,547
<b>COST AND EXPENSES</b>			
Cost of real estate sales (Note 7)	<b>3,500,504,637</b>	3,117,019,613	1,493,742,661
Cost of rental income (Note 10)	<b>111,675,885</b>	57,865,115	9,654,572
Selling expenses (Note 19)	<b>472,282,615</b>	377,352,717	228,863,185
General and administrative expenses (Note 20)	<b>426,214,333</b>	179,951,057	159,279,436
	<b>4,510,677,470</b>	3,732,188,502	1,891,539,854
<b>OTHER INCOME (CHARGES)</b>			
Interest income (Notes 6 and 18)	<b>40,746,477</b>	85,250,024	101,186,882
Finance charges (Notes 15, 16 and 25)	<b>(9,486,336)</b>	(11,711,618)	(12,197,472)
Foreign exchange gains (losses) - net	<b>36,922</b>	(4,810,079)	9,348,167
Gain on sale of available-for-sale (AFS) financial asset (Note 9)	<b>—</b>	42,536,210	—
Other income (Note 24)	<b>139,575,528</b>	140,610,209	58,443,663
	<b>170,872,591</b>	251,874,746	156,781,240
<b>INCOME BEFORE INCOME TAX</b>	<b>851,846,395</b>	969,762,428	234,905,933
<b>PROVISION FOR (BENEFIT FROM)</b>			
<b>INCOME TAX</b> (Note 22)			
Current	<b>144,255,434</b>	100,387,698	92,953,703
Deferred	<b>(25,700,187)</b>	137,762,776	(146,257,617)
	<b>118,555,247</b>	238,150,474	(53,303,914)
<b>NET INCOME</b>	<b>P733,291,148</b>	P731,611,954	P288,209,847
<b>BASIC EARNINGS PER SHARE</b> (Note 27)	<b>P0.3719</b>	P0.5605	P0.2208
<b>DILUTED EARNINGS PER SHARE</b>			
(Note 27)	<b>P0.2524</b>	P0.2518	P0.1788

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2011	2010	2009
<b>NET INCOME</b>	<b>P733,291,148</b>	P731,611,954	P288,209,847
<b>OTHER COMPREHENSIVE INCOME</b>			
Unrealized gain on AFS financial asset (Note 9)	–	17,494,684	6,014,727
Unrealized gain on changes in fair values of AFS financial asset transferred to profit or loss (Note 9)	–	(42,891,851)	–
	–	(25,397,167)	6,014,727
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P733,291,148</b>	P706,214,787	P294,224,574

*See accompanying Notes to Consolidated Financial Statements.*



**ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**

	Capital Stock - P1 Par Value (Note 17)		Additional	Subscriptions	Total Paid-in	Deposit for	Unrealized	Retained	Treasury	Total
	Issued and Outstanding	Subscribed	Paid-in Capital (Note 17)	Receivable (Note 17)	Capital	Future Stock Subscription (Note 17)	Gain on AFS Financial Asset (Note 9)	Earnings (Deficit) (Note 17)	Shares (Note 17)	
<b>BALANCES AS AT</b>										
<b>DECEMBER 31, 2008</b>	<b>P373,798,267</b>	<b>P931,550,434</b>	<b>P-</b>	<b>(P923,657,672)</b>	<b>P381,691,029</b>	<b>P-</b>	<b>P19,382,440</b>	<b>(P356,522,408)</b>	<b>(P7,955)</b>	<b>P44,543,106</b>
Net income for the year	-	-	-	-	-	-	-	288,209,847	-	288,209,847
Other comprehensive income -										
Changes in fair value during										
the year	-	-	-	-	-	-	6,014,727	-	-	6,014,727
Total comprehensive income	-	-	-	-	-	-	6,014,727	288,209,847	-	294,224,574
Payment for subscriptions										
receivable	350,000,000	(350,000,000)	-	350,000,000	350,000,000	-	-	-	-	350,000,000
Land acquisition through										
issuance of shares (Note 17)	-	-	-	-	-	3,953,169,000	-	-	-	3,953,169,000
<b>BALANCES AS AT</b>										
<b>DECEMBER 31, 2009</b>	<b>723,798,267</b>	<b>581,550,434</b>	<b>-</b>	<b>(573,657,672)</b>	<b>731,691,029</b>	<b>3,953,169,000</b>	<b>25,397,167</b>	<b>(68,312,561)</b>	<b>(7,955)</b>	<b>4,641,936,680</b>
Net income for the year	-	-	-	-	-	-	-	731,611,954	-	731,611,954
Other comprehensive income:										
Changes in fair value during										
the year (Note 9)	-	-	-	-	-	-	17,494,684	-	-	17,494,684
Unrealized gain on changes										
in fair value transferred to										
profit or loss during the year	-	-	-	-	-	-	(42,891,851)	-	-	(42,891,851)
Total comprehensive income (loss)	-	-	-	-	-	-	(25,397,167)	731,611,954	-	706,214,787
<b>BALANCES AS AT</b>										
<b>DECEMBER 31, 2010</b>	<b>723,798,267</b>	<b>581,550,434</b>	<b>-</b>	<b>(573,657,672)</b>	<b>731,691,029</b>	<b>3,953,169,000</b>	<b>-</b>	<b>663,299,393</b>	<b>(7,955)</b>	<b>5,348,151,467</b>
Net income for the year	-	-	-	-	-	-	-	733,291,148	-	733,291,148
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	733,291,148	-	733,291,148
Adjustment to land acquired through										
issuance of shares (Notes 7 and 17)	-	-	-	-	-	46,831,000	-	-	-	46,831,000
Reclassification of deposit for future stock										
subscription to subscribed capital stock										
(Note 17)	-	1,600,000,000	1,600,000,000	-	4,000,000,000	(4,000,000,000)	-	-	-	-
<b>BALANCES AS AT</b>										
<b>DECEMBER 31, 2011</b>	<b>P723,798,267</b>	<b>P2,181,550,434</b>	<b>P2,400,000,000</b>	<b>(P573,657,672)</b>	<b>P4,731,691,029</b>	<b>P-</b>	<b>P-</b>	<b>P1,396,590,541</b>	<b>(P7,955)</b>	<b>P6,128,273,615</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	Years Ended December 31		
	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>P851,846,395</b>	P969,762,428	P234,905,933
Adjustments for:			
Depreciation and amortization (Notes 10, 11, 12 and 20)	<b>102,230,436</b>	70,692,363	28,045,330
Interest income (Notes 6 and 18)	<b>(40,746,477)</b>	(85,250,024)	(101,186,882)
Interest expense (Notes 15 and 16)	<b>8,704,953</b>	4,284,992	—
Retirement benefits cost (Notes 21 and 26)	<b>6,247,801</b>	2,734,096	470,954
Unrealized foreign exchange losses (gains)	<b>113,956</b>	9,637,895	(9,348,167)
Gain on sale of AFS financial asset (Note 9)	—	(42,536,210)	—
Loss on disposal of property and equipment	—	—	208,344
Operating income before working capital changes	<b>928,397,064</b>	929,325,540	153,095,512
Decrease (increase) in:			
Trade and other receivables	<b>(1,707,549,939)</b>	(2,122,934,601)	(336,465,684)
Real estate inventories (Note 32)	<b>(89,644,218)</b>	(267,837,680)	(743,809,811)
Other current assets	<b>(279,967,308)</b>	1,463,571,519	(441,026,142)
Increase (decrease) in:			
Trade and other payables	<b>1,745,706,601</b>	(106,785,957)	1,868,369,895
Payables to related parties	<b>(10,583,295)</b>	10,597,784	—
Deposits and other liabilities	<b>(50,138,816)</b>	103,463,489	71,269,480
Customers' deposits	<b>(87,108,518)</b>	(243,144,730)	(80,589,544)
Cash generated from (used in) operations	<b>449,111,571</b>	(233,744,636)	490,843,706
Income taxes paid, including creditable withholding taxes	<b>(235,741,818)</b>	(206,257,423)	(11,027,276)
Interest received	<b>23,786,704</b>	22,825,762	101,037,416
Interest paid	<b>(6,634,163)</b>	(2,092,259)	—
Net cash from (used in) operating activities	<b>230,522,294</b>	(419,268,556)	580,853,846

