



27 April 2012

**Philippine Stock Exchange**

3rd Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

Gentlemen:

Please find attached Annual Report of Filinvest Land, Incorporated for the calendar year ended December 31, 2011.

Thank you.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Conrad P. Cereno", is written over a faint, light blue circular stamp.

**ATTY. CONRAD P. CERENO**  
Corporate Information Officer

# COVER SHEET

SEC Registration No. **170957**

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(Business Address: No. Street City/Town/Province)

<b>Venus A. Mejia</b>
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(Contact Person)

<b>727-0431 (local 363)</b>
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(Company Telephone Number)

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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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To be accomplished by SEC Personnel concerned

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**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A**

ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATIONS CODE  
AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPINES

For the calendar year ended **December 31, 2011**

SEC Identification Number **170957**

BIR Tax ID **000-533-224**

Exact name of registrant as specified in its charter **FILINVEST LAND, INC.**

**Philippines**

Province, Country or other jurisdiction of incorporation or organization

**173 P. Gomez St., San Juan, Metro Manila**

Address of principal office

**1500**

Postal Code

**02-727-04-31 to 39**

Registrant 's telephone number, including area code

**Not Applicable**

Former name, former address, and former fiscal year, if changed since last report

Securities registered pursuant to Section 8 and 12 of the SRC

<b><u>Title of Each Class</u></b>	<b><u>Number of shares of Common Stock Outstanding</u></b>	<b><u>Amount of Long-Term Debt Outstanding</u></b>
Common Stock, P 1.00 par value	24,249,759,506	16,488,016,621

Are any or all of these securities listed on the Philippine Stock Exchange

Yes

☒

No

☐

Check whether the issuer:

- (a) has filed reports required to be filed by Section 17 of the SRC Rule 17 thereunder or Section 11 of the RSA Rule 1(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes

☒

No

☐

- (b) has been subject to such filing requirements for the past 90 days.

Yes

☒

No

☐

State the aggregate market value of the voting stock held by non-affiliates. ₱11.13 Billion

**APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF  
PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEAR:**

Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court of the Commission.

Yes

☐

Not Applicable

No

☐

If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-1 into which the document is incorporated.

- a) Any annual report to security holders;
- b) Any proxy or information statement filed pursuant to SRC Rule 20 and 17.1(b);
- c) Any prospectus filed pursuant to SRC Rule 8.1-1

## **Part 1 - BUSINESS AND GENERAL INFORMATION**

### **Item 1. BUSINESS**

#### **1. 1. Brief Description and Recent Developments**

Filinvest Land Inc. ("FLI" or the "Company") was incorporated on November 24, 1989 and began commercial operations in August 1993 after Filinvest Development Corporation ("FDC") spun off its real estate operations and transferred all related assets and liabilities to FLI in exchange for shares of FLI. FLI was listed in the PSE on October 25, 1993.

FLI is one of the leading real estate developers in the country, providing a wide range of real estate products to residential and commercial customers. FLI (including its predecessor's operations) has over 40 years of real estate expertise and has developed over 2,000 hectares of land, having provided home sites for more than 120,000 families.

In 2006, FLI acquired three strategic investment properties, Festival Supermall and a 60% ownership interest in each of Filinvest Asia Corp. (FAC) and Cyberzone Properties, Inc. (CPI).

Festival Supermall is a four-story premier shopping complex with a gross leasable area (GLA) of approximately 135,163 sq.m. It is situated on a total land area of 10 hectares and is located within Filinvest Corporate City, a development of Filinvest Alabang, Inc. (FAI) in Alabang, Muntinlupa City. FLI has leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from October 1, 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10.0% of the monthly gross rental generated by the mall. Festival Supermall was designed to allow the construction of an additional wing to the current two-wing structure on two adjacent hectares of land available for development, which would increase the mall's gross floor area (GFA) by up to 50,000 sq.m. The lease between FAI and FLI allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease.

Festival Supermall is approximately 15 kilometers south of the Makati City central business district and is near the juncture of three major road networks – the South Expressway, the old National Highway and the Alabang-Zapote Road which links the South Expressway to the Coastal Road that connects Metro Manila to Cavite province. Its location allows it to attract customers from offices located in the Filinvest Corporate City, the subdivision developments of southern Metro Manila such as the high-end Ayala Alabang subdivision, and from nearby provinces such as Batangas, Cavite and Laguna.

Festival Supermall's current anchor tenants include stores operated by some of the Philippines' largest retailers, such as the J.G. Summit group of companies (Robinsons Department Store and Handyman Do It Best), SM Investments Corporation, (SaveMore Supermarket and Ace Hardware) and the Rustan's Group (Shopwise Supercenter). Festival Supermall also has a group of tenants that are well-known international and domestic retailers, restaurant chains and service companies, such as Bose, Levi's, Bench, Giordano, The Body Shop, National Bookstore, Starbucks, Seattle's Best Coffee, McDonald's, Chowking, Jollibee and KFC.

In addition to having over 600 retail stores and outlets, Festival Supermall also features amenities such as a ten-theater movie multiplex with digital surround sound systems and two themed amusement centers. The mall also has exhibit, trade and music halls, which are leased out to organizers of events such as trade fairs sponsored by the Philippine Department of Trade and Industry. To strengthen the mall's position as southern Manila's biggest mall that offers the most diverse shops and services, FLI has started the development of the mall's expansion on another 10 hectares of land wherein an additional 57,000 square meters of gross leasable area (GLA) will be added to the current mall's 135,163 square meter GLA. Land development on the expansion started in late 2011 and construction is expected to be completed in stages, starting in 2014. Plans are also being finalized to renovate the existing mall in phases, which is targeted to start before end of 2012, and should be completed before end-2016.

he Festival Supermall. In this acquisition, FLI assumed certain debts amounting to P2.5 billion and issued a total of 5.6 billion common shares to Filinvest Development Corporation (FDC) and Filinvest Alabang, Inc.(FAI). The valuations for the three properties and businesses involved in the said property-to-share swap were provided by an independent, internationally-known third party appraiser, Colliers International Philippines.

Festival Supermall is Southern Manila's premier 200,000 sqm regional shopping center located at the heart of Filinvest Corporate City, right on the South Luzon Expressway; making it easily accessible. At present, it has over 600 tenants. Among others, its major anchor tenants include 2 supermarkets, 2

department stores, 2 hardware centers, 10 cinemas and 2 amusement theme parks. FLI expects continuous growth in retail revenues due to the increasing OFW remittances, the increasing middle-class population as well as the continuing development within Filinvest Corporate City. FLI leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. Day-to-day operations of the Festival Supermall are currently handled by Festival Supermall, Inc. ("FSI"), an affiliate of FLI, pursuant to a management contract.

FAC owns 50% of the PBCom Tower, a 52 floor, Grade A, PEZA-designated I.T./office building in Ayala Avenue, Makati City, Metro Manila. FLI shares 60% of revenues from the 36,000 sqm. leasable space owned by FAC in this building. FAC's principal tenants include Citibank N.A., Citigroup Business Process Solutions Pte., Ltd., East West Banking Corporation, FDC Utilities, Inc., Thiacom, Stellant Services, Linde Gas, IBM Daks Eservices, Bayer Philippines, Huawei Technology, Diversified Technology Systems and Chartis Technology.

CPI owns and operates the IT buildings in Northgate Cyberzone, a PEZA registered BPO park within Filinvest Corporate City. FLI generates revenues from leasable space in twelve office buildings with a gross leasable area of 131,011 sq.m. as of December 31, 2011. Among others, Northgate's major tenants are HSBC, Convergys, APAC, GenPact Services LLC, eTelecare Global Solutions, Inc., and ICICI Bank Limited. Its day-to-day operations are handled by FAI. A significant amount of leasable space is planned to be made available so as to meet some of the significant demand of the BPO industry in the next few years.

In addition to the acquisition of these three strategic investments, FLI also entered into a joint venture agreement with Africa Israel Investments (Philippines) Inc. ("AIPI") in September 2006 to jointly develop the Timberland Sports and Nature Club ("TSNC") and approximately 50 hectares of land comprising Phase 2 of FLI's Timberland Heights township project in 2006. TSNC started its commercial operations in October 2008.

On February 8, 2010, FLI acquired the 40% interest in its joint ventures – CPI and FAPI, from Africa-Israel Properties (Phils.), Inc. and from Africa-Israel Investments (Phils.), Inc., respectively. The acquisition resulted in CPI and FAPI becoming wholly owned subsidiaries of FLI. The acquisition of the joint ventures' interests was accounted for as a business combination. Prior to the acquisition, FLI accounted for its investments in the joint ventures under the proportionate consolidation.

The sale by Africa-Israel of its interests in the two companies was part of Africa-Israel's global portfolio rebalancing and consolidation activity. On the other hand, the acquisition of Africa-Israel's interests will enable FLI to consolidate its share in the strong and stable recurring revenue streams from the two companies as well as provide incremental development potential to FLI's existing revenue streams.

With a more diversified portfolio, FLI expects to generate stable recurring revenue from its retail and office investment properties. These recurring revenues can, in turn, be used to provide internally generated funding for other projects.

The Company is not and has never been a subject of any bankruptcy, receivership, or similar proceedings. As aforementioned, there were significant amounts of assets purchased by the Company as part of the transactions which were consummated in 2006.

## **1.2. Form and Date of Organization**

FLI was incorporated in the Philippines on 24<sup>th</sup> November 1989 as Citation Homes, Inc. and later changed its name to FLI on 12<sup>th</sup> July 1993. It started commercial operations in August 1993 after Filinvest Development Corporation (FDC), the Parent Company, spun off its real estate operations and transferred all related assets and liabilities to FLI in exchange for shares of stock of FLI. FLI was listed on the PSE on October 25, 1993.

As of December 31, 2011, FDC FLI's parent company owns 53.485% of Common Stock and 100% of Preferred Stock of FLI. FDC is the holding company for real estate and other business activities of the Gotianun Family. FDC traces its origin to the consumer finance business established by Mr. Andrew Gotianun Sr. and his family in 1955. The shares of FDC and FLI are both listed in the Philippine Stock Exchange. The ultimate parent company of FLI is ALG Holdings Corporation.

In February 2007, the Company achieved a record-breaking success with its follow-on offering where it listed up to 3.7 billion new common shares at the Philippine Stock Exchange. The follow-on offering was more than five times oversubscribed, raising around \$204 million for both the primary and secondary offerings. The offering raised additional funds for the Company's capital expenditures for the fast track development of targeted projects.

On November 19, 2009, FLI issued Fixed Rate Retail Bonds with aggregate principal amount of ₱ 5 billion comprised of ₱ 500 million Three (3)-Year Fixed Rate Bonds due in November 2012 and ₱ 4.5 billion Five (5)-Year Fixed Rate Bonds due in November 2014.

The Three Year Bonds carry a fixed interest rate of 7.5269% p.a. Interest on the Bonds is payable quarterly in arrears starting on February 19, 2010. On the other hand, the Five Year Bonds have a fixed interest rate of 8.4615% p.a. and is payable quarterly in arrears starting on February 20, 2010.

As part of the Company's fund raising activities, on June 27, 2011, FLI offered to the public five-year and three-month fixed-rate retail bonds with an aggregate principal amount of Three Billion Pesos (₱ 3,000,000,000.00) due on October 07, 2016. The bonds were issued on July 07, 2011 with a fixed interest rate of 6.1962% per annum. The interest on the bond is payable quarterly in arrears starting on October 07, 2011. The bonds shall be repaid at 100% of their face value on October 07, 2016.

### **1.3. Subsidiaries**

FLI has six wholly owned subsidiaries. The following four subsidiaries are engaged in real estate marketing business and handle the marketing and sale of socialized, affordable, middle income, high-end and farm estate property development projects of FLI.

1. Property Maximizer Professional Corp. (PROMAX) incorporated on October 3, 1997.
2. Property Specialists Resources, Inc. (PROSPER) incorporated on June 10, 2002 and started commercial operations on January 01, 2004.
3. HomePro Realty Marketing, Inc. incorporated on May 16, 2003 and started commercial operations on January 01, 2004.
4. Leisurepro, Inc. (Leisurepro) incorporated on April 21, 2004 and started commercial operations on January 01, 2006.

In addition, the following two companies had become wholly-owned subsidiaries of FLI in February 2010:

## 1. Cyberzone Properties, Inc. (CPI).

CPI was incorporated on January 14, 2000 and began commercial operations on May 1, 2001. CPI is registered with the PEZA as an Economic Zone Facilities Enterprise, which entitles CPI to certain tax benefits and non-fiscal incentives such as paying a 5.0% tax on its modified gross income in lieu of payment of national income taxes. CPI is also entitled to zero percent value-added tax on sales made to other PEZA-registered enterprises.

CPI operates the Northgate Cyberzone, which is located on a 10-hectare parcel of land within Filinvest Corporate City owned by FLI. Of the 10 hectares, approximately six hectares are available for future development. CPI's current buildings are as follows:

- *Plaza A:* This is a six-story building with an approximate GFA of 11,575 sq.m. and an approximate GLA of 10,860 sq.m. Plaza A was completed in June 2006 and was substantially fully leased to GenPact Services LLC and eTelecare Global Solutions, Inc.
- *Plaza B and Plaza C:* Plaza B and Plaza C are four-story buildings, each with an approximate GFA of 7,150 sq.m. and an approximate GLA of 6,540 sq.m. for a combined GLA of 13,080 sq.m. Plaza B and Plaza C were both completed in 2001. Each of Plaza B and Plaza C was substantially fully leased. Tenants for Plaza B include goFluent, AMS Express, Team Asia, Outboundphil, APPCO Direct Int'l., Treadyne and Seven Seven Global Services, Inc. All of Plaza C has been leased by APAC Customer Services, Inc.
- *Plaza D:* This is a six-story building with the same specifications as Plaza A and with an approximate GFA of 11,575 sq.m. and an approximate GLA of 10,860 sq.m. Plaza D had been leased to ICICI First Source Ltd., a 100% owned subsidiary of India's largest private sector bank, and Verizon Communications Phils Inc, the Philippine branch of Verizon Business solutions, a leading communications company in the United States of America.
- *Convergys Building:* This is a three-story building with an approximate GFA of 6,466 sq.m. and an approximate GLA of 5,839 sq.m. Completed in 2004, it was one of the first buildings completed in the Northgate Cyberzone and was "built-to-suit" (BTS) to meet the requirements of Convergys. Recently Convergys signed a contract to extend the lease for another five years.
- *HSBC Building:* This is another building that was constructed on a BTS basis to meet the requirements of HSBC. Completed in 2005, the HSBC building has an approximate GLA of 18,000 sq.m.
- *IT School:* This is a three-story building with an approximate GFA of 3,297 sq.m. and an approximate GLA of 2,595 sq.m. Its major tenant is currently Genpact Services LLC.
- *Building 5132:* This is a six-story building with an approximate GFA of 10,560 sq.m. and an approximate GLA of 9,408 sq.m. Building 5132 has been fully taken up by GenPact Services LLC.
- *iHub I and iHubII:* This is a two-tower complex (one with six stories and the other with nine stories) iHub 1 has an approximate GLA of 9,474 sq.m. and has been leased out to numerous tenant which includes GenPact, HSBC, W.R. Grace Philippines and Lattice Semiconductor.



IHub 2 has an approximate GLA of 14,166 sq.m. and has been leased out primarily to Convergys and Integra.

- *Vector One* : an 11- story building with an approximate GFA of 19,545 sq.m. and an approximate GLA of 17,951 sq.m. It was completed in 2010. Filinvest Alabang, Inc. (FAI) was its first tenant, occupying the fifth to seventh floors for its corporate headquarters. Other tenants of the building are Convergys and Flour Daniel.
- *Vector Two*: This building has the same configuration as with Vector One. It is also 11 stories high with an approximate GLA of 17,914 sq.m. It was completed in October 2011. Tenants of the building include Infosys and Flour Daniel.
- *Filinvest Building*: This building is targeted for completion within the third quarter of 2012. This five-storey BPO building located Along EDSA in Mandaluyong City will have approximately 7,000 sq.m. of GLA. This is FLI's first BPO office building outside Northgate Cyberzone.

Considering the five hectares of land available for the construction of additional buildings within the Northgate Cyberzone, FLI expects to be able to provide an additional 195,510 sq.m. of leasable office space to accommodate expected increases in demand from BPO companies. These BPO companies usually require significant amounts of office space for their operations. FLI, through CPI, plans to focus on attracting their businesses, including custom-designed office space with call center and BPO design requirements in mind.

Before completion of a new building, CPI evaluates whether the anticipated demand for office space among BPO firms would likely allow it to lease out space in the building while it is being constructed. For example, office space at Plaza A and Plaza D were tendered for lease after construction began on these buildings but before completion. FLI expects to continue this practice.

Office space leases at the Northgate Cyberzone are typically for periods ranging from three to five years, although HSBC has entered into a ten-year lease. The lease agreements generally require tenants to make a three-month security deposit. Rent is paid on a fixed per square meter basis, depending on unit size and location.

1. FAC was incorporated on January 22, 1997. FAC is 60.0%-owned by FLI and 40.0%-owned by Reco Herrera Pte Ltd (RHPL), an affiliate of Government of Singapore Investment Corporation PTE Ltd.(GIC). FAC owns 50.0% of the 52-storey PBCom Tower, equivalent to 36,000 square meters of leasable office space. The remaining 50.0% of PBCom Tower is owned by the Philippine Bank of Communications. Two development projects in Northgate Cyberzone are on-going, with details as follows: Building 5132: This is a six-storey building expected to be completed in the first quarter of 2007. Negotiations with several prospective tenants for this building are on-going. iHub I and iHub II: These are two contiguous towers(one with six storeys and the other with nine storeys) in one complex. iHub I is scheduled to be completed by mid-2007 while iHub II is scheduled to be completed in the third quarter of 2007.(FAPI)

## 2. Filinvest AII Philippines, Inc. (FAPI)

FAPI was incorporated on September 25, 2006 as a joint venture corporation with Africa Israel Investments (Philippines), Inc (AIIPI) to develop the Timberland Nature & Sports Club and Phase 2 of Timberland Heights. On February 08, 2010, FAPI became a wholly owned subsidiary of FLI with FLI's acquisition of the 40% interest of AIIPI. FLI acquired 60.0% ownership interest in FAPI by contributing

50 hectares of land for Phase 2 of Timberland Heights, all of the Class “A” member shares in the Timberland Sports and Nature Club held by FLI and development costs of approximately ₱100.0 million. AIPI contributed ₱250.0 million to FAPI and has a 40.0% ownership interest in FAPI. FLI has also granted AIPI a five-year option to participate in the development of the remaining areas of Timberland Heights.

Timberland Heights is a 677-hectare township project anchored by the Timberland Sport and Nature Club, which was designed to be a world-class family country club in a mountain resort setting. Timberland Heights is situated at an elevation of 320 meters above sea level and provides panoramic views of the north of Metro Manila. The master plan for Timberland Heights includes Banyan Ridge, a middle income subdivision; Mandala Farm Estates; the Ranch and Banyan Crest, a high end subdivision; and, a 50-hectare linear greenway that straddles the entire development which will provide a large outdoor open space for residents.

#### **1.4. Joint Ventures**

FLI has also 60% interest in arrangements to form the following companies: **Filinvest Asia Corporation (FAC)** which is accounted for as a joint venture.

FAC was incorporated on January 22, 1997 and as of the date of this report is 60.0%-owned by FLI and 40.0%-owned by Reco Herrra Pte.Ltd. (RHPL). RHPL is 100% beneficially owned by Government of Singapore Investment Corporation Pte. Ltd (GIC). FAC owns 50.0% of the 52-story PBCom Tower, which is strategically located at the corner of Ayala Avenue and V. A. Rufino (formerly Herrera) Street in the Makati City Central Business District. FAC owns 36,000 sq.m. of leasable office space. The remaining 50.0% of PBCom Tower is owned by the Philippine Bank of Communications.

The PBCom Tower is designated as an information technology building by PEZA. Consequently, tenants occupying space in PBCom Tower are entitled to avail of certain fiscal incentives, such as a 5% tax on modified gross income in lieu of the regular corporate income tax of 30%. As of December 31, 2011, FAC’s principal tenants include Citibank N. A., Citigroup Business Process Solutions Pte. Ltd., East West Banking Corporation, FDC Utilities, Inc., Thiacom, Stellent Services, Linde Gas, IBM Daksh Eservices, Bayer Philippines, Huawei Technology, Diversified Technology Systems and Chartis Technology.

Leases at the PBCom Tower are typically for periods ranging from three to five years, with the lease agreements generally requiring tenants to make a three-month security deposit. Rent is paid on a fixed rate per square meter basis depending on unit size and location.

PBCom Tower, a PEZA designated I.T. building, is currently the tallest building in the Philippines. It is strategically located at the corner of Ayala Avenue and Herrera Street in the Makati City central business district. Some of its present tenants are Citibank, HSBC Electronic Data Processing, IBM Daksh eservices, ESS Manufacturing, New York Life Insurance and East West Bank, an affiliate of FLI. **Cyberzone Properties, Inc.(CPI)** CPI was incorporated on January 14, 2000. It began commercial operations on May 1, 2001. CPI is 60.0%-owned by FLI and 40.0%-owned by Africa Israel Investment (Philippines) Limited (“AIPL”).

CPI owns and operates the buildings in the Northgate Cyberzone, a PEZA-approved BPO office park which is approximately 15 kilometers south of the Makati City central business district. The Northgate Cyberzone is located on a 10-hectare parcel of land owned by FLI in the Filinvest Corporate City and which CPI leases from FLI. Of the 10 hectares of land on which the Northgate Cyberzone is situated, approximately seven hectares are available for future expansion. As of December 2006, seven office buildings have been completed, with details as follows:

- Two build-to-suit buildings (BTS) occupied for the backroom unit requirement of British bank HSBC Ltd. and Convergys, one of the biggest call centers.

An IT School building leased out to Informatics International College, a Singapore-headquartered information technology (“IT”) school, and YBM Philippines, which operates language schools in the Philippines. *Plaza A*, six-storey building which was completed in June 2006, substantially fully leased to GenPact Services LLC and eTelecare Global Solutions, Inc.. *Plaza B and Plaza C*, both four-storey buildings, completed in 2001. Tenants for Plaza B include Deutsche Bank, Globe Innove, Global Access Inc. and NDE Digitech. All of Plaza C has been leased by APAC. *Plaza D*, a six-storey building with approximately 50.0% of the gross leasable area leased to ICICI Bank Limited, India’s largest private sector bank; and the balance leased to Verizon.

### **1.5. Equity Investment in Filinvest Alabang, Inc. (FAI)**

FAI was incorporated on 25<sup>th</sup> August 1993 and started commercial operations in October 1995. FLI has a 20.0% equity interest ownership in FAI. The primary project of FAI is the Filinvest Corporate City (FCC), a 244-hectare development project which has been designed as a satellite city using modern, ecological, urban planning and design. The said project is under a joint venture agreement with the Government. Located at the southern end of Metro Manila and adjacent to the South Expressway, Filinvest Corporate City is surrounded by over 2,800 hectares of developed high-end and middle-income residential subdivisions and commercial developments. Other developments in FCC include residential condominiums, a driving range, sports club, office buildings, low-density retail developments and medical centers.

### **1.6. Business Groups, Product Categories, Target Markets and Revenue Contribution**

As a result of the recent business developments, FLI is now composed of two business segments with corresponding product categories, target markets and revenue contributions as follows:

#### **1.6.1 Real Estate Segment**

FLI’s main real estate activity since it started operations has been the development and sale of residential property, primarily housing units and subdivision lots. and in certain cases, provision of financing for unit sales.

#### **Residential Projects**

FLI is able to tap the entire residential market spectrum with the following range of housing units catering to various income segments:

- *Socialized housing:* These developments are marketed and sold under FLI’s Pabahay brand and consist of projects where lots typically sell for P 160,000 or less per lot and housing units typically sell for P 400,000 or less per unit. Buyers for these projects are eligible to obtain financing from the Government-mandated Pag-IBIG Fund. Any income realized from the development and improvement of socialized housing sites are exempt from taxation.
- *Affordable housing:* These developments are marketed and sold under FLI’s Futura Homes brand and consist of projects where lots are typically sold at prices ranging from above ₱160,000 to ₱ 750,000 and housing units from above ₱ 400,000 to ₱ 1,500,000. Affordable housing projects are

typically located in provinces bordering Metro Manila, including Bulacan, Laguna, Batangas and Cavite, and in key regional cities such as Pampanga, Tarlac, Cebu and Davao.

- *Middle-income housing:* These developments consist of projects where lots are typically sold at prices ranging from above ₱ 750,000 to ₱ 1,200,000 and housing units from above ₱ 1,500,000 to ₱ 4,000,000. Middle-income projects are typically located within Metro Manila, nearby provinces such as Rizal, Cavite, Pampanga and Laguna, and major regional urban centers in Cebu, and Davao and Zamboanga..
- *High-end housing:* Marketed under Filinvest Premiere brand, these developments consist of projects where lots are sold at prices above ₱ 1,200,000 and housing units for above ₱4,000,000. FLI's high-end project are located both within Metro Manila and in areas immediately outside Metro Manila.

### **Other Real Estate Projects**

In order to achieve product and revenue diversification, FLI has added the following projects so as to cater to other market niches:

#### **a. Entrepreneurial Communities**

Because of the anticipated growth of small and medium-sized businesses as well as the Government support for entrepreneurial programs, FLI has launched its entrepreneurial communities under its “*Asenso Village*” brand. The first project is in Laguna province, which forms part of the Company’s Ciudad de Calamba township development. Asenso Village currently consists of three phases, with its land being “dual-zoned” to allow both residential and commercial use. The Company has also cooperated with the Government by providing venues for various livelihood and small business seminars and programs conducted by government agencies in the Asenso Village. At present, sales in Asenso Village consist of subdivision lot sales only,

Although FLI intends to develop housing units for Asenso Village that incorporate living quarters and an area for buyers to set up and operate their small enterprises and home-based businesses. Subject to market conditions, FLI plans to develop additional “Asenso Villages” in other locations.

#### **b. Townships**

Townships are master-planned communities to include areas reserved for the construction of anchor facilities and amenities. FLI believes that these facilities and amenities will help attract buyers to the project and will serve as the nexus for the township’s community. Anchor developments could include schools, hospitals, churches, commercial centers, police stations, health centers and some other government offices; or in the case of Timberland Heights, a private membership club.

FLI has master-planned and developed the *Ciudad de Calamba, Timberland Heights and Havila (formerly, Filinvest East County) township projects* which are respectively located along the southern, northern and eastern boundaries of Metro Manila. FLI has started in 2010 its fourth township project called Citta di Mare located in Cebu. Each township development is designed to include a mix of residential subdivisions from the affordable to the high-end sectors.

#### **Ciudad de Calamba**

Ciudad de Calamba is a 350-hectare development located in Calamba, Laguna. This township project is a PEZA-registered special economic zone anchored by the Filinvest Technology Park-Calamba, which provides both industrial-size lots and ready-built factories to domestic and foreign enterprises engaged in light to medium non-polluting industries. As of December 31, 2006, 14 companies had either purchased lots or leased factories in the Filinvest Technology Park-Calamba. FLI also recently donated to the city government of Calamba a parcel of land located within the Ciudad de Calamba, which will be used for a city health center and police station. The Company also intends to develop the Ciudad de Calamba Commercial Center as part of this township project. The master plan for Ciudad de Calamba includes a mix of affordable and middle-income subdivisions as set out below:

- *Aldea Real*, an affordable subdivision project which has a total developed area of approximately 16.9 hectares. Development for Phase 1 & 2 has been completed.
- *Montebello*, a middle-income subdivision project that is expected to have a total developed area of approximately 12.9 hectares. Three phases have been launched and developed.
- *Punta Altezza*, an affordable subdivision project consisting of 3 phases has a total developed area of approximately 9.7 hectares. Development work for Punta Altezza has been completed.
- *Vista Hills*, an affordable subdivision project which has a total developed area of approximately 5.2 hectares. Development work for Vista Hills has been completed.
- FLI's first "*Asenso Village*" entrepreneurial community development is located within the Ciudad de Calamba and is expected to have a total developed area of approximately 20.2 hectares. Development work for this project is almost complete.
- *La Brisa Townhomes*, La Brisa, which literally means "The Breeze" in Spanish, is located at Brgy. Punta, Calamba City. With its Spanish Mediterranean theme, La Brisa is the first townhouse development at Ciudad De Calamba that offers not just an affordable and quality home to families but also a worthy investment for those who would like to establish a "House for Rent" business. La Brisa is very accessible to industrial estates operating in the vicinity, definitely a valuable venture for companies that provide housing privilege to employees.
- *Pueblo Solano*, this is a 68 hectare portion of Ciudad de Calamba that has been earmarked for low-affordable and socialized housing. Valle Dulce will offer low-affordable housing units and the first phase will cover 12.4 hectares. Valle Alegre subdivision offers socialized housing units and the first phase will cover 10.6 hectares. Land development is ongoing at Pueblo Solano.

#### *Havila (formerly, Filinvest East County)*

Havila, or formerly, Filinvest East County is a 335-hectare township along the eastern edge of Metro Manila, which traverses the municipalities of Taytay, Antipolo and Angono. It is anchored by two educational institutions: San Beda College – Rizal and the Rosehill School. The master plan for Havila provides for a mix of affordable, middle-income and high-end subdivisions on rolling terrain overlooking Metro Manila at an elevation of 200 meters above sea level. This project is divided into three areas:

- *Mission Hills* is located in the municipality of Antipolo and consists of seven subdivision projects which are expected to have a total developed area of approximately 77.7 hectares. Three subdivisions (Santa Barbara, Santa Monica and Santa Catalina) were developed as high-end projects while another four (Santa Isabel, Santa Cecilia, Santa Clara and Sta. Sophia) have been

developed as middle-income projects. Development works for all seven subdivisions have been completed. The newest addition to the Mission Hills community, Sta. Sophia, a mid-income development was launched in July 2008.

- Three subdivision projects are being developed in the municipality of Taytay which are expected to have a total developed area of approximately 56.1 hectares. Development works for one high-end subdivision (*Highlands Pointe*) and for an affordable-segment subdivision (*Villa Montserrat*) have been completed. Development work for a middle-income subdivision (*Manor Ridge*) has also been completed. These subdivision projects are almost sold out. The newest project in Highlands Pointe, *The Terraces* was launched in October 2008. The Terraces is a mid-income development which targets young couples starting a family.
- *Forest Farms Estate*, which is situated in the municipality of Angono, is a farm estate subdivision project which is expected to have a total developed area of 39.2 hectares. Development work for this project is almost complete.

### Timberland Heights

Timberland Heights is a 677-hectare township project anchored by the Timberland Sport and Nature Club. It is located in the municipality of San Mateo, which is just across the Marikina river from Quezon City, and has been designed to provide residents with leisure facilities and resort amenities while being located near malls, hospitals and educational institutions located in Quezon City. In addition to the Timberland Sports and Nature Club, Timberland Heights currently includes:

- Banyan Ridge, a middle-income subdivision which has a total developed area of approximately 6.4 hectares.
- Mandala II Farm Estates is a farm estate subdivision which has a total developed area of approximately 39.7 hectares. Land development has been completed.
- The Ranch, a high-end subdivision which has a total developed area of approximately 5.7 hectares.
- Banyan Crest, a 14.8 hectare high-end subdivision. Land development for Banyan Crest has been completed.

Around 73 hectares has been earmarked for middle-income housing within Timberland Heights. The first phase covering 10 hectares will be launched within 2012. A condotel, located right across the Timberland Sports and Nature Club, will also be launched in 2012. It will cover approximately one hectare of land.

### Città di Mare

In August 2010, FLI gave Cebu a preview of its most ambitious seaside development when it launched Città di Mare at the Grand Ballroom of Crimson Resort and Spa in Mactan, Cebu.

In late 2011, FLI started the land development of the first two phases of Il corso, covering seven hectares. Phase 1, which is targeted for partial completion by the end of 2013, will have a gross leasable area (GLA) of approximately 22,506 sq. m. Phase 2, which is targeted for completion in 2014, will have a GLA of approximately 12,680 sq.m.

Inspired by the world's best-loved coastal cities, Città di Mare, which is Italian for "City by the Sea", spans 50.6 hectares at Cebu's South Road Properties. It is a master-planned development composed of three different zones catering to a wide array of lifestyles and activities - Il Corso, the 10.6 hectare waterfront lifestyle strip, the 40-hectare residential clusters and The Piazza, nestled at the heart of the residential enclaves, puts lifestyle essentials such as a school, church, shops and restaurants within the neighborhood. Citta di Mare is envisioned to be a destination in itself, takes full advantage of the coastal ambience featuring seaside shopping, dining, beach and water sports and more, right by the water's edge.

Città di Mare has four resort-themed residential enclaves inspired by world-class resorts, with each 10-hectare development flaunting a distinct architectural character. With over 65% of the property allocated for wide, open areas and landscaped greens, Città di Mare provides the generous amenity of breathing space and a refreshing dose of nature throughout the site. Residences are spread out over the sprawling development, maximizing the abundant sunlight and allowing the invigorating sea air to circulate freely.

- Amalfi Oasis features clusters of five-storey buildings with luxuriant gardens, resort-style amenities and pedestrian-friendly environs, bask in fresh air, radiant sunshine and charming landscapes. In November 2010, groundbreaking rites for Amalfi Oasis were held, the first residential enclave at Città de Mare. The first building will be completed in 2012, while two more buildings are scheduled for completion in 2013.
- San Remo Oasis, the second residential enclave in Città di Mare involves the development of 3.4 hectares of land with well-planned living spaces with numerous choice units to suit anyone's lifestyle. Construction is ongoing on the first two buildings and are targeted for completion in 2013.

#### c. Leisure projects

FLI's leisure projects consist of its residential farm estate developments, private membership club and residential resort development.

##### *1. Residential farm estates*

In 2003, FLI began marketing its residential farm estate projects which may serve as alternative primary homes near Metro Manila to customers, such as retirees and farming enthusiasts. Customers can purchase lots (with a minimum lot size of 750 square meters) on which they are allowed to build a residential unit (using up to 25.0% of the total lot area). The remaining lot area can be used for small-scale farm development, such as fish farming or vegetable farming. Residential farm estates are sold on a lot-only basis, with buyers being responsible for the construction of residential units on their lots. To help attract buyers, FLI personnel are available on site to provide buyers with technical advice on farming as well as to maintain demonstration farms.

At present, FLI has three residential farm estates:

- *Nusa Dua Farm Estate ("Nusa Dua")* located in Cavite province just south of Metro Manila. The amenities at the Nusa Dua development include a two-storey clubhouse and a 370 square meter swimming pool. 90% of the first two phases had been sold. Its third phase is now open for sale.

- *Mandala Residential Farm Estate* (“Mandala”) located in Rizal province as part of the FLI’s Timberland Heights township project. It offers hobby farmers generous lot cuts and Asian-inspired homes that complement the mountain lifestyle. Three Five phases have already been opened in response to the strong market demand.
- *Forest Farms Residential Farm Estate* (“Forest Farms”) located in Rizal province as part of Company’s Havila township project. It is an exclusive mountain retreat and nature park, nestled between the hills of Antipolo and forested area of Angono. Sales are now on-going.

## 2. Private membership club

FLI, through FAPI, has developed the Timberland Sports and Nature Club. This Club is expected to include sports and recreation facilities, fine dining establishments and function rooms that can be used to host corporate and social events. The Company expects that sales of subdivision lots in the high-end subdivision components of Timberland Heights may be tied with the sale of shares in the Timberland Sports and Nature Club, with some lot buyers also acquiring membership shares as part of the purchase of their lots.

*The Timberland Sports and Nature Club* was designed to be a world-class family country club in a mountain resort setting. The Club aims to become a social hub with 2,000 sq.m. of full-range of indoor sports, nature oriented amenities, spa, dining, banquet and room facilities with world class standard club management on an 8-hectare elevated and rolling terrain. It started commercial operations in October 2008.

## 3. Residential resort development

*Kembali Coast* on Samal Island, Davao is a beachfront residential resort development. This 50-hectare Asian-Balinese inspired island getaway offers low-density exclusivity and comes with a 1.8 km beach line that offers unobstructed view of the sea. Three overnight facilities were completed in 2008 while land development for the first residential phase has been completed. To enable buyers and guest to enjoy the facilities at an early stage, a multi purpose hall, changing and shower areas, welcome huts and the guardhouse have been constructed. *Kembali Horizons*, three-storey residential buildings, are currently being offered.

*Lauena de Taal* (“Lauena”) located in Talisay Batangas with a view of the Taal lake and a lakeside residential community, about ten minutes drive from the popular tourist destination of Tagaytay. now under construction with estimated completion in the third quarter of 2007.

### d. Medium Rise Buildings

Medium Rise Buildings (MRB) projects are five-storey to ten-storey buildings clustered around a central amenity area. Marketed under the “Oasis” brand, FLI’s MRBs are intended to provide a quiet environment within the urban setting. The buildings occupy 30% to 35% of the land area, providing a lot of open spaces. Currently, FLI has the following ongoing MRB projects:

*One Oasis Ortigas* – Comprised of 13 MRBs Located along Ortigas Extension in Pasig City.

*Bali Oasis* – Comprised of 4 MRBs located along Marcos Highway, Pasig City.

*Bali Oasis 2* – Comprised of 4 MRBs also located along Marcos Highway, Pasig City.



*Capri Oasis* – Consist of 6 MRBs Located along Dr. Sixto Antonio Ave., in Pasig City

*Sorrento Oasis* – Consist of 15 MRBs along C. Raymundo Ave., in Pasig City

*Maui Oasis* – Comprised of 3 MRBs along Sta. Mesa, Manila

*One Oasis Davao* – Comprised of 5 MRBs in Davao City

*One Oasis Cebu* – Consist of 10 MRBs in Mabolo, Cebu City

*Amalfi Oasis* – Consist of 9 MRBs in Citta di Mare, South Road Properties, Cebu City

*San Remo Oasis* – Comprised of 13 MRBs in Citta di Mare, South Road Properties, Cebu City

The Company is targeting to launch two new MRB projects in 2012. Girin Oasis, located in Cainta, Rizal and Pasig City, as well as its first MRB project in Quezon City.

#### e. High Rise Building

##### The Linear

FLI started to develop in 2009 *The Linear*, is a master-planned residential and commercial hub in Makati City. Two-L-shaped towers, each 24 storeys high, comprise this dynamic condo community that perfectly caters to the needs of young urban professionals. The construction of Tower 1 is ongoing and is scheduled for completion in mid-2013, while Tower 2 is expected to be delivered in 2014.

##### Studio City

Studio City is a community composed of five-tower residential condominium complex within the Filinvest Corporate City to serve the demand for housing of the growing number of professionals working within FCC and in the nearby Madrigal Business Park. Since it is located within the Filinvest Corporate City, residents will enjoy proximity to Festival Supermall, Westgate Center, Northgate Cyberzone, Asian Hospital and Medical Center, and other commercial, educational and medical institutions. The development consists of 18 storeys per building with commercial units at the ground floor. All residential floors will have 25 studio units per floor. Site development works are ongoing and the first building is targeted for completion in 2014.

##### The Levels

Located at one of the highest points of Filinvest Corporate City at around 23 meters above sea level, The Levels is a one-block, four-tower residential condominium development that features laidback suburban living inside a fast-paced business district. The residential development is set in a tropical landscape, with its four towers uniquely designed with terracing levels, giving it a castle-effect look. high-rise sections will be set in lush greenery, providing residents with views of the gardens. The first building, “Anaheim” is expected to be completed in 2014.

##### Vinia Residences

Vinia is a 25-storey condominium development located along EDSA in Quezon City, right across TriNoma and just steps away from the MRT-North Avenue station. With its coveted location, it offers a world of ease and convenience to yuppies and families looking for quality homes, as well as budding entrepreneurs who want to start a home-based business at the heart of the city.

##### Studio Zen

Studio Zen is a 21-storey condominium development located along Taft Avenue in Metro Manila. Student-oriented amenities, Zen-inspired features, and functional building facilities makes it an ideal residence for students living independently and a great investment opportunity for entrepreneurs who want to take advantage of the ready rental market in the area.

f. Condotel

Grand Cenia

The Grand Cenia Hotel and Residences is a 25-story development located along Archbishop Reyes Avenue in Banilad, Cebu, on the 4,211 sq.m. property strategically located close to the Cebu Business Park. Grand Cenia features two products – “condotel” and residential condominium units. Starting November 2011, units were turned over to the condotel buyers in preparation for hotel operations. In January 2012, the hotel started operating as the Quest Hotel and Conference Center, a three-star hotel complete with business and conference facilities. The 25-storey structure has 432 condotel rooms and 119 residential condominium units. One and a half floors have been earmarked for BPO office space with gross leasable area of 3,227 sq.m.

FLI is studying the incorporation of a new subsidiary that will provide management services to the clubs the Company has developed and is developing. Club management, operations and maintenance costs are covered by revenues from club operations (such as revenue from food and beverage sales).

**Analysis of Real Estate Sales**

(In thousands)

Category	Years ended December 31			
	2 0 1 1		2 0 1 0	
	Amount	% to total	Amount	% to total
Residential Lots and House & Lot Packages				
Socialized	1,014,265	14.59%	966,823	17.10%
Affordable	888,183	12.77%	522,726	9.25%
Middle income	4,419,887	63.56%	3,687,300	65.23%
High end & Others	376,285	5.41%	223,504	3.95%
Industrial Lots	26,074	0.37%	93,975	1.66%
Residential Farm Lots	213,352	3.07%	139,907	2.48%
Leisure	15,425	0.22%	18,139	0.32%
Total	6,953,469	100.00%	5,652,374	100.00%

The table above shows a comparative breakdown of FLI’s journalized real estate sales into various product categories for the years ended December 31, 2011 and 2010.

**1.6.2. Leasing Segment**

Starting 2007, FLI’s acquired investment properties, which are categorized as retail and office, started to generate rental revenues for a full year operations.

Festival Supermall

The Festival Supermall is a four-storey shopping complex located within FAI’s Filinvest Corporate City development near the juncture of three major road networks – the South Expressway, the old National

Highway and the Alabang-Zapote. In addition to having over 600 retail stores and outlets, the Festival Supermall also features amenities such as a ten-theater movie multiplex with digital surround sound systems, and two themed amusement centers. The mall also has exhibit, trade and music halls which are leased out to organizers of events such as trade fairs sponsored by the Philippine Department of Trade and Industry. Its current anchor tenants include stores operated by some of the Philippines' largest retailers, such as the J.G. Summit group of companies (Robinsons Department Store and Handyman Do It Best), SM Prime Holdings, Inc. (SaveMore Supermarket and Ace Hardware) and the Rustan's Group (Shopwise Supercenter). As of December 31, 2006, the Festival Supermall's anchor tenants leased approximately 28.4% of the mall's total leasable space.

The Festival Supermall also has a group of tenants that are well-known international and domestic third-party retailers, restaurant chains and services companies, such as Bose, Levi's, Bench, Giordano, The Body Shop, National Bookstore, McDonald's, Jollibee and KFC.

FLI leased from FAI the 10 hectares of land on which the mall and its adjoining structures (such as parking lots) are situated. The lease is for a term of 50 years from October 1, 2006, renewable for another 25 years, with FLI required to pay monthly rent equivalent to 10.0% of the monthly gross rental revenue from the mall. The Festival Supermall was designed to allow the construction of an additional wing to the current two-wing structure on two adjacent hectares of land available for development, which would increase the mall's total floor area by up to 50,000 square meters. The lease between FLI and FAI allows FLI to construct additions or extensions to the current mall structure, which will revert to FAI upon termination of the lease. FLI will determine if or when construction for the third wing will be undertaken based on market conditions and its perception of the demand for additional retail space in the areas served by the mall. Day-to-day operations at the Festival Supermall are currently managed by Festival Supermall, Inc. ("FSI"), an affiliate of FLI, pursuant to a management contract that entitles FSI to a management fee of ₱200,000 per month. FLI also pays for the salaries and benefits of FSI's officer and employees who are assigned to manage the Festival Supermall. Engineering, maintenance, security and janitorial services for the mall are outsourced to reputable third-party service providers on an annual contractual basis. These contracts can usually be terminated at any time, such as if the contractor fails to perform at an acceptable level.

### PBCom Tower

The PBCom Tower, the tallest building in the Philippines, is a 52 floor, Grade A, PEZA-designated I.T. office building in Ayala Avenue, Makati City, Metro Manila. FLI owns part of the PBCom Tower thru Filinvest Asia Corporation. FLI earns 60% of revenues from the 36,000 sq.m. leasable space owned by Filinvest Asia Corp. in this building. Colliers International had been hired to provide day-to-day property management services for PBCom Tower. In addition, pursuant to a management agreement, FAI provides the following services: general management services, accounting services, operations, legal review and documentation, office rental services and recruitment and training services.

### Northgate Cyberzone

Northgate Cyberzone is a PEZA registered BPO park within Filinvest Corporate City. FLI earns revenues from approximately 131,000 sq.m. leasable space with Convergys, APAC, Genpact, e-telecare Global Solutions, ICICI Bank Ltd., Flour Daniel and Infosys as major tenants, among others. Of the 10 hectares of land on which the Northgate Cyberzone is situated, approximately five hectares are available for future development. Two build-to-suit buildings (BTS) are being occupied for the backroom unit requirement of British bank HSBC Ltd. and Convergys, one of the biggest call centers. An IT School building is leased out to Informatics International College, which is a Singapore-headquartered information technology ("IT") school, and YBM Philippines, which operates language schools in the

Philippines. *Plaza A*, six-storey building which was completed in June 2006, is substantially fully leased to GenPact Services LLC and eTelecare Global Solutions, Inc.. *Plaza B and Plaza C*, both four-storey buildings, were completed in 2001. Tenants for Plaza B include Deutsche Bank, Globe Innove, Global Access Inc. and NDE Digitech. All of Plaza C has been leased by APAC.

There are three projects involving four buildings under development in Northgate Cyberzone. These are all expected to be completed in 2007. These include Plaza D, Building 5132, iHub I and iHub II. All of Plaza D has been leased to ICICI Bank Limited, India's largest private sector bank, and Verizon. There are still seven hectares available for the construction of additional buildings within the Northgate Cyberzone.

The table below shows a breakdown of FLI's recorded gross leasing revenues for 2011 & 2010.

### Leasing Revenues

(Amounts in thousands)

	Years ended December 31			
	2 0 1 1		2 0 1 0	
	Amount	% to total	Amount	% to total
Festival Supermall	809,862	52.99%	776,956	55.05%
Northgate Cyberzone	542,440	35.49%	455,888	32.30%
PB Com Tower	163,573	10.70%	136,721	9.69%
Others	12,416	0.81%	41,705	2.96%
Total	1,528,290	100.00%	1,411,269	100.00%

## 1.7. Marketing and Sales

### 1.7.1 Real Estate Segment

The Company develops customer awareness through marketing and promotion efforts and referrals from satisfied customers. The Company has a real estate marketing team and a network of sales offices located in the Philippines and tie-ups with independent brokers in Europe, Hongkong, the Middle East and Japan. FLI's marketing personnel, together with in-house sales agents and accredited agents, gather demographic and market information to help assess the feasibility of new developments and to assist in future marketing efforts for such developments.

The Company conducts advertising and promotional campaigns principally through print and broadcast media, including billboards, fliers, and brochures designed specifically for the target market. Advertising and promotional campaigns are conceptualized and conducted by FLI's marketing personnel and by third-party advertising companies. These campaigns are complemented with additional advertising efforts, including booths at shopping centers, such as Festival Supermall, and other high traffic areas, to promote open houses and other events.

The Company also believes that the OFW population, as well as expatriate Filipinos, constitute a significant portion of the demand for affordable and middle-income housing either directly or indirectly by remitting funds to family members in the Philippines to purchase property. To this end, the Company has appointed and accredited independent brokers in countries and regions with large concentrations of OFWs and expatriate Filipinos, such as Italy, Japan, the United Kingdom and the Middle East. These brokers act as the Company's marketing and promotion agents in these territories to promote the Company and its products. The Company also sponsors road shows to promote its projects, including

road shows in Europe and the United States of America, targeting the OFW and Filipino expatriate markets. FLI also markets its properties on the Internet.

FLI caters to a wide customer base spanning the different income segments of the real estate market - from socialized, to affordable, to middle and to high-end. FLI also serves the industrial and leisure markets through its entrepreneurial communities, township projects, farm estates and private membership clubs. It does not have a single or a few customers accounting for 20% of its sales.

FLI develops customer awareness through its marketing and promotion efforts and referrals from satisfied customers. FLI conducts advertising and promotional campaigns principally through print media, including billboards, fliers, and brochures designed specifically for the target market. Advertising and promotional campaigns are conceptualized and conducted by FLI's marketing personnel and by third-party advertising companies. These campaigns are complemented with additional advertising efforts, including booths at shopping centers, such as the Festival Supermall, and other high traffic areas, to promote open houses and other events. FLI also relies on positive word-of-mouth from satisfied customers.

FLI has appointed and accredited independent brokers in countries and regions such as North America, Italy, Japan, the United Kingdom and the Middle East. These areas have large concentrations of OFWs and expatriate Filipinos who constitute a significant portion of the demand for its affordable and middle-income housing and land development projects. The said brokers act as FLI's marketing and promotion agents in these territories. Sales for FLI's housing and land development projects are made through both in-house sales agents and independent brokers. Both FLI's in-house sales agents and independent brokers are compensated through commissions on sales. In-house sales agents also receive a monthly allowance and are provided administrative support by FLI, including office space and expense allowances.

In addition to in-house sales agents and independent brokers, FLI also employs representatives who staff its sales offices and provide customers with information about FLI's products, including financing and technical development characteristics. FLI also assigns each project a sales and operations coordinator who will provide customers with assistance from the moment they make their sales reservation, during the process of obtaining financing, and through the steps of establishing title on their new home. FLI also has personnel who can advise customers on financing options, collecting necessary documentation and applying for a loan. FLI also helps design down payment plans for its low-cost housing customers that are tailored to each customer's economic situation. Further, once a house is sold and delivered, FLI has customer service personnel who are available to respond to technical questions or problems that may occur after delivery of the property.

### **1.7.2 Leasing Segment**

Various professional, multinational commercial real estate leasing agents (including, but not limited to Jones Lang LaSalle, CB Richard Ellis and Colliers) are accredited to find tenants for its PBCom Tower and Northgate Cyberzone office space. These brokers work on a non-exclusive basis and earn commissions based on the term of the lease.

FLI also maintains, through its subsidiaries, an in house sales team to market its office & commercial spaces.

### **1.8. Customer Financing for Real Estate Projects**

The ability of customers to obtain financing for purchases of subdivision lots or housing units is a critical element in the success of FLI's housing and land development business. Customer financing is

particularly important in relation to sales of FLI's socialized housing projects, where most prospective buyers require financing for up to 100% of the purchase price. FLI therefore assists qualified homebuyers in obtaining mortgage financing from government-sponsored mortgage lenders, particularly for its socialized housing projects, and from commercial banks. FLI also provides a significant amount of in-house financing to qualified buyers.

### ***In-house financing***

FLI offers in-house financing to buyers who chose not to avail of Government or bank financing. FLI typically finances 80.0% of the total purchase price, which is secured primarily by a first mortgage over the property being sold. The loans are then repaid through equal monthly installments over periods ranging from five to 100 years. The interest rates charged by FLI for in-house financing typically range from 15.011.5% per annum to 19.0% per annum, depending on the term of the loan.

### ***Pag-IBIG Fund***

A substantial portion of buyers of the Company's socialized housing units finance their purchases through the Home Development Mutual Fund, or Pag-IBIG Fund. To provide a liquidity mechanism to private developers, the Pag-IBIG Fund has instituted a take-out mechanism for conditional sales, installment contract receivables and mortgages and repurchases of receivables from housing loans of its members.

### ***Mortgage loans***

Mortgage loans from commercial banks are usually available to individuals who meet the credit risk criteria set by each bank and who are able to comply with each bank's documentary requirements. In addition to taking security over the property, a bank may also seek repayment guarantees from the Home Guaranty Corporation ("HGC"). To assist prospective buyers obtain mortgage financing from commercial banks, FLI also has arrangements with several banks to assist qualified customers to obtain financing for housing unit purchases.

### ***Deferred cash purchases***

In recent years, in addition to the aforementioned financing arrangements, FLI has offered so-called "deferred cash" purchases, particularly for its high-end and leisure developments. Under this arrangement, the entire purchase price is amortized in equal installments over a fixed period, which is typically 24 months. Title to the property passes to the buyer only when the contract price is paid in full or when the buyer executes a real estate mortgage in favor of the Company which can be annotated on the title to the property.

## **1.9. Real Estate Development**

FLI's real estate development activities principally include the purchase of undeveloped land or entering into joint venture agreements covering undeveloped land, the development of such land into residential subdivisions or other types of development projects, the sale of lots, the construction and sale of housing units and the provision of financing for some sales.

The development and construction work is contracted out to a number of qualified independent contractors on the basis of either competitive bidding or the experience FLI has had with a contractor on prior project. FLI weighs each contractor's experience, financial capability, resources and track record of adhering to quality, cost and time of completion commitments.

FLI maintains relationships with over 100 independent contractors and deals with them on an arm's length basis.

FLI does not enter into long-term arrangements with contractors. Construction contracts typically cover the provision of contractor's services in relation to a particular project or phase of a project. FLI also provides, in certain cases, financial guarantees of payment to FLI-specified suppliers for purchases of construction materials. Progress payments are made to contractors during the course of a project development upon the accomplishment of pre-determined project performance milestones. Generally, FLI retains 10% of each progress payment in the form of a guarantee bond or cash retention for up to one year from the date the contracted work is completed and accepted by FLI to meet contingency costs.

FLI is not and does not expect to be dependent upon one or a limited number of suppliers or contractors. Its agreements with its contractors are in the nature of supply of labor and materials for the development and/or construction of its various real estate projects.

During 2011, the Company launched a total of 33 new projects and phases with an estimated sales value of P 12.1 billion. This brought to 111 the number of ongoing projects FLI has as of the end of 2011.

The Company's operational highlights in property development in 2006 were the launch of 14 new projects. New projects launched include: three affordable projects - Aldea Real in Calamba, Laguna, Palmridge and Summerbreeze Townhomes in Sto. Tomas, Batangas; two middle income projects in Quezon City; three regional middle-income projects - Villa Mercedita II in Davao City, a project in Laguna and one in Zamboanga City; two high-end projects - St. Isabel in Mission Hills, Antipolo and The Ranch in Timberland Heights in San Mateo, Rizal; two Asenso Villages in Calamba, Laguna and Tanza, Cavite.

## **1.10. Competition**

### **1.10.1. Real Estate Segment**

Real estate development and selling is very competitive. The Company believes it is strongly positioned in the affordable housing income to middle income residential subdivision market and in the farm estates. Success in these market segments depends on acquiring well-located land at attractive prices often in anticipation of the direction of urban growth. The Company believes that its name and reputation it has built in the Philippine property market contributes to its competitive edge over the other market players. On the basis of publicly available information and its own market knowledge, FLI's management believes that it is among the leading housing and land project developers in the Philippines, particularly in the socialized to middle-income housing sectors. FLI's management also believes that FLI is able to offer competitive commissions and incentives for brokers, and that FLI is able to compete on the basis of the pricing of its products, which encompasses products for different market sectors, as well as its brand name and its track record of successful completed quality projects.

The Company directly competes with other major real estate companies positioned either as a full range developer or with subsidiary companies focused on a specific market segment and geographic coverage. Its direct competitors include Ayala Land Inc., Vista Land, Robinsons Land, DMCI and Landco.

The Company faces significant competition in the Philippine property development market. In particular, the Company competes with other developers in locating and acquiring, or entering into joint venture arrangements to develop, parcels of land of suitable size in locations and at attractive prices. This is particularly true for land located in Metro Manila and its surrounding areas, as well as in urbanized areas throughout the Philippines.

The Company's continued growth also depends in large part on its ability either to acquire quality land at attractive prices or to enter into joint venture agreements with land-owning partners under terms that can yield reasonable returns. Based on the Company's current development plans, the Company believes that it has sufficient land reserves for property developments for the next several years. If the Philippine economy continues to grow and if demand for residential properties remains relatively strong, the Company expects that competition among developers for land reserves that are suitable for property development (whether through acquisitions or joint venture agreements) will intensify and that land acquisition costs, and its cost of sales, will increase as a result.

### **1.10.2. Leasing Segment**

With regard to the Company's recently acquired assets dedicated to office space leasing and shopping mall operations, the Company competes with property companies such as Ayala Land Inc, Robinsons Land Corp. and SM Prime Holdings in retail space leasing. In office space leasing, particularly to call centers and other BPO operators, the Company competes with companies such as Robinsons Land, Inc., Ayala Land, Inc., Eton Corporation and Megaworld Corporation.

### **1.11. Related-Party Transactions**

The Company is a member of the Filinvest Group. The Company and its subsidiaries, in their ordinary course of business, engage in transactions with FDC and its subsidiaries. The Company's policy with respect to related-party transactions is to ensure that these transactions are entered into on terms comparable to those available from unrelated third parties.

The Company's major related-party transactions include:

- FDC has guaranteed the Company's obligations under a ₱2.25 billion credit facility extended by the International Finance Corporation. As of December 31, 2011, the Company had fully availed of ₱1.125 billion of this facility with principal balance outstanding amounting to ₱1,575.00 million.
- Interest and non-interest bearing cash advances made to and received from FDC, FAI, FAPI, CPI and other affiliates in order to meet liquidity and working capital requirements. Interest rates on these cash advances are determined on an arm's-length basis and are based on market rates.
- Sharing jointly with other members of the Filinvest Group, expenses relating to common facilities and services used by each member of the Filinvest Group, such as payroll services, supplies and utilities.
- A 50-year lease agreement with FAI for the 10-hectare property on which the Festival Supermall and its related structures are located.
- FAC and CPI have each entered into contracts with FAI pursuant to which FAI provides accounting, business development and other management services to FAC and CPI.
- The Company has a contract with FSI, which provides services relating to the operation of the Festival Supermall. Under the terms of the contract, FSI is entitled to receive monthly management fees.
- Savings and current accounts and time deposits with East West Bank ("EWB"), a member of the Filinvest Group.



- EWB also leases from an FLI joint venture, Filinvest Asia Corporation (“FAC”), a total of approximately 2,800 square meters of office space in PBCom Tower in Makati City.
- A development agreement with GCK Realty Corp. (“GCK”), in which members of the Gotianun family has shareholdings, for the development by FLI of Grand Cenia Hotel and Residences building on certain parcels of land owned by GCK in Bgry. Camputhaw, Cebu City.
- A development agreement with Fernandez Hermanos, Inc., which is owned and managed by an officer and stockholder, Mr. Luis T. Fernandez, and his siblings, for the subdivision development of parcels of land owned by the latter company in Brgy. Matanos, Kaputian, Samal Island in the province of Davao.
- A development agreement with FAI for the development of a condominium project known as “The Levels” on a parcel of land owned by FAI located in Filinvest Corporate City.

### **1.12. Intellectual Property**

The Company has applications pending for the registration of intellectual property rights for the “Filinvest” name, as well as for names of its properties and for various trademarks associated with its use of the “Filinvest” and “FLI” brands. The Company has pending applications with the Intellectual Property Office for the following trademarks:

- Artisans’ Business Park;
- Artisans’ Village;
- Cottage Industry Center;
- Cottage Industry Community;
- Cottage Industry Village;
- Craftsmen’s Village;
- Entrepinoy Village;
- Entrepreneurs’ Village;
- Micro Business Community;
- MSME Business Center;
- MSME Business Community; and
- MSME Business Park.

Although these registrations are not complete, the Company believes that it has sufficient protection over the “Filinvest” name from long-term use and widespread recognition of the name in the market.

The Company has also registered “Filinvest Land, Inc.” as a business name with the Department of Trade and Industry. A registration of a business name shall be effective for five years from the initial date of registration and must be renewed within the first three months following the expiration of the five-year period from the date of original registration.

### **1.13. Government and Environmental Regulations**

The real estate business in the Philippines is subject to significant Government regulations over, among other things, land acquisition, development planning and design, construction and mortgage financing and refinancing.

After the project plan for subdivision is prepared, FLI applies for a development permit with the local government. If the land is designated agricultural land, FLI applies with the Department of Agrarian Reform (DAR) for a Certificate of Conversion or Exemption, as may be proper. A substantial majority of FLI’s existing landbank is subject to the DAR conversion process.

Approval of development plans is conditioned on, among other things, completion of the acquisition of the project site and the developer's financial, technical and administrative capabilities. Approvals must be obtained at both the national and local levels. Evidently, the Company's results of operations are expected to continue to be affected by the nature and extent of the regulation of its business, including the relative time and cost involved in procuring approvals for each new project, which can vary from project to project.

The Company is also subject to the application of the Maceda Law, which gives purchasers of real property purchased on an installment basis certain rights regarding cancellations of sales and obtaining refunds from developers.

FLI believes that it has complied with all applicable Philippine environmental laws and regulations. Compliance with such laws, in FLI's opinion, is not expected to have a material effect on FLI's capital expenditures, earning or competitive position.

#### **1.14. Employees and Labor**

As of December 31, 2011, FLI had a total of 814 employees, including 173 permanent full-time managerial employees, 634 support employees and 7 consultants.

Management believes that FLI's current relationship with its employees is generally good and neither FLI nor any of its subsidiaries have experienced a work stoppage or any labor related disturbance as a result of labor disagreements. None of FLI's employees or any of its subsidiaries belongs to a union. FLI currently does not have an employee stock option plan.

FLI does not anticipate any substantial increase in the number of its employees in 2012.

FLI provides managers, supervisors and general staff the opportunity to participate in both in-house and external training and development programs which are designed to help increase efficiency and to prepare employees for future assignments. FLI has also provided a mechanism through which managers and staff are given feedback on their job performance, which FLI believes will help to ensure continuous development of its employees. FLI also offers employees benefits and salary packages that it believes are in line with industry standards in the Philippines and which are designed to help it compete in the marketplace for quality employees.

#### **1.15. Major Risk Factors**

There are major risk factors that may affect the Company. Property values in the Philippines are influenced by the general supply and demand of real estate as well as political and economic developments in the country. In the event new supply exceeds demand as a result of economic uncertainty or slower growth, political instability, increased interest rates may affect the financial condition and results of operations of FLI.

Demand for, and prevailing prices of, developed land and house and lot units are directly related to the strength of the Philippine economy (including overall growth levels and interest rates), the overall levels of business activity in the Philippines and the amount of remittances received from overseas Filipino workers ("OFWs"). Demand for the Company's housing and land developments is also affected by social trends and changing spending patterns in the Philippines, which in turn are influenced by economic,

political and security conditions in the Philippines. The Philippine residential housing industry is cyclical and is sensitive to changes in general economic conditions in the Philippines such as levels of employment, consumer confidence and income, availability of financing for property acquisitions, construction and mortgages, interest rate levels, inflation and demand for housing.

The demand for the Company's projects from OFWs and expatriate Filipinos may decrease as a result of the following possibilities, i.e. reduction in the number of OFWs, the amount of their remittances and the purchasing power of expatriate Filipinos. Factors such as economic performance of the countries and regions where OFWs are deployed, changes in Government regulations such as taxation on OFWs' income, and, imposition of restrictions by the Government/other countries on the deployment of OFWs may also affect the demand for housing requirements.

There are risks that some projects may not attract sufficient demand from prospective buyers thereby affecting anticipated sales. Stringent government requirements for approvals and permits of new projects may take substantial amount of time and resources. In addition, the time and the costs involved in completing the development and construction of residential projects can be adversely affected by many factors, including unstable prices and supply of materials and equipment and labor, adverse weather conditions, peso depreciation, natural disasters, labor disputes with contractors and subcontractors, accidents, changes in laws or in Government priorities and other unforeseen problems or circumstances. Further, the failure by the Company to substantially complete construction of a project to its planned specifications or schedule may result in contractual liabilities to purchasers and lower returns.