**CASH FLOWS FROM INVESTING**
**ACTIVITIES**

Additions to:			
Investment properties (Notes 10 and 32)	<b>(550,498,919)</b>	(730,111,989)	(1,403,452,594)
Property and equipment (Notes 11 and 32)	<b>(22,832,600)</b>	(37,097,320)	(5,238,996)
Software (Note 12)	<b>(7,589,877)</b>	(12,683,023)	(140,843)
Other noncurrent assets	<b>(140,263,035)</b>	(56,138,023)	(24,629,342)
Proceeds from sale of AFS financial asset (Note 9)	—	230,652,811	—
Net cash used in investing activities	<b>(721,184,431)</b>	(605,377,544)	(1,433,461,775)

(Forward)



# Financial Statements

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

	Years Ended December 31		
	2011	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of loans (Note 15)	<b>P1,309,980,533</b>	P2,341,959,458	P1,039,202,331
Payment of loans payable (Note 15)	<b>(594,500,000)</b>	(1,607,983,290)	—
Net cash from financing activities	<b>715,480,533</b>	733,976,168	1,039,202,331
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(113,956)</b>	(6,788,353)	(4,015,985)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>224,704,440</b>	(297,458,285)	182,578,417
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>370,082,638</b>	667,540,923	484,962,506
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 5 and 32)</b>	<b>P594,787,078</b>	P370,082,638	P667,540,923

*See accompanying Notes to Consolidated Financial Statements.*

## ETON PROPERTIES PHILIPPINES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

##### Corporate Information

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

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

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

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

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

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

As of December 31, 2011, the Parent Company is 55.07%-owned by Paramount, its ultimate parent company, while the ownership of Saturn Holdings, Inc. (Saturn) was reduced to 42.39%. As of December 31, 2010, the Parent Company was 94.39%-owned by Saturn. Paramount and Saturn were likewise incorporated in the Philippines and are part of Lucio Tan Group of Companies.

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

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

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

BCI was incorporated and registered with the SEC on November 5, 2007. On February 18, 2008, the BOD of BCI approved the increase of its capital stock from 20,000 shares to 100,000,000 shares at P1 par value per share and the subscription of the Parent Company to 24,995,000 shares or 25% of the authorized capital stock, with 75% of BCI’s capital stock still unsubscribed. As of July 16, 2012, BCI has not yet filed an application to the SEC for an increase in authorized capital stock.

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

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



# Financial Statements

All subsidiaries are engaged in real estate development.

## Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements of Eton Properties Philippines, Inc. and its Subsidiaries (the Group) were authorized for issue by the BOD on July 16, 2012.

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

### Basis of Preparation

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

### Statement of Compliance

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

### **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretations, based on International Financial Reporting Interpretation Committee (IFRIC) interpretations, and amendments to existing Philippine Accounting Standards (PAS) which were adopted as of January 1, 2011:

- PAS 24, *Related Party Disclosures (Amendment)*, clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

The adoption of the following amendments did not result in changes to accounting policies that have significant impact on the financial position and performance of the Group:

- PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
- Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

### Improvement to PFRS

In May 2010, the International Accounting Standards Board (IASB) issued omnibus of amendments to the following standards, primarily with a view to remove inconsistencies and clarify wordings, which was approved by the Financial Reporting Standards Council in its meeting in July 2010. Unless otherwise specified, the amendments are effective for annual periods beginning on or after January 1, 2011.

The adoption of the following amendments did not result in changes to accounting policies that have significant impact on the financial position and performance of the Group:

- PFRS 3, *Business Combinations (Revised)*
- PFRS 7, *Financial Instruments: Disclosures (Amendment)*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements (Amendment)*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes (Amendment)*

### **Summary of Significant Accounting Policies**

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011. The financial statements of the subsidiaries are prepared for the same financial reporting year as the Parent Company, using consistent accounting policies.

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

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

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of recognition*

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

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

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

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

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

As of December 31, 2011 and 2010, the Group's financial assets and financial liabilities consist of loans and receivables, and other financial liabilities.

##### *Determination of fair value*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the financial reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using generally acceptable valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

Fair value measurements are disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. Fair value measurement under Level 1 is based on quoted prices in active markets for identical financial assets or financial liabilities; Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the financial asset or financial liability, either directly or indirectly; and Level 3 is based on inputs for the financial asset or financial liability that are not based on observable market data.



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## *Day 1 difference*

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

## *Loans and receivables*

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

As of December 31, 2011 and 2010, the Group’s loans and receivables include cash and cash equivalents, trade and other receivables, deposits in escrow bank and refundable deposits.

## *AFS financial assets*

AFS financial assets are non-derivative financial assets that are designated as AFS or are neither classified as financial assets at FVPL, loans and receivables nor HTM investments. The Group designates financial instruments as AFS financial assets if they are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized in the consolidated statement of comprehensive income as “Unrealized gain (loss) on AFS financial asset”.

When the AFS financial asset is disposed, the cumulative gains or losses previously recorded in equity are recognized in the consolidated statement of income. Interests earned on the investments are reported as interest income using the effective interest method. Dividends earned on investments are recognized in the consolidated statement of income as “Dividend income” when the right of payment has been established. The Group considers several factors in making a decision on the eventual disposal of the investment. The major factor of this decision is whether or not the Group will experience inevitable further losses on the investment. The AFS financial asset is classified as noncurrent asset unless the intention is to dispose of such asset within 12 months from the financial reporting date.

The AFS financial asset of the Parent Company pertains to a United States (US) dollar denominated Philippine Government bonds which was disposed in 2010.

## *Other financial liabilities*

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

As of December 31, 2011 and 2010, the Group’s other financial liabilities include trade and other payables, payable to related parties, loans payable, security deposits and advance rentals.

## Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties are/is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and receivables*

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

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

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

*AFS financial assets*

For AFS financial assets, the Group assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of debt instruments classified as AFS, 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 income. If subsequently, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

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

Derecognition of Financial Assets and Financial Liabilities*Financial assets*

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

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

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



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## *Financial liabilities*

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

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

## Real Estate Inventories

Real estate inventories consist of property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, and measured at the lower of cost and net realizable value (NRV). Cost includes: (a) land acquisition cost; (b) planning and design costs, costs of site preparation, amounts paid to contractors for construction and construction overheads; and (c) borrowing costs, property transfer taxes and other related costs.

NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

## Advances to Contractors

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

## Value-added tax (VAT)

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

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

## Investment Properties

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

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

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

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

	Years
Buildings	20 to 40
Residential unit	5

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

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

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

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

#### Property and Equipment

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

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

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

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

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

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

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

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

#### Software

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

#### Impairment of Noncurrent Nonfinancial Assets

The Group assesses at each financial reporting date whether there is an indication that its noncurrent nonfinancial assets, which include investment properties, property and equipment, and software, may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to

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their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in consolidated statement of income.

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

## Customers' Deposits including Excess of Collections over Recognized Receivables

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

## Security Deposits

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

The difference between the cash received and its fair value is deferred, included in the "Deferred credits" account in the consolidated statement of financial position, and amortized using the straight-line method under the "Rental income" account in the consolidated statement of income.

## Capital Stock and Additional Paid-In Capital

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

## Deposit for Future Stock Subscription

Deposits for future stock subscriptions represent the consideration received that will be applied as payment in exchange for a fixed number of the Parent Company's own equity instruments, and presented in the equity section of the consolidated statement of financial position.