The Company's cost of sales is affected by volatility in the price of construction materials such as lumber, steel and cement. While the Company, as a matter of policy, attempts to fix the cost of materials component in its construction contracts, in cases where demand for steel, lumber and cement are high or when there are shortages in supply, the contractors the Company hires for construction or development work may be compelled to raise their contract prices. As a result, rising costs for any construction materials will impact the Company's construction costs, and the price for its products. Any increase in prices resulting from higher construction costs could adversely affect demand for the Company's products and the relative affordability of such products as compared to competitors' products. This could reduce the Company's real estate sales.

The Company is also exposed to risks associated with the ownership and operation of its recently acquired investment properties. Financial performance of the Company's leasing segment, which consist of interests in leasable office space in PBCom Tower and the Northgate Cyberzone, and in retail commercial space in Festival Supermall, could be affected by a number of factors, including:

1. the national and international economic climate;
2. changes in the demand for call center and other BPO operations in the Philippines and around the world;
3. trends in the Philippine retail industry, insofar as the Festival Supermall is concerned;
4. changes in laws and governmental regulations in relation to real estate, including those governing usage, zoning, environment, taxes and government charges;
5. the inability to collect rent due to bankruptcy of tenants or otherwise;
6. competition for tenants;
7. changes in market rental rates;
8. the need to periodically renovate, repair and re-let space and the costs thereof;
9. the quality and strategy of management; and,
10. the Company's ability to provide adequate maintenance and insurance.

## 2.1. Land Bank

Since its incorporation, the Company has invested in properties situated in what the Company believes are prime locations across the Philippines for existing and future housing and land development projects. It is important for the Company to have access to a steady supply of land for future projects. In addition to directly acquiring land for future projects, the Company has also adopted a strategy of entering into joint venture arrangements with landowners for the development of raw land into future project sites for housing and land development projects. This allows FLI to reduce its capital expenditures for land and substantially reduces the financial holding costs resulting from owning land for development.

Under the joint venture agreements, the joint venture partner contributes the land free from any lien, encumbrance, tenants or informal settlers and the Company undertakes the development and marketing of the products. The joint venture partner is allocated either the developed lots or the proceeds from the sales of the units based on pre-agreed distribution ratio.

Potential land acquisitions and participation in joint venture projects are evaluated against a number of criteria, including the attractiveness of the acquisition price relative to the market, the suitability or the technical feasibility of the planned development. The Company identifies land acquisitions and joint venture opportunities through active search and referrals.

On February 03, 2009 FLI signed an agreement with the Cebu City government to develop 50.6 hectares of the 300-hectare reclaimed property in Cebu. The agreement is divided into two contractual arrangements. One is the purchase of 10.6 hectares valued at around ₱ 1.6 billion. The second component entails the development under a joint venture arrangement with the Cebu City government of the remaining 40 hectares to host residential condominiums and retirement villages.

As of December 31, 2011, the Company had a land bank of approximately 2,288,305 hectares of raw land for the development of its various projects, including approximately 397 hectares of land under joint venture agreements, which the Company's management believes is sufficient to sustain at least fiveseveral years of development and sales.

Details of the Company's raw land inventory as of December 31, 2011 are set out in the table below:

<b>Location</b>	<b>Company Owned</b>	<b>Under Joint Venture</b>	<b>Total Area (In Hectares)</b>	<b>% to Total</b>
Luzon				
NCR	6.1	21.7	27.8	1.2%
Rizal	745.6	84.8	830.4	36.3%
Bulacan	221.9	0.0	221.9	9.7%
Cavite	364.3	83.7	448.0	19.6%
Laguna	211.7	0.0	211.7	9.3%
Batangas	141.8	43.7	185.5	8.1%
Pampanga	0.0	58.3	58.3	2.5%
Palawan		11.7	11.7	0.5%
Sub-total	1,691.4	303.9	1,995.3	87.2%

Visayas				
Cebu	0.0	31.5	31.5	1.4%
Negros Occidental	51.0	0.0	51.0	2.2%
Sub-total	51.0	31.5	82.5	3.6%
Mindanao				
General Santos	99.6	17.3	116.9	5.1%
Davao	49.0	44.0	93.0	4.1%
Sub-total	148.6	61.3	209.9	9.2%
GRAND TOTAL	1,891.0	396.7	2,287.7	100.0%
% to Total	82.7%	17.3%	100.0%	

## 2.2. Current Development Projects

The following table sets out all of FLI's projects with ongoing housing and/or land development or marketing as of December 31, 2011.

Category / Name of Project	Location
<b>SOCIALIZED</b>	
Belvedere Townhomes	Tanza, Cavite
Blue Isle	Sto. Tomas, Batangas
Sunrise Place	Tanza, Cavite
Castillion Homes	Gen. Trias, Cavite
Mistral Plains	Gen. Trias, Cavite
Sunrise Place Mactan	Mactan, Cebu
<b>AFFORDABLE</b>	
Alta Vida	San Rafael, Bulacan
Bluegrass County	Sto. Tomas, Batangas
Brookside Lane	Gen. Trias, Cavite
Fairway View	Dasmarinas, Cavite
Palmridge	Sto. Tomas, Batangas
Springfield View	Tanza, Cavite
Summerbreeze Townhomes	Sto. Tomas, Batangas

Westwood Place	Tanza, Cavite
Woodville	Gen. Trias, Cavite
Aldea Real	Calamba, Laguna
Costas Villas (Ocean Cove 2)	Davao City
Primrose Hills	Angono, Rizal
The Glens at Park Spring	San Pedro, Laguna
Sommerset Lane	Tarlac City
Claremont Village	Mabalacat, Pampanga
Westwood Mansions	Tanza, Cavite
Tierra Vista	San Rafael, Bulacan
Aldea del Sol	Mactan, Cebu
Raintree Prime Residences	Dasmarinas, Cavite
La Brisa Townhomes	Calamba, Laguna
Alta Vida Prime	San Rafael, Bulacan
Amare Homes	Tanauan, Batangas
Anila Park	Taytay, Rizal
Austine Homes	Pampanga
The Residences @ Castillon Homes	Tanza, Cavite
Valle Dulce	Tanza, Cavite
<b>MIDDLE-INCOME</b>	
Corona Del Mar	Pooc, Talisay, Cebu City
Filinvest Homes- Tagum	Tagum City, Davao
Northview Villas	Quezon City
Ocean Cove	Davao City
Orange Grove	Matina, Pangi, Davao City
Spring Country	Batasan Hills, Quezon City
Spring Heights	Batasan Hills, Quezon City
Southpeak	San Pedro, Laguna
The Pines	San Pedro, Laguna
Villa San Ignacio	Zamboanga City
Highlands Pointe	Taytay, Rizal
Manor Ridge at Highlands	Taytay, Rizal
Ashton Fields	Calamba, Laguna
Montebello	Calamba, Laguna
Hampton Orchards	Bacolor, Pampanga
The Enclave at Filinvest Heights	Quezon City
Escala (La Constanera)	Talisay, Cebu
West Palms	Puerto Princesa, Palawan
Filinvest Homes - Butuan	Butuan, Agusan Del Norte

La Mirada of the South	Binan, Laguna
Tamara Lane (formerly Imari)	Caloocan City
Viridian at Southpeak	San Pedro, Laguna
Nusa Dua (Residential)	Tanza, Cavite
The Tropics	Cainta, Rizal
Princeton Heights	Molino, Cavite
One Oasis - Ortigas	Pasig, Metro Manila
One Oasis - Davao	Davao City
Bali Oasis 1	Pasig, Metro Manila
One Oasis Cebu	Mabolo, Cebu City
Maui Oasis	Sta. Mesa, Manila
Capri Oasis	Pasig, Metro Manila
Sorrento Oasis	Pasig, Metro Manila
Amalfi Oasis	South Road Properties, Cebu
San Remo Oasis	South Road Properties, Cebu
The Linear	Makati City
Studio City	Filinvest Corporate City, Alabang
The Levels	Filinvest Corporate City, Alabang
Somerset Lane, Ph 2	Tarlac
Asiana Oasis	Paranaque, Metro Manila
Bali Oasis 2	Pasig City, Metro Manila
Studio Zen	Pasay City, Metro Manila
Vinia Residences & Versaflats	Edsa, Quezon City
<b>HIGH-END</b>	
Brentville International	Mamplasan, Binan, Laguna
Prominence 2	Mamplasan, Binan, Laguna
Village Front	Binan, Laguna
Mission Hills - Sta. Catalina	Antipolo, Rizal
Mission Hills - Sta. Isabel	Antipolo, Rizal
Mission Hills - Sta Sophia	Antipolo, Rizal
Banyan Ridge	San Mateo, Rizal
The Ranch	San Mateo, Rizal
The Arborage at Brentville Int'l	Mamplasan, Binan, Laguna
Banyan Crest	San Mateo, Rizal
Arista	Talisay, Batangas
Orilla	Talisay, Batangas
Bahia	Talisay, Batangas
Kembali Arista	Samal Island, Davao

<b>LEISURE - FARM ESTATES</b>	
Forest Farms	Angono, Rizal
Mandala Residential Farm	San Mateo, Rizal
Nusa Dua	Tanza, Cavite
<b>LEISURE - PRIVATE MEMBERSHIP CLUB</b>	
Timberland Sports and Nature Club	San Mateo, Rizal
<b>LEISURE - RESIDENTIAL RESORT DEVELOPMENT</b>	
Kembali Coast	Samal Island, Davao
Laeuna De Taal	Talisay, Batangas
<b>Entrepreneurial - Micro Small &amp; Medium Enterprise Village</b>	
Asenso Village - Calamba	Calamba, Laguna
<b>INDUSTRIAL</b>	
Filinvest Technology Park	Calamba, Laguna
<b>CONDOTEL</b>	
Grand Cenia Hotel & Residences	Cebu City

On-going developments of the abovementioned projects are expected to require additional capital but FLI believes that it will have sufficient financial resources for these anticipated requirements.

### **2.3. Investment Properties**

FLI's recent acquisition of major assets and equity interests in September 2006 involve three strategic investment properties, namely: Festival Supermall, PBCom Tower and Northgate Cyberzone. Please refer to Section 1.6.2 for a detailed discussion of these properties.

### **2.4. Property and Equipment**

FLI is renting office spaces located at San Juan City, Metro Manila with an aggregate floor area of 4,369 square meters for its head office. The term of the lease is 5 years, subject to renewal upon mutual agreements between FLI and the lessor. FLI is also renting spaces for its sales offices in Quezon City, Rizal, Pampanga, Tarlac, Puerto Princesa City, Cebu City, Davao City, Butuan, Tagum and Zamboanga City. The terms of the leases are usually for one year, and thereafter, the terms of the lease shall be on a month-to-month basis, or upon the option of both parties, a new contract is drawn. Total rental expense



in 2011 amounted to ₱ 47.11 million. The Company does not intend to acquire properties for the next 12 months except as needed in the ordinary course of business.

### **Item 3. LEGAL PROCEEDINGS**

FLI is subject to lawsuits and legal actions in the ordinary course of its real estate development and other allied activities. However, FLI does not believe that the lawsuits or legal actions to which it is a party will have a significant impact on its financial position or result of operations.

Following are the cases involving certain properties of FLI that may have impact on its financial position, but which it believes will be eventually resolved in its favor:

- a. *FLI vs. Abdul Backy, et al.*, G.R. No. 174715, Supreme Court

This is a civil action for the declaration of nullity of deeds of conditional and absolute sales of certain real properties located in Tambler, General Santos City executed between FLI and the plaintiffs' patriarch, Hadji Gulam Ngilay. The Regional Trial Court ("RTC") of Las Piñas City (Br. 253) decided the case in favor of FLI and upheld the sale of properties. On appeal, the Court of Appeals rendered a decision partly favorable to FLI but nullified the sale of some properties involved. FLI's petition for review on *certiorari* to question that portion of the decision that is unfavorable to FLI, is still pending with the Supreme Court.

- b. *Emelita Alvarez, et al. vs. FDC*, DARAB Case No. IV-RI-010-95  
Adjudication Board, Department of Agrarian Reform

On or about March 15, 1995 certain persons claiming to be beneficiaries under the Comprehensive Agrarian Reform Program (CARP) of the National Government filed an action for annulment/cancellation of sale and transfer of titles, maintenance of peaceful possession, enforcement of rights under CARP plus damages before the Regional Agrarian Reform Adjudicator, Adjudication Board, Department of Agrarian Reform. The property involved, located in San Mateo, Rizal, was purchased by FDC from the Estate of Alfonso Doronilla. A motion to dismiss is still pending resolution.

- c. *Republic of the Philippines vs. Rolando Pascual, et al.*  
Civil Case No. 7059, Regional Trial Court

The National Government through the Office of the Solicitor General filed suit against Rolando Pascual, Rogelio Pascual and FLI for cancellation of title and reversion in favor of the Government of properties subject of a joint venture agreement between the said individuals and FLI. The Government claims that the subject properties covering about 73.33 hectares are not alienable and disposable being part of the forestlands. The case was dismissed by the RTC of General Santos City (Br. 36) on November 16, 2007 for lack of merit. The Office of the Solicitor General has appealed the dismissal to the Court of Appeals, where it is still pending.

- d. *FLI vs. Eduardo Adia, et al*  
G.R. 192929  
Supreme Court

Various CLOA holders based in Brgy. Hugo Perez, Trece Martirez City filed a complaint with the RTC of Trece Martirez against FLI for recovery of possession with damages, claiming that in 1995 they

surrendered possession of their lands to FLI so that the same can be developed pursuant to a joint venture arrangement allegedly entered into with FLI. They now seek to recover possession of said lands pending the development thereof by FLI. The RTC rendered a decision ordering FLI to vacate the subject property. FLI appealed the decision to the Court of Appeals, which affirmed the RTC decision. FLI filed a petition for review on certiorari before the Supreme Court. On 10 January 2011, the Supreme Court granted FLI's motion to admit a supplemental petition and required respondent to comment on the supplemental petition within 10 days from notice.

- e. *Antonio E. Cenon and Filinvest Land Inc. vs. San Mateo Landfill, Mayor Jose Rafael Diaz, Brgy. Pintong Bukawe, Director Julian Amador and the Secretary, Department of Environment and Natural Resources*  
Civil Case No. 2273-09

On February 09, 2009, FLI filed an action for injunction and damages against the respondents to stop and enjoin the construction of a 19-hectare landfill in a barangay in close proximity to Timberland Heights in San Mateo, Rizal. FLI sought preliminary and permanent injunctive reliefs and damages and is seeking the complete and permanent closure of the dumpsite. Trial for this case is ongoing.

FLI is not aware of any other information as to any other legal proceedings known to be contemplated by government authorities or any other entity.

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There was no matter which was submitted to a vote of security holders in 2011.

## **Part II – OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5. MARKET FOR ISSUER'S COMMON EQUITY & RELATED STOCKHOLDER MATTERS**

The Company's common shares were listed on the PSE in 1993. The following table shows, for the periods indicated, the high, low and period end closing prices of the shares as reported in the PSE.

<b>Period 2011</b>	<b>Share Prices</b>		
	<b>High</b>	<b>Low</b>	<b>Close</b>
4 <sup>th</sup> Quarter	1.19	0.98	0.99
3 <sup>rd</sup> Quarter	1.33	1.02	1.10
2 <sup>nd</sup> Quarter	1.35	1.14	1.17
1 <sup>st</sup> Quarter	1.41	1.01	1.15
<b>2010</b>	<b>High</b>	<b>Low</b>	<b>Close</b>
4 <sup>th</sup> Quarter	1.49	1.26	1.31

3 <sup>rd</sup> Quarter	1.50	0.91	1.32
2 <sup>nd</sup> Quarter	1.04	0.88	0.96
1 <sup>st</sup> Quarter	0.95	0.74	0.89

The number of common shareholders of record as of December 31, 2011 was 6,033. Common shares outstanding as of December 31, 2011 were 24,249,759,506 shares.

Top 20 Common Stockholders as of December 31, 2011:

<b>Name</b>	<b>No. of Shares</b>	<b>% to total</b>
1 Filinvest Development Corp.	12,969,648,868	53.48%
2 PCD Nominee Corp. (Non-Filipino)	6,114,525,921	25.21%
3 PCD Nominee Corp. (Filipino)	4,831,724,132	19.92%
4 Rivercrest Realty Corp.	61,111,250	0.25%
5 Michael Gotianun	11,235,913	0.05%
6 Lucio W. Yan &/or Clara Y. Yan	10,687,500	0.04%
7 Ana Go & / or Go Kim Pa	8,250,000	0.03%
8 Joseph M. Yap &/or Josephine G. Yap	7,694,843	0.03%
9 R. Magdalena Bosch	4,877,928	0.02%
10 Luis Rodrigo Fernandez	4,064,940	0.02%
11 Luis L. Fernandez or Veronica P. Fernandez ITF Carlo	4,064,940	0.02%
12 Enrique P. Fernandez	4,064,940	0.02%
13 Luis L. Fernandez	4,064,940	0.02%
14 Veronica P. Fernandez	4,064,940	0.02%
15 Luis L. Fernandez or Veronica P. Fernandez ITF Marco	4,064,940	0.02%
16 Lilian So Lim	3,469,832	0.01%
17 Emily Benedicto	3,468,750	0.01%
18 Alberto Mendoza &/or Jeanie C. Mendoza	3,349,871	0.01%

19	Filinvest Capital Inc.	2,890,625	0.01%
20	Lucio W. Yan	2,890,625	0.01%

The Company's entire preferred shares of 8 billion shares were all issued to FDC.

No securities were sold within the past two years which were not registered under the Revised Securities Act &/or Securities Regulation Code.

### **Dividends**

On January 8, 2007, the Board of Directors approved an annual cash dividend payments ratio for the Company's issued shares of twenty percent (20%) of its consolidated net income for the preceding year, subject to compliance with applicable laws and regulations and the absence of circumstances which may restrict the payment of such dividends, including, but not limited to, when Company undertakes major projects and developments requiring substantial cash expenditures, or when the Company is restricted from paying cash dividends by its loan covenants, if any. The Board of Directors may at any time modify such dividend payout ratio depending on the results of operations, future projects and plans of the Company.

On April 15, 2011 the Board of Directors approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱ 0.039 per share or a total of ₱ 950.59 million for all shareholders of record as of May 13, 2011.

On April 30, 2010, the Board of Directors approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱ 0.033 per share or a total of ₱ 800.24 for all shareholders of record as of May 18, 2010.

On April 29, 2009, the Board of Directors approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱ 0.033 per share as regular and special cash dividends of ₱ 0.015 and ₱ 0.018 respectively or a total of ₱ 800.24 for all shareholders of record as of May 14, 2009.

## **Item 6. MANAGEMENT DISCUSSION AND ANALYSIS AND PLAN OF OPERATION**

### Plan of Operations for 2012

FLI's business strategy has placed emphasis on the development and sale of affordable and middle-market residential lots and housing units to lower and middle-income markets throughout the Philippines.

FLI expects to remain focused on core residential real estate development business which now includes newly developed innovative concepts such as medium rise buildings and high rise condominium projects, residential farm estates, entrepreneurial communities, and leisure developments in response to the demands of the Philippine market. The Company is also expanding its retail and BPO office-building portfolio to generate recurring revenues.

In 2012, FLI plans to launch about ₱ 14.5 billion worth of projects, 20% more than the value of projects launched in 2011, equivalent to over 12,000 units. This includes 14 new projects and 19 additional phases of existing projects. New projects include two socialized housing projects and three new affordable

housing projects in Batangas, Cavite and Laguna. In addition, FLI plans on launching two new MRB projects, Girin Oasis in Cainta, Rizal and Pasig City, and its first MRB project in Quezon City. This will bring to thirteen the number of MRB projects under the “Oasis” brand. Middle-income projects include a new subdivision within Timberland Heights in San Mateo, Rizal. A condotel at Timberland Heights will also be launched.

FLI is targeting to spend about ₱ 15 billion for capital expenditures in 2012, more than double the amount spent in 2011. The bulk is earmarked for the construction of the various residential projects of FLI, covering all market segments. 2012’s capex also includes ₱ 2.5 billion for the construction of new buildings and expansion of mall to create additional office and retail space.

At Northgate Cyberzone, a BPO office building is also under construction and will add close to 20,000 square meters of GLA in the first half of 2013 to FLI’s current portfolio of over 170,000 square meters of GLA from twelve buildings as of the end of 2011. A fourteenth building is targeted to break ground within 2012 with a GLA of 13,000 square meters.

Filinvest Building, along EDSA in Mandaluyong City, is targeted for completion within the third quarter of 2012. This five-storey BPO building will have approximately 7,000 square meters of GLA. This is FLI’s first BPO office building outside Northgate Cyberzone.

FLI recently won the bid for the Build Transfer Operate (BTO) of a 1.2-hectare property in Salinas Drive, Lahug, Cebu City in the Province of Cebu. The lot was used to be occupied by the Bagong Buhay Rehabilitation Center and the Cebu City Treatment and Rehabilitation Center. FLI plans to construct four BPO office buildings on the site. The construction of the first building is targeted to start in early 2013. This is FLI’s first BPO office building project outside Metro Manila.

Meanwhile, land development has commenced on the expansion of Festival Supermall at Filinvest Corporate City. The expansion project will add over 57,000 square meters of GLA, and is targeted to be completed in phases, from the fourth quarter of 2013. Within 2012, FLI also plans to start renovating the existing mall in phases, which is targeted to be completed in 2016.

Additional retail space will also come from the Il Corso lifestyle strip of Citta di Mare, in the South Road Properties in Cebu. The first two phases covering 7 hectares will have over 35,000 square meters of GLA. Land development started in late 2011.

#### Adoption of PFRS 9, (Financial Instruments: Recognition and Measurements)

Pursuant to the International Financial Reporting Standards 9 issued by the International Accounting Standards Board (IASB) relating to the classification and measurements of financial assets and liabilities, which was approved by the Financial Reporting Standards Council (FRSC) as PFRS 9 with mandatory affectivity date to January 01, 2015, the Group has early adopted PFRS 9 with date of initial application of January 1, 2011 for the following merits:

- a) Adoption of PFRS 9 is inevitable, hence, adopting it in 2011 rather than later is operationally more efficient;
- b) This enables the Group to manage better its earnings and capital as the business model approach introduced by PFRS 9 aims to align the accounting standards with the Group’s risk, capital, and asset-liability management practices; and
- c) Corollary to better managed earnings and capital is stability in the Group’s earnings.

These changes in accounting policy are applied from January 01, 2011 without restatement of prior periods' financial statements. The Group chose to apply the limited exemption not to restate comparative information, thereby resulting in the following impact:

- Comparative information for prior periods is not restated. The classification and measurement requirements previously applied in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* and disclosures required in PFRS 7, *Financial Instruments: Disclosures* are retained for the comparative periods.
- The Group discloses the accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

#### Impact of Change in Accounting Policy

In accordance with the transition provisions of PFRS9, the classification of financial assets that the group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. Presented below are the effects in the Group's financial statements as a result of the application of PFRS 9 beginning January 01, 2011:

Original Measurement Category Under PAS 39	New Measurement Category Under PFRS 9	Original Carrying Amount Under PAS 39	New Carrying Amount under PFRS 9
Loans and receivables			
Cash and cash equivalents:			
Cash on hand and in banks	Financial assets at amortized cost	486,179	486,179
Short-term deposits	Financial assets at amortized cost	667,127	667,127
Contracts receivables;			
Contracts receivable	Financial assets at amortized cost	8,085,680	8,085,680
Receivables from government and financial institutions	Financial assets at amortized cost	367,228	367,228
Due from related parties	Financial assets at amortized cost	246,757	246,757
Other receivables:			
Receivables from homeowners' association - net	Financial assets at amortized cost	109,136	109,136
Receivables from tenants - net	Financial assets at amortized cost	229,151	229,151
Others	Financial assets at amortized cost	99,552	99,552

Other assets (short-term deposits):			
Deposits	Financial assets at amortized cost	29,080	29,080
Total loans and receivables		10,319,890	10,319,890
AFS financial assets			
Investment in shares of stocks:			
Quoted	Financial assets at fair value through other comprehensive income	3,321	3,321
Unquoted	Financial assets at fair value through other comprehensive income	21,305	21,305
Total AFS financial assets		24,626	24,626
Grand Total		10,344,516	10,344,516

As a result of the adoption of PFRS 9, the balance of the revaluation reserve on available-for-sale financial assets in 2010 was reclassified into revaluation reserve on financial assets at fair value through other comprehensive income as at January 01, 2011.

The adoption of PFRS 9 related to classification and measurement of financial liabilities has no material impact on the Group's financial statements. As of December 31, 2011, the Group's financial liabilities are classified and measured at amortized cost.

### Results of Operations for 2011

In 2011, FLI launched ₱ 12.1 billion worth of projects, 17% more than the value of projects launched in 2010. FLI launched 11 new projects and 22 additional phases of existing projects, equivalent to 6,503 units, across all segments nationwide. Among the new projects were six affordable housing projects located in Batangas, Bulacan, Cavite, Pampanga and Rizal. FLI also launched two new mid-rise building (MRB) projects, Bali Oasis 2 in Pasig City and Asiana Oasis in Paranaque City. The Company also introduced two new high-rise buildings, Studio Zen in Pasay City, and Vinia Residences and Versaflats along EDSA, Quezon City.

### Year ended December 31, 2011 compared to year ended December 31, 2010

For the year ended December 31, 2011, FLI's operating regular net income registered a year on year growth of 21.2% or ₱514.41 million from ₱ 2,425.93 million in 2010 to ₱2,940.34 million in 2011. The 2010 net income excludes the ₱ 526.30 million one-time extraordinary gain (recorded as Gain from re-measurement of previously held interest in a business combination and Excess of fair value of net identifiable assets over consideration transferred in a business combination) arising from FLI's acquisition of Africa-Israel's 40% ownership each in CPI and FAPI. This one time gain had shored up FLI's net income for 2010 to ₱ 2,952.23 million.

### Revenues and other income

FLI recorded real estate sales of ₱6,953.47 million in 2011, higher by 23.02% than the real estate sales in 2010 of ₱ 5,652.37 million. Recorded sales in 2011 consisted mostly of sales of affordable and middle-income lots and housing units including the medium-rise-buildings and condominium projects, which are accounted for based on the stage of completion. Thirteen buildings in various MRB projects were completed in 2011.

In 2011, the Group launched 11 new projects and 22 additional phases of existing projects with total sales value of ₱ 12.1 billion. Among these are additional buildings in MRB projects like Bali Oasis, Maui Oasis, One Oasis Cebu and Sorrento Oasis.

Revenue from Rental services increased by ₱ 117.02 million or by 8.29% to ₱ 1,528.29 million in 2011 from ₱1,411.27 million in 2010. This increase was brought about by higher rental revenues generated by CPI from Northgate Cyberzone buildings resulting from higher take up rate of Vector 1 in 2011. Other sources of revenue from rental services include the ready-built-factories in Filinvest Technology Park in Calamba, Laguna.

Equity in net earnings from an associate also increased to ₱ 63.41 million in 2011 from ₱ 55.22 million in 2010 or by 14.83% due to higher earnings of Filinvest Alabang, Inc. (FAI) where FLI is a 20% equity holder.

The acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI and the 40% interest of Africa-Israel Investments (Phils.) Inc., in FAPI resulted in FLI's recognition of a gain from remeasurement of previously held interest of ₱ 517.24 and excess of fair value of net identifiable assets over consideration transferred of ₱9.06 in 2010 in accordance with the International Financial Reporting Standards (IFRS) 3 – Business Combinations. There is no extraordinary gain from transactions in 2011.

The Group also recorded a foreign exchange gain of ₱ 1.30 million in 2011 compared to a foreign exchange gain of ₱ 8.56 million earned in 2010 due to lower foreign currency deposits in 2011. Other income increased by 12.16% or by ₱ 61.15 million from ₱ 502.95 million in 2010 to ₱564.10 million in 2011 due to higher amusement and other sales of the mall, service fees and amounts collected from tenants in excess of expenses incurred.

### **Cost and Expenses**

With the higher sales, the corresponding cost of real estate sales increased by 20.54% from ₱2,996.82 million in 2010 to ₱ 3,612.28 million in 2011. Cost of rental services likewise increased by 6.17% from ₱ 400.88 million in 2010 to ₱ 425.65 million in 2011.

Total operating expenses increased to ₱ 1,663.30 million in 2011 from ₱ 1,393.69 million in 2010.

General and administrative expenses increased by ₱ 120.79 million or by 15.1% to ₱920.89 million in 2011 from ₱ 800.10 million in 2010.

The following are the significant movements in the general and administrative expense accounts which resulted primarily from the increased volume of business:

69% increase in amusement and recreation expenses, from ₱ 27.36 million in 2010 to ₱ 46.15 million in 2011.

24% increase in salaries, wages & employee benefits

22% increase in transportation & travel

22% increase in outside services



61% increase in depreciation and amortization, from ₱ 46.98 million in 2010 to ₱ 75.40 million in 201 – Mainly because of the opening of Vector 1 in last quarter of 2010.

76% increase in retirement cost, from ₱ 12.74 million in 2010 to ₱ 22.38 million in 2011.

45% increase in insurance expenses, from ₱ 17.96 million in 2010 to ₱ 25.96 million in 2011.

Selling and marketing expenses increased by 25.07% to ₱ 742.41 million in 2011 from ₱593.59 million in 2010 mainly due to the increase in broker's commission, advertising, promotion and sales generation expenses as a result of increasing sales volume and activities.

Interest and other financial charges increased by 12.66% to ₱ 469.40 million in 2011 from ₱ 416.66 million in 2010. This was brought about by availment of loans amounting to ₱ 3,350.00 million in 2011 and the issuance of the fixed-rate retail bonds totaling ₱3.0 billion in July 2011 to finance the current projects of the Group, especially its various MRB's, high rise buildings and condotel projects.

### **Provision for Income Tax**

Provision for income tax decreased by 3.57% in 2011 from ₱ 561.75 million in 2010 to ₱ 541.71 million in 2011. Provision for current income tax increased to ₱ 488.06 million in 2011 from ₱475.03 million in 2010 or an increase of ₱ 13.03 million or by 2.74% due to higher taxable income brought about by higher revenues.

Provision for deferred income tax decreased by ₱ 33.08 million or by 38.14% from ₱86.72 million in 2010 to ₱ 53.64 million in 2011 due to provisions for doubtful accounts on other receivables and due to lower capitalization of borrowing costs.

### **Financial Condition**

As of December 31, 2011, FLI's total consolidated assets stood at ₱ 68.30 billion, higher by 10.40% than the ₱ 61.87 billion as at the previous year-end.

#### ***34% Decrease in Cash and cash equivalents***

Funds were used for the development of existing and new projects and for the construction of new IT buildings (investment properties) and for raw land acquisitions.

#### ***8% Increase in Contracts receivable***

Contracts receivable increased due to additional sales booked during the current period.

#### ***33% Increase in Due from related parties***

The increase was due to temporary advances made to affiliates in the regular course of business. These advances are expected to be collected within the following year.

#### ***55% Increase in Other receivables***

This account increased due to down payments made to contractors which are to be applied against their billings and ordinary advances to joint venture partners which will be offset against the proceeds from sales of the joint venture inventories.

#### ***Decrease in Available-for-sale financial assets / Increase in financial assets at fair value through other comprehensive income***

The decrease was brought about by the redemption of certain investments upon maturity in 2011. The remaining shares of stock include unlisted preferred shares in a public utility company and are categorized under "Financial assets at Fair Value Through Other Comprehensive Income". This resulted from the early adoption by the Group of PFRS 9 as earlier discussed.

***26% Increase in Real estate inventories***

The movement in this account was mainly due to development and construction costs set up for new projects and additional phases of existing projects.

***10% Increase in Land and land development***

The increase in this account was mainly due to acquisition of new properties in various parts of the country which are intended for development of housing projects and payment made to the Cebu City Government for the purchase of part of the 10.6 hectare SRP property.

***11% Decrease in Investment in an associate***

The decrease in this account was mainly due to dividend income received from the associate during the year.