## Treasury Shares

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

## Retained Earnings

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

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

## Revenue and Cost Recognition

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



*Real estate sales*

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

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

*Cost of real estate sales*

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate inventories held before the completion of the development is determined on the basis of acquisition cost of the land plus its full development cost, which includes estimated cost for future development works, as determined by the Group's project engineer. An independent estimate of costs is also being obtained by the Group's project engineer as basis in determining the estimated cost for future development works.

*Rental income*

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

*Interest income*

Interest income is recognized as it accrues.

Expense Recognition

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

Commissions

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

Borrowing Costs

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

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

Basic/Diluted Earnings Per Share

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

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

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## Retirement Benefits

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

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

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

## Income Taxes

### *Current income tax*

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

### *Deferred income tax*

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

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

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

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

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

## Other Comprehensive Income

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

## Foreign Currency-Denominated Transactions and Translations

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

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

#### Leases

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

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

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

#### *The Group as lessor*

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

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

#### *The Group as lessee*

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

#### Provisions

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

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

#### Contingencies

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

#### Events After the Financial Reporting Date

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



## Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to December 31, 2011.

### *Effective in 2012*

- PFRS 7, *Financial Instruments: Disclosures (Amendment) - Enhanced Derecognition Disclosure Requirements*, requires additional disclosures about financial assets that have been transferred, but not derecognized, to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of and risks associated with the entity's continuing involvement in those derecognized assets.

- PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*, clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, should always be measured on a sale basis of the asset.

### *Effective in 2013*

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

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

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

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

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

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

- PAS 1, *Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income*, changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.
- PAS 19, *Employee Benefits (Amendment)*, introduces fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.
- PAS 27, *Separate Financial Statements (Revised)*, is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements as a consequence of the new PFRS 10 and PFRS 12.
- PAS 28, *Investments in Associates and Joint Ventures (Revised)*, has been renamed as such as a consequence of the new PFRS 11 and PFRS 12. The revised standard describes the application of the equity method to investments in joint ventures in addition to associates.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset.

#### *Effective in 2014*

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

#### *Effective in 2015*

- PFRS 9, *Financial Instruments: Classification and Measurement*, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39.

In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the entity's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

The Group decided not to early adopt PFRS 9 for its 2011 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2011 do not reflect the impact of the said standard.

#### *Deferred Effectivity*

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

The Group continues to assess the impact on the consolidated financial statements of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2011. Additional disclosures required by these new standards and amendments will be included in the consolidated financial statements when these new standards and amendments are adopted.

## 3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to exercise judgments and use accounting estimates that affect the reported amounts of assets and liabilities and disclosure of any contingent assets and liabilities at financial reporting date, and the reported amounts of income and expenses during the period.

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

### Judgments

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

#### *Revenue recognition*

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on, among others, the buyer's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and stage of completion of the project. Based on the judgment of the Group, the percentage-of-completion method is appropriate in recognizing revenue on real estate sale transactions in 2011, 2010 and 2009.

#### *Classification of financial instruments*

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

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

The Group has entered into commercial property leases of its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating leases. Rental income recognized by the Group amounted to P306.88 million, P167.14 million and P12.83 million in 2011, 2010 and 2009, respectively (see Note 23).

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

Currently, the Group has land lease agreements with several non-related parties and office lease agreements with related parties. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessors. Thus, the Group considers these lease agreements as operating leases. Rental expense recognized by the Group included under "Outside services" amounted to P7.99 million in 2011, P7.57 million in 2010 and P5.24 million in 2009 (see Notes 20 and 23). Additional rental expense was recognized in 2011 related to the lease of a parcel of land where one of the Parent Company's project is located. The additional rental expense, recognized as part of cost of rental income, amounted to P39.31 million.

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

#### *Classification of properties*

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

- Investment property comprises land and buildings (principally offices, commercial and retail property) which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.
- Real estate inventory comprises of property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.



The carrying values of the Group's investment properties and real estate inventories amounted to P5,928.28 million and P3,289.98 million, respectively, as of December 31, 2011 and P5,413.12 million and P3,187.22 million, respectively, as of December 31, 2010 (see Notes 7 and 10).

*Distinction between investment properties and owner-occupied properties*

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

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

The carrying values of the Group's investment properties, and property and equipment amounted to P5,928.28 million and P54.25 million, respectively, as of December 31, 2011 and P5,413.12 million and P61.07 million, respectively, as of December 31, 2010 (see Notes 10 and 11).

*Impairment of AFS financial asset*

In determining the fair value of its AFS financial asset, management evaluates the presence of significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. Any indication of deterioration in these factors can have a negative impact on the fair value of AFS financial asset. The Group treats "significant" generally as 30% or more of the original cost of investment, and "prolonged" as greater than 12 months.

Based on management's assessment, no impairment loss needs to be recognized on the AFS financial asset for the year ended December 31, 2009. In 2010, the Group sold its AFS financial asset (see Note 9).

Accounting Estimates and Assumptions

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

*Revenue and cost recognition*

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

Real estate sales and cost of real estate sales amounted to P4,884.77 million and P3,500.50 million, respectively, in 2011; P4,282.94 million and P3,117.02 million, respectively, in 2010; and P1,956.84 million and P1,493.74 million, respectively, in 2009.

*Estimation of allowance for loans and receivables*

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

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

# Financial Statements

As of December 31, 2011 and 2010, the Group did not recognize any allowance for impairment on its loans and receivables (see Note 28).

## *Measurement of net realizable value of real estate inventories*

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

As of December 31, 2011 and 2010, real estate inventories, which are carried at cost, amounted to P3,289.98 million and P3,187.22 million, respectively (see Note 7).

## *Estimation of useful lives of investment properties, property and equipment excluding land, and software*

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

The carrying values of the Group's investment properties (excluding land and construction in progress), property and equipment (excluding construction in progress) and software amounted to P2,616.04 million, P54.25 million and P16.69 million, respectively, as of December 31, 2011 and P2,501.62 million, P61.07 million and P12.62 million, respectively, as of December 31, 2010 (see Notes 10, 11 and 12).

## *Evaluation of impairment of noncurrent nonfinancial assets*

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

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

The Group believes that the carrying amounts of its noncurrent nonfinancial assets approximate their recoverable amounts and, as such, no impairment loss was recognized in 2011, 2010 and 2009.

## *Recognition of deferred income tax assets*

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

As of December 31, 2011, ECI and FHI did not recognize any deferred income tax assets related to NOLCO amounting to P63.99 million and other deductible temporary differences amounting to P10.61 million since the management of the Group believes that it is probable that ECI and FHI may not be able to utilize them. There are no unrecognized deferred income tax assets as of December 31, 2010.

As of December 31, 2011 and 2010, deferred income tax assets amounted to P155.50 million and P126.41 million, respectively (see Note 22).

*Estimation of retirement benefits liability and costs*

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

As of December 31, 2011 and 2010, retirement benefits liability amounted to P9.92 million and P3.68 million, respectively. Retirement benefits cost recognized in 2011, 2010 and 2009 amounted to P6.25 million, P2.73 million and P0.47 million, respectively (see Notes 16 and 26).

*Determination of fair value of financial instruments*

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

#### 4. Segment Information

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur loss and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD.

The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenues and segment expenses are consistent with those in the consolidated statements of income. Financing costs (including interest expense) and income taxes are managed on a per company basis and are not allocated to operating segments.

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

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

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

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

The business segments where the Group operates follow:

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

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



# Financial Statements

## 2011

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

## 2010

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

## 2009

	Residential Developments	Leasing Activities	Unallocated Corporate Balance	Consolidated
Revenue from external customers	P1,956,837,898	P12,826,649	P–	P1,969,664,547
Direct costs	(1,493,742,661)	(9,654,572)	–	(1,503,397,233)
<b>Operating profit</b>	<b>463,095,237</b>	<b>3,172,077</b>	<b>–</b>	<b>466,267,314</b>
Interest income	–	–	101,186,882	101,186,882
Other income	–	–	67,791,830	67,791,830
Finance charges	–	–	(12,197,472)	(12,197,472)
Selling, general and administrative expenses and other charges	–	–	(388,142,621)	(388,142,621)
Benefit from income tax	–	–	53,303,914	53,303,914
<b>Net income</b>	<b>P463,095,237</b>	<b>P3,172,077</b>	<b>(P178,057,467)</b>	<b>P288,209,847</b>
<b>Other Information</b>				
Segment assets	P6,419,413,260	P2,542,380,222	P1,749,752,683	P10,711,546,165
Deferred income tax assets	–	–	257,148,753	257,148,753
<b>Total segment assets</b>	<b>P6,419,413,260</b>	<b>P2,542,380,222</b>	<b>P2,006,901,436</b>	<b>P10,968,694,918</b>
<b>Segment liabilities</b>	<b>P6,255,488,758</b>	<b>P71,269,480</b>	<b>P–</b>	<b>P6,326,758,238</b>
<b>Segment additions to property and equipment, and investment properties</b>				
	P5,238,996	P2,062,314,094	P–	P2,067,553,090
<b>Depreciation and amortization</b>	<b>P18,390,757</b>	<b>P9,654,572</b>	<b>P–</b>	<b>P28,045,329</b>

## 5. Cash and Cash Equivalents

	2011	2010
Cash on hand and in banks	<b>P577,043,035</b>	P141,616,912
Cash equivalents	<b>17,744,043</b>	228,465,726
	<b>P594,787,078</b>	P370,082,638

Cash in banks earn interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the prevailing short-term investment rates ranging from 0.80% to 2.50% in 2011 and 1.50% to 1.75% in 2010, respectively (see Note 18).

## 6. Trade and Other Receivables

	2011	2010
Contracts receivables	<b>P3,866,777,799</b>	P1,841,848,987
Lease receivables (Note 23)	<b>17,725,114</b>	34,514,791
Receivables from related parties (Note 25)	<b>29,606,780</b>	29,352,347
Receivables from landowners	–	350,000,000
Others	<b>39,977,007</b>	6,657,383
	<b>3,954,086,700</b>	2,262,373,508
Less unamortized discount on non- interest-bearing contracts receivables	–	16,959,773
	<b>3,954,086,700</b>	2,245,413,735
Less noncurrent portion of contracts receivables	<b>2,052,868,887</b>	–
	<b>P1,901,217,813</b>	P2,245,413,735

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

Contracts receivables include non-interest-bearing receivables amounting to nil and P365.77 million as of December 31, 2011 and 2010, respectively. Movements in unamortized discount arising from non-interest-bearing receivables follow:

	2011	2010
Beginning of year	<b>P16,959,773</b>	P79,793,496
Accretion	<b>(16,959,773)</b>	(62,833,723)
End of year	<b>P–</b>	P16,959,773

The Group assigned certain contracts receivables to Banco de Oro Unibank, Inc. (BDO) on a with recourse basis (see Note 15). The total assigned contracts receivables amounted to P423.07 million and P895.63 million as of December 31, 2011 and 2010, respectively.

Receivables from landowners represent payments for parcels of land that were intended for future development. Based on the respective Memorandum of Agreement (MOA), the Parent Company and various landowners agreed for the development of several parcels of land into a residential subdivision project. The amount will be deducted from the share of the landowners to the project which shall be determined and confirmed by the parties within one year from the financial reporting date. In 2010, the parties agreed to cancel the respective MOA and for the landowners to return the amounts paid by the Parent Company not later than one year from the financial reporting date. These amounts of receivable from landowners were collected in 2011.

Other receivables are due and demandable and include accrued interest receivable pertaining to interest earned from cash equivalents. Included also in other receivables are the advances to officers and employees, which pertain to unliquidated cash advances that are due within one year and unpaid utility charges to tenants. Advances to officers and employees are recoverable through direct salary deduction.

## 7. Real Estate Inventories

	2011	2010
Condominium and residential units for sale	<b>P1,261,777,960</b>	P1,309,202,774
Land held for future development	<b>1,779,180,089</b>	1,641,847,286
Subdivision land under development	<b>249,024,280</b>	236,174,651
	<b>P3,289,982,329</b>	P3,187,224,711

In 2011, the Group acquired a parcel of land from a third party amounting to P63.00 million which will be used for development of condominium units for sale.

In 2010, the Group also acquired parcels of land from third parties amounting to P532.53 million which will be held for development as part of the consolidation of properties in Eton City.

In 2009, the Parent Company acquired parcels of land through an asset-for-share swap agreement. The land with a total appraised value of P3,953.17 million was transferred to the Parent Company in exchange for the issuance of 1.60 billion common shares (see Note 17). A portion of the land where the Group's buildings held for lease are situated, with an allocated cost of P658.86 million, was recognized as investment property in 2009. The remaining portion of the land, with an allocated cost of P3,294.31 million, was considered as real estate inventory. In 2010, the Parent Company reclassified a portion of the land, which was previously recognized as real estate inventory as of December 31, 2009 with cost amounting to P2,187.42 million, to investment property in view of management's plan to develop thereon additional buildings to be held for lease (see Note 10). On July 21, 2011, the SEC approved the valuation of the land acquired through the asset-for-share swap agreement at P4.00 billion, thereby, resulting to an increase in the recorded value of the land by P46.83 million. The increase in the recorded value of the land was allocated to real estate inventories and investment properties as follows:

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

Real estate inventories recognized as part of cost of real estate sales in 2011, 2010 and 2009 amounted to P3,500.50 million, P3,117.02 million and P1,493.74 million, respectively.



## 8. Other Current Assets

	2011	2010
Advances to contractors (Notes 20 and 25)	<b>P507,450,828</b>	P432,976,533
Prepaid commission	<b>301,610,111</b>	194,367,276
Creditable withholding taxes	<b>151,382,106</b>	34,822,979
Input VAT	<b>74,748,772</b>	–
Deferred rent (Note 23)	<b>59,979,437</b>	21,813,711
Deposits in escrow bank (Note 28)	<b>6,001,833</b>	9,843,450
Others	<b>5,729,870</b>	16,552,573
	<b>P1,106,902,957</b>	P710,376,522

Advances to contractors are recouped every progress billing payment based on the percentage of accomplishment of each contract package. The activities related to these advances will be completed within the Group's normal operating cycle.

Prepaid commission consists of payments to agents and brokers which will be charged to the consolidated statements of income in the period in which the related revenue is recognized.

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

## 9. AFS Financial Asset

The movements in this account in 2010 follow:

Beginning of year	P229,664,972
Fair value changes during the year	17,494,684
Amortization of discount	130,040
Foreign exchange adjustments	(16,281,243)
Sale of AFS financial asset	(231,008,453)
End of year	P–

On November 11, 2010, the Parent Company's investment in US Dollar-denominated Philippine Government bonds was sold for a price equivalent to P230.65 million or US\$5.68 million. Total gain on sale recognized in the 2010 consolidated statement of income amounted to P42.54 million which represents the difference between the amortized cost of the AFS financial asset and the net sales proceeds.