***5% Increase in Investment properties***

The increase was mainly due to the transfer of a building under construction to Investment properties account upon completion of its construction.

***13% Decrease in Property and equipment***

The decrease in this account was mainly due to the reclassification of a building into Investment properties account after completion of its construction.

***18% Increase in Deferred tax assets***

The increase was mainly due to provisions made for doubtful accounts on other receivables.

***94% Increase in Other assets***

The increase in this account was mainly due to higher creditable withholding tax and input vat for the year.

***12% Increase in Income tax payable***

The Increase in income tax payable was due to higher tax accruing on the taxable income earned for the year resulting from improved operational results.

***41% Decrease in Due to related parties***

The decrease was due to payments made to affiliates on advances made in the regular course of business.

***22% Increase in Loans payable***

The increase was due to additional borrowings made to finance the various projects of the Company.

***61% Increase in Bonds payable***

The increase was due to the issuance of Fixed Rate Retail Bonds by the Company with an aggregate principal amount of ₱ 3 billion in July 2011 to finance the various projects of the Company.

***22% Increase in Retirement liabilities***

The increase was due to the accrual of the liability to the retirement fund for the year, net of cash contributions to the fund.

***17% Increase in Retained earnings***

This was brought about by the Company's net income of ₱ 2.94 billion for the year net of cash dividends paid in 2011.

## Performance Indicators

<i>Financial Ratios</i>	<i>Particulars</i>	2011	2010
<i>Earnings per Share</i>	<i>Basic</i>	0.12	0.12
<i>Earnings per Share</i>	<i>Diluted</i>	0.12	0.12
<i>Debt to Equity Ratio</i>	<u><i>Notes Payable &amp; Long-term Debt</i></u>		
	<i>Total Stockholder's Equity</i>	0.38	0.29
<i>Debt Ratio</i>	<u><i>Total Liabilities</i></u> <i>Total Assets</i>	0.36	0.33
<i>Ebitda to Total Interest Paid</i>	<u><i>EBITDA</i></u> <i>Total Interest Payment</i>	5.10	4.76
<i>Price Earnings Ratio</i>	<u><i>Closing Price of Share</i></u> <i>Earnings Per share</i>	8.16	10.76

## Other Disclosures

Aside from the possible material increase in interest rates of the outstanding long-term debts with floating rates, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of FLI within the next 12 months. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments, or any significant amount in its accounts payable that have not been paid within the stated terms.

There are no known trends, events or uncertainties that have had or are reasonably expected to have favorable or unfavorable impact on net sales or revenues or income from continuing operations of FLI.

Except for income generated from retail leasing, there are no seasonal aspects that have a material effect on FLI's financial conditions or results of operations.

The operating activities of FLI are carried uniformly over the calendar year; there are no significant elements of income or loss that did not arise from the company's continuing operations.

There are no known events that will trigger the settlement of a direct or contingent financial obligation that is material to the Company.

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships to the Company with unconsolidated entities or other persons created during the reporting period, except those discussed.

FLI plans to issue ₱ 11.0 billion worth of fixed-rate bonds, subject to the approval of the Securities and Exchange Commission (SEC). FLI intends to issue the bonds in two tranches. The first tranche, worth ₱ 7.0 billion, will be issued within the second quarter of 2012, while the second tranche worth ₱ 4.0 billion will be issued later in the year. The bonds will have a term of seven (7) years. The Registration Statement for the bond issue was filed with the SEC on April 4, 2012.

The Philippine Rating Services Corporation (PhilRatings) has assigned a PRS Aaa rating for FLI's proposed issuance of an additional ₱ 11.0 billion fixed-rate bonds. PhilRatings have also maintained the PRS Aaa rating for FLI's ₱ 5.0 billion outstanding fixed-rate bonds (₱ 500.0 million bonds due in 2012 and ₱ 4.5 billion bonds due in 2014) and its ₱ 3.0 billion outstanding bonds due in 2016. "Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong."

### Results of Operations for 2010

#### Year ended December 31, 2010 compared to year ended December 31, 2009

FLI registered a net income of ₱2,952.23 million in 2010, higher by 46.28% than the net income of ₱2,018.20 million in 2009.

#### Revenues

FLI recorded real estate sales of ₱ 5,652.37 million in 2010, higher by 53.82% than the real estate sales in 2009 of ₱ 3,674.75 million. This year's recorded sales consist mostly of sales of middle-income lots and housing units including the medium-rise-buildings and condominium project, which are accounted for based on the stage of completion. Effective January 1, 2010, the Group changed the percentage being used to estimate on when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group and warrant revenue recognition. Prior to 2010, the Group has estimated the percentage to be at least 20% payment of the total selling price received from the buyer. The recent change in the Group's business focus on low to middle income segment, experience over the past years, and information gathered that other industry players are adopting the same threshold, prompted the Group to revisit and accordingly revise the estimate from payment of 20% to 10% payment of the total selling price. It is at this level of investment that it is highly probable that the buyer will commit to the sale transaction, and thus, it is probable that economic benefits will flow to the Group. The change in estimate increased the real estate sales by ₱1.09 billion for the year ended December 31, 2010.

With the higher sales, the corresponding cost of real estate sales increased by 67.53% from ₱1,788.85 million in 2009 to ₱ 2,996.82 million in 2010. The higher cost of sales was likewise due to an increased proportion of sales of medium-rise-buildings. Rental income increased by ₱ 223.83 million or by 18.85% to ₱ 1,411.27 million in 2010 from ₱1,187.44 million in 2009. This was brought about by higher rental revenues generated from Northgate Cyberzone buildings due to a full period of leasing revenues from ihub 1 and ihub 2, which opened in the latter part of 2009 and the Company's acquisition of the remaining 40% equity interest in CPI in February 2010, resulting in the consolidation of 100% of CPI rental income in 2010. Other sources of rental income include the Festival Supermall in Filinvest Corporate City in Alabang, PBCOM Tower in Makati City and the ready-built-factories in Filinvest Technology Park in Calamba, Laguna.

Interest income also increased by ₱ 164.65 million or by 41.09% from ₱ 400.71 million in 2009 to ₱ 565.36 million in 2010 due to higher interest generated from short-term investments, bank deposits and from higher installment contracts receivable. Equity in net earnings from an associate also increased to ₱ 55.22 million in 2010 from ₱ 37.53 million in 2009 or by 47.14% due to higher earnings of Filinvest Alabang, Inc. (FAI) where FLI is a 20% equity holder.

The acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI and the 40% interest of Africa-Israel Investments (Phils.) Inc., in FAPI resulted in FLI's recognition of a gain from remeasurement of previously held interest of ₱ 517.24 and excess of fair value of net identifiable assets over consideration transferred of ₱9.06 in 2010 in accordance with the International Financial Reporting Standards (IFRS) 3 – Business Combinations.

The Group also recorded a foreign exchange gain of ₱ 8.57 million in 2010, an improvement from a foreign exchange gain of ₱ 2.40 million earned in 2009. Other income increased by 32.01% or by ₱ 121.97 million from ₱ 380.98 million in 2009 to ₱502.95 million in 2010 due to increase in amusement and other sales of the mall, dividend income and service fees.

### Expenses

Total expenses increased to ₱ 2,211.23 million in 2010 from ₱ 1,728.49 million in 2009.

General and administrative expenses increased by ₱ 160.99 million or by 15.48% to ₱1,200.99 million in 2010 from ₱ 1,039.99 million in 2009.

The following are the significant movements in the general and administrative expense accounts:

- 13.62% increase in depreciation & amortization (mainly due to the consolidation of 100% of CPI in 2010)
- 9.13% increase in salaries, wages & employee benefits
- 7.31% increase in rental expense
- 5.24 % increase in taxes and licenses
- 11.91% increase in transportation & travel
- 12.57% increase in outside services
- 22.67% increase in Mall manpower cost
- 33.34% increase in Mall amusement center cost
- 43.05% increase in repairs & maintenance
- 11.27% increase in communications, light & power
- 8.84% increase in direct cost of saleable items of the mall
- 32.86% increase in entertainment expenses of the mall
- 35.39% increase in other general & administrative expenses

Selling and marketing expenses increased by 23.61% to ₱ 593.59 million in 2010 from ₱480.21 million in 2009 due to increase in broker's commission, advertising and promotion and sales generation expenses.

Interest and other financial charges increased by 100.04% to ₱ 416.66 million in 2010 from ₱208.28 million in 2009. This was brought about by the issuance of the fixed-rate retail bonds totaling ₱ 5.0 billion in November 2009 to finance the current projects of the Group, especially its various MRB, high rise building and condotel projects.

### **Provision for Income Tax**

Provision for income tax increased by 278.86% in 2010 from ₱ 148.27 million in 2009 to ₱561.75 million in 2010. Provision for current income tax increased to ₱ 475.03 million in 2010 from ₱ 253.35 million in 2009 or an increase of ₱ 221.68 million or by 87.5% due to higher taxable income brought about by higher revenues.

Provision for deferred income tax also increased by ₱ 191.79 million or by 182.53% due to the adjustment made in 2009 relative to the corresponding deferred income tax on unrealized gain on installment sales.

### **Financial Condition**

As of December 31, 2010, FLI's total consolidated assets stood at ₱ 61.87 billion, higher by 5.04% than the ₱ 58.90 billion as at the previous year-end.

#### ***69% Decrease in Cash and Cash Equivalents***

Funds were used for the development of existing and new projects and for the construction of new IT buildings (investment properties) and for raw land acquisitions. Funds were also used to acquire the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI and the 40% interest of Africa-Israel Investments (Phils.) Inc., in FAPI in February 2010.

#### ***13% Increase in Other Receivables***

This account increased due to additional advances made to Timberland Sports and Nature Club (TSNC, Inc.). Moreover, the acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI and the 40% interest of Africa-Israel Investments (Phils.) Inc., in FAPI contributed to the increase because of the 100% consolidation of CPI and FAPI in 2010. Higher receivables from tenants of FSI and CPI in the current year also added to the increase in this account.

#### ***54% Decrease in Available-for-Sale Financial Assets***

The decrease was due to the maturity in July 2010 of certain bonds previously held by the Company.

#### ***22% Increase in Real Estate Inventories***

The movement in this account was mainly due to (a) development and construction costs set up for projects launched during the year; (b) acquisitions of new properties in various parts of Metro Manila which are mostly intended for medium-rise-buildings development; (c) payment made to the Cebu City government for the purchase of part of the 10.6 hectare SRP property; and (d) acquisition by FLI of the 40% interest of Africa-Israel Investments (Phils.) Inc., in FAPI.

#### ***11% Increase in Investment in an associate***

The increase represents the equity share of the Group in the current net earnings of FAI.

#### ***17% Increase in Investment properties***

The increase was due to the acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.) Inc., in CPI and the restatement of CPI buildings at fair value as at February 08, 2010 when the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI was acquired.

#### ***48% Increase in Property and Equipment***

The increase in this account was mainly due to the acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.) Inc. in CPI and the restatement of buildings under construction at fair value as at February 08, 2010 when the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI was acquired.

**16% Decrease in Goodwill**

The decrease resulted from the re-computation of the difference between the total consideration given for the acquisition of CPI and the equity value of CPI as at February 08, 2010.

**7% Decrease in Other Assets**

The decrease was mainly due to lower input taxes in 2010.

**Increase in Income Tax Payable**

The Increase in income tax payable was due to higher tax accruing on the taxable income earned for the year.

**77% Increase in Due to Related Parties**

The increase was due to temporary advances from affiliates, which were all in the regular course of business. These advances are expected to be paid or liquidated within the first quarter of the following year.

**30% Increase in Pension Liability**

The increase was due to the accrual of the liability to the retirement fund for the year, net of cash contributions to the fund.

**8% Increase in Deferred Income Tax Liabilities**

The increase in this account was mainly due to the capitalization of part of interests on long-term loans.

**29% Increase in Retained Earnings**

This was brought about by the Company's net income of ₱ 2.95 billion for the year net of cash dividends paid in 2010.

**Performance Indicators**

<i>Financial Ratios</i>	<i>Particulars</i>	2010	2009	2008
<i>Earnings per Share</i>	<i>Basic</i>	0.122	0.090	0.080
<i>Earnings per Share</i>	<i>Diluted</i>	0.122	0.090	0.080
<i>Debt to Equity Ratio</i>	<u><i>Notes Payable &amp; Long-term Debt</i></u>			
	<i>Total Stockholder's Equity</i>	29%	30%	19%
<i>Debt Ratio</i>	<u><i>Total Liabilities</i></u>			
	<i>Total Assets</i>	33%	33%	29%
<i>Ebitda to Total Interest Paid</i>	<u><i>EBITDA</i></u> <i>Total Interest Payment</i>	4.87	4.53	6.06

<i>Price Earnings Ratio</i>	<i>Closing Price of Share</i> <i>Earnings Per share</i>	10.76	10.00	4.88
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### Other Disclosures

On December 28, 2009, FLI executed separate deeds of sale for the acquisition by FLI of the 40% interest of Africa-Israel Properties (Phils.), Inc. in CPI and the 40% interest of Africa-Israel Investments (Phils.) Inc. in FAPI subject to the full payment by FLI of the purchase price and delivery to FLI of certain required documents for closing.

The sale by Africa-Israel of its interests in the two companies was part of Africa-Israel's global portfolio rebalancing and consolidation activity. On the other hand, the acquisition of Africa-Israel's interests will enable FLI to consolidate its share in the strong and stable recurring revenue streams from the two companies as well as provide incremental development potential to FLI's existing revenue streams.

The transaction was officially completed on February 08, 2010, making CPI and FAPI wholly owned subsidiaries of FLI.

Aside from the possible material increase in interest rates of the outstanding long-term debt, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of FLI within the next 12 months. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments, or any significant amount in its accounts payable that have not been paid within the stated terms.

There are no known trends, events or uncertainties that have had or are reasonably expected to have favorable or unfavorable impact on net sales or revenues or income from continuing operations of FLI.

Except for income generated from retail leasing, there are no seasonal aspects that have a material effect on FLI's financial conditions or results of operations.

The operating activities of FLI are carried uniformly over the calendar year; there are no significant elements of income or loss that did not arise from the company's continuing operations.

There are no known events that will trigger the settlement of a direct or contingent financial obligation that is material to the Company.

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships to the Company with unconsolidated entities or other persons created during the reporting period, except those discussed.

**The Company also intends to continue carrying out, through its joint venture companies, an intensive marketing campaign so as to maintain a high occupancy rate in the Festival Supermall, PBCom Tower and Northgate Cyberzone properties; thereby, maximizing its leasing revenues.**  
**Results of Operations for 2009**

### Year ended December 31, 2009 compared to year ended December 31, 2008

FLI registered a net income of ₱ 2,018.20 million in 2009, higher by 8.10% than the net income of ₱ 1,187.00 million in 2008.



### **Revenues**

FLI recorded real estate sales of ₱ 3,674.75 million in 2009, slightly higher than real estate sales in 2008 of ₱ 3,507.56 million. This year's recorded sales consist mostly of sales of middle-income lots and housing units including the medium-rise-buildings and condominium projects which are accounted for based on the stage of completion. With the higher sales, the corresponding cost of real estate sales increased by 12.82% from ₱ 1,585.59 million in 2008 to ₱1,788.85 million in 2009. Also, higher construction cost of medium rise buildings contributed to the increased cost of sales. Rental income increased by ₱ 52.91 million or by 4.66% to ₱ 1,187.44 million in 2009 from ₱ 1,134.53 million in 2008. This was brought about by higher rental revenues generated from Filinvest Supermall and Northgate Cyberzone buildings. Other sources of rental income include the PBCom Tower in Makati City and the ready-built-factories in Filinvest Technology Park in Calamba, Laguna.

Interest income increased by ₱ 30.46 million or by 8.23% from ₱ 370.24 million in 2008 to ₱400.71 million in 2009 due to higher interest generated from short-term investments and bank deposits while equity in net earnings from an associate decreased to ₱ 37.53 million in 2009 from ₱ 67.57 million in 2008 or by 44.46% due to lower earnings by Filinvest Alabang Inc. (FAI) where FLI is a 20% equity holder. The Group also recorded a foreign exchange gain of ₱ 2.40 million in 2009 compared to a foreign exchange gain of ₱ 7.35 million in 2008 due to a more stable Peso compared to U.S. Dollar in 2009. Other income increased by 75.11% or by ₱ 163.42 million from ₱ 217.56 million in 2008 to ₱ 380.98 million in 2009, this is due to increase in amusement and other sales of the mall, dividend income and service fees.

### **Expenses**

Total expenses increased to ₱ 1,728.49 million in 2009 from ₱ 1,587.56 million in 2008.

General and administrative expenses slightly increased by ₱ 44.53 million or by 4.47% to ₱1,039.99 million in 2009 from ₱ 995.46 million in 2008.

The following are the significant movements in the general and administrative expense accounts:

6.12% increase in salaries, wages and employee benefits due to additional manpower hired to cope up with the increasing volume of business.

9.03% increase in rent expense due to increase in office rental rates and mall land lease which was based on gross rental revenues earned by the mall.

24.60% increase in taxes and licenses because of higher revenues.

10.10% decrease in transportation & travel because of fewer provincial visits made.

17.00% increase in other general & administrative expenses due to higher expenses for insurance, data processing, dues & subscriptions and office supplies.

Selling and marketing expenses slightly decreased by 0.75% to ₱ 480.21 million in 2009 from ₱483.87 million in 2008.

Interest and other financial charges increased by 92.44 % to ₱ 208.28 million in 2009 from ₱108.23 million in 2008, brought about by higher interest rates and loans availed of during the last quarter of 2008 and issuance of the fixed-rate retail bonds amounting to ₱ 5.0 billion in November 2009.

### **Provision for Income Tax**

Provisions for income tax decreased by 43.98% in 2009 from ₱ 264.66 million in 2008 to ₱148.27 million in 2009. Provisions for current income tax dropped to ₱ 253.35 million in 2009 from ₱ 377.74 million in 2008 or a decrease of ₱ 124.39 million or by 32.93% due to lower income tax rate and tax incentives

availed by the Company. The Corporate income tax rate was reduced to 30% from 35% effective January 01, 2009.

Provisions for deferred income tax also decreased by ₱ 8.00 million or by 7.08% due to reversals made on deferred tax liabilities.

### **Financial Condition**

As of December 31, 2009, FLI's total consolidated assets stood at ₱ 58.90 billion, higher by 10.74% than the ₱ 53.19 billion as at the previous year end.

#### ***137% Increase in Cash and Cash Equivalents***

The increase in Cash and Cash Equivalents represents mainly proceeds from the Company's issuance of fixed rate retail bonds amounting to ₱ 5.0 billion in November 2009. The funds will be used to finance the development of existing and new projects of the Company lined up for the following year.

#### ***128% Increase in Due from related parties***

Interest bearing advances in the ordinary course of business were made to affiliates in 2009. These are expected to be collected in the following year.

#### ***10% Decrease in Other Receivables***

Other Receivables decreased due to aggressive collection efforts by the Company which reduced those amounts due from various Homeowners Associations and from tenants. Advances to contractors representing down payments were applied against their billings.

#### ***12% Increase in Real Estate Inventories***

The movement in this account was mainly due to development and construction costs set up for projects launched during the year and acquisitions of new properties in various parts of Metro Manila, Rizal, Cebu & Davao which were mostly intended for medium rise buildings development and includes the first payment made to the Cebu City government in connection with the purchase of 10.6 hectares SRP property.

#### ***Increase in Available-for-sale Financial Assets***

The increase was due to investment made in a 10 year zero-coupon bond of the National Power Corporation maturing on July 13, 2010.

#### ***15 % Increase in Property & Equipment***

Property and equipment increased due to ongoing building constructions of CPI to create additional office space to meet the growing demand from BPOs and call center locators. Building and leasehold improvements and acquisition of additional equipment also contributed to the increase.

#### ***20% Increase in Other Assets***

The Increase was mainly due to increase in input vat and creditable withholding tax.

#### ***34% Decrease in Income Tax Payable***

The decrease in income tax payable was due to the lower income tax rate applied to taxable net income and due to availment of tax incentives by the Company.

#### ***81% Decrease in Due to Related Parties***

Advances from certain related parties were settled in 2009.

**14% Increase in Pension Liability**

The increase was due to the accrual of the liability to the retirement fund for the period, net of cash contributions and payments made to and from the fund.

**7% Decrease in Deferred income tax liabilities**

The decrease was due to reversals made on deferred tax liabilities pertaining to sales recorded under the installment method of previous years. Recording of sales was changed using the full accrual method.

**Increase in Bonds Payable**

The Company issued fixed rate retail bonds amounting to ₱ 5.0 billion in November 2009 to finance the construction of various projects and the acquisition of various properties for future projects.

**20% Increase in Retained Earnings**

This was brought about by the Company's net income of ₱ 2.02 billion posted during the year net of cash dividends paid in 2009.

**Performance Indicators:**

Financial Ratios	Particulars	2009	2008	2007
Earnings per Share	Basic	0.090	0.080	0.071
Earnings per Share	Diluted	0.090	0.080	0.071
Debt to Equity Ratio	<u>Notes Payable &amp; Long Term Debt</u> Total Stockholder's Equity	0.30 : 1	0.19 : 1	0.10 : 1
Debt Ratio	<u>Total Liabilities</u> Total Assets	33%	29%	22%
Ebitda to Total Interest Paid	<u>Ebitda</u> Total Interest Payment	4.53 times	6.06 times	5.96 times
Price Earnings Ratio	<u>Closing Price of Share</u>	10.00 times	4.88 times	19.15 times

	Earnings per Share			
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### Other Disclosures

Aside from the possible material increase in interest rates of the outstanding long-term debt, there are no known trends, events or uncertainties or any material commitments that may result to any cash flow or liquidity problems of FLI within the next 12 months. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangements requiring it to make payments, or any significant amount in its accounts payable that have not been paid within the stated terms.

There are no known trends, events or uncertainties that have had or are reasonably expected to have favorable or unfavorable impact on net sales or revenues or income from continuing operations of FLI.

Except for income generated from retail leasing, there are no seasonal aspects that have a material effect on FLI's financial conditions or results of operations.

The operating activities of FLI are carried uniformly over the calendar year; there are no significant elements of income or loss that did not arise from the company's continuing operations.

There are no known events that will trigger the settlement of a direct or contingent financial obligation that is material to the Company.

There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships to the Company with unconsolidated entities or other persons created during the reporting period, except those discussed.

### **Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANT ON ACCOUNTING AND FINANCIAL DISCLOSURE**

SyCip, Gorres, Velayo & Co (SGV) has been the duly appointed independent auditors for the years covered by this report. There has been no termination nor change in the said appointment. There has been no disagreement with FLI's independent accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

## **PART III – CONTROL AND COMPENSATION INFORMATION**

### **Item 9. DIRECTORS AND PRINCIPAL OFFICERS OF THE REGISTRANT**

**Andrew L. Gotianun, Sr.**  
**Chairman**

Mr. Gotianun, 84, Filipino, is the founder of the Filinvest group of companies and is presently serving in various capacities in the member companies of the group, including Filinvest Alabang, Inc. ("FAI") and EastWest Banking Corporation ("EWBC") and Pacific Sugar Holdings Corporation ("PSHC") where he is Chairman and President.

**Mercedes T. Gotianun**  
*Chairman Emeritus*

Mrs. Gotianun, 83, Filipino, has been a director of FLI since 1991 to 2010 and its Chief Executive Officer from 1997 to 2007. She is also a director of FAI. She was involved in the operations of Family Bank and Trust Co. since its founding in 1970 and was President and Chief Executive Officer of the bank from 1978 to 1984. She obtained her university degree from the University of the Philippines.

**Andrew T. Gotianun, Jr.**  
*Co-Vice Chairman*

Mr. Gotianun, 60, Filipino, has been a director of FLI since 1990. He is also a director of FDC and FAI. He served as director of Family Bank and Trust Co. from 1980 to 1984. He has been in the realty business for more than 16 years. He obtained his bachelor of Science (Major in Accounting) degree from the Republican College in 1981.

**Joseph M. Yap** *Director,  
President & Chief Executive  
Officer*

Mr. Yap, 61, Filipino, has been the President and a member of FLI's Board since 1997. He was appointed Chief Executive Officer in 2007. He served as First Vice President of Family Bank & Trust Co. in charge of credit and collection from 1982 to 1984. Prior to that, he held financial management positions with Nestle with assignments in New York, Switzerland and Manila from 1976 to 1982. He obtained his Master's Degree in Business Administration from Harvard University in 1976.

**Lourdes Josephine G. Yap**  
*Co-Vice Chairman*

Mrs. Yap, 56, Filipino, has been a director of FLI since 1990. Mrs. Yap, who was elected as the Chairman of FLI's Executive Committee in 2010, is also a Director and the President of FDC, The Palms Country Club, Inc., and FAI. She obtained her Master's Degree in Business Administration from the University of Chicago in 1977.

**Jonathan T. Gotianun**  
*Director*

Mr. Gotianun, 58, Filipino, has been a director of FLI since 1990. He is also the Chairman of FDC, the President of Davao Sugar Central Co., Inc. and Cotabato Sugar Central Co., Inc., and Chairman of EastWest Banking Corporation. He served as director and Senior Vice President of Family Bank & Trust Co. until 1984. He obtained his Master's Degree in Business Administration from Northwestern University in 1976.

**Efren C. Gutierrez**  
*Director*

Mr. Gutierrez, 76, Filipino, was a director of FLI from 1994 to 2001, and was re-elected to FLI's Board in 2006. He served as the President of FAI from 1999 to 2005. He is a director of The Palms Country Club, Inc. He obtained his Bachelor of Laws degree from the University of the Philippines.

**Cirilo T. Tolosa**  
***Independent Director***

Mr. Tolosa, 72, Filipino, has been an independent director of FLI since 2007. He was a partner at Sycip Salazar Hernandez and Gatmaitan, retiring from the said law firm in February 2005. He is at present a partner in the law firm Tolosa Romulo Agabin and Flores. He has been chairman of the boards of Daystar Commercial Enterprises, Inc., Daystar Development Corporation, Lou-Bel Development Corporation and GMA Lou-Bel Condominium Corporation for at least 10 years, and corporate secretary of De La Salle University System, Inc. and De La Salle Philippines, Inc. since 2003 and 2005, respectively.

**Lamberto U. Ocampo**  
***Independent Director***

Mr. Ocampo, 86, Filipino, was an independent director of FLI from 2002 to 2008. In 2008, however, the Commission temporarily disqualified Mr. Ocampo for his failure to attend at least 50% of the total number of Board meetings in 2007. In the annual meeting of 2009, he was re-appointed as an Independent Director. Mr. Ocampo is a Civil Engineer by profession. He served as director of DCCD Engineering Corporation from 1957 to April 2001, as its Chairman of the Board from 1993 to 1995, and President from 1970 to 1992. He Obtained his Master's Degree in Engineering from the University of California-Berkeley.

**Cornelio C. Gison**  
***Director***

Mr. Gison, 70, Filipino, has been a director of FLI since 2006. Prior to joining FLI's Board, he was Undersecretary of the Philippine Department of Finance from 2000 to 2003. He is a member of the Advisory Board of the Metropolitan Bank & Trust Co., and a director of Intex Holdings Group.

**Nelson M. Bona**  
***Chief Financial Officer &  
Senior Vice President***

Mr. Bona, 61, Filipino, was appointed as FLI's Chief Financial Officer in January 2007. He is also the Treasurer of FDC. He was formerly an Executive Vice President of EastWest Bank and the Managing Director of Millenia Broadband Communications, Inc. and Filinvest Capital, Inc.

**Efren M. Reyes**  
***Treasurer and Senior Vice  
President***

Mr. Reyes, 61, Filipino, has served with the Filinvest Group in various capacities since 1980 and has been FLI's Treasurer and Senior Vice President since 1997. Prior to joining the Filinvest Group, he was an audit manager with SGV & Co. He obtained his Bachelor of Science in Business Administration (Major in Accounting) degree from the University of the East.

**Pablito A. Perez**  
***Corporate Secretary & First***  
***Vice President***

Mr. Perez, 55, Filipino, is FLI's General Counsel and Head of its Legal Department. Admitted to the Philippine Bar in 1984, he holds a law degree from San Beda College of Law and a Master of Laws degree from the University of Pennsylvania.

The members of the Nomination Committee of FLI are Andrew L. Gotianun Sr. (chair), Josephine G. Yap and Lamberto U. Ocampo. The Chairman Emeritus Mercedes T. Gotianun and the head of FLI's Human Resources Department sits in the committee in an ex-officio capacity.

The Audit Committee of FLI is composed of Cirilo T. Tolosa (chair), Cornelio C. Gison, and Jonathan T. Gotianun.

Mr. Andrew L. Gotianun, Sr. is the spouse of Ms. Mercedes T. Gotianun and the father of Mr. Andrew T. Gotianun Jr., Mr. Jonathan T. Gotianun, Mr. Michael Edward T. Gotianun and Ms. Josephine G. Yap. Ms. Yap is married to Mr. Joseph M. Yap.

The Directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been appointed or elected and qualified.

Officers are appointed or elected annually by the Board of Directors at its first meeting following the annual stockholders' meeting each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected, appointed or shall have qualified.

There is no person who is not an executive officer of the Company who is expected to make a significant contribution to the business. The Company, however, engages the regular services of consultants. At December 31, 2011, the Company had 7 consultants in the area of business development, marketing, planning and design and construction management.

Except as discussed in section 1.11, there are no transactions or any proposed transactions during the last two years, to which the Company was or is to be a party, in which any director or officer, any nominee for election as a director, any security holder or any member of the immediate family or any of the persons mentioned in the foregoing had or is to have a direct or indirect material interest.

***Involvement in Certain Legal Proceedings of Directors and Executive Officers***

Except for (a) criminal cases filed in 2007 before the Department of Justice (DOJ) in I.S. 2007-001 and 2007-011 and which were dismissed by the DOJ on March 26, 2009 and April 07, 2009, respectively; and (b) a criminal proceeding under Presidential Decree 1689 (filed against Mr. Joseph M. Yap and other FLI officers) arising from alleged unlawful collection of subdivision dues and other charges being collected by a homeowner's association which was dismissed by the City prosecutors office, none of the members of FLI's Board nor its executive officers are involved in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to December 31, 2011, nor have they been found by judgment or decree to have violated securities or commodities law and enjoined from engaging in any business, securities, commodities or banking activities.

**Item 10. EXECUTIVE COMPENSATION**

The aggregate compensation paid or incurred during the last two fiscal years and the estimate for this year are as follows:

	2012 Estimate			2011			2010		
Name & Principal Position	Salaries	Bonus	Total	Salaries	Bonus	Total	Salaries	Bonus	Total
Joseph M. Yap President/Chief Executive Officer									
Andrew T. Gotianun, Jr. Co-Vice-Chairman									
Nelson M. Bona CFO/Senior Vice President									
Pablito A. Perez First Vice President									
Francis V. Ceballos Senior Vice President									
Total for the Chief Executive and the four (4) highest paid officials	P 21.0M	P 4.1M	P 25.1M	P 20.0M	P 3.9M	P 23.9M	P 14.9M	P 2.4M	P 17.3M
Total of all Officers & Directors as a group	P 43.5M	P 7.9M	P 51.4M	P 41.5M	P 7.5M	P 49.0M	P 32.2M	P 5.4M	P 37.6M

Except for per diem of P25,000 being paid to independent directors for every meeting attended, there are no other arrangements to which directors are compensated, for any services provided as director, including any amounts payable for committee participation or special assignments in 2005 and ensuing year.

There is no employment contract between the Company and the above named executive officers.