The rollforward analysis of unrealized gain on AFS financial asset in 2010 follows:

Beginning of year	P25,397,167
Fair value changes during the year	17,494,684
Transfer to consolidated statement of income through sale in 2010	(42,891,851)
End of year	P–

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## 10. Investment Properties

As of December 31, 2011:

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

As of December 31, 2010:

	Land	Buildings	Residential Unit	Construction in Progress	Total
<b>Cost</b>					
Beginning of year	P663,274,600	P1,886,487,561	P7,620,000	P–	P2,557,382,161
Additions	58,666,315	669,302,974	–	2,142,700	730,111,989
Transfer (Note 7)	2,187,420,180	–	–	–	2,187,420,180
End of year	2,909,361,095	2,555,790,535	7,620,000	2,142,700	5,474,914,330
<b>Accumulated Depreciation</b>					
Beginning of year	–	7,381,939	7,620,000	–	15,001,939
Depreciation for the year	–	46,791,225	–	–	46,791,225
End of year	–	54,173,164	7,620,000	–	61,793,164
<b>Net Book Values</b>	<b>P2,909,361,095</b>	<b>P2,501,617,371</b>	<b>P–</b>	<b>P2,142,700</b>	<b>P5,413,121,166</b>

Land additions in 2011 pertains to the P33.72 million allocated increase in the recorded value of the land acquired by the Group through an asset-for-share swap agreement and the P8.08 million related transaction costs (see Note 7). Land additions in 2010 amounting to P58.67 million pertain to transaction costs related to the land acquired by the Group from Paramount.

Rental income and direct operating expenses arising from the investment properties amounted to P306.88 million and P111.68 million, respectively, in 2011, P167.14 million and P57.87 million, respectively, in 2010 and P12.83 million and P9.65 million, respectively, in 2009.

Depreciation of investment properties amounting to P69.06 million, P46.79 million and P9.65 million were recognized as cost of rental income in 2011, 2010 and 2009, respectively.

The aggregate fair values of the Group's investment properties as of December 31, 2011 and 2010 approximate their carrying values.

## 11. Property and Equipment

As of December 31, 2011:

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

As of December 31, 2010:

	Transportation Equipment	Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in Progress	Total
<b>Cost</b>					
Beginning of year	P37,448,334	P34,872,692	P7,200,693	P4,613,316	P84,135,035
Additions	6,682,166	26,456,225	3,958,929	–	37,097,320
Reclassification	–	4,613,316	–	(4,613,316)	–
Disposal	–	–	(2,852,205)	–	(2,852,205)
End of year	44,130,500	65,942,233	8,307,417	–	118,380,150
<b>Accumulated Depreciation and Amortization</b>					
Beginning of year	15,135,495	19,036,753	2,689,153	–	36,861,401
Depreciation and amortization for the year (Note 20)	8,388,479	11,932,602	2,984,573	–	23,305,654
Disposal	–	–	(2,852,205)	–	(2,852,205)
End of year	23,523,974	30,969,355	2,821,521	–	57,314,850
<b>Net Book Values</b>	<b>P20,606,526</b>	<b>P34,972,878</b>	<b>P5,485,896</b>	<b>P–</b>	<b>P61,065,300</b>

In 2010, the Group disposed the fully depreciated leasehold improvements amounting to P2.85 million. There was no consideration received from the disposal.

There are no fully depreciated property and equipment being used in business as of December 31, 2011 and 2010.

## 12. Other Noncurrent Assets

	2011	2010
Deferred input VAT	<b>P121,676,366</b>	P39,351,929
Refundable deposits (Note 28)	<b>103,133,203</b>	45,194,605
Software	<b>16,690,947</b>	12,623,731
Others	<b>22,830</b>	22,830
	<b>P241,523,346</b>	P97,193,095

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

The rollforward analysis of the Group's software follows:

	2011	2010
<b>Cost</b>		
Beginning of year	<b>P13,836,473</b>	P1,153,450
Additions	<b>7,589,877</b>	12,683,023
End of year	<b>21,426,350</b>	13,836,473
<b>Accumulated Amortization</b>		
Beginning of year	<b>1,212,742</b>	617,258
Amortization (Note 20)	<b>3,522,661</b>	595,484
End of year	<b>4,735,403</b>	1,212,742
<b>Net Book Values</b>	<b>P16,690,947</b>	P12,623,731

## 13. Trade and Other Payables

	2011	2010
Accounts payable	<b>P367,460,710</b>	P260,571,242
Retentions payable (Note 25)	<b>554,392,855</b>	387,502,092
Accrued expenses and others	<b>2,950,283,515</b>	1,478,357,145
	<b>P3,872,137,080</b>	P2,126,430,479



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

## 14. Customers' Deposits

Customers' deposits represent payments from buyers of residential units which will be applied against the corresponding contracts receivables which are recognized based on the revenue recognition policy of the Group. This account also includes the excess of collections over the recognized receivables amounting to P1,389.59 million and P1,524.93 million as of December 31, 2011 and 2010.

As of December 31, 2011 and 2010, customers' deposits amounted to P1,744.78 million and P1,831.89 million, respectively.

## 15. Loans Payable

This account consists of:

	2011	2010
Bank loans	<b>P1,800,500,000</b>	P1,275,000,000
Notes payable	<b>990,429,613</b>	816,285,827
	<b>2,790,929,613</b>	2,091,285,827
Less current portion	<b>1,447,150,795</b>	530,000,000
Noncurrent portion	<b>P1,343,778,818</b>	P1,561,285,827

### Bank loans

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

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

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

Principal repayments are due annually for at least 5.00% of the total principal amount with final repayment in 2013 for the loans except for the loan amounting to P490.00 million which became due last January 20, 2011. In April 2011, the Parent Company paid the P490.00 million loan to ABC.

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

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

Principal repayments are due annually for at least 5.00% of the total principal amount with final repayment in 2014 for the loans except for the loan amounting to P300.00 million which was paid in May 2012.

### Notes payable

Notes payable includes various notes from BDO which arose from assigning the Groups' contracts receivables on a with recourse basis in 2011 and 2010 (see Note 6). These notes bear interest based on Philippine Dealing System Treasury Fixing

rate for one year plus 1.5% net of gross receipts tax, which ranges from 6.00% to 6.66% and 6.34% to 6.92% in 2011 and 2010, respectively, subject to annual repricing. Interest is due monthly in arrears during the first two years of the term and thereafter, interest shall be collected with the principal covering the term of three years or the term of the contracts to sell, whichever comes first.

In 2011, interest on loans payable amounting to P21.24 million and P94.96 million were capitalized as part of investment properties and real estate inventories, respectively. In 2010, interest on loans payable amounting to P43.94 million and P65.43 million were capitalized as part of investment properties and real estate inventories, respectively. Capitalization rates in 2011 and 2010 were 5.74% and 5.82%, respectively.

Interest on loans payable recognized as finance charges in consolidated statements of income in 2011, 2010 and 2009 amounted to P6.63 million, P4.28 million and nil, respectively.

## 16. Other Noncurrent Liabilities

	2011	2010
Security deposits	P75,496,201	P97,604,625
Less current portion	38,881,148	9,853,180
	36,615,053	87,751,445
Advance rentals	35,437,861	59,425,384
Less current portion	10,407,472	10,112,245
	25,030,389	49,313,139
Deferred credits	5,887,431	7,859,510
Less current portion	1,233,709	—
	4,653,722	7,859,510
Retirement benefits liability (Note 26)	9,923,786	3,675,985
	P76,222,950	P148,600,079

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

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

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

Movements in the unamortized discount of security deposits as of December 31, 2011 and 2010 follow:

	2011	2010
Beginning of year	P7,859,510	P14,032,378
Accretion for the year	(2,070,790)	(6,172,868)
End of year	5,788,720	7,859,510
Less current portion	2,228,613	—
Noncurrent portion	P3,560,107	P7,859,510

Finance charges recognized in the consolidated statements of income as a result of accretion of interest amounted to P2.07 million, P6.17 million and P1.09 million in 2011, 2010 and 2009, respectively.

## 17. Equity

### Capital Stock

Information on the number of shares of the Parent Company's capital stock as of December 31, 2011 and 2010 are as follows:

	Number of Shares	
	2011	2010
Authorized	5,000,000,000	5,000,000,000
Issued	723,798,267	723,798,267
Subscribed	2,181,550,434	581,550,434
Treasury	(10,000)	(10,000)
Outstanding	2,905,338,701	1,305,338,701

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

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

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

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

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

The issued and outstanding registered shares are held by 1,624 and 1,635 stockholders as of December 31, 2011 and 2010, respectively.