There are no outstanding warrants or options held by the Company's CEO, the above named executive officers, and all officers and directors as a group.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

### 11.1. Security Ownership of Certain Beneficial Owners as of December 31, 2011:

<i>Title of Class of Securities</i>	<i>Name/ Address of Record Owner and Relationship with FLI</i>	<i>Name of Beneficial Owner/Relationship with Record Owner</i>	<i>Citizenship</i>	<i>No. of Shares Held</i>	<i>% of Ownership</i>
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<i>Preferred</i>	<i>Filinvest Development Corporation 173 P. Gomez St. San Juan, M.Mla.</i>	N.A.	Filipino	8,000,000,000 ( R )	100%
<i>Common</i>	<i>Filinvest Development Corporation</i>	N.A.	Filipino	12,969,648,868 ( R )	53.00%
<i>Common</i>	<i>PCD Nominee Corporation (Non-Filipino) G/F, Philippine Stock Exchange Tower, Ayala Ave., Makati City</i>	Total Shares	Non-Filipino	6,114,525,921 ( R )	24.99%
<i>Common</i>	<i>PCD Nominee Corporation (Filipino) G/F, Philippine Stock Exchange Tower, Ayala Avenue, Makati City</i>	(No single shareholder owns at least 5% of total shares)	Filipino	4,831,724,132 ( R )	19.74%

Total number of shares of all record and beneficial owners as a group is 8,000,000,000 preferred shares representing 100% of the total outstanding preferred shares, and 24,249,759,506 common shares representing 100% of the total outstanding common shares.

Ms. Josephine G. Yap is usually appointed by Filinvest Development Corporation (“FDC”) as its representative with authority to vote FDC’s shares in stockholders’ meetings of FLI.

## 11.2. Security Ownership of Management as of December 31, 2011

Class of Securities	Name and Address	Amount and Nature of Ownership	Citizenship	% of Ownership
Common	Andrew L. Gotianun, Sr. 173 P. Gomez St. San Juan MM	76 (D) 962 ( I )	Filipino	Negligible
Common	Andrew T. Gotianum Jr. 173 P. Gomez St. San Juan MM	406,571 (D) 1,025 ( I )	Filipino	"
Common	Joseph M. Yap 173 P. Gomez St. San Juan MM	2,781,829 (D)	Filipino	"
Common	Lourdes Josephine G. Yap 173 P. Gomez St. San Juan MM	76 (D) 6 ( I )	Filipino	"
Common	Jonathan T. Gotianum 173 P. Gomez St. San Juan MM	61 (D) 6 ( I )	Filipino	"
Common	Michael Edward T. Gotianum 173 P. Gomez St. San Juan MM	11,235,913 (D) 25,207,590 ( I )	Filipino	"

Common	Efren C. Gutierrez	13,083 (D)		"
	173 P. Gomez St. San Juan MM	2,177,463 ( I )	Filipino	
Common	Lamberto U. Ocampo	1 (D)		"
	173 P. Gomez St. San Juan MM		Filipino	
Common	Cornelio C. Gison	1 (D)		"
	c/o 173 P. Gomez St. San Juan MM		Filipino	
Common	Cirilo T. Tolosa	1 (D)		"
	c/o 173 P. Gomez St. San Juan MM		Filipino	
Common	Joseph and Josephine Yap	7,694,843 (D)		"
	173 P. Gomez St. San Juan MM	1,506,800 ( I )	Filipino	
Common	Andrew L. Gotianun, Sr. and/or Mercedes	18,022,477 (D)	Filipino	"
	T. Gotianun			
	173 P. Gomez St. San Juan MM			
Common	Luis T. Fernandez	4,064,940 (D)	Filipino	"
	173 P. Gomez St. San Juan MM	98,927 ( I )		

Total ownership of all directors and officers as a group is 0.17%. Interests of the above directors/executive officers in the Company's common shares are direct.

- a) No person holds more than 5% of the common stock under a voting trust or similar agreement.
- b) There has been no change in control of FLI since the beginning of last year.

### 11.3. Voting Trust Holders of 5% or more

There are no persons holding 5% or more of a class of shares under any voting trust or similar agreement.

### 11.4. Changes in Control

There are no arrangements that may result in change in control of the Company.

## Item 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and its subsidiaries, in their normal course of business, have certain related party transactions with affiliates principally consisting of advances and intercompany charges.

Please refer to the Detailed Discussion on the Company's Subsidiaries, Joint Ventures, Affiliate and Related Party Transactions in Section 1.3, 1.4, 1.5 and 1.11, respectively.

## PART IV - COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

FLI's Manual on Corporate Governance was approved on August 29, 2002 in order to monitor and assess the FLI's compliance with leading practices on good corporate governance as specified in its Corporate Governance Manual and Philippine SEC circulars. The Manual on Corporate Governance highlights areas for compliance improvement and sets out actions to be taken by FLI. FLI submits a certificate attesting to compliance with the Manual to the Philippine SEC and the PSE before the end of each year. FLI began submitting the certificate of compliance to the Philippine SEC and the PSE in 2003.

FLI is in substantial compliance with its Manual for Corporate Governance as demonstrated by the following: (a) the election of two (2) independent directors to the Board; (b) the appointment of members

of the audit, nomination and compensation committees; (c) the conduct of regular quarterly board meetings and special meetings, the faithful attendance of the directors at these meetings and their proper discharge of duties and responsibilities as such directors; (d) the submission to the SEC of reports and disclosures required under the Securities Regulation Code; (e) FLI's adherence to national and local laws pertaining to its operations; and (f) the observance of applicable accounting standards by FLI.

In order to keep itself abreast with the leading practices on corporate governance, FLI encourages the members of top level management and the Board to attend and participate at seminars on corporate governance initiated by accredited institutions. Furthermore, FLI has also raised its level of reporting to adopt and implement prescribed International Accounting Standards.

On February 28, 2011, FLI has filed a Revised Manual on Corporate Governance in compliance with the directive of the SEC on additional mandatory provisions to be incorporated thereto.

FLI welcomes proposals, especially from institutions and entities such as the SEC, PSE and the Institute of Corporate Directors, to improve corporate governance.

There is no known material deviation from FLI's Revised Manual on Corporate Governance.

## **PART V – EXHIBITS AND SCHEDULES**

### **Item 13. EXHIBITS AND REPORTS ON SEC Form 12-C**

#### **a) Exhibits**

Exhibits as indicated in the Index to Exhibits are either not applicable to the Company or require no answer.

#### **b) Reports on SEC Form 17-C**

The following reports on SEC Form 17-C were filed during the last six-month period of 2011:

<b>Report Date</b>	<b>Items Reported</b>
13-Jun-11	Informing SEC, that the Corporation's executive committee has approved on June 09, 2011 the Corporation's plan to issue and float via public offering of a five (5) years and three (3) months unsecured fixed-rate peso denominated debt securities (Retail Bonds) with an aggregate principal amount of up to P 3 Billion. Proceeds of the Retail Bonds issuance will be used by the Corporation to additionally finance capital requirements for 2011.
27-Jun-11	Circulation of press release entitled "Filinvest Land Inc., gets approval for P 3 Billion Fixed Rate Bonds" which announced that the SEC hqas issued a "Certificate of Permit to Offer Securities for Sale" for its P 3 billion bonds.
7-Jul-11	Circulation of press release entitled "Filinvest Land Raises P 3 billion from Bonds" which announced that FLI succesfully raised P 3 billion from its retail bonds which closed ojn June 30 and was issued on July 7, 2011. The bonds have a term of five years and three months and have a yield of 6.1962% per annum.

12-Aug-11	Circulation of a pressw release entitled "Filinvest Land's First Half 2011 Net Income Jumps 28%" which announced that FLI's net income for the first half of 2011 jumped by 28% year-on-year to P 1.282 billion, from P 988 million during the same period in 2010.
11-Nov-11	Circulation of press release entitled "Filinvest Land's Net Income for the First Nine Months of 2011 Increases by 15%" which announced that FLI reported that its core net income increased by 15% for the first nine months of 2011 to P 1.661 billion, from P 1.45 billion during the same period in 2010.
17-Nov-11	Informing SEC that the Philippine Dealing and Exchange Corp. (PDEx) has approved the listing of the 5-year and 3-month P 3 billion fixed rate bonds issued by Filinvest Land, Inc. The said listing shall be effective November 29, 2011.
7-Dec-11	Circulation of a press release entitled "Filinvest Land Expands its BPO Office Portfolio" which announced that FLI remains very bullish on the BPO sector and is rapidly expanding its office portfolio to meet the needs of the industry. FLI announced that it has completed the construction of its latest BPO office building at Northgate Cyberzone in Filinvest Coprorate City, Alabang. Vector Two is being turned over for tenant fit outs and is expected to start contribbuting to revenues starting in January 2012.

## INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

### Form 17 A, Item 7

#### Consolidated Financial Statements

Statement of Management's Responsibility for Financial Statements  
 Report of Independent Public Accountant  
 Report of Independent Auditors on Supplementary Schedules  
 Consolidated Balance Sheets as of December 31, 2011 and 2010  
 Consolidated Statement of Income and Retained Earnings for the years  
     ended December 31, 2011, 2010 and 2009  
 Consolidated Statements of Cash Flows for the years  
     ended December 31, 2011, 2010 and 2009

## Notes to Consolidated Financial Statements

### Supplementary Schedules


A. Marketable Securities (Cash Equivalents)	See Note 6, page 34 *
B. Accounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders	See Note 8, page 36-37 *
C. Investment in Securities	See Note 10, page 38-39 *
D. Advances to Unconsolidated Subsidiaries and Affiliates	See Note 18, page 47-49 *
E. Property, Plant and Equipment	See Note 12 & 13 page 40-42 *
F. Accumulated Depreciation	See Note 12 & 13, page 40-42 *
G. Intangible Assets – Other Assets	See Note 14, page 42 *
H. Long-Term Debt	See Note 16, page 43-46 *
I. Bonds Payable	See Note 17, page 47 *
J. Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)	See Note 18, page 47-49 *
K. Guarantees of Securities of Other Issuers	See Note 18, page 47-49 *
L. Capital Stock	See Note 26, page 54-55 *

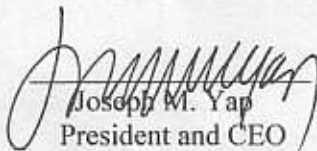
\* Accompanying Notes to Audited Consolidated Financial Statements

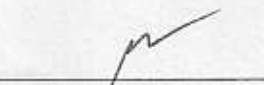
## SIGNATURES


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of San Juan, Metro Manila on April , 2012.


By:

  
Andrew L. Gotianun  
Chairman

  
Joseph M. Yap  
President and CEO

  
Venus A. Mejia  
SVP - Comptroller


  
Nelson M. Bona  
Chief Financial Officer

  
Atty. Conrad P. Cereno  
Corporate Information Officer

SUBSCRIBED AND SWORN to before me this 27 APR 2012 affiants exhibiting to me their Community Tax Certificates and /or drivers license, as follows:

Names	Comm. Tax Cert No.	Date of Issue	Place of Issue
Andrew L. Gotianun	5584152	2/27/12	San Juan
Joseph M. Yap	5584157	2/27/12	San Juan
Nelson M. Bona	35148471	1/04/12	Muntinlupa
Venus A. Mejia	35148469	1/04/12	Muntinlupa
Atty. Conrad P. Cereno	Driver's License EOI-05-001056		

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PAGE NO. 11  
SERIES OF 2012

  
AVELIO L. SALCEDO  
Notary Public for Parañaque City  
Not. Com. No. 52-2010  
Until December 31, 2012  
93 Doña Alicia St. Ina  
Executive Homes, BLS  
Parañaque City  
IBP O.R. No. 877345/1-3-12/Pasay  
PTR No. 9528971M/1-10-12/Parañaque  
Roll No. 38149 59

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

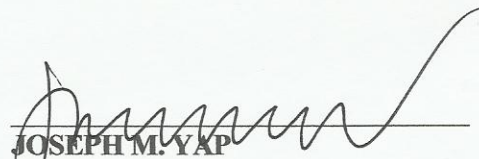
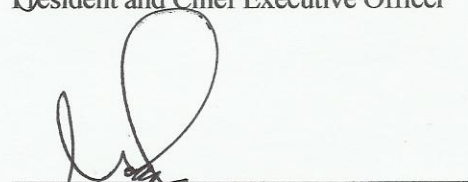
The management of **Filinvest Land, Inc. and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended **December 31, 2011 and 2010**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 or Trustees reviews and approves the financial statements and submits the same to the stockholders or members.

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



**ANDREW L. GOTIANUN, SR.**  
Chairman of the Board

  
**JOSEPH M. YAP**  
President and Chief Executive Officer  
**NELSON M. BONA**  
Chief Financial Officer

Signed this 14th day of March, 2012.



**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  
Filinvest Land, Inc.  
173 P. Gomez Street  
San Juan, Metro Manila

We have audited the accompanying consolidated financial statements of Filinvest Land, 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 misstatements.

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 consolidated financial statements.

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





***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Filinvest Land, 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.



Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-1 (Group A),

March 11, 2011, valid until March 10, 2014

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2009,

June 1, 2009, valid until May 31, 2012

PTR No. 3174824, January 2, 2012, Makati City

March 14, 2012





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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 ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Filinvest Land, Inc.  
173 P. Gomez Street  
San Juan, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Filinvest Land, Inc. and its subsidiaries (the Group) as at and for the years ended December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 included in this Form 17-A and have issued our report thereon dated March 14, 2012. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Michael C. Sabado

Partner

CPA Certificate No. 89336

SEC Accreditation No. 0664-AR-1 (Group A),  
March 11, 2011, valid until March 10, 2014

Tax Identification No. 160-302-865

BIR Accreditation No. 08-001998-73-2009,

June 1, 2009, valid until May 31, 2012

PTR No. 3174824, January 2, 2012, Makati City

March 14, 2012



**FILINVEST LAND, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****(Amounts in Thousands of Pesos)**

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 4, 6, 18, 19 and 29)	<b>₱1,153,306</b>	₱1,758,725
Contracts receivable (Notes 4, 7, and 29)	<b>8,452,908</b>	7,845,871
Due from related parties (Notes 18, and 29)	<b>246,757</b>	185,922
Other receivables (Notes 4, 8, 19 and 29)	<b>2,483,014</b>	1,603,566
Financial assets at fair value through other comprehensive income (Notes 2, 3, 10 and 29)	<b>24,626</b>	—
Available-for-sale financial assets (Notes 3, 10 and 29)	<b>—</b>	123,070
Real estate inventories (Notes 9 and 19)	<b>19,064,138</b>	15,141,005
Land and land development (Notes 4, 9 and 19)	<b>14,091,543</b>	12,807,811
Investment in an associate (Notes 11 and 27)	<b>3,799,798</b>	4,276,391
Investment properties (Notes 3, 4, 12 and 19)	<b>12,201,609</b>	11,599,167
Property and equipment (Notes 3, 4, and 13)	<b>1,289,870</b>	1,474,952
Deferred income tax assets (Notes 19 and 28)	<b>18,071</b>	15,312
Other assets (Notes 4, 14 and 19)	<b>909,248</b>	467,703
Goodwill (Notes 1, 3 and 4)	<b>4,567,242</b>	4,567,242
	<b>₱68,302,130</b>	₱61,866,737
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses (Notes 4, 7, 15, 19 and 29)	<b>₱6,154,962</b>	₱6,340,028
Income tax payable (Notes 4 and 28)	<b>183,208</b>	163,870
Loans payable (Notes 4, 16, 19 and 29)	<b>8,511,007</b>	6,961,167
Bonds payable (Notes 17 and 29)	<b>7,977,009</b>	4,949,241
Due to related parties (Notes 18, 19 and 29)	<b>48,411</b>	82,643
Retirement liabilities (Notes 3 and 24)	<b>59,208</b>	48,440
Deferred income tax liabilities - net (Notes 4 and 28)	<b>1,687,326</b>	1,630,097
Total Liabilities	<b>24,621,131</b>	20,175,486
<b>Equity</b>		
Common stock (Notes 1 and 26)	<b>24,470,708</b>	24,470,708
Preferred stock (Note 26)	<b>80,000</b>	80,000
Additional paid-in capital	<b>5,612,321</b>	5,612,321
Treasury stock (Note 26)	<b>(221,041)</b>	(221,041)
Retained earnings (Note 26)	<b>13,379,836</b>	11,390,088
Revaluation reserve on financial assets at fair value through other comprehensive income (Notes 2 and 10)	<b>(2,619)</b>	—
Revaluation reserve on available-for-sale financial assets (Note 10)	<b>—</b>	(2,619)
Share in other components of equity of an associate (Note 11)	<b>361,794</b>	361,794
Total Equity	<b>43,680,999</b>	41,691,251
	<b>₱68,302,130</b>	₱61,866,737

See accompanying Notes to Consolidated Financial Statements.



**FILINVEST LAND, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands of Pesos, Except Earnings Per Share Figures)

	Years Ended December 31		
	2011	2010	2009
<b>REVENUE</b> (Note 19)			
Real estate sales	<b>₱6,953,469</b>	₱5,652,374	₱3,674,751
Rental services (Notes 12 and 25)	<b>1,528,290</b>	1,411,269	1,187,442
<b>EQUITY IN NET EARNINGS OF AN ASSOCIATE</b> (Note 11)	<b>63,407</b>	55,217	37,527
<b>OTHER INCOME</b>			
Interest income (Notes 7 and 22)	<b>542,113</b>	565,355	400,708
Foreign currency exchange gain - net	<b>1,304</b>	8,565	2,404
Gain from remeasurement of previously held interest in a business combination (Note 4)	—	517,240	—
Excess of fair value of net identifiable assets over consideration transferred in a business combination (Note 4)	—	9,058	—
Others (Notes 18 and 23)	<b>564,101</b>	502,952	380,981
	<b>9,652,684</b>	8,722,030	5,683,813
<b>COSTS</b> (Note 19)			
Real estate sales	<b>3,612,285</b>	2,996,824	1,788,853
Rental services	<b>425,653</b>	400,884	374,604
<b>OPERATING EXPENSES</b>			
General and administrative expenses (Notes 20 and 24)	<b>920,892</b>	800,104	665,386
Selling and marketing expenses (Note 21)	<b>742,408</b>	593,588	480,215
<b>INTEREST AND OTHER FINANCE CHARGES</b> (Notes 16, 17 and 22)	<b>469,400</b>	416,655	208,281
	<b>6,170,638</b>	5,208,055	3,517,339
<b>INCOME BEFORE INCOME TAX</b>	<b>3,482,046</b>	3,513,975	2,166,474
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Notes 19 and 28)			
Current	<b>488,062</b>	475,029	253,351
Deferred	<b>53,644</b>	86,720	(105,077)
	<b>541,706</b>	561,749	148,274
<b>NET INCOME</b> (Note 27)	<b>₱2,940,340</b>	₱2,952,226	₱2,018,200
<b>EARNINGS PER SHARE</b> (Note 27)			
Basic / Diluted	<b>₱0.12</b>	₱0.12	₱0.09

See accompanying Notes to Consolidated Financial Statements.



**FILINVEST LAND, INC. AND SUBSIDIARIES**

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**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Thousands of Pesos)

	<b>Years Ended December 31</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>NET INCOME FOR THE PERIOD</b>	<b>₱2,940,340</b>	<b>₱2,952,226</b>	<b>₱2,018,200</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Share in other components of equity of an associate (Note 11)	—	361,794	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱2,940,340</b>	<b>₱3,314,020</b>	<b>₱2,018,200</b>

*See accompanying Notes to Consolidated Financial Statements.*



**FILINVEST LAND, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Amounts in Thousands of Pesos)

	Common Stock (Note 26)	Preferred Stock (Note 26)	Additional Paid-in Capital	Treasury Stock (Note 26)	Retained Earnings	Revaluation reserve on Financial Assets at FVTOCI (Note 10)	Revaluation Reserve on Available-for- sale Financial Assets (Note 10)	Share in Revaluation Increment on Land at Deemed Cost of an Associate (Note 11)	Share in Other Components of Equity of an Associate (Note 11)	Total
<b>For the Year Ended December 31, 2011</b>										
Balances as of December 31, 2010, as previously stated	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱9,513,666	₱—	(₱2,619)	₱1,876,422	₱361,794	₱41,691,251
Reclassification of share in revaluation increment on land at deemed cost of an associate	—	—	—	—	1,876,422	—	—	(1,876,422)	—	—
Balances as of December 31, 2010, after reclassification	24,470,708	80,000	5,612,321	(221,041)	11,390,088	—	(2,619)	—	361,794	41,691,251
Effect of initial application of PFRS 9 (Note 2)	—	—	—	—	—	(2,619)	2,619	—	—	—
Balances as of January 1, 2011	24,470,708	80,000	5,612,321	(221,041)	11,390,088	(2,619)	—	—	361,794	41,691,251
Comprehensive income										
Net income for the year	—	—	—	—	2,940,340	—	—	—	—	2,940,340
Dividends (Note 26)	—	—	—	—	(950,592)	—	—	—	—	(950,592)
Balances as of December 31, 2011	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱13,379,836	(₱2,619)	₱—	₱—	₱361,794	₱43,680,999
<b>For the Year Ended December 31, 2010</b>										
Balances as of December 31, 2009	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱7,361,682	₱—	(₱2,619)	₱1,876,422	₱—	₱39,177,473
Reclassification of share in revaluation increment on land at deemed cost of an associate	—	—	—	—	1,876,422	—	—	(1,876,422)	—	—
Balances as of December 31, 2009, after reclassification	24,470,708	80,000	5,612,321	(221,041)	9,238,104	—	(2,619)	—	—	39,177,473
Comprehensive income:										
Net income for the year	—	—	—	—	2,952,226	—	—	—	—	2,952,226
Share in other components of equity of an associate (Note 11)	—	—	—	—	—	—	—	—	361,794	361,794
Total comprehensive income	—	—	—	—	2,952,226	—	—	—	361,794	3,314,020
Dividends (Note 26)	—	—	—	—	(800,242)	—	—	—	—	(800,242)
Balances as of December 31, 2010	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱11,390,088	₱—	(₱2,619)	₱—	₱361,794	₱41,691,251



	Common Stock (Note 26)	Preferred Stock (Note 26)	Additional Paid-in Capital	Treasury Stock (Note 26)	Retained Earnings	Revaluation reserve on Financial Assets at FVTOCI (Note 10)	Revaluation Reserve on Available-for- sale Financial Assets (Note 10)	Share in Revaluation Increment on Land at Deemed Cost of an Associate (Note 11)	Share in Other Components of Equity of an Associate (Note 11)	Total
Balances as of January 1, 2009	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱6,143,724	₱—	(₱2,619)	₱1,876,422	₱—	₱37,959,515
Reclassification of share in revaluation increment on land at deemed cost of an associate	—	—	—	—	1,876,422	—	—	(1,876,422)	—	—
Balances as of January 1, 2009, after reclassification	24,470,708	80,000	5,612,321	(221,041)	8,020,146	—	(2,619)	—	—	37,959,515
Comprehensive income:										
Net income for the year	—	—	—	—	2,018,200	—	—	—	—	2,018,200
Dividends (Note 26)	—	—	—	—	(800,242)	—	—	—	—	(800,242)
Balances as of December 31, 2009	₱24,470,708	₱80,000	₱5,612,321	(₱221,041)	₱9,238,104	₱—	(₱2,619)	₱—	₱—	₱39,177,473

See accompanying Notes to Consolidated Financial Statements.



**FILINVEST LAND, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in Thousands of Pesos)

	Years Ended December 31		
	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱3,482,046</b>	₱3,513,975	₱2,166,474
Adjustments for:			
Interest income (Note 22)	<b>(542,113)</b>	(565,355)	(400,708)
Interest expense (Note 22)	<b>445,482</b>	377,537	179,930
Depreciation and amortization (Notes 12 and 13)	<b>287,120</b>	269,398	247,479
Equity in net earnings of an associate (Note 11)	<b>(63,407)</b>	(55,217)	(37,527)
Loss on redemption of financial assets at fair value through other comprehensive income	<b>1,782</b>	—	—
Dividend income	<b>(51)</b>	(772)	(1,548)
Excess of fair value of net identifiable assets over consideration transferred in a business combination (Note 4)	—	(9,058)	—
Gain from remeasurement of previously held interest in a business combination (Note 4)	—	(517,240)	—
Gain on sale of investment property (Note 12)	—	—	(14,454)
Operating income before changes in operating assets and liabilities	<b>3,610,859</b>	3,013,268	2,139,646
Changes in operating assets and liabilities			
Decrease (increase) in:			
Contracts receivable	<b>(607,037)</b>	(183,205)	201,038
Due from related parties	<b>(60,835)</b>	42,636	(105,276)
Other receivables	<b>(879,448)</b>	(163,173)	163,270
Real estate inventories	<b>(4,153,392)</b>	(2,673,950)	(1,429,335)
Other assets	<b>(277,700)</b>	3,365	(74,753)
Increase (decrease) in:			
Accounts payable and accrued expenses	<b>196,609</b>	(351,777)	(121,951)
Retirement liabilities (Note 24)	<b>10,768</b>	11,042	4,707
Net cash generated from (used in) operations	<b>(2,160,176)</b>	(301,794)	777,346
Interest received	<b>544,780</b>	572,311	390,927
Income taxes paid	<b>(522,368)</b>	(384,929)	(291,230)
Dividends received	<b>51</b>	772	1,548
Net cash provided by (used in) operating activities	<b>(2,137,713)</b>	(113,640)	878,591
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of raw land	<b>(1,053,473)</b>	(762,241)	(506,713)
Acquisitions of investment properties and property and equipment (Notes 12 and 13)	<b>(804,171)</b>	(221,422)	(163,678)
Dividends received from associate (Note 11)	<b>540,000</b>	—	—
Proceeds from maturity of financial assets at fair value through other comprehensive income (Note 10)	<b>93,662</b>	—	—
Proceeds from maturity of available-for-sale securities (Note 10)	—	242,172	—
Acquisitions of available-for-sale securities (Note 10)	—	(95,444)	(219,910)
Proceeds from sale of investment properties (Note 12)	—	—	35,679
Acquisition of businesses - net of cash acquired (Note 4)	—	(920,698)	—
Net cash used in investing activities	<b>(1,223,982)</b>	(1,757,633)	(854,622)

(Forward)





	Years Ended December 31		
	2011	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans availment (Note 16)	<b>₱4,220,000</b>	₱120,000	₱–
Proceeds from bond offering (Note 17)	<b>3,000,000</b>	–	4,936,405
Payments of loans payable (Note 16)	<b>(2,652,667)</b>	(606,833)	(61,600)
Payments of cash dividend (Note 26)	<b>(950,592)</b>	(800,242)	(800,242)
Interest paid	<b>(826,233)</b>	(876,122)	(571,783)
Increase (decrease) in amounts due to related parties	<b>(34,232)</b>	35,923	(202,495)
Net cash provided by (used in) financing activities	<b>2,756,276</b>	(2,127,274)	3,300,285
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(605,419)</b>	(3,998,547)	3,324,254
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,758,725</b>	5,757,272	2,433,018
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱1,153,306</b>	₱1,758,725	₱5,757,272

*See accompanying Notes to Consolidated Financial Statements.*



## **FILINVEST LAND, INC. AND SUBSIDIARIES**

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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

Filinvest Land, Inc. (the Parent Company or FLI) is a property developer engaged mainly in the development of residential subdivisions, construction of housing units and leasing activities. It was incorporated and domiciled in the Philippines where its shares are publicly traded. Formerly Citation Homes, Inc., the Parent Company was incorporated on November 24, 1989 and later changed its name to the present one on July 12, 1993. The Parent Company and its Subsidiaries (collectively referred to as “the Group”) offer a range of real estate products from socialized and affordable housing to middle -income and high-end housing, various types of subdivision lots, medium-rise residential buildings, farm estates, industrial parks, residential resort projects, a private membership club and condominium buildings. The Group also leases out commercial spaces in a mall in Alabang, Muntinlupa City, as well as office spaces in Makati City and Alabang, Muntinlupa City. The Parent Company’s registered office address is 173 P. Gomez Street, San Juan City, Metro Manila.

The Group’s parent company is Filinvest Development Corporation (FDC), a publicly listed entity. ALG Holdings Corporation (ALG) is the Group’s ultimate parent company.

In September 2006, the Group entered into a series of transactions pursuant to which it acquired (1) 60% ownership interest in Filinvest Asia Corporation (FAC) from FDC; (2) 60% ownership interest in Cyberzone Properties, Inc. (CPI) from Filinvest Alabang, Inc. (FAI); and (3) Festival Supermall structure from FAI. In exchange for acquiring these assets, the Group issued a total of about 5.64 billion common shares to FDC and FAI and assumed ₱2.50 billion outstanding debts of FDC and FAI. The business combinations resulted in the recognition of goodwill amounting to ₱5.45 billion, which comprises the fair value of expected synergies arising from the acquisitions.

In September 2006, the Group also entered into a joint venture agreement with Africa Israel Investments (Phils.), Inc. (AIIPI) to undertake the development of a club and portion of a land in San Mateo, Rizal by incorporation of Filinvest AII Philippines Inc. (FAPI).

On February 8, 2010, the Parent Company acquired the remaining 40% interests in CPI from Africa-Israel Properties (Phils.), Inc. (AIPPI) and FAPI from Africa-Israel Investments (Phils.), Inc. (AIIPI) to obtain control from the previous joint ventures. Prior to the acquisition, the Parent Company accounted for its investments in the joint ventures under the proportionate consolidation. The acquisition resulted in CPI and FAPI becoming wholly-owned subsidiaries of the Parent Company. The acquisition of the joint ventures’ interests was accounted for as business combination (see Note 4).

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 14, 2012.

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#### **2. Summary of Significant Accounting Policies**

##### Basis of Preparation

The accompanying consolidated financial statements are prepared using the historical cost basis, except for financial assets at fair value through other comprehensive income (FVTOCI) in 2011 and available-for-sale financial assets in 2010 that are measured at fair value. Amounts are in thousand pesos except as otherwise indicated.



The Group's consolidated financial statements are presented in Philippine Peso (Peso), which is also the functional currency, under Philippine Financial Reporting Standards (PFRS), of the Parent Company and its subsidiaries, joint ventures and an associate.

#### Statement of Compliance

The accompanying consolidated financial statements of the Group have been presented in compliance with PFRS.

#### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the following subsidiaries, and the corresponding percentages of ownership as at December 31:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
FAPI*	<b>100%</b>	100%	—
CPI*	<b>100%</b>	100%	—
Homepro Realty Marketing, Inc. (Homepro)	<b>100%</b>	100%	100%
Property Maximizer Professional Corp. (Promax)	<b>100%</b>	100%	100%
Property Specialist Resources, Inc. (Prosper)	<b>100%</b>	100%	100%
Leisurepro, Inc. (Leisurepro)	<b>100%</b>	100%	100%

The Group's share in the assets, liabilities and net income of the following joint ventures are proportionately consolidated into the Group's consolidated financial statements:

	<b>2011</b>	<b>2010</b>	<b>2009</b>
FAC	<b>60%</b>	60%	60%
CPI*	—	—	60%
FAPI*	—	—	60%

*\*In 2010, CPI and FAPI became wholly-owned subsidiaries of the Parent Company (see Note 4).*

These entities are treated as joint ventures despite the Group's interest of above 50% due to the existence of contractual arrangements between the parties and certain special voting rights requiring consent from both the Group and the other venturers in making strategic and financial decisions.

The financial statements of the subsidiaries, joint ventures and associate are prepared for the same reporting period as the Parent Company using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Group's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.



#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2011, except for PFRS 9, *Financial Instruments* which is effective on January 1, 2015 but adopted by the Group starting on January 1, 2011. Except as otherwise indicated, the adoption of these new accounting standards and amendments have no material impact on the Group's financial statements.

- PAS 24, *Related Party Disclosures* (Amended), clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- PAS 32, *Financial Instruments: Presentation (Amendment) – Classification of Rights Issues*, amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.
- Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*, provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*, clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.
- Improvements to PFRSs 2010  
*Improvements to PFRSs*, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:
  - PFRS 3, *Business Combinations*
  - PFRS 7, *Financial Instruments: Disclosures*
  - PAS 1, *Presentation of Financial Statements*
  - PAS 27, *Consolidated and Separate Financial Statements*
  - Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*



#### Early Adoption of PFRS 9, *Financial Instruments*

The impact on the financial statements of the Group's adoption of PFRS 9 is described below:

##### *PFRS 9, Financial Instruments*

The International Accounting Standards Board (IASB) issued International Financial Reporting Standards 9, *Financial Instruments* in November 2009 and October 2010 relating to the classification and measurements of financial assets and financial liabilities, respectively. It was approved for adoption by the Financial Reporting Standards Council (FRSC) as PFRS 9, *Financial Instruments* (PFRS 9) in March 2010. The FRSC adopted requirements on the classification and measurement of financial assets in March 2010 and the requirements on the accounting for financial liabilities in November 2010. The Philippine Securities and Exchange Commission (SEC) has issued guidelines on the implementation of PFRS 9 on May 16, 2011 under SEC Memorandum Circular No. 3. The standard was originally effective for annual periods beginning on or after January 1, 2013, with early application permitted, but was amended to defer the mandatory effectivity date to January 1, 2015. The standard is applied retrospectively when adopted. For annual reporting periods beginning before January 1, 2012, an entity can choose not to restate the comparative periods.

The Group has early adopted PFRS 9 with date of initial application of January 1, 2011 for the following merits:

- (a) Adoption of PFRS 9 is inevitable, hence, adopting it in 2011 rather than later is operationally more efficient;
- (b) This enables the Group to manage better its earnings and capital as the business model approach introduced by PFRS 9 aims to align the accounting standards with the Group's risk, capital, and asset-liability management practices; and
- (c) Corollary to better managed earnings and capital is stability in the Group's earnings.

These changes in accounting policy are applied from January 1, 2011 without restatement of prior periods' financial statements. The Group chose to apply the limited exemption not to restate comparative information, thereby resulting in the following impact:

- Comparative information for prior periods is not restated. The classification and measurement requirements previously applied in accordance with PAS 39, *Financial Instruments: Recognition and Measurement* and disclosures required in PFRS 7, *Financial Instruments: Disclosures* are retained for the comparative periods.
- The Group discloses the accounting policies for both the current period and the comparative periods, one applying PFRS 9 and one applying PAS 39.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

The standard introduces new classification and measurement requirements for financial assets, which replaced the classification and measurement requirements previously included in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.



Debt instruments are measured at amortized cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the financial asset is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortized cost criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Investments in equity instruments are classified and measured at FVTPL except if the equity investment is not held for trading and is designated by the Group at fair value through other comprehensive income (FVTOCI). If the equity investment is designated at FVTOCI, all gains and losses, except for dividend income recognized in accordance with PAS 18, *Revenue*, including disposal costs are recognized in other comprehensive income and are not subsequently reclassified to profit or loss.

*Impact of Change in Accounting Policy*

In accordance with the transition provisions of PFRS 9, the classification of financial assets that the Group held at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. Presented below are the effects in the Group's financial statements as a result of the application of PFRS 9 beginning January 1, 2011:

Original Measurement Category Under PAS 39	New Measurement Category Under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
<b>Loans and receivables</b>			
Cash and cash equivalents:			
Cash on hand and in banks	Financial assets at amortized cost	₱486,179	₱486,179
Short-term deposits	Financial assets at amortized cost	667,127	667,127
Contracts receivable:			
Contracts receivable	Financial assets at amortized cost	8,085,680	8,085,680
Receivables from government and financial institutions	Financial assets at amortized cost	367,228	367,228
Due from related parties	Financial assets at amortized cost	246,757	246,757
Other receivables:			
Receivable from homeowners' association - net	Financial assets at amortized cost	109,136	109,136
Receivable from tenants - net	Financial assets at amortized cost	229,151	229,151
Others	Financial assets at amortized cost	99,552	99,552
Other assets (short-term deposits):			
Deposits	Financial assets at amortized cost	29,080	29,080
Total loans and receivables		₱10,319,890	₱10,319,890

(Forward)



Original Measurement Category Under PAS 39	New Measurement Category Under PFRS 9	Original Carrying Amount under PAS 39	New Carrying Amount under PFRS 9
<b>AFS financial assets</b>			
Investments in shares of stocks:			
Quoted	Financial assets at FVTOCI	₱3,321	₱3,321
Unquoted	Financial assets at FVTOCI	21,305	21,305
Total AFS financial assets		24,626	24,626
		₱10,344,516	₱10,344,516

As a result of the adoption of PFRS 9, the balance of the revaluation reserve on available-for-sale financial assets in 2010 was reclassified into revaluation reserve on financial assets at fair value through other comprehensive income as at January 1, 2011.

The adoption of PFRS 9 related to classification and measurement of financial liabilities has no material impact on the Group's financial statements. As of December 31, 2011, the Group's financial liabilities are classified and measured at amortized cost.

Adoption of Philippine Interpretations Committee (PIC) Questions and Answers (Q&As) No. 2011-05

The Group adopted PIC Q&As No. 2011-05. This interpretation requires that revaluation increment resulting from the use of revalued amounts of property, plant and equipment as deemed cost at the date of transition to PFRS, should be closed out to the opening retained earnings in the financial statements at the earliest period presented and not to another equity category. Such amount closed to retained earnings shall not form part of retained earnings available for dividends distribution. Such transfer to retained earnings is a voluntary change in accounting policy and does not change any information previously provided to the financial statements users. In such case, the inclusion of an additional statement of financial position would not significantly influence the economic decisions of users in evaluating historical financial information and is not considered material to financial statements prepared in accordance with PFRS.

In accordance with the general requirements under PFRS 1 and the above PIC Q&A, the Group closed out the 'share in revaluation increment on land at deemed costs of an associate' with a balance of ₱1.88 billion as of January 1, 2009 to retained earnings. The 'share in revaluation increment on land at deemed costs of an associate' pertains to the remaining balance of the deemed cost adjustment on certain land properties of an associate which arose when the Group transitioned to PFRS in 2005. This adjustment to retained earnings has no effect on profit or loss and earnings per share for the years ended December 31, 2011, 2010 and 2009. The Group opted not to prepare an additional statement of financial position because the Group believes that such close out would not significantly influence the economic decisions of users of financial statements in evaluating historical financial information and is not considered material to financial statements prepared in accordance with PFRS.

Standards Issued but not yet Effective

Standards, interpretations, amendments to standards and improvements to standards issued but not yet effective up to the date of issuances of the Group's financial statements are listed below. The Group will adopt these standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its consolidated financial statements.



*Effective 2012*

- *PAS 12, Income Taxes - Recovery of Underlying Assets*  
The amendment clarified 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 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 always be measured on a sale basis of the asset. The Group will assess the impact to the financial statements when the amendment becomes effective.
- *PFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*  
The amendment requires additional disclosure 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. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

*Effective 2013*

- *PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (Amendments)*  
The amendments to PAS 1 change the grouping of items presented in OCI. 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. The amendment becomes effective for annual periods beginning on or after July 1, 2012.
- *PAS 19, Employee Benefits (Revised)*  
The amendments range from the removal of the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after January 1, 2013. The Group is currently assessing the impact of the amendment to PAS 19.
- *PAS 27, Separate Financial Statements (Revised)*  
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly-controlled entities, and associates in separate financial statements.
- *PAS 28, Investments in Associates and Joint Ventures (Revised)*  
As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Investment in Associate and Joint Venture*, PAS 28 has been renamed and describes the application of the equity method to investments in joint ventures in addition to associates.
- *PFRS 7, Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*  
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with 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 amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a. The gross amounts of those recognized financial assets and recognized financial liabilities;
  - b. The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
  - c. The net amounts presented in the statement of financial position;
  - d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
    - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
    - ii. Amounts related to financial collateral (including cash collateral); and
  - e. The net amount after deducting the amounts in (d) from the amounts in (c) above.
- **PFRS 10, *Consolidated Financial Statements***  
PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation-Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group is currently assessing the impact of the amendment.
  - **PFRS 11, *Joint Arrangements***  
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-Controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly-controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.
  - **PFRS 12, *Disclosures of Interests in Other Entities***  
PFRS 12 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. 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***  
PFRS 13 establishes a single source of guidance under IFRS 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.



*Effective 2014*

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

These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

*Effective 2015*

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*  
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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 Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The Group expects that the adoption of this interpretation will impact the revenue recognition on its selected high-rise and medium rise projects.

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

Accounting Policies

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 original maturities of three months or less from dates of placement and are subject to an insignificant risk of change in value.

Financial Instruments

*Date of recognition*

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery or assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.



*Initial recognition of financial instruments*

Financial assets and liabilities are recognized initially at fair value. The fair value of financial instruments that are actively traded in organized financial markets are determined by reference to quoted market bid prices at the close of the business at the reporting date.

*Determination of fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models. In the absence of a reliable basis of determining fair value, investments in unquoted equity securities are carried at cost net of impairment, if any.

Classification, Reclassification and Measurement of Financial Assets and Financial Liabilities (as at and from January 1, 2011)

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a nonderivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial instruments are 'debt instruments'.

*Financial assets at amortized cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any impairment in value, with the interest calculated recognized as Interest income in the consolidated statement of income. The Group classified cash and cash equivalents, contracts receivable, other receivables, due from related parties and other assets as financial assets at amortized cost (see Notes 6, 7, 8, 18 and 29).

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. As of December 31, 2011, the Group has not made such designation.

*Financial assets at FVTOCI*

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.



A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Equity investments as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in “Revaluation reserve on financial assets at FVTOCI” in the consolidated statement of financial position. Where the asset is disposed of, the cumulative gain or loss previously recognized in “Revaluation reserve on financial assets at FVTOCI” is not reclassified to profit or loss, but is reclassified to Retained earnings.

Included under this category are the Group’s investments in quoted and unquoted shares of stocks (see Notes 10 and 29).

Dividends earned on holding these equity instruments are recognized in the consolidated statement of income when the Group’s right to receive the dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment.

#### *Financial assets at FVTPL*

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition.

The Group has no financial assets at FVTPL as of December 31, 2011.

#### *Reclassification of financial assets*

The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met; and
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument’s contractual cash flows meet the amortized cost criteria.

Reclassification of financial assets designated as at FVTPL at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.



### *Financial liabilities*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

As of December 31, 2011, the Group has no financial liability at FVTPL.

### *Financial liabilities at amortized cost*

Financial liabilities are measured at amortized cost using the effective interest method, except for:

- a. financial liabilities at fair value through profit or loss which are measured at fair value; and
- b. financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Financial liabilities at amortized cost consist primarily of accounts payable and accrued expenses, loans payable, bonds payable and due to related parties (see Notes 15, 16, 17, 18 and 29).

### Classification, Reclassification and Measurement of Financial Assets and Financial Liabilities (Prior to January 1, 2011)

#### *Classification of financial instruments*

Financial assets and liabilities are further classified into the following categories: financial asset or financial liability at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and other financial liabilities. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date.

The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.



All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

As of December 31, 2010, the Group has no financial assets or liabilities at FVPL and HTM financial assets.

The Group has the following categories of financial assets and financial liabilities:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently carried at amortized cost, less any allowance for impairment in the consolidated statement of financial position. Amortization is determined using the effective interest rate (EIR) method and is included in the interest income account in the consolidated statement of income. The losses arising from impairment of such financial assets are recognized in the consolidated statement of income. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized, impaired and amortized.

Included under this category are the Group's cash and cash equivalents, contracts receivable, other receivables, due from related parties and other deposits (see Notes 6, 7, 8, 18 and 29).

(b) AFS Financial Assets

AFS financial assets are nonderivative financial assets that are either classified in this category or not classified in any of the other categories. AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are accounted for as "Revaluation reserve on available-for-sale financial assets" account under other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of income.

AFS financial assets also include unquoted equity investments, which are carried at cost, less any accumulated impairment in value, due to unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

Included under this category are the Group's investments in bonds and quoted and unquoted shares of stocks (see Notes 10 and 29).

(c) Other Financial Liabilities at Amortized Cost

Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.



After initial recognition, these liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Other financial liabilities at amortized cost consist primarily of accounts payable and accrued expenses, loans payable, bonds payable and due to related parties (see Notes 15, 16, 17, 18 and 29).

#### Impairment of Financial Assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

#### *Assets Carried at Amortized Cost (prior to January 1, 2011)*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the Group financial assets with similar credit risk characteristics. 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 (prior to January 1, 2011)*

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.



In the case of debt instruments classified as AFS financial asset, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of interest income in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

A financial asset 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 and has neither transferred nor retained substantially all the risks and rewards of an asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial Liabilities*

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

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

#### Real Estate Inventories

Property acquired, developed and constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value. It also includes investments in club shares accounted as inventory when the Group acts as the developer and its intent is to sell the developed property.





Cost includes cost of land, amounts paid to contractors for construction, borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realizable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale. The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

#### Land and Land Development

Land and land development consists of properties for future development that are carried at the lower of cost or NRV. The cost of land and land development include the (a) land acquisition, (b) costs incurred relative to acquisition and transfer of land title in the name of the Group such as real property taxes and (c) costs incurred on initial development of the raw land in preparation for future projects. They are classified to subdivision lots and housing units for sale under “real estate inventories” when the project construction starts and the necessary permits are secured.

#### Investment in an Associate

The Group’s investment in an associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group’s share of net assets of the associate. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group’s net investment in the associate. The consolidated statement of income reflects the share of the results of operations of the associate.

Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates’ accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on investment in an associate. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying value and recognize the amount in the consolidated income statement.

#### Interests in Joint Ventures

The Group has interests in joint ventures which are accounted for by the proportionate consolidation of assets, liabilities, income and expenses on a line-by-line basis.



A joint venture is a contractual agreement whereby two or more parties undertake an economic activity that is subject to joint control. The Group recognizes its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar terms, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting year as the Group, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

The Group also has interests in joint ventures which are jointly-controlled assets. The Group recognizes in its consolidated financial statements its share in the jointly-controlled assets, the liabilities that it incurred and its share in any of the liabilities it incurred jointly with the venture partner and income and expenses that it incurred.

#### Investment Properties

Investment properties consist of properties that are held to earn rentals. Investment properties, except for land, are carried at cost less accumulated depreciation and any impairment in value. Land is carried at cost less any impairment, if any.

Depreciation of investment properties is computed using the straight-line method over their useful lives. Buildings and ready-built factories are depreciated over their estimated useful lives of 20 to 50 years. Machinery and equipment are depreciated over their estimated useful lives of 5 years.

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

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

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.

#### Property and Equipment

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



Construction-in-progress, is stated at cost. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	20 years
Machinery and equipment	5 years
Transportation equipment	5 years
Furniture and fixtures	3-5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements or the lease term, whichever is shorter.

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

When assets are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

#### Impairment of Nonfinancial Assets

The carrying values of assets (e.g., real estate inventories, investment in an associate, property and equipment, and investment properties) are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statement of income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor 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 the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Other Assets

Other assets pertain to resources controlled by the Group as a result of past events and from which future economic benefits are expected to flow to the Group.

#### Value-added Tax (VAT)

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

The net amount of VAT recoverable and payable from the taxation authority is included as part of "Other assets" and "Accounts payable and accrued expenses" in the consolidated statement of financial position, respectively.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive options and dilutive convertible preferred shares. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive.

Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In arrangements where the Group is acting as principal to its customers, revenue is recognized on a gross basis. However, if the Group is acting as an agent to its customers, only the amount of net commission retained is recognized as revenue. The following specific recognition criteria must also be met before revenue is recognized:

#### *Real Estate Sales*

Real estate revenue and cost from substantially completed projects is accounted for using the full accrual method. The percentage-of-completion method is used to recognize revenue from sales of



projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized receivables are included in the “Accounts payable and accrued expenses” account in the liabilities section of the consolidated statement of financial position.

Collections from accounts which are not yet qualified for revenue recognition are treated as customer deposits included in the “Accounts payable and accrued expenses” account in the consolidated statement of financial position.

#### *Rental Income*

Rental income arising from investment properties are recognized in the consolidated statement of income either on a straight-line basis over the lease term or based on a certain percentage of the gross revenue of the tenants, as provided under the terms of the lease contract.

#### *Interest Income*

Interest is recognized as it accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### *Dividend Income*

Dividend income is recognized when the Group’s right to receive the payment is established. Dividend income is included in the “Other income” account in the consolidated statement of income.

#### *Management Fees*

Management fees from administration, property management and other activities are recognized when services are rendered. Management fees are included in the “Other income” account in the consolidated statement of income.

#### *Income from Forfeited Reservations and Collections*

Income from forfeited reservation and collections is recognized when the deposits from potential buyers are deemed nonrefundable due to prescription of the period for entering into a contracted sale. Such income is also recognized, subject to the provisions of Republic Act 6552, *Realty Installment Buyer Act*, upon prescription of the period for the payment of required amortizations from defaulting buyers.

#### *Other Income*

Other income is recognized when services are rendered and when goods are delivered.

#### Expenses

“General and administrative expenses” and “Selling and marketing expenses” are expenses that are incurred in the course of the ordinary operations of the Group. These usually take the form of an outflow or depletion of assets such as cash and cash equivalents, real estate inventories, property and equipment and investment properties. Selling and marketing expenses are costs incurred to sell real estate inventories, which include commissions, advertising and promotions, among others. General and administrative expenses constitute costs of administering the business. Expenses are recognized in the consolidated statement of income as incurred.



#### Retirement Costs

Retirement costs on the Group's defined benefit retirement plan are actuarially computed using the projected unit credit valuation 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 cost 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 with respect to the defined benefit retirement plan is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets, if any. 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 discounting the estimated future cash outflows using interest rates that have terms to maturity approximating the terms of the related retirement liability.

Actuarial gains and losses are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater 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 life of the employees participating in the plans.

#### Commission Expense

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Commission expense is included in the "Selling and marketing expenses" account in the consolidated statement of income.

#### Borrowing Costs

Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds. They are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Qualifying assets are assets that necessarily take a substantial period of time to get ready for its intended use or sale. Interest and other financing costs incurred during the construction period on borrowings used to finance property development are capitalized as part of development costs (included in "Real estate inventories" 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 sale are completed. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

All other borrowing costs are expensed as incurred.

#### Foreign Currency-Denominated Transactions

The functional and presentation currency of the Parent Company and its subsidiaries, joint ventures and associate is the Philippine Peso. Transactions denominated in foreign currencies are recorded in Philippine Peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated to Philippine Peso at exchange rates prevailing at the reporting date. Foreign exchange differentials between rate at transaction date and rate at settlement date or reporting date of foreign currency denominated monetary assets or liabilities are credited to or charged against current operations.



### Equity

The Group records common and preferred stocks at par value and additional paid-in capital as the excess of the total contributions received over the aggregate par values of the equity shares. The Group considers the underlying substance and economic reality of its own equity instrument and not merely its legal form in determining its proper classification. When any member of the Group purchases the Parent Company's capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in consolidated equity.

Retained earnings represents accumulated earnings of the Group, and any other adjustments to it as required by other standards, less dividends declared. The individual accumulated earnings of the subsidiaries and accumulated equity earnings from an associate included in the consolidated retained earnings are available for dividend declaration when these are declared as dividends by the subsidiaries and associate as approved by their respective Board of Directors.

Retained earnings are further restricted for the payment of dividends to the extent of the cost of common shares held in treasury.

The Parent Company's retained earnings available for dividend declaration as of December 31, 2011, 2010 and 2009 amounted to ₱8.88 billion, ₱6.56 billion and ₱5.64 billion, respectively.

Own equity instruments which are reacquired are carried at cost and are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. When the shares are retired, the capital stock account is reduced by its par value and excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid in capital when the shares were issued and to retained earnings for the remaining balance.

### Income Tax

#### *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 reporting date.

#### *Deferred Income Tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date 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, except; (a) where deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



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

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

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset 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.

#### Operating Leases

##### *Group as Lessor*

Leases where the Group does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

##### *Group as Lessee*

Lease payments under operating lease are recognized as expense based on the terms of the lease contract.

#### Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 5 to the consolidated financial statements.

#### Provisions

A provision is 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 assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Group expects part or all of provision to be reimbursed or recovered, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain.

#### Contingencies

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





#### Events after the Reporting Date

Any post year-end event up to the date of the auditor's report that provides additional information about the Group's position at reporting date (adjusting event) is reflected in the consolidated financial statements. Any post year-end event that is not an adjusting event is disclosed, when material, in notes to the consolidated financial statements.

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### **3. Significant Accounting Judgments and Estimates**

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Future events may occur which can cause the assumptions used in arriving at those estimates to change. The effects of any changes in estimates will be reflected in the consolidated financial statements as they become reasonably determinable. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

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

#### *Determination of the Group's functional currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of each entity within the Group has been determined to be the Peso. It is the currency that mainly influences the Group's operations.

#### *Classification of Financial Instruments*

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

#### *Real Estate Revenue Recognition*

Selecting an appropriate revenue recognition method for a real estate sale transaction requires certain judgments based on, among others:

- Buyer's commitment on sale which may be ascertained through the significance of the buyer's initial payments in relation to the total contract price; and
- Stage of completion of the project development.

#### *Operating Lease Commitments - The Group as Lessor*

The Group has entered into various property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership on these properties which are leased out on operating leases.



*Operating Lease Commitments - The Group as Lessee*

The Group has entered into various leases for its occupied offices. The Group has determined that all significant risks and rewards of ownership are retained by the respective lessors on offices it leases under operating leases.

*Determining Classification of Investment in Club Project*

Being a real estate developer, the Group determines how investment in club project shall be accounted for. In determining whether this shall be accounted for as inventories or as financial instruments, the Group considers its role in the development of the Club and its intent for holding the related club shares.

The Group classifies such shares as inventories when the Group acts as the developer and its intent is to sell the developed property.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the 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 discussed below:

*Fair Valuation in Business Combination*

In relation to the Parent Company's acquisition of the remaining 40% share in CPI and in FAPI in 2010 which were accounted for as business combinations (see Note 4), the Group hired the services of an independent valuer to determine the fair values of CPI's investment properties, and FAPI's inventories. The independent appraiser used income approach using discounted cash flow model.

Major assumptions used in the cashflows include rental rates, vacancy allowances and the discount rate. Discount rate used is 14% determined using capital asset pricing model while escalation of rental rates is assumed to be 5% per annum. Major assumptions used in the cashflows of FAPI's inventories include inventory selling price escalation, remaining development cost and the discount rate. Discount rate used is 13.5% determined using the capital asset pricing model.

Escalation of real estate inventory prices is assumed to be 5% annually for lots and housing units and at 5% every two years for club shares.

For equity valuation of CPI, the independent valuer also determined the fair values of the additional facilities to be constructed in the future using income approach following the discounted cash flows model. Major assumptions used in the cashflows include the estimation of development costs, soft cost, development profit, market rent, annual escalation and vacancy allowance. Discount rate used is 14.5% determined using capital asset pricing model. For equity valuation of FAPI, the same major assumptions were used for the cashflows of FAPI's inventories as discussed above.

*Estimate on when the buyer's investment is qualified for revenue recognition on real estate sales*

Starting January 1, 2010, the Group changed its basis of estimating on when the buyer's investment is considered adequate to meet the probability criteria that economic benefits will flow to the Group and warrant revenue recognition. The recent change in the Group's business focus on low to middle income segment, experience over the past years, and information gathered that other industry players are adopting the same threshold, prompted the Group to revisit and accordingly revise the basis of estimating the level of buyer's payments that is highly probable that the buyer will commit to the sale transaction, and thus, it is probable that economic benefits will flow to the Group. The change in estimate increased the real estate sales by ₱1.09 billion and net income by ₱221.87 million for the year ended December 31, 2010.



*Evaluation of Impairment of Financial Assets at Amortized Cost*

The Group reviews loans and receivables, other than cash and cash equivalents, at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated statements of income. If there is objective evidence that an impairment loss on loans and receivables, other than cash and cash equivalents, carried at amortized cost has been incurred, the carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of income.

The Group maintains allowance for doubtful accounts based on the result of the individual and collective assessment. Under the individual assessment, impairment loss is determined as the difference between the receivables carrying balance and recoverable amount. Factors considered in individual assessment are payment history, account status and term. The collective assessment would require the Group to classify its receivables based on the credit risk characteristics (customer type, payment history, account status and term) of the customers. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile adjusted on the basis of current observable data to reflect the effects of current conditions. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the period. Based on the Group's experience, its loans and receivables are highly collectible or collectible on demand.

The receivables are collateralized by the corresponding real estate properties sold. In few cases of buyer defaults, the Group can repossess the collateralized properties and resell them at the prevailing market prices.

The Group has an outstanding allowance for impairment loss on its other receivables amounting to ₱62.98 million and ₱54.09 million as of December 31, 2011 and 2010, respectively (see Note 8).

The carrying values of financial assets at amortized cost in 2011 and loans and receivables in 2010 amounted to ₱10.32 billion and ₱10.41 billion, respectively (see Note 29).

*Evaluation of Impairment of Available-for-sale Financial Assets (Prior to January 1, 2011)*

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of comprehensive income, is removed from consolidated statement of comprehensive income and recognized it in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

As at December 31, 2010, the Group did not recognize impairment on its AFS financial assets.

The carrying value of AFS financial assets amounted to ₱123.07 million as of December 31, 2010 (see Notes 10 and 29).



*Estimating Useful Lives of Investment Properties and Property and Equipment*

The Group estimates the useful lives of its investment properties and property and equipment based on the years over which these assets are expected to be available for use. The estimated useful lives of investment properties and property and equipment are reviewed at least annually; and, are updated if expectations differ from previous estimates due to physical wear and tear as well as 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 estimates brought about by changes in factors mentioned above.

The carrying value of investment properties amounted to ₱12.20 billion and ₱11.60 billion as of December 31, 2011 and 2010, respectively (see Note 12). The carrying value of property and equipment amounted to ₱1.29 billion and ₱1.47 billion as of December 31, 2011 and 2010, respectively (see Note 13).

*Recognition of Deferred Income Taxes*

The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient future taxable profit to allow all or part of its deferred income tax assets to be utilized. The carrying value of recognized net deferred tax assets amounted to ₱0.02 million and ₱0.02 million as of December 31, 2011 and 2010, respectively (see Note 28). The deductible temporary differences for which no deferred income tax assets were recognized amounted to ₱0.05 million and ₱0.03 million as of December 31, 2011 and 2010, respectively (see Note 28).

The carrying value of recognized net deferred tax liabilities amounted to ₱1.69 billion and ₱1.63 billion as of December 31, 2011 and 2010 (see Note 28).

*Evaluation of Impairment on Nonfinancial Assets*

The Group reviews its real estate inventories, investment in an associate, property and equipment, and investment properties for impairment of value. This includes consideration of certain indicators of impairment such as significant change in asset usage, significant decline in asset's market value, obsolescence or physical damage of an asset, plans of discontinuing the real estate projects, and, significant negative industry or economic trends. If such indicators are present, and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to recoverable amount. The recoverable amount is the asset's fair value less cost to sell, except for investments, which have recoverable value determined using value-in-use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arms-length transaction while value in use is the present value of estimated future cash flows expected to arise from the investments. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As at December 31, 2011 and 2010, the Group did not record impairment on any of its nonfinancial assets. The carrying value of the nonfinancial assets amounted to ₱50.45 billion and ₱45.30 billion as of December 31, 2011 and 2010, respectively (see Notes 9, 11, 12 and 13).

*Evaluation of Impairment on Goodwill*

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations that use a discounted cash flow model. The Group availed of the services of an independent appraiser to compute for the value-in-use. The cash flows are derived from budget and do not include restructuring activities that the Group is not yet committed to nor significant



future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rates used.

The pre-tax discount rates used in 2011 and 2010 are 12% and 14.5%, respectively. The discount rates are based on the yield of government bonds applicable to the term of forecast as of the valuation date adjusted to reflect the current market assessment of the risk specific to the cash generating units.

The growth rates used beyond the forecast period for different cash-generating units range from 5% to 10% in 2011 and 2010.

As of December 31, 2011 and 2010 the Group did not recognize any impairment on its goodwill. The carrying value of goodwill amounted to ₱4.57 billion as of December 31, 2011 and 2010 (see Note 4).

#### *Estimating Retirement Liabilities and Other Retirement Benefits*

The determination of the Group's obligation and cost for retirement and other retirement benefits is dependent on selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 24 and include among others, discount rates and rates of salary increase. While the Group believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect retirement obligations.

Retirement liabilities amounted to ₱59.21 million and ₱48.44 million as at December 31, 2011 and 2010, respectively (see Note 24). Retirement costs included under "General and administrative expenses" account amounted to ₱22.38 million, ₱12.74 million and ₱12.64 million in 2011, 2010 and 2009, respectively (see Note 24).

#### *Fair Values of Financial Instruments*

The preparation of consolidated financial statements in compliance with PFRS requires certain financial assets and liabilities to be carried at fair value, which requires the use of extensive accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e. interest rate), the amount of changes in fair value would differ due to usage of different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the Group's consolidated net income and other comprehensive income (see Note 29).

#### *Contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defense in these matters and based upon analysis of potential results. The Group currently does not believe these proceedings will have material effect on the Group's financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 30).



#### 4. Business Combinations in 2010 and Goodwill

On February 8, 2010, the Parent Company acquired the remaining 40% interests in CPI from Africa-Israel Properties (Phils.), Inc. (AIPPI) and FAPI from Africa-Israel Investments (Phils.), Inc. (AIIPI) to obtain control from the previous joint ventures. Prior to the acquisition, the Parent Company accounted for its investments in the joint ventures under the proportionate consolidation. The acquisition resulted in CPI and FAPI becoming wholly-owned subsidiaries of the Parent Company. The acquisition of the joint ventures' interests was accounted for as business combination.

Below are the details of the business combination transactions:

##### a.) Acquisition of CPI

Cash paid by the Parent Company to AIPPI for the remaining 40% share in CPI amounted to ₱780.00 million.

Goodwill on the business combination of CPI is determined as follows (in thousands):

Amount of consideration for the 40% interest acquired	₱780,000
Add acquisition date fair value of previously held 60% interest	2,932,947
Less acquisition date fair value of net identifiable assets	3,386,394
<b>Goodwill</b>	<b>₱326,553</b>

The goodwill recognized amounting to ₱326.55 million comprises the expected cash flows from future expansion of CPI operations. The acquisition of the remaining interest in CPI will enable the Group to consolidate its share in the strong and stable recurring revenue streams from the company as well as provide incremental development potential to the Group's existing revenue streams. With a more diversified portfolio, the Group expects to generate a more stable recurring revenue from its retail and office investment properties. These recurring revenues can, in turn, be used to provide internally generated funding for other projects.

The increase in the fair value of the previously held 60% interest in CPI over the carrying amount at acquisition date of ₱343.19 million is included in the consolidated statement of income for the year ended December 31, 2010 as "Gain from remeasurement of previously held interest in a business combination".

Acquisition date fair values of net identifiable assets follow (in thousands):

Cash and cash equivalents	₱453,537
Receivables from tenants	69,386
Other receivables	29,612
Other current assets	23,276
Investment properties and property and equipment	4,180,000
Accounts payable and accrued expenses	(260,978)
Income tax payable	(3,009)
Reservation fee and other deposits	(26,144)
Security deposits	(103,426)
Loans payable	(908,000)
Deferred income tax liabilities - net	(67,860)
<b>Acquisition date fair value of net identifiable assets</b>	<b>₱3,386,394</b>



The gross contractual amount of CPI's receivables amounted to ₱114.93 million. All contractual cash flows are expected to be collected.

Prior to business combination, the Parent Company had existing receivable from CPI of ₱41.85 million which was settled outside the business combination. This did not have any impact on the cost of acquisition and resulting goodwill.

From the date of acquisition to December 31, 2010, CPI had contributed ₱431.94 million of revenue and other income and ₱283.10 million to net income of the Group. If the combination had taken place at the beginning of the year, contributions to revenue and other income would have been ₱480.65 million, while contributions to net income would have been ₱308.35 million for the year ended December 31, 2010.

b.) Acquisition of FAPI

Cash paid by the Parent Company to AIPI for the remaining 40% share in FAPI amounted to ₱383.23 million.

Excess of fair value of net identifiable assets over the consideration paid on the business combination of FAPI follows (in thousands):

Amount of consideration for the 40% interest acquired	₱383,226
Add acquisition date fair value of previously held 60% interest	744,505
Less acquisition date fair value of net identifiable assets	1,136,789
Excess of fair value of identifiable net assets over consideration	₱9,058

Excess of fair value of net identifiable assets over the consideration paid is shown as a separate line item in the consolidated statements of income.