## Deposit for Future Stock Subscription

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

## Retained Earnings

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

In 2011 and 2010, additional retained earnings amounting to P47.00 million and P135.00 million, respectively, have been appropriated in order to finance future expansion plans of the Group. The undistributed earnings of subsidiaries amounting to P0.01 million and P16.20 million as of December 31, 2011 and 2010, respectively, which are included in retained earnings, are not available for declaration as dividend until declared by the subsidiaries.

## 18. Interest Income

	2011	2010	2009
Contracts receivables	<b>P37,437,876</b>	P62,294,222	P66,493,824
Cash and cash equivalents	<b>3,308,601</b>	8,516,058	12,728,933
AFS financial asset	–	14,439,744	21,964,125
	<b>P40,746,477</b>	P85,250,024	P101,186,882



**19. Selling Expenses**

	2011	2010	2009
Commissions	<b>P351,468,556</b>	P283,631,566	P105,884,132
Advertising and promotions	<b>120,814,059</b>	93,721,151	122,979,053
	<b>P472,282,615</b>	P377,352,717	P228,863,185

**20. General and Administrative Expenses**

	2011	2010	2009
Outside services (Notes 23 and 25)	<b>P98,559,764</b>	P22,395,572	P21,391,431
Personnel costs (Note 21)	<b>96,058,360</b>	53,109,771	66,097,075
Taxes and licenses	<b>45,754,352</b>	29,789,648	1,519,379
Provision for probable losses (Note 8)	<b>44,308,508</b>	—	—
Depreciation and amortization (Notes 11 and 12)	<b>33,168,078</b>	23,901,138	18,390,757
Professional fees	<b>28,702,103</b>	12,565,358	6,885,532
Entertainment, amusement and recreation	<b>16,649,550</b>	8,794,263	13,815,217
Communication, light and water	<b>13,776,202</b>	6,663,595	11,712,710
Office supplies	<b>11,069,077</b>	5,726,970	3,386,901
Travel and transportation	<b>8,150,701</b>	6,689,880	9,783,684
Others	<b>30,017,638</b>	10,314,862	6,296,750
	<b>P426,214,333</b>	P179,951,057	P159,279,436

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

**21. Personnel Costs**

	2011	2010	2009
Salaries and wages	<b>P71,534,991</b>	P38,682,705	P63,395,508
Retirement benefits cost (Note 26)	<b>6,247,801</b>	2,734,096	470,954
Employee benefits	<b>18,275,568</b>	11,692,970	2,230,613
	<b>P96,058,360</b>	P53,109,771	P66,097,075

**22. Income Tax**

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

	2011	2010	2009
RCIT	<b>P143,722,338</b>	P98,724,681	P86,015,091
Final	<b>533,096</b>	1,663,017	6,938,612
	<b>P144,255,434</b>	P100,387,698	P92,953,703

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b. The Group's recognized net deferred income tax assets as of December 31, 2011 and 2010 are as follow:

	2011	2010
Deferred income tax assets for the tax effects of:		
Difference between tax and book basis of accounting for real estate transactions	<b>P131,092,523</b>	P116,083,121
Provision for probable losses	<b>13,292,552</b>	–
Retirement benefits liability	<b>2,977,136</b>	1,102,796
Unamortized discount on contracts receivables	–	5,249,783
NOLCO	–	3,952,210
Accrued expenses and others	<b>8,141,276</b>	24,000
	<b>155,503,487</b>	126,411,910
Deferred income tax liabilities for the tax effects of:		
Deferred rental income	<b>8,424,317</b>	5,032,927
Unrealized foreign exchange gain - net	<b>1,993,005</b>	1,993,005
	<b>10,417,322</b>	7,025,932
	<b>P145,086,165</b>	P119,385,978

As of December 31, 2011, ECI and FHI did not recognize any deferred income tax asset related to NOLCO amounting to P63.99 million and other deductible temporary differences amounting to P10.61 million since the management of the Group believes that it is probable that ECI and FHI may not be able to utilize them. The NOLCO can be claimed by ECI and FHI as a deduction from future taxable income until 2014. There are no unrecognized deferred income tax assets as of December 31, 2010.

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

	2011	2010	2009
Provision for income tax at the statutory income tax rate	<b>P255,553,919</b>	P290,928,728	P70,471,780
Adjustments for:			
Income tax holiday (Note 31)	<b>(195,505,017)</b>	(135,328,883)	(114,823,370)
NOLCO and other deductible temporary differences for which no deferred income tax assets were recognized	<b>28,071,578</b>	–	–
Nondeductible expenses	<b>25,431,392</b>	–	2,464,986
Derecognition of deferred income tax assets deemed to be worthless	<b>5,468,799</b>	15,829,098	–
Interest income subjected to final tax	<b>(465,424)</b>	(5,224,093)	(3,469,305)
Difference of itemized deduction against 40% of taxable income	–	107,524,467	–
Derecognition of deferred income tax liability resulting from availment of optional standard deduction	–	(20,342,470)	–
Nontaxable interest income	–	(15,236,373)	–
Application of unrecognized NOLCO	–	–	(7,948,005)
Provision for (benefit from) income tax	<b>P118,555,247</b>	P238,150,474	(P53,303,914)

## 23. Operating Leases

### *The Group as lessor*

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

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

	2011	2010
Within one year	<b>P313,918,663</b>	P233,852,275
After one year but not more than five years	<b>802,260,361</b>	995,032,566
More than five years	<b>254,155,325</b>	299,353,723
	<b>P1,370,334,349</b>	P1,528,238,564

*The Group as lessee*

The Group entered into several renewable cancellable lease agreements with terms ranging from one to three years with ABC, which generally provides for a fixed monthly rent, for the lease of its office spaces (see Note 25).

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

Future minimum rentals payables as of December 31, 2011 follow:

Within one year	P13,665,960
After one year but not more than five years	61,847,096
More than five years	1,483,704,966
	<b>P1,559,218,022</b>

## 24. Other Income

	2011	2010	2009
Rental dues	<b>P34,750,470</b>	P12,661,584	P–
Commission income (Note 25)	<b>27,368,617</b>	41,509,424	–
Others	<b>77,456,441</b>	86,439,201	58,443,663
	<b>P139,575,528</b>	P140,610,209	P58,443,663

Others includes forfeiture income on sales cancellation amounting to P62.64 million and P59.40 million in 2011 and 2010, respectively, and marketing fee amounting to P30.65 million and P49.35 million in 2011 and 2009, respectively (see Note 25).

## 25. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

The following table presents the outstanding balances as of December 31, 2011 and 2010:

Related Party	Relationship	Year	Cash and cash equivalents	Receivables from related parties	Payables to related parties
ABC	Entity under common control	2011	<b>P401,200,671</b>	P–	P–
		2010	124,582,294	–	10,590,284
Philippine National Bank (PNB)	-do-	2011	<b>79,091,383</b>	<b>29,606,780</b>	–
		2010	10,824,919	29,352,347	–
Trustmark Holdings, Inc. (Trustmark)	-do-	2011	–	–	613,459,258
		2010	–	–	613,459,258
Fortune Tobacco Corp.	-do-	2011	–	–	<b>845,359</b>
		2010	–	–	838,370
<b>Total</b>		<b>2011</b>	<b>P480,292,054</b>	<b>P29,606,780</b>	<b>P614,304,617</b>
<b>Total</b>		<b>2010</b>	<b>P135,407,213</b>	<b>P29,352,347</b>	<b>P624,887,912</b>



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a. Portion of the Group's "Cash and cash equivalents" are deposited with ABC and PNB. As of December 31, 2011 and 2010, the outstanding balances of these accounts amounted to P401.20 million and P124.58 million, respectively, for ABC and P79.09 million and P10.82 million, respectively, for PNB.

b. The Group entered into a lease agreement with ABC for the use of the latter's common area as office space of the former. Total rental expense recognized by the Group included under "Outside services" amounted to P34.12 million for 2011, P7.57 million for 2010 and P5.24 million for 2009.

c. In April 2010, the Parent Company obtained a loan from Trustmark amounting to US\$21.00 million, equivalent to P940.80 million at the date of loan availment, for an interest rate of 3.00% per annum. The loan is payable upon demand. As of December 31, 2011 and 2010, the outstanding loan payable amounted to US\$13.99 million, with Peso equivalent of P613.46 million. Interest expense incurred on the loan amounted to P6.96 million and P17.44 million in 2011 and 2010, respectively, of which amounts, nil and P2.45 million remain outstanding as of December 31, 2011 and 2010, respectively.

d. The Group also entered into separate agreements with related parties for the development and sale of units in various projects. The Group shall allocate saleable units to its counter parties in consideration for the use of the parcels of land owned by the latter. In relation to these, the agreement also provides that the Group shall be the exclusive marketing and sales agent of the related projects. Marketing fee recognized in the consolidated statements of income amounted to P30.65 million in 2011, nil in 2010, and P49.35 million in 2009. Outstanding receivables arising from such transaction amounted to P27.91 million and P29.35 million as of December 31, 2011 and 2010, respectively. The Group has no outstanding balances arising from these agreements with other related parties under common control in 2011 and 2010.

e. In 2011, the Parent Company purchased for an amount of P423.90 million certain parcels of land owned by a related party where one of the Parent Company's projects is located.

f. Commission income amounting to P27.37 million and P41.51 million in 2011 and 2010, respectively represents cash received from PNB for the service rendered by the Parent Company in selling a property of PNB. There was no outstanding receivable arising from such transaction.

g. The Group has outstanding balances to Grandway Konstruct, Inc. (Grandway) and Grandspan Development Corporation (Grandspan), related parties, pertaining to the development of the Group's projects. These outstanding balances pertain to advances to contractors, included as part of "Other current assets" account, and retentions payable presented as part of "Trade and other payables" account in the consolidated statements of financial position. The balances as of December 31, 2011 and 2010 are as follows:

	Relationship		Advances to contractors	Retentions payable
Grandway	Entity under	<b>2011</b>	<b>P82,455,468</b>	<b>P129,932,656</b>
	common control	2010	136,926,019	115,597,583
Grandspan	-do-	<b>2011</b>	<b>1,975,870</b>	<b>2,137,753</b>
		2010	178,391	1,000,536
<b>Total</b>		<b>2011</b>	<b>P84,431,338</b>	<b>P132,070,409</b>
<b>Total</b>		2010	P137,104,410	P116,598,119

h. The compensation of the Group's key management personnel pertain to short-term benefits amounting to P35.72 million, P38.51 million and P42.32 million for the years ended December 31, 2011, 2010 and 2009, respectively.

i. In 2011, the Group entered into a management contract agreement with Basic Holdings Corporation, (BHC), an entity under common control. In 2011, total amount of management fee paid by the Group to the latter amounted to P75.00 million, of which P62.50 million was included under "Outside services" (see Note 20) and P12.50 million was included under "Other current assets" (see Note 8).

## 26. Retirement Benefits

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

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

	2011	2010	2009
Current service cost	<b>P5,083,767</b>	P2,170,588	P294,071
Interest cost on defined benefits obligation	<b>864,328</b>	444,460	176,883
Actuarial loss	<b>299,706</b>	119,048	—
Retirement benefits cost (Note 21)	<b>P6,247,801</b>	P2,734,096	P470,954

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

	2011	2010	2009
Present value of defined benefits obligation	<b>P19,440,235</b>	P11,743,583	P4,088,869
Unrecognized actuarial losses	<b>(9,516,449)</b>	(8,067,598)	(3,146,980)
	<b>P9,923,786</b>	P3,675,985	P941,889

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

	2011	2010	2009
January 1	<b>P11,743,583</b>	P4,088,869	P470,935
Current service cost	<b>5,083,767</b>	2,170,588	294,071
Interest cost on defined benefits obligation	<b>864,328</b>	444,460	176,883
Actuarial losses on obligation	<b>1,748,557</b>	5,039,666	3,146,980
December 31	<b>P19,440,235</b>	P11,743,583	P4,088,869

The principal assumptions used in determining retirement benefits cost for the Group in 2011, 2010 and 2009 follow:

	January 1		
	2011	2010	2009
Discount rate	<b>7.36%</b>	10.87%	37.56%
Salary increase rate	<b>10.00%</b>	10.00%	7.00%

The latest actuarial valuation is as of December 31, 2011. The discount rate used was 5.88%.

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

	2011	2010	2009
Defined benefits obligation	<b>P9,923,786</b>	P3,675,985	P941,889
Deficit	<b>9,923,786</b>	3,675,985	941,889
Experience adjustments on plan liabilities	<b>(2,788,465)</b>	58,099	78,273

## 27. Earnings Per Share

Basic earnings per share:

	2011	2010	2009
Net income	<b>P733,291,148</b>	P731,611,954	P288,209,847
Divided by weighted average number of common shares	<b>1,972,005,368</b>	1,305,338,701	1,305,338,701
Basic earnings per share	<b>P0.3719</b>	P0.5605	P0.2208

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Diluted earnings per share:

	2011	2010	2009
Net income	P733,291,148	P731,611,954	P288,209,847
Divided by weighted average number of common shares adjusted for the effect of asset-for-share swap	2,905,338,701	2,905,338,701	1,612,188,016
Diluted earnings per share	P0.2524	P0.2518	P0.1788
Weighted average number of common shares for basic earnings per share	1,972,005,368	1,305,338,701	1,305,338,701
Effect of asset-for-share swap	933,333,333	1,600,000,000	306,849,315
Weighted average number of common shares adjusted for the effect of asset-for-share swap	2,905,338,701	2,905,338,701	1,612,188,016

The Parent Company has considered the effect of its potentially dilutive common shares from the asset-for-share swap (see Note 17) for the years ended December 31, 2011, 2010 and 2009.

## 28. Financial Instruments

### Fair Value Information

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

	December 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	P594,787,078	P594,787,078	P370,082,638	P370,082,638
Trade and other receivables:				
Contracts receivables	3,866,777,799	3,866,777,799	1,824,889,214	1,824,889,214
Lease receivables	17,725,114	17,725,114	34,514,791	34,514,791
Receivables from related parties	29,606,780	29,606,780	29,352,347	29,352,347
Receivables from landowners	—	—	350,000,000	350,000,000
Others	39,977,007	39,977,007	6,657,383	6,657,383
Deposits in escrow bank*	6,001,833	6,001,833	9,843,450	9,843,450
Refundable deposits**	103,133,203	103,133,203	52,970,865	52,970,865
	P4,658,008,814	P4,658,008,814	P2,678,310,688	P2,678,310,688
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables:				
Accounts payable	P367,460,710	P367,460,710	P260,571,242	P260,571,242
Retentions payable	554,392,855	554,392,855	387,502,092	387,502,092
Accrued expenses and others	1,586,338,926	1,586,338,926	1,141,780,601	1,141,780,601
Payables to related parties	614,304,617	614,304,617	624,887,912	624,887,912
Loans payable	2,790,929,613	2,825,048,268	2,091,285,827	2,112,198,685
Security deposits***	75,496,201	71,753,372	97,604,625	91,748,348
Advance rentals***	35,437,861	32,940,030	59,425,384	55,265,607
	P6,024,360,783	P6,052,238,778	P4,663,057,683	P4,673,954,487

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

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

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



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

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

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

*Refundable deposits*

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

*Contracts receivable*

The fair values of non-interest-bearing contracts receivables are based on the discounted value of future cash flows using the applicable rates for similar types of instruments. The discount rates used ranged from 6.55% to 7.62%. As of December 31, 2011, there are no longer non-interest bearing contracts receivable.