The increase in fair value of previously held 60% interest in FAPI over the carrying amount at acquisition date of ₱174.05 million is included in the consolidated statement of income for the year ended December 31, 2010 as "Gain from remeasurement of previously held interest in a business combination".

Acquisition date fair values of the identifiable assets follow (in thousands):

Cash and cash equivalents	₱152,782
Contracts receivable	229,719
Due from a related party	103,222
Other receivables	24,520
Real estate inventories	1,360,000
Other assets	7,742
Accounts payable and accrued expenses	(403,263)
Loans payable	(250,000)
Deferred tax liabilities	(87,933)
Acquisition date fair value of net identifiable assets	₱1,136,789

The gross contractual amount of FAPI's receivables amounted to ₱315.10 million. All contractual cash flows are expected to be collected.



Prior to business combination, the Parent Company had existing receivables from FAPI of ₱104.05 million which was settled outside the business combination. This did not have any impact on the cost of acquisition and resulting excess of fair value of identifiable net assets over consideration.

From the date of acquisition to December 31, 2010, FAPI had contributed ₱393.02 million of revenue and other income and ₱100.03 million to net income of the Group. If the combination had taken place at the beginning of the year, contributions to revenue and other income would have been ₱396.11 million, while contributions to net income would have been ₱101.18 million for the year ended December 31, 2010.

Net cash payments for the business combinations with CPI and FAPI are shown below (in thousands):

Cash consideration paid for:	
CPI	₱780,000
FAPI	383,226
	<u>1,163,226</u>
Cash and cash equivalents acquired from:	
CPI	(181,415)
FAPI	(61,113)
	<u>₱920,698</u>

Total gain from remeasurement of previously-held interests in CPI and FAPI amounted to ₱517.24 million, shown as part of 'Revenue and Other Income' in the consolidated statements of income.

Had CPI and FAPI been consolidated from January 1, 2010, the consolidated revenues and other income would have been ₱8.77 billion, while the consolidated net income would have been ₱2.98 billion for the year ended December 31, 2010.

All transaction costs related to the business combination were paid by previous owners.

None of the goodwill recognized is expected to be deductible for income tax purposes.

Goodwill in the Group's consolidated statements of financial position consists of (amount in thousands):

Festival Supermall structure	₱3,745,945
FAC	494,744
CPI	326,553
	<u>₱4,567,242</u>

Below is the movement of goodwill (in thousands):

	2011	2010
Balance at beginning of period	₱4,567,242	₱5,445,488
Acquisition	—	(878,246)
Balance at end of period	<u>₱4,567,242</u>	<u>₱4,567,242</u>





## 5. Segment Reporting

For management purposes, the Group is organized into the following business units:

### *Real Estate*

This involves the acquisition of land, planning and development of large-scale fully integrated residential communities as well as the development and sale of residential lots, housing units, medium-rise residential buildings, farm estates, industrial parks, residential resort projects, a private membership club and condominium buildings.

### *Leasing*

This involves the operations of Festival Supermall (the Mall) and the leasing of office spaces in Makati City and Alabang, Muntinlupa City.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss, which in certain respects, are measured similarly as net income in the consolidated financial statements.

The chief operating decision-maker has been identified as the executive committee. This committee reviews the Group's internal reports in order to assess performance and allocate resources. Management has determined the operating segments based on these reports. The Group does not report its results based on geographical segments because the Group operates only in the Philippines.

No operating segments have been aggregated to form the above reportable segments.

Transfer prices between segments are on an arm's length basis and have the terms equivalent to transactions entered into with third parties.

The financial information about the financial position and result of operations of these business segments for the years ended December 31, 2011 and 2010 are summarized below (amounts in thousands).

### **December 31, 2011**

	Real Estate Operations	Leasing Operations	Combined	Adjustments and Eliminations	Consolidated
Revenue and other income except equity in net earnings of an associate:					
External	₱8,830,409	₱1,705,147	₱10,535,556	(₱946,279)	₱9,589,277
Inter-segment	86,978	—	86,978	(86,978)	—
	8,917,387	1,705,147	10,622,534	(1,033,257)	9,589,277
Equity in net earnings of an associate	63,407	—	63,407	—	63,407
	₱8,980,794	₱1,705,147	₱10,685,941	(₱1,033,257)	₱9,652,684
Net income	₱2,854,587	₱1,006,460	₱3,861,047	(₱920,707)	₱2,940,340
Adjusted EBITDA	₱3,271,867	₱1,322,607	₱4,594,474	(₱962,732)	₱3,631,742
Segment assets	₱51,159,365	₱16,461,257	₱67,620,622	₱681,508	₱68,302,130
Less deferred tax assets	—	18,071	18,071	—	18,071
Net segment assets	₱51,159,365	₱16,443,186	₱67,602,551	₱681,508	₱68,284,059

(Forward)



	Real Estate Operations	Leasing Operations	Combined	Adjustments and Eliminations	Consolidated
Segment liabilities	₱22,458,323	₱2,105,878	₱24,564,201	₱56,930	₱24,621,131
Less deferred tax liabilities	1,530,346	—	1,530,346	156,980	1,687,326
Net segment liabilities	₱20,927,977	₱2,105,878	₱23,033,855	(₱100,050)	₱22,933,805
Cash flows from:					
Operating activities	(₱4,045,451)	₱1,929,657	(₱2,115,794)	(₱2,000)	(₱2,137,713)
Investing activities	(371,365)	93,662	(277,703)	(946,279)	(1,223,982)
Financing activities	3,064,751	(399,459)	2,665,292	90,984	2,756,276

### December 31, 2010

	Real Estate Operations	Leasing Operations	Combined	Adjustments and Eliminations	Consolidated
Revenue and other income except equity in net earnings of an associate:					
External	₱6,646,054	₱1,517,102	₱8,163,156	₱503,657	₱8,666,813
Inter-segment	72,355	—	72,355	(72,355)	—
	6,718,409	1,517,102	8,235,511	431,302	8,666,813
Equity in net earnings of an associate	55,217	—	55,217	—	55,217
	₱6,773,626	₱1,517,102	₱8,290,728	₱431,302	₱8,722,030
Net income	₱1,688,568	₱798,163	₱2,486,731	₱465,495	₱2,952,226
Adjusted EBITDA	₱1,982,527	₱1,065,223	₱3,047,750	(₱28,906)	₱3,018,844
Segment assets	₱46,610,847	₱14,215,162	₱60,826,009	₱1,040,728	₱61,866,737
Less deferred tax assets	—	15,312	15,312	—	15,312
Net segment assets	₱46,610,847	₱14,199,850	₱60,810,697	₱1,040,728	₱61,851,425
Segment liabilities	₱18,079,390	₱2,121,169	₱20,200,559	(₱25,073)	₱20,175,486
Less deferred tax liabilities	1,466,473	—	1,466,473	163,624	1,630,097
Net segment liabilities	₱16,612,917	₱2,121,169	₱18,734,086	(₱188,697)	₱18,545,389
Cash flows from:					
Operating activities	(₱416,392)	₱230,397	(₱185,995)	₱72,355	(₱113,640)
Investing activities	(1,604,802)	(152,831)	(1,757,633)	—	(1,757,633)
Financing activities	(2,007,716)	(47,203)	(2,054,919)	(72,355)	(2,127,274)

### December 31, 2009

	Real Estate Operations	Leasing Operations	Combined	Adjustments and Eliminations	Consolidated
Revenue and other income except equity in net earnings of an associate:					
External	₱4,275,394	₱1,370,892	₱5,646,286	₱—	₱5,646,286
Inter-segment	42,833	—	42,833	(42,833)	—
	4,318,227	1,370,892	5,689,119	(42,833)	5,646,286
Equity in net earnings of an associate	37,527	—	37,527	—	37,527
	₱4,355,754	₱1,370,892	₱5,726,646	(₱42,833)	₱5,683,813
Net income	₱1,393,680	₱624,520	₱2,018,200	₱—	₱2,018,200
Adjusted EBITDA	₱1,165,931	₱1,040,350	₱2,206,281	(₱57,719)	₱2,148,562
Segment assets	₱45,263,101	₱12,516,948	₱57,780,049	₱1,135,176	₱58,915,225
Less deferred tax assets	—	10,873	10,873	—	10,873
Net segment assets	₱45,263,101	₱12,506,075	₱57,769,176	₱1,135,176	₱58,904,352
Segment liabilities	₱18,164,745	₱1,564,053	₱19,728,798	₱8,954	₱19,737,752
Less deferred tax liabilities	1,369,053	—	1,369,053	136,560	1,505,613
Net segment liabilities	₱16,795,692	₱1,564,053	₱18,359,745	(₱127,606)	₱18,232,139
Cash flows from:					
Operating activities	₱164,868	₱619,725	₱784,593	₱93,998	₱878,591
Investing activities	(740,018)	(114,604)	(854,622)	—	(854,622)
Financing activities	3,498,127	(103,844)	3,394,283	(93,998)	3,300,285



Investing activities consist of acquisitions of raw land and additions to property and equipment, investment properties and other investments.

The following table shows a reconciliation of the adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) to income before income tax:

	2011	2010	2009
		(In Thousands)	
Adjusted EBITDA	<b>₱3,631,742</b>	<b>₱3,018,844</b>	<b>₱2,148,562</b>
Depreciation and amortization (Note 20)	<b>(287,120)</b>	<b>(243,649)</b>	<b>(214,446)</b>
Operating profit	<b>3,344,622</b>	2,775,195	1,934,116
Interest income (Note 22)	<b>542,113</b>	565,355	400,708
Interest and other finance charges (Note 22)	<b>(469,400)</b>	<b>(416,655)</b>	<b>(208,281)</b>
Equity in net earnings of an associate (Note 11)	<b>63,407</b>	55,217	37,527
Foreign currency exchange gain - net	<b>1,304</b>	8,565	2,404
Excess of fair value of net identifiable assets over consideration transferred in a business combination (Note 4)	—	9,058	—
Gain from remeasurement of previously held interest in a business combination (Note 4)	—	517,240	—
Income before income tax	<b>₱3,482,046</b>	<b>₱3,513,975</b>	<b>₱2,166,474</b>

## 6. Cash and Cash Equivalents

This account consists of:

	2011	2010
		(In Thousands)
Cash on hand and in banks	<b>₱486,179</b>	<b>₱325,903</b>
Short-term deposits	<b>667,127</b>	1,432,822
	<b>₱1,153,306</b>	<b>₱1,758,725</b>

Cash in bank earns interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods up to three (3) months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. Interest income earned on the Group's cash and cash equivalents amounted to ₱43.82 million, ₱104.03 million and ₱62.78 million in 2011, 2010 and 2009, respectively (see Note 22).

There is no cash restriction on the Group's cash and cash equivalents as at December 31, 2011 and 2010.



## 7. Contracts Receivable

This account consists of:

	2011	2010
		(In Thousands)
Contracts receivable	<b>₱8,085,680</b>	<b>₱6,826,127</b>
Receivables from government and financial institutions	<b>367,228</b>	<b>1,019,744</b>
	<b>₱8,452,908</b>	<b>₱7,845,871</b>

Contracts receivable are collectible over varying periods within 2 to 10 years. These receivables arising from real estate sales are collateralized by the corresponding real estate properties sold.

Receivables from government and financial institutions pertain to bank and government financed real estate sales. Receivables from government and financial institutions are collectible within one year.

The following table presents the breakdown of contracts receivable by maturity dates:

	2011			2010		
	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year	Total
			(In Thousands)			
Contracts receivable	<b>₱948,557</b>	<b>₱7,137,123</b>	<b>₱8,085,680</b>	<b>₱1,453,546</b>	<b>₱5,372,581</b>	<b>₱6,826,127</b>
Receivables from government and financial institutions	<b>367,228</b>	<b>—</b>	<b>367,228</b>	<b>1,019,744</b>	<b>—</b>	<b>1,019,744</b>
	<b>₱1,315,785</b>	<b>₱7,137,123</b>	<b>₱8,452,908</b>	<b>₱2,473,290</b>	<b>₱5,372,581</b>	<b>₱7,845,871</b>

Interest income recognized on contracts receivable amounted to ₱423.85 million, ₱375.61 million and ₱251.04 million in 2011, 2010 and 2009, respectively (see Note 22). Interest rates on contracts receivable range from 11.5% to 19% per annum in 2011, 2010 and 2009.

The Group entered into various agreements with financial institutions whereby the Group sold its contracts receivable with a provision that the Group should buy these receivables back when certain conditions happen such as receivables becoming overdue for two to three consecutive months, when the contract to sell has been cancelled, when the accounts remain outstanding after the lapse of 5-year holding period, when property covering the receivables becomes subject to complaint or legal action and the account's interest rate becomes lower than the bank's interest rate. The proceeds from the sale were used to fund development and construction of various projects.

The Group's liability for receivables discounted included under "Accounts payable and accrued expenses" account amounted to ₱1.95 billion and ₱1.77 billion as of December 31, 2011 and 2010, respectively (see Note 15).

Interest paid on the loans obtained from discounting receivables amounted to ₱84.08 million, ₱99.30 million and ₱165.98 million in 2011, 2010 and 2009, respectively.



The Group has a mortgage insurance contract with Home Guaranty Corporation (HGC), a government insurance company for a retail guaranty line. In 2010, additional ₱4.00 billion retail guaranty line was granted and on July 20, 2011, the Board of HGC approved the grant of another ₱4.00 billion guaranty line to the Group. As of December 31, 2011 and 2010, the contracts covered by the guaranty line amounted to ₱6.75 billion and ₱5.74 billion, respectively, including receivables sold with buy back provisions. The remaining ₱4.76 billion and ₱1.91 billion guaranty line was not yet utilized by the Group as of December 31, 2011 and 2010, respectively.

## 8. Other Receivables

This account consists of:

	2011	2010
		(In Thousands)
Advances to joint venture partners and contractors	<b>₱1,865,615</b>	₱1,025,468
Receivables from tenants	<b>256,112</b>	281,783
Advances to employees	<b>179,560</b>	120,037
Receivables from homeowners' associations	<b>145,150</b>	170,146
Others	<b>99,552</b>	60,219
	<b>2,545,989</b>	1,657,653
Allowance for doubtful accounts	<b>62,975</b>	54,087
	<b>₱2,483,014</b>	₱1,603,566

“Advances to joint venture partners and contractors” are ordinary advances which are normally offset against the share of the joint venture partners from sale of the joint venture properties and contractors' billing for development and construction contracts.

“Receivables from tenants” represent charges to tenants for rentals and utilities normally collectible within a year. Allowance for doubtful accounts amounted to ₱26.96 million and ₱54.09 million as of December 31, 2011 and 2010, respectively. Provision for doubtful accounts amounted to ₱1.36 million and ₱7.58 million in 2010 and 2009, respectively. No provision was provided in 2011.

“Advances to employees” represent advances for project costs, marketing activities, travel and other expenses arising from the ordinary course of business which are liquidated upon the accomplishment of the purposes for which the advances were granted.

“Receivables from homeowner's associations” represent claims from the homeowner's association of the Company's projects for the payments of the expenses on behalf of the association. A provision for doubtful accounts amounting to ₱36.01 million was provided in 2011 for portion that is doubtful of collection (see Note 20).

“Others” include receivables from buyers relating to insurance and registration of properties.

All other receivables except for a portion in advances to joint venture partners and contractors are due within one year.



Below is the movement of the allowance for doubtful accounts:

	2011	2010
	(In Thousands)	
Balance at beginning of year	<b>₱54,087</b>	₱54,293
Provisions (Note 20)	<b>36,014</b>	1,361
Write-off	<b>(27,126)</b>	(1,567)
Balance at end of year	<b>₱62,975</b>	₱54,087

## 9. Real Estate Inventories and Land and Land Development

This account consists of:

	2011	2010
	(In Thousands)	
Land and land development	<b>₱14,091,543</b>	₱12,807,811

	2011	2010
	(In Thousands)	
Subdivision lots and housing units for sale	<b>₱18,372,781</b>	₱14,454,575
Investment in club project	<b>691,357</b>	686,430
	<b>₱19,064,138</b>	₱15,141,005

The above inventories are stated at cost.

The cost of land and land development include the (a) land acquisition, (b) costs incurred relative to acquisition and transfer of land title in the name of the Group such as real property taxes and (c) costs incurred on initial development of the raw land in preparation for future projects. They are classified to subdivision lots and housing units for sale when the project construction starts and the necessary permits are secured.

Cost of units sold as of December 31, 2011, 2010 and 2009 amounted to ₱3.61 billion, ₱3.00 billion and ₱1.79 billion, respectively.

Borrowing costs capitalized as part of real estate inventories amounted to ₱447.37 million, ₱527.83 million, and ₱363.50 million in 2011, 2010 and 2009, respectively. Capitalization rate is 5%, 9% and 6% in 2011, 2010 and 2009, respectively.

In February 2009, the Parent Company signed an agreement with the Cebu City Government to develop 50.6 hectares of the South Road Properties, a 300-hectare reclaimed land project located in Cebu City. The agreement involves:

- (a) purchase by the Group of 10.6 hectares of the property to be developed into a modern urban center consisting of residential, office, commercial, hotel and leisure buildings and a public promenade - a 1 kilometer long waterfront lifestyle strip that will offer a range of seaside leisure activities. Payments made to the Cebu City Government in 2011 and 2010 amounted to ₱255.5 million and ₱342.0 million, respectively, with the remaining balance of the total purchase price payable over the next three years after December 31, 2011.

As of December 31, 2011, the Group has started the land development activities for future construction.



- (b) development of 40 hectares of the property under a profit-sharing arrangement with the Cebu City Government. The profit sharing of FLI and the Cebu City Government is 90% and 10%, respectively. The 40 hectares will be developed in four (4) phases over a 20-year period with the Group contributing the development costs, as well as the marketing and management services. The Group plans to develop the 40 hectares mainly into a residential resort town composed of Italian-inspired residential communities which will also include a central open space area called as The Piazza. The Piazza, patterned after the famous Italian central parks, will contain a church, a school, a soccer field, numerous al fresco restaurants, neighborhood stores and support outlets. The Group expects to turnover the first building for buyer's occupancy by December 2012.

As of December 31, 2011, the Group has started the construction of two five-storey medium rise building on the joint development properties.

Please refer to Note 18 for major land purchases in 2011.

In May 2010, the Group purchased land in Cainta, Rizal for ₱623.72 million, of which ₱81.17 million and ₱93.56 million was paid in 2011 and 2010, respectively. The Group is committed to pay the remaining balance in monthly installments starting June 30, 2011 until May 31, 2015. As of December 31, 2011, no development has started yet on the property.

In March 2009, the Group purchased certain parcels of land in Pasig City, Metro Manila with an aggregate area of 2 hectares. Purchase price of ₱149.65 million is payable in seven (7) semi-annual installments, of which the first payment of ₱11.22 million was made in March 2009, upon signing of the Deed of Absolute Sale and second payment of ₱13.84 million was made in September 2009.

Total payments made by the Group in 2011 and 2010 amounted to ₱55.37 million and ₱41.53 million, respectively.

The outstanding balance of the purchase price, which is included in "Accounts payable" (see Note 15), is secured by a real estate mortgage over certain properties of the Group located in Alabang, Muntinlupa City and Antipolo, Rizal.

The Parent Company has mortgaged a total of 10.6 hectares of developed land located in Antipolo and Alabang with a total fair market value of ₱170.68 million as of December 31, 2011 and 2010.

There are no unusual purchase commitments for years 2011, 2010 and 2009.

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#### 10. Financial Assets at Fair Value Through Other Comprehensive Income and Available-for-Sale Financial Assets

Financial assets at fair value through other comprehensive income account as of December 31, 2011 consist of (amounts in thousands):

Quoted:	
Investments in shares of stock	₱3,321
	3,321
Unquoted investments in shares of stock	21,305
	₱24,626

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Available-for-sale financial assets account as of December 31, 2010 consists of (amounts in thousands):

Quoted:	
Investment in bonds	₱95,444
Investments in shares of stock	3,321
	98,765
Unquoted investments in shares of stock	24,305
	₱123,070

Upon adoption of PFRS 9 effective January 1, 2011 (see Note 2), the Group is allowed to classify equity securities not held for trading as financial assets at FVTOCI.

The unrealized loss on investment in quoted shares of stocks included under 'Revaluation reserve on available-for-sale financial assets' (prior to January 1, 2011) amounted to ₱2.62 million 2010. There were no movements in the unrealized loss on investment in quoted shares of stocks recognized in the consolidated statements of financial position as of December 31, 2011 and 2010.

The adoption of PFRS 9 allowed the Company to reclassify the 'revaluation reserve on available for sale financial assets' as 'revaluation reserve on financial assets through other comprehensive income' on January 1, 2011.

Investment in bonds pertains to a dollar investment with face value of US\$2.00 million at 103.895 or US \$2.08 million, acquired in July 2010 maturing on July 18, 2013, with put option on July 18, 2011. The Company exercised the put option in 2011.

Unquoted investments in shares of stock include unlisted preferred shares in a public utility company which the Group will continue to carry as part of the infrastructure that it provides for its real estate development projects. These are carried at cost less impairment, if any.

## 11. Investment in an Associate

This account consists of:

	2011	2010
	(In Thousands)	
At equity:		
Acquisition cost	₱800,000	₱800,000
Accumulated equity in net earnings:		
Balance at the beginning of year	1,238,175	1,182,958
Dividends received	(540,000)	—
Equity in net earnings for the year	63,407	55,217
Balance at end of year	761,582	1,238,175
	1,561,582	2,038,175
Share in revaluation increment on land at deemed cost	1,876,422	1,876,422
Share in other components of equity	361,794	361,794
	₱3,799,798	₱4,276,391





The Parent Company has a 20% interest in FAI which is involved primarily in the development of commercial buildings, residential condominiums and land. FAI is also involved in leasing of commercial real estate, marketing, managing mall and theater operations.

As of December 31, 2009, FAI had 21% interest in the Parent Company, making the Parent Company also an associate of FAI. In 2010, the Group's parent company, FDC, purchased the 21% ownership interest of FAI in the Parent Company. The transaction resulted to the following: (a) increase in FDC's ownership interest in the Parent Company from 49.14% to 53.48%; (b) net gain from the transaction recognized in FAI's equity amounting to ₱1.81 billion of which 20% or ₱361.79 million was taken up by the Parent Company in its consolidated financial statements as "share in other components of equity of an associate"; and (c) the Parent Company becoming no longer an associate of FAI as of December 31, 2010.

On October 26, 2011 FAI declared cash dividend of ₱0.45 per share for a total of ₱2.70 billion for all stockholders of record as of October 26, 2011. The Group received its 20% share in the dividends amounting to ₱540.00 million.

Land at deemed cost of an associate consists of land held by FAI for long-term rental yields and for capital appreciation, with estimated aggregate fair value of ₱18.10 billion determined as of December 31, 2007 based on a third party appraisal using market data approach. In the market data approach, the value of the land is based on sales and listings of comparable property registered within the vicinity.

Summarized financial information of FAI is as follows:

	2011	2010
		(In Thousands)
Total assets	<b>₱31,801,206</b>	₱33,107,248
Total liabilities	<b>10,038,635</b>	9,253,243
Revenue and other income	<b>2,067,194</b>	1,541,874
Cost and expenses	<b>1,223,680</b>	1,177,074
Gross profit	<b>685,087</b>	343,196
Income from operations	<b>846,630</b>	389,582
Net income before equity take up on the Group	<b>608,775</b>	276,085

## 12. Investment Properties

The rollforward analysis of this account as of December 31 follows:

	2011			
	Land	Buildings and Improvements	Machinery and Equipment	Total
				(In Thousands)
<b>Cost</b>				
Balances at beginning of year	<b>₱3,968,263</b>	<b>₱8,890,511</b>	<b>₱34,657</b>	<b>₱12,893,431</b>
Additions and transfers	<b>374</b>	<b>945,354</b>	<b>14,510</b>	<b>960,238</b>
Balances at end of year	<b>3,968,637</b>	<b>9,835,865</b>	<b>49,167</b>	<b>13,853,669</b>
<b>Accumulated Depreciation</b>				
Balances at beginning of year	—	<b>1,280,277</b>	<b>13,987</b>	<b>1,294,264</b>
Depreciation and transfers	—	<b>353,498</b>	<b>4,298</b>	<b>357,796</b>
Balances at end of year	—	<b>1,633,775</b>	<b>18,285</b>	<b>1,652,060</b>
<b>Net Book Value</b>	<b>₱3,968,637</b>	<b>₱8,202,090</b>	<b>₱30,882</b>	<b>₱12,201,609</b>



	2010			
	Land	Buildings and Improvements	Machinery and Equipment	Total
	(In Thousands)			
<b>Cost</b>				
Balances at beginning of year	₱3,962,849	₱7,002,568	₱—	₱10,965,417
Additions and transfers	5,414	401,400	34,657	441,471
Additions from business combination (Note 4)	—	1,486,543	—	1,486,543
Balances at end of year	3,968,263	8,890,511	34,657	12,893,431
<b>Accumulated Depreciation</b>				
Balances at beginning of year	—	1,027,566	—	1,027,566
Depreciation and transfers	—	252,711	13,987	266,698
Balances at end of year	—	1,280,277	13,987	1,294,264
<b>Net Book Value</b>	<b>₱3,968,263</b>	<b>₱7,610,234</b>	<b>₱20,670</b>	<b>₱11,599,167</b>

Investment properties consist mainly of the commercial mall and buildings acquired as part of the exchange transaction in September 2006 (see Note 1).

The aggregate fair value of the Group's investment properties amounted to ₱19.76 billion as of December 31, 2011 and 2010, based on a third party appraisal using the market data approach for land and income approach using discounted cash flow analysis for buildings.

In the market data approach, the value of investment properties is based on sales and listings of comparable property registered within the vicinity. The technique of this approach requires establishing comparable property by reducing reasonable comparative sales and listing to a common denominator. This is done by adjusting the difference between the subject properties and those actual sales and listing regarded as comparable. The properties used as basis of comparison are situated within the immediate vicinity of the subject properties. While in the income approach, all expected cash flows from the use of the assets were projected and discounted using the appropriate discount rate reflective of the market expectations.

Rental income from investment properties amounted to ₱1.54 billion, ₱1.41 billion and, ₱1.19 billion in 2011, 2010 and 2009, respectively. Operating expenses from investment properties amounted to ₱425.65 million, ₱400.88 million and, ₱374.60 million in 2011, 2010 and 2009, respectively.

### 13. Property and Equipment

The rollforward analysis of this account as of December 31 follows:

	2011					
	Buildings	Machinery and Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Construction in Progress
	(In Thousands)					
<b>Cost</b>						
Balances at beginning of year	₱9,085	₱170,050	₱72,610	₱47,881	₱22,846	₱1,418,101
Additions - net of transfers	166,398	5,032	662	1,364	9,359	(338,832)
Write off	—	—	—	(50)	—	—
Balances at end of year	175,483	175,082	73,272	49,195	32,205	1,079,269
<b>Accumulated Depreciation and Amortization</b>						
Balances at beginning of year	2,774	151,863	48,854	40,833	21,297	—
Depreciation and amortization - net of transfers (Note 20)	10,392	6,587	7,518	2,939	1,629	—
Write off	—	—	—	(50)	—	—
Balances at end of year	13,166	158,450	56,372	43,722	22,926	—
<b>Net Book Value</b>	<b>₱162,317</b>	<b>₱16,632</b>	<b>₱16,900</b>	<b>₱5,473</b>	<b>₱9,279</b>	<b>₱1,079,269</b>



	2010						
	Buildings	Machinery and Equipment	Transportation Equipment	Furniture and Fixtures	Leasehold Improvements	Construction in Progress	Total
	(In Thousands)						
<b>Cost</b>							
Balances at beginning of year	₱30,664	₱188,757	₱56,276	₱45,369	₱21,615	₱916,016	₱1,258,697
Additions - net of transfers	(18,536)	(18,707)	16,334	1,203	674	(201,017)	(220,049)
Additions from business combination (Note 4)	—	—	—	1,309	557	703,102	704,968
Disposals	(3,043)	—	—	—	—	—	(3,043)
Balances at end of year	9,085	170,050	72,610	47,881	22,846	1,418,101	1,740,573
<b>Accumulated Depreciation and Amortization</b>							
Balances at beginning of year	8,844	153,042	42,477	38,055	20,503	—	262,921
Depreciation and amortization - net of transfers (Note 20)	(6,070)	(1,179)	6,377	2,778	794	—	2,700
Balances at end of year	2,774	151,863	48,854	40,833	21,297	—	265,621
<b>Net Book Value</b>	<b>₱6,311</b>	<b>₱18,187</b>	<b>₱23,756</b>	<b>₱7,048</b>	<b>₱1,549</b>	<b>₱1,418,101</b>	<b>₱1,474,952</b>

Capitalized borrowing costs amounted to ₱12.33 million, ₱26.22 million and, ₱29.90 million in 2011, 2010 and 2009, respectively. Capitalization rate is 4.03%, 4.6% and 4.8% in 2011, 2010 and 2009, respectively.

#### 14. Other Assets

This account consists of:

	2011	2010
	(In Thousands)	
Input taxes	₱427,222	₱154,499
Creditable withholding taxes	326,348	211,305
Deposits	55,325	59,528
Construction materials and supplies	19,222	27,042
Prepaid expenses and others	81,131	15,329
	<b>₱909,248</b>	<b>₱467,703</b>

“Input taxes” represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the Bureau of Internal Revenue for output VAT on sale of goods and services subjected to VAT.

“Creditable withholding taxes” is the tax withheld by the withholding agents from payments to the sellers which is creditable against the income tax payable.

“Prepaid expenses and others” includes commissions paid to brokers relating to the sales of real estate inventories which do not qualify yet for revenue recognition. Such amount will be recognized as expense when the qualification for revenue recognition has been met.



## 15. Accounts Payable and Accrued Expenses

This account consists of:

	2011			2010		
	Due Within One Year	Due After One Year	Total	Due Within One Year	Due After One Year	Total
	(In Thousands)					
Accounts payable (Note 9)	<b>₱1,073,567</b>	<b>₱413,475</b>	<b>₱1,487,042</b>	₱686,144	₱1,110,277	₱1,796,421
Liabilities on receivables sold to banks (Note 7)	<b>575,341</b>	<b>1,372,036</b>	<b>1,947,377</b>	423,004	1,350,387	1,773,391
Deposits for registration and insurance	<b>169,170</b>	<b>511,625</b>	<b>680,795</b>	214,411	272,887	487,298
Deposits from tenants	<b>455,783</b>	<b>78,093</b>	<b>533,876</b>	328,081	154,391	482,472
Retention fees payable	<b>147,011</b>	<b>321,266</b>	<b>468,277</b>	133,412	291,548	424,960
Advances and deposits from customers	<b>716,212</b>	—	<b>716,212</b>	1,081,408	—	1,081,408
Accrued expenses	<b>252,328</b>	—	<b>252,328</b>	204,069	—	204,069
Other payables	<b>69,055</b>	—	<b>69,055</b>	90,009	—	90,009
	<b>₱3,458,467</b>	<b>₱2,696,495</b>	<b>₱6,154,962</b>	₱3,160,538	₱3,179,490	₱6,340,028

“Accounts payable” includes the balance of the costs of raw land acquired by the Group and is payable on scheduled due dates or upon completion of certain requirements (see Note 9).

“Advances and deposits from customers” includes collections from accounts which do not qualify yet for revenue recognition as real estate sales and any excess of collections over the recognized receivables on sale of real estate inventories.

“Deposits for registration and insurance” includes payments made by buyers for registration and insurance of real estate properties.

“Deposits from tenants” are advance payments made for rentals, utilities and other fees. These are applied against rental obligations of tenants once due.

“Retention fees payable” pertains to the amount withheld from the progress billings of the contractors and is released generally one year from the completion of the construction agreement.