*Loans payable, security deposits and advance rentals*

The fair values of loans payable, security deposits and advance rentals are estimated using the discounted cash flow method based on the discounted value of future cash flows using the applicable risk-free rates for similar types of instruments. The discount rates used range from 4.51% to 6.57% and 4.12% to 6.01% as of December 31, 2011 and 2010, respectively.

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

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

As of December 31, 2011 and 2010, there are no financial instruments measured at fair value under levels 1, 2 and 3 hierarchy. There was no transfer between hierarchy in 2011 and 2010.

Financial Risk Management Objectives and Policies

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

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

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

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

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

*Credit risk*

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

Credit risk is managed primarily through analysis of receivables on a continuous basis. In addition, the credit risk for contracts receivables is mitigated as the Group has the right to cancel the sales contract without the risk for any court action and can take possession of the subject property in case of refusal by the buyer to pay on time the contracts receivables due.

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This risk is further mitigated because the corresponding title to the property sold under this arrangement is transferred to the buyers only upon full payment of the contract price.

As of December 31, 2011 and 2010, the Group's maximum exposure to credit risk for the components of the consolidated statements of financial position follows:

	2011	2010
Loans and receivables:		
Cash in banks and cash equivalents	<b>P594,159,524</b>	P369,962,638
Trade and other receivables:		
Contracts receivables	<b>3,866,777,799</b>	1,824,889,214
Lease receivables	<b>17,725,114</b>	34,514,791
Receivables from related parties	<b>29,606,780</b>	29,352,347
Receivables from landowners	–	350,000,000
Others	<b>39,977,007</b>	6,657,383
Deposits in escrow bank	<b>6,001,833</b>	9,843,450
Refundable deposits	<b>103,133,203</b>	52,970,865
	<b>P4,657,381,260</b>	P2,678,190,688

The Group is not exposed to concentration risk because it has a diverse base of counterparties. As of December 31, 2011 and 2010, the Group's financial assets are considered as "neither past due nor impaired". The tables below show the credit quality of the Group's financial assets:

As of December 31, 2011:

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

As of December 31, 2010:

	High Grade	Medium Grade	Low Grade	Total
Cash in banks and cash equivalents	P369,962,638	P–	P–	P369,962,638
Trade and other receivables:				
Contracts receivables	–	1,824,889,214	–	1,824,889,214
Receivables from landowners	–	350,000,000	–	350,000,000
Lease receivables	–	34,514,791	–	34,514,791
Receivables from related parties	–	29,352,347	–	29,352,347
Others	–	6,657,383	–	6,657,383
Deposits in escrow bank	–	9,843,450	–	9,843,450
Refundable deposits	–	52,970,865	–	52,970,865
	P369,962,638	P2,308,228,050	P–	P2,678,190,688

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

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

Medium grade - pertains to financial instruments wherein counter parties have a minimal likelihood of default and have

consistently exhibited good paying habits. These financial assets are typically not impaired as the counterparties generally respond to credit actions and update their payments accordingly.

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

#### *Liquidity risk*

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

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

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

As of December 31, 2011:

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

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

As of December 31, 2010:

	< 1 year	>1 to < 5 years	> 5 years	Total
Trade and other payables:				
Accounts payables	P260,571,242	P–	P–	P260,571,242
Retentions payable	387,502,092	–	–	387,502,092
Accrued expenses and others	1,141,780,601	–	–	1,141,780,601
Payables to related parties	624,887,912	–	–	624,887,912
Loans payable	633,450,478	1,611,119,220	–	2,244,569,698
Security deposits	9,853,180	95,610,955	–	105,464,135
Advance rentals	10,112,245	49,313,139	–	59,425,384
	<b>P3,068,157,750</b>	<b>P1,756,043,314</b>	<b>P–</b>	<b>P4,824,201,064</b>
	< 1 year	>1 to < 5 years	> 5 years	Total
Cash and cash equivalents	P370,082,638	P–	P–	P370,082,638
Trade and other receivables*	2,238,756,352	–	–	2,238,756,352
Deposits in escrow bank	9,843,450	–	–	9,843,450
	<b>P2,618,682,440</b>	<b>P–</b>	<b>P–</b>	<b>P2,618,682,440</b>

\*Excluding other receivables amounting to P6,657,383

#### *Interest rate risk*

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



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The table below demonstrates the possible increase (decrease) in the Group's income before income tax as a result of a reasonably possible change in interest rate as of December 31, 2011 and 2010, with all other variables held constant.

	Changes in basis points	2011	2010
Notes payable	+100	<b>(P9,904,296)</b>	(P8,111,508)
	-100	<b>9,904,296</b>	8,111,508
Bank loans	+100	<b>(18,005,000)</b>	(12,900,000)
	-100	<b>18,005,000</b>	12,900,000

## Foreign currency risk

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

The following table shows the Group's foreign currency-denominated monetary assets and liabilities and their peso equivalents as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	US Dollar Value	Peso Equivalent	US Dollar Value	Peso Equivalent
Cash and cash equivalents	<b>\$1,717,700</b>	<b>P75,303,968</b>	\$2,876,420	P126,102,253
Payables to related parties	<b>(13,993,140)</b>	<b>(613,459,258)</b>	(13,993,140)	(613,459,258)
	<b>(\$12,275,440)</b>	<b>(P538,155,290)</b>	(\$11,116,720)	(P487,357,005)

The exchange rate used as of December 31, 2011 and 2010 is P43.84 to US\$1.00. The Group recognized net foreign exchange loss and gain amounting to P0.04 million in 2011 and P4.81 million in 2010, respectively.

The following tables represent the impact on the Group's income before income tax brought about by a reasonably possible change in US Dollar to Peso exchange rate (holding all other variables constant) as of December 31, 2011 and 2010 until its next financial reporting date:

As of December 31, 2011:

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

As of December 31, 2010:

US\$ Appreciates (Depreciates)	Increase (decrease) in income before income tax
7%	<b>(P34,114,990)</b>
(7%)	<b>34,114,990</b>

## 29. Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2011 and 2010. Also, the Group is not subject to externally imposed capital requirements.

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

	2011	2010
Capital stock	<b>P2,331,691,029</b>	P731,691,029
Additional paid-in capital	<b>2,400,000,000</b>	—
Retained earnings	<b>1,396,590,541</b>	663,299,393
Deposit for future stock subscription	—	3,953,169,000
	<b>P6,128,281,570</b>	P5,348,159,422

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

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

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

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

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

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

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

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

#### Investing

- In July 2011, the SEC approved the valuation of the land acquired through an asset-for-share swap agreement at P4.00 billion, hereby, resulting to an increase in the value of the land by P46.83 million (see Note 7).
- The Parent Company reclassified portion of the cost of the land, which was previously recognized as part of real estate inventories as of December 31, 2009, amounting to P2,187.42 million to investment properties due to change in management's plan for the land (see Note 10).
- The Parent Company reclassified the cost of completed buildings intended for leasing amounting to P483.03 million from construction in progress under property and equipment to investment properties.
- In 2009, the Parent Company entered into a Deed of Conditional Sale with a related party for the acquisition of land, which formed part of real estate inventories, for a purchase price of P485.00 million and a reimbursement of its relocation cost amounting to P460.00 million.

#### Financing

- The Parent Company reclassified the deposit for future stock subscription to subscribed capital stock and additional paid-in capital amounting to P1.60 billion and P2.40 billion, respectively, in view of the SEC's approval of the valuation of the property relating to asset-for-share agreement (see Note 17).
- The Parent Company acquired parcels of land from Paramount through issuance of its common shares which increased investment properties, real estate inventories and deposits for future stock subscription by P658.86 million, P3,294.31 million and P3,953.17 million, respectively (see Notes 7 and 17).