“Accrued expenses” consists of:

	2011	2010
	(In Thousands)	
Interest		
Bonds	<b>₱94,148</b>	₱49,201
Loans	<b>42,718</b>	38,087
Other accruals	<b>115,462</b>	116,781
	<b>₱252,328</b>	₱204,069

“Other accruals” pertains to various operating expenses incurred by the Group in the course of business.



## 16. Loans Payable

This account consists of:

	2011	2010
	(In Thousands)	
Term loans from a financial institution	<b>₱1,575,000</b>	₱2,025,000
Developmental loans from local banks	<b>6,936,007</b>	4,936,167
	<b>8,511,007</b>	6,961,167
Less current portion of loans	<b>1,635,884</b>	1,652,667
Long term portion of loans payable	<b>₱6,875,123</b>	₱5,308,500

### a. Term Loans from a Financial Institution

On June 17, 2005, the Group entered into a Local Currency Loan Agreement with a foreign financial institution whereby the Group was granted a credit line facility amounting to ₱2.25 billion. In October 2005, the Group availed of ₱1.13 billion or half of the total amount granted. The loan is payable in 10 semi-annual installments commencing December 2010 and ending June 2015. This loan carries a fixed interest rate of 7.72% per annum.

In July 2007, the Group availed the remaining balance of the facility amounting to ₱1.12 billion. The loan is also payable in 10 semi-annual installments commencing December 2010 and ending June 2015. This loan has a fixed annual interest rate of 7.90%. Both loans were guaranteed by FDC (see Note 18). Principal payments made in 2011 amounted to ₱450.00 million.

### b. Developmental Loans from Local Banks

These include loans obtained from local banks. Details as of December 31 follow (in thousands):

	2011	2010	Collateral
Unsecured loan obtained in October 2008 with interest rate equal to 91-day PDS Treasury Fixing (PDST-F) rate plus a spread of up to 1.5% per annum, payable quarterly in arrears. The principal is payable in eleven (11) equal quarterly installments starting March 2011 up to September 2013 and lump sum full payment due in December 2013. Current portion as of December 31, 2011 and 2010 amounted to ₱166.67 million.	<b>₱833,333</b>	₱1,000,000	Clean
Unsecured loan obtained in June 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting June 2013 up to June 2016.	<b>750,000</b>	—	Clean
Unsecured loan obtained in March 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears, 50% of the principal is payable in twelve (12) equal quarterly installments starting June 2013 up to March 2016 and the remaining 50% of the principal is payable in full in March 2016.	<b>750,000</b>	—	Clean
Unsecured loan obtained in May 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum but not lower than 4.5%, payable quarterly in arrears, 50% of the principal is payable in twelve 12 equal quarterly installments starting August 2013 up to May 2016 and balance of 50% is payable in full in May 2016.	<b>600,000</b>	—	Clean

(Forward)



	2011	2010	Collateral
Unsecured 5-year loan obtained in September 2008 payable in eleven (11) quarterly amortizations starting December 2010 with a balloon payment at maturity date in September 2013 with interest rate equal to 91-day PDST-F rate plus fixed spread of 2% per annum, payable quarterly. Principal payments in 2010 amounted to ₱27.08 million. Current portion as of December 31, 2011 and 2010 amounted to ₱108.33 million.	<b>₱514,584</b>	₱622,917	Clean
Unsecured loan obtained in April 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting July 2013 up to April 2016.	<b>500,000</b>	—	Clean
Unsecured loans obtained in August 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum. The principal is payable in twelve (12) equal quarterly installments starting November 2010 up to August 2013. Principal payments in 2011 and 2010 amounted to ₱250.0 million and ₱62.50 million, respectively. Current portion as of December 31, 2011 and 2010 amounted to ₱250.00 million.	<b>437,500</b>	687,500	Clean
Unsecured loan obtained in November 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 2% per annum, payable quarterly in arrears. The principal is payable in eleven (11) equal quarterly installments starting November 2010 up to September 2013 and lump sum full payment due in December 2013. Principal payments in 2011 amounted to ₱83.33 million. Current portion as of December 31, 2011 and 2010 amounted to ₱83.33 million.	<b>416,667</b>	500,000	Clean
Unsecured loan granted on November 2011 with a term of five years with interest rate 4.375% (inclusive of GRT), payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting February 2014 up to November 2016.	<b>400,000</b>	—	Clean
Unsecured loan obtained in June 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1.5% per annum, payable quarterly in arrears. Part of the principal is payable in eleven (11) equal quarterly installments starting June 2010 up to March 2013 and lump sum full payment due in June 2013. Principal payments in 2011 and 2010 amounted to ₱83.33 million and ₱20.83 million, respectively. Current portion as of December 31, 2011 and 2010 amounted to ₱83.33 million.	<b>375,000</b>	458,333	Clean
Unsecured loan obtained in December 2011 with interest of 4.50% per annum (inclusive of GRT), payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting March 2014 up to December 2016.	<b>350,000</b>	—	Clean
Unsecured loan obtained by the Group in October 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum. The principal is payable in twelve (12) quarterly equal installments starting March 2011 up to September 2013. Current portion as of December 31, 2011 and 2010 amounted ₱166.67 million.	<b>333,333</b>	500,000	Clean
Unsecured loans granted in May and December 2007 payable over 5-year period inclusive of 2 year grace period; 50% of the loan is payable in twelve (12) equal quarterly amortizations and balance payable on final maturity. The loans carry interest equal to 91-day PDST-F rate plus fixed spread of 2% per annum payable quarterly in arrears. Principal payments in 2011 and 2010 amounted to ₱50.00 million and ₱10.42 million, respectively. Current portion as of December 31, 2011 and 2010 amounted to ₱190.00 million and ₱50.00 million, respectively.	<b>189,999</b>	240,000	Clean

(Forward)



	2011	2010	Collateral
Unsecured 5-year loan obtained in March 2008, of which 50% of the principal is payable in twelve (12) equal quarterly installments starting September 2010 and the remaining 50% balance is to be paid in lump sum at maturity in June 2013, with interest rate equal to 3-month PDST-F rate plus a spread of up to 2% per annum, payable quarterly in arrears. Principal payments in 2011 and 2010 amounted to ₱41.66 million and ₱12.50 million, respectively. Current portion as of December 31, 2011 and 2010 amounted to ₱41.66 million.	<b>₱177,083</b>	₱218,750	Clean
Unsecured loan granted on April 2010 with a term of five years with 50% of principal payable in 12 equal quarterly amortization to commence on July 2012 and 50% payable on maturity. The loan carries interest equal to 3-month PDST-F rate plus a spread of 1.5% per annum. Current portion as of December 31, 2011 amounted to ₱15.00 million	<b>120,000</b>	120,000	Clean
Unsecured loan granted on November 10, 2011 with a term of 7 years with 2 year grace period on principal repayment. Interest for the first 92 days is 4.5% per annum inclusive of GRT, subject to quarterly repricing and payable quarterly in arrears. 50% of principal is payable in 20 equal quarterly amortizations commencing on February 10, 2014 and 50% is payable on maturity.	<b>120,000</b>	—	Clean
Unsecured loan obtained on December 15, 2006 payable in twenty (20) equal quarterly amortizations starting in March 2008, with interest rate equivalent to 91-day T-Bill rate plus fixed spread of 2% per annum, payable quarterly in arrears and secured by a mortgage of several buildings located at the Northgate Cyberzone and assignment of the corresponding rentals. Principal payments in 2011 and 2010 amounted to ₱46.00 million. Current portion as of December 31, 2011 and 2010 amounted to ₱46.00 million.	<b>46,000</b>	92,000	Clean
Unsecured loan obtained in July 2007 payable in twenty (20) equal quarterly amortizations starting in March 2008, with interest rate equal to 91-day T-Bill rate plus fixed spread of 2% per annum, payable quarterly in arrears and secured by a mortgage of several buildings located at the Northgate Cyberzone and assignment of the corresponding rentals. Principal payments in 2011 and 2010 amounted to ₱40.00 million. Current portion as of December 31, 2011 and 2010 amounted to ₱40.00 million.	<b>40,000</b>	80,000	Clean
Unsecured loan obtained in June 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1.25% per annum. The principal is payable in twelve (12) equal quarterly installments starting September 2010 up to June 2013. Principal payments in 2011 and 2010 amounted to ₱416.67 million and ₱41.67 million. Current portion as of December 31, 2010 amounted to ₱166.67 million. The loan was paid in full in 2011.	—	416,667	Clean
	<b>₱6,953,499</b>	<b>₱4,936,167</b>	

The agreements covering the abovementioned loans provide for restrictions and requirements with respect to, among others, declaration or making payment of dividends (except stock dividends); making distribution on its share capital; purchase, redemption or acquisition of any share of stock; incurrence or assumption of indebtedness; sale or transfer and disposal of all or a substantial part of its capital assets; restrictions on use of funds; maintaining certain financial ratios; and entering into any partnership, merger, consolidation or reorganization.

The Group has complied with these contractual agreements. There was neither default nor breach noted as of December 31, 2011.

As of December 31, 2011, the unamortized deferred charges related to developmental loans from local banks amounted to ₱17.49 million.



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## 17. Bonds Payable

On November 19, 2009, the Parent Company issued fixed rate bonds (the “Bonds”) with aggregate principal amount of ₱5.00 billion, comprised of three (3)-year fixed rate bonds due in 2012 and five (5)-year fixed rate bonds due in 2014. The 3-year bonds have a term of 3 years from the issue date, with a fixed interest rate of 7.5269% per annum. Interest is payable quarterly in arrears starting on February 19, 2010. The 5-year bonds have a term of 5 years and one (1) day from the issue date, with a fixed interest rate of 8.4615% per annum. Interest is payable quarterly in arrears starting on February 20, 2010.

Unamortized debt issuance cost on bonds payable amounted to ₱36.90 million and ₱50.67 million as of December 31, 2011 and 2010 respectively. Accretion in 2011 and 2010 included as part of ‘Interest and other finance charges’ amounted to ₱13.88 million and ₱12.65 million, respectively (see Note 22).

On July 7, 2011, the Group issued another fixed rate bonds with principal amount of ₱3.00 billion and term of five (5) years from the issue date. The fixed interest rate is 6.1962% per annum, payable quarterly in arrears starting on October 19, 2011.

Unamortized debt issuance cost on 2011 fixed rate bonds amounted to ₱31.60 million as of December 31, 2011. Accretion in 2011 included as part of ‘Interest and other finance charges’ amounted to ₱2.69 million.

As of December 31, 2011 and 2010, the carrying value of bonds payable (net of unamortized deferred charges) amounted to ₱7.98 billion and ₱4.95 billion, respectively (see Note 22).

Current portion of the bonds payable amounted to ₱0.5 billion while the non-current portion amounted to ₱7.5 billion.

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## 18. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control of the Group’s ultimate parent company. Related parties may be individuals or corporate entities.

Affiliates are entities under common control of ALG.

FDC, the parent company of FLI, guarantees the Group’s term loans from a financial institution with balance of ₱1.58 billion and ₱2.03 billion as of December 31, 2011 and 2010, respectively (see Note 16).

The Group leases from FDC, land and buildings located at San Juan City for its head office for a monthly rental of ₱3.76 million in 2011, ₱3.27 million in 2010, and ₱2.84 million in 2009.

The Group maintains cash and short-term deposits accounts with a local bank under common control of FDC. Cash and short-term deposits balances with this local bank amounted to ₱0.83 billion and ₱0.33 billion as of December 31, 2011 and 2010 (see Note 6).





In 2007, the Group entered into a development agreement with GCK Realty Corporation (GCK), an affiliate. The agreement provides that the Parent Company shall undertake the construction of a condominium building on the land owned by GCK located in Kamputhaw, Cebu City.

The agreement further provides that the Parent Company shall shoulder all costs and expenses necessary and incidental to the construction of the building. The saleable condominium units forming part of the building as developed shall be allocated between the Group and GCK on a 92% and 8% share, respectively.

GCK shall pay the Group management fee and the reimbursable commissions paid by the Group to brokers based on certain percentage of the gross selling price of the units owned by GCK. In 2011 and 2010, management fee and reimbursable commissions recognized in the consolidated statements of income amounted to ₱6.17 million and ₱2.54 million, respectively.

The Group shall likewise set aside an amount equivalent to a certain percentage of all collections received from the sale of units of GCK for expenses related to maintenance and upkeep of the building.

In 2010, the Group started to remit sales on the sold units belonging to GCK. Outstanding balance due from GCK as of December 31, 2011 and 2010 amounted to ₱46.15 million and ₱15.44 million included in “advances to joint venture partners and contractors” under other accounts receivables, respectively.

In 2011, the Parent Company purchased from FAI a parcel of land located at Filinvest Corporate City (FCC), Alabang, Muntinlupa City for total purchase price of ₱429.01 million. The Parent Company is now developing a project on this property known as The Studio City.

Also in 2011, the Parent Company entered into a joint venture agreement with FAI and another party for the development of condominium project known as The Levels. Under the agreement, FAI and the other party will contribute the land located in FCC and the Parent Company will shoulder the development and construction costs. The value of land contributed amounted to ₱815.64 million, 74% owned by FAI and 26% owned by the other party. The profit sharing for this project shall be 88%, 8.8% and 3.2% for FLI, FAI and the other party, respectively.

Aside from the abovementioned transactions, the Group also enters into transactions with FDC, FAI, an associate and other related parties consisting mainly of interest-bearing and noninterest-bearing cash advances and share in various expenses such as payroll, supplies, and utilities provided by the Group. Interest rate is 6% for interest bearing advances in 2011 and 2010.

The Group made advances to its affiliate amounting to ₱29.19 million and ₱77.38 million in 2011 and 2010, respectively.

The details of the account balances and transactions with related parties are as follows (in thousands):

	Rental Income (Expense)		Management and Marketing Fee Income		Due from Related Parties		Due to Related Parties	
	2011	2010	2011	2010	2011	2010	2011	2010
Parent – FDC	(₱39,247)	(₱41,149)	₱15,625	₱4,673	₱13,116	₱18,815	₱64	₱20
Associate – FAI	(89,030)	(85,167)	—	—	5,172	9,609	16,741	15,353
Other affiliates	—	—	—	—	228,469	157,498	31,606	67,270
	(₱128,277)	(₱126,316)	₱15,625	₱4,673	₱246,757	₱185,922	₱48,411	₱82,643

Management and marketing fee income is included in ‘Others’ under the Revenue and Other Income section of the consolidated statements of income.



### Key Management Personnel

Compensation of key management personnel consists of short-term employee salaries and benefits amounting to ₱23.90 million, ₱17.30 million and ₱13.00 million in 2011, 2010 and 2009, respectively. Post-employment benefits of key management personnel amounted to ₱5.50 million, ₱1.89 million and ₱0.93 million in 2011, 2010 and 2009, respectively.

## **19. Interest in Joint Ventures**

The amounts shown below are the Group's 60% share of the assets, liabilities, income and expenses on its joint ventures (CPI, FAC and FAPI) which are proportionately consolidated into the Group's consolidated financial statements as of December 31, 2011 and 2010 and for each of the years in the period ended December 31, 2011. As discussed in Note 4, the Parent Company acquired the remaining 40% interests in both CPI and FAPI in February 2010, making them wholly owned subsidiaries of the Parent Company. In 2011 and 2010, interest in joint venture pertains only to FAC.

	2011	2010
	(In Thousands)	
<b>Assets</b>		
Cash and cash equivalents	<b>₱64,262</b>	₱54,632
Other receivables	<b>18,955</b>	14,647
Investment properties	<b>905,788</b>	951,861
Deferred tax assets	<b>8,467</b>	9,394
Other assets	<b>63,316</b>	61,398
	<b>₱1,060,788</b>	₱1,091,932

<b>Liabilities</b>		
Accounts payable and accrued expenses	<b>₱112,851</b>	₱98,178
Due to related parties	<b>505</b>	468
Loans payable	<b>430,000</b>	360,000
	<b>₱543,356</b>	₱458,646

	2011	2010	2009
	(In Thousands)		
Revenue and other income	<b>₱199,016</b>	₱185,294	₱590,940
Costs and expenses	<b>81,959</b>	86,088	307,904
Income before income tax	<b>117,057</b>	99,206	283,036
Provision for income tax	<b>26,960</b>	23,561	45,778
Net income	<b>₱90,097</b>	₱75,645	₱237,258

	2011	2010	2009
	(In Thousands)		
Cash flows from:			
Operating activities	<b>(₱52,301)</b>	₱154,227	₱362,632
Investing activities	<b>362</b>	(2,179)	(120,695)
Financing activities	<b>55,993</b>	(102,008)	(128,429)



The Group and its joint venture partners have joint control over the above entities despite the Group's 60% share in the joint ventures. This is exhibited by the existence of special voting right of the joint venture partners in major operating and financial decisions affecting the joint ventures. In these joint ventures, the decisions require the unanimous consent of the parties sharing control.

The Group, in recent years, has preferred to enter into joint venture agreements with landowners instead of acquiring raw land. The Group's interests in these joint ventures vary depending on the value of the land against the estimated development costs. These joint venture agreements entered into by the Group only relate to the development and sale of subdivision lots, with certain specified lots allocated to the joint venture partners to be sold on a lot-only basis.

The Group's joint venture arrangements typically require the joint venture partners to contribute the land free from any lien, encumbrance and tenants or informal settlers to the project, with the Group bearing all costs related to and development and the construction of subdivision facilities. The Group and its joint venture partners then agree on the lot allocation based on joint venture sharing ratio. Sales and marketing costs are allocated to both the Group and the joint venture partners, with the joint venture agreements specifying a certain percentage of the contract price of the lots sold for the joint venture partners as the sales and marketing costs (including commissions to brokers) attributable to the sale of such lots. However, the Group is responsible for organizing and conducting actual sales and marketing activities.

The share of each party from the units completed is based on the value of their contribution to the project. The Group handles the marketing and selling activities and the share of the other party for such expenses are deducted from the proceeds of the sale of its apportioned units.

## 20. General and Administrative Expenses

The account consists of:

	2011	2010	2009
		(In Thousands)	
Salaries, wages and employee benefits	<b>₱280,164</b>	₱226,090	₱207,182
Taxes and licenses	<b>90,469</b>	88,054	83,671
Depreciation and amortization (Notes 12 and 13)	<b>75,401</b>	46,979	22,281
Transportation and travel	<b>71,155</b>	58,386	52,171
Outside services	<b>55,994</b>	45,876	40,755
Communications, light and water	<b>47,671</b>	50,293	21,150
Rent (Note 18)	<b>47,110</b>	49,314	42,268
Entertainment, amusement and recreation (EAR)	<b>46,153</b>	27,355	20,589
Provision for doubtful accounts (Note 8)	<b>36,014</b>	1,361	7,580
Repairs and maintenance	<b>31,448</b>	37,403	26,146
Insurance	<b>25,959</b>	17,957	9,097
Retirement costs (Note 24)	<b>22,375</b>	12,742	12,635
Corporate advertisements	<b>20,698</b>	54,822	22,418
Office supplies	<b>14,542</b>	12,584	12,693
Dues and subscriptions	<b>9,961</b>	6,285	6,437
Others	<b>45,778</b>	64,603	78,313
	<b>₱920,892</b>	₱800,104	₱665,386



## 21. Selling and Marketing Expenses

The account consists of:

	2011	2010	2009
		(In Thousands)	
Selling, advertising and promotions	<b>₱260,340</b>	₱199,757	₱147,315
Brokers' commissions	<b>232,158</b>	209,090	194,483
Service fees	<b>137,469</b>	88,754	59,722
Sales office direct costs	<b>64,738</b>	54,420	43,662
Salaries and wages	<b>35,753</b>	34,937	29,404
Others	<b>11,950</b>	6,630	5,629
	<b>₱742,408</b>	₱593,588	₱480,215

## 22. Interest and Other Finance Charges

The following table shows the component of interest income, interest expense and other financing charges recognized in the consolidated statements of income:

	2011	2010	2009
		(In Thousands)	
Interest income on:			
Contracts receivable (Note 7)	<b>₱423,847</b>	₱375,614	₱251,042
Short-term deposits and others (Note 6)	<b>118,266</b>	189,741	149,666
	<b>₱542,113</b>	₱565,355	₱400,708
Interest and other finance charges:			
Interest expense on loans and bonds payable net of interest capitalized (Notes 16 and 17)	<b>₱426,643</b>	₱364,708	₱177,867
Amortization of transaction costs of loans and bonds	<b>18,839</b>	12,829	2,063
Other finance charges	<b>23,918</b>	39,118	28,351
	<b>₱469,400</b>	₱416,655	₱208,281

## 23. Other Income

The account consists of:

	2011	2010	2009
		(In Thousands)	
Forfeited reservations and payments	<b>₱276,943</b>	₱321,397	₱42,559
Income from amusement centers, parking and other lease-related activities	<b>205,648</b>	121,719	210,531
Processing fees	<b>55,450</b>	55,312	108,818
Service fees	<b>8,118</b>	2,654	16,647
Others	<b>17,942</b>	1,870	2,426
	<b>₱564,101</b>	₱502,952	₱380,981



## 24. Retirement Costs

The Group has noncontributory defined benefit pension plan covering all full-time regular employees. The plan provides for lump-sum benefits equivalent to 100% of the employee's salary for every year of creditable continuous service. The normal retirement age is 60 years old, however, an employee who attains the age of 55 with 15 years of service and opts for an early retirement is entitled to benefits ranging from 70% to 90% of the normal retirement pay depending on the age upon retirement.

The Group updates the actuarial valuation every year by hiring the services of a third party professionally qualified actuary.

The components of retirement costs included in "General and administrative expenses" account in the consolidated statements of income are as follows:

	2011	2010	2009
		(In Thousands)	
Current service cost	<b>₱13,058</b>	₱12,035	₱7,736
Interest cost	<b>15,440</b>	9,651	9,501
Expected return on plan assets	<b>(7,098)</b>	(7,522)	(4,602)
Net actuarial loss (gain) recognized	<b>975</b>	(1,422)	—
	<b>₱22,375</b>	₱12,742	₱12,635

The amount of retirement liabilities recognized in the consolidated statements of financial position follows:

	2011	2010
	(In Thousands)	
Present value of benefit obligation	<b>₱199,287</b>	₱181,650
Fair value of plan assets	<b>103,504</b>	101,398
	<b>95,783</b>	80,252
Unrecognized net actuarial loss	<b>(36,575)</b>	(31,812)
	<b>₱59,208</b>	₱48,440

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

	2011	2010
	(In Thousands)	
Balance at beginning of year	<b>₱181,650</b>	₱113,604
Current service cost	<b>13,058</b>	12,035
Interest cost	<b>15,440</b>	9,651
Actuarial loss	—	48,807
Benefits paid	<b>(10,861)</b>	(2,447)
	<b>₱199,287</b>	₱181,650



Changes in the fair value of plan assets are as follows:

	2011	2010
	(In Thousands)	
Balance at beginning of year	<b>₱101,398</b>	₱107,464
Expected return on plan assets	<b>7,098</b>	7,522
Actuarial loss on plan assets	<b>(4,992)</b>	(13,588)
	<b>₱103,504</b>	₱101,398

The actual return on the plan assets amounted to ₱2.11 million in 2011 and ₱6.07 million in 2010.

The Group does not expect to contribute to its plan assets in the next 12 months.

The amounts of present value of defined benefit obligation, fair value of plan assets, deficit in the plan and experience adjustments arising on plan assets or liabilities recognized for the current and previous four periods follow:

	2011	2010	2009	2008	2007
	(In Thousands)				
Present value of obligation	<b>₱199,287</b>	₱181,650	₱113,604	₱105,572	₱105,801
Fair value of plan assets	<b>103,504</b>	101,398	107,464	76,702	72,360
Deficit	<b>₱95,783</b>	₱80,252	₱6,140	₱28,870	₱33,441
Experience adjustments	<b>₱-</b>	₱17,557	₱2,113	(₱862)	(₱16,433)

The major assumptions used to determine retirement benefits of the Group for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Discount rate	<b>8.5%</b>	8.5%
Salary increase rate	<b>8.0%</b>	8.0%
Expected return on plan assets	<b>7.0%</b>	7.0%

Major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2011	2010
Deposits in banks	<b>70.20%</b>	81.43%
Other assets	<b>29.80%</b>	18.57%
	<b>100.00%</b>	100.0%

## 25. Operating Leases

As lessor, future minimum rental receivables under renewable operating leases as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Within one year	<b>₱1,395,440</b>	₱1,192,321
After one year but not more than five years	<b>2,315,474</b>	2,178,259
After five years	<b>10,893</b>	145,525
	<b>₱3,721,807</b>	₱3,516,105



The Group entered into lease agreements with third parties covering real estate properties. These leases generally provide for either (a) fixed monthly rent (b) minimum rent or a certain percentage of gross revenue, whichever is higher. Most lease terms on commercial mall are renewable within one year except for anchor tenants.

Rental income recognized based on a percentage of the gross revenue of mall tenants included in "Rental income" account in the consolidated statements of income amounted to ₱217.01 million, ₱213.12 and ₱207.95 million. in 2011, 2010 and 2009, respectively.

As lessee, future minimum rental payables under operating leases as of December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Within one year	<b>₱181,986</b>	₱94,453
After one year but not more than five years	<b>577,730</b>	478,360
After five years	<b>730,158</b>	698,825
	<b>₱1,489,874</b>	₱1,271,638

The Group leases from FDC, land and buildings located at San Juan City for its head office for a fixed monthly rental with a term of five years.

## 26. Capital Stock

The details of the Parent Company's common and preferred shares follow:

	Common Shares			Preferred Shares		
	2011	2010	2009	2011	2010	2009
	(In Thousands, except par value figures)					
Authorized shares	<b>33,000,000</b>	33,000,000	33,000,000	<b>8,000,000</b>	8,000,000	8,000,000
Par value per share	<b>₱1</b>	₱1	₱1	<b>₱0.01</b>	₱0.01	₱0.01
Issued and outstanding shares	<b>24,470,708</b>	24,470,708	24,470,708	<b>8,000,000</b>	8,000,000	8,000,000
Treasury shares	<b>220,949</b>	220,949	220,949	—	—	—

In 2011 and 2010, there was no issuance of additional common shares.

### Preferred Shares

The preferred shares may be issued from time to time in one or more series as the BOD may determine, and authority is hereby expressly granted to the BOD to establish and designate each particular series of preferred shares, to fix the number of shares to be included in each of such series, and to determine the dividend rate and the issue price and other terms and conditions for each such shares. Dividends shall be cumulative from and after the date of issue of the preferred shares and no dividend shall be declared or paid on the common shares unless the full accumulated dividends on all preferred shares for all past dividend periods and for the current dividend period shall have been declared and paid by the Group. Preferred shares of each and any sub-series shall not be entitled to any participation or share in the retained earnings remaining after dividend payments shall have been made on the preferred shares. To the extent not set forth in the Articles of Incorporation, the specific terms and restrictions of each series of preferred shares shall be specified in such resolutions as may be adopted by the BOD prior to the issuance of each of such series (the "Enabling Resolutions"), which resolutions shall thereupon be deemed a part of the Amended Articles of Incorporation.



Preferred shares of each and any sub-series may be convertible to common shares as may be determined by the BOD and set forth in the Enabling Resolutions, in such manner and within such period as may be fixed in the Enabling Resolutions. As of December 31, 2011 and 2010, there is no Enabling Resolution by the BOD making the preferred shares convertible to common shares.

As the dividend rate is yet to be determined by the BOD, there were no dividends in arrears on preferred shares as of December 31, 2011, 2010 and 2009.

#### Treasury Shares

On December 20, 2007, the Parent Company's BOD approved the buy-back of some of the issued shares of stock of the Parent Company over a period of twelve (12) months up to an aggregate amount of ₱1.5 billion, in view of the strong financial performance of the Parent Company and the very large discrepancy that existed between the current share price and the net asset value of the Parent Company. Management believed that the Parent Company's shares were undervalued, and the share buy-back program would enhance shareholder's value.

The Parent Company had acquired 220.95 million shares at total cost of ₱221.04 million in 2008. There were no additional acquisitions in 2011 and 2010.

#### Dividend Declaration

On April 15, 2011 the BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.039 per share or a total of ₱950.59 million for all shareholders of record as of May 13, 2011.

On April 30, 2010 the BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.033 per share or a total of ₱800.24 million for all shareholders of record as of May 18, 2010.

On April 29, 2009 the BOD approved the declaration and payment from unappropriated retained earnings of cash dividend of ₱0.033 per share or a total of ₱800.24 million for all shareholders of record as of May 14, 2009.

#### Capital Management

The Group prudently monitors its capital and cash positions and cautiously manages its expenditures and disbursements. Furthermore, the Group may also, from time to time seek other sources of funding, which may include debt or equity issues depending on its financing needs and market conditions.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. No changes were made in capital management objectives, policies or processes for the years ended December 31, 2011 and 2010.





The Group monitors capital using debt-to-equity ratio, which is the long-term debt (loans payable and bonds payable) divided by total equity. The Group's policy is to keep the debt to equity ratio not to exceed 2:1. The following table shows how the Group computes for its debt-to-equity ratio:

	2011	2010
	(In Thousands)	
Loans payable	<b>₱8,511,007</b>	₱6,961,167
Bonds payable	<b>7,977,009</b>	4,949,241
Total long-term debt	<b>16,488,016</b>	11,910,408
Total equity	<b>43,680,999</b>	41,691,251
Debt-to-equity ratio	<b>0.38:1.00</b>	0.29:1.00

On August 12, 1993, SEC approved the registration of 2 billion common shares with issue price of ₱5.25 per share.

On December 15, 2006, SEC approved the registration of 3.7 billion common shares with issue price of ₱1.60 per share.

Below is the summary of the outstanding number of shares and holders of security as of December 31, 2011 (Amount in thousands):

Year	Number of Shares Registered	Number of Holders of Securities as of Year End
January 1, 2010	24,249,759	6,305
Add/(Deduct) Movement	—	(156)
December 31, 2010	24,249,759	6,149
Add/(Deduct) Movement	—	(100)
December 31, 2011	24,249,759	6,049

Note: Exclusive of 220,949 treasury shares.

## 27. Earnings Per Share

EPS amounts were computed as follows:

	2011	2010	2009
	(In Thousands, Except EPS Figures)		
a. Net income	<b>₱2,940,340</b>	₱2,952,226	₱2,018,200
b. Weighted average number of outstanding common shares (after considering treasury shares and reciprocal holdings in an associate in 2009)	<b>24,249,759</b>	24,249,759	23,218,791
Basic/Diluted EPS (a/b)	<b>₱0.12</b>	₱0.12	₱0.09

Reciprocal holdings attributable to FAI's ownership in the Parent Company is deducted from the total outstanding shares in computing for the weighted average number of outstanding common shares (see Note 11) for 2009. As discussed in Note 11, in 2011 and 2010, the Parent Company is no longer an associate of FAI as a result of FAI's sale of its 21% equity interest in the Parent Company to FDC.



There were no potential dilutive shares in 2011, 2010 and 2009.

## 28. Income Tax

The components of the Group's deferred income tax assets follow:

	2011	2010
	(In Thousands)	
Deferred income tax assets on:		
Advance rentals	<b>₱13,422</b>	₱8,283
Provisions and accruals	<b>4,624</b>	6,194
Others	<b>25</b>	835
	<b>₱18,071</b>	₱15,312

The components of the Group's net deferred income tax liabilities follow:

	2011	2010
	(In Thousands)	
Deferred income tax liabilities on:		
Capitalization of borrowing costs	<b>₱1,568,510</b>	₱1,463,878
Excess of fair value over cost of net assets acquired in business combination	<b>133,990</b>	164,685
Others	–	18,906
Deferred income tax assets on:		
Accrued retirement benefits	<b>(9,646)</b>	(14,514)
Others	<b>(5,528)</b>	(2,858)
	<b>₱1,687,326</b>	₱1,630,097

The Group did not recognize deferred income tax assets on the following deductible temporary differences of subsidiaries since management believes that the tax benefit related to these assets will not reverse through income tax deductions in the near future.

	2011	2010
	(In Thousands)	
NOLCO	<b>₱44,081</b>	₱23,514
MCIT	<b>1,985</b>	2,253
	<b>₱46,066</b>	₱25,767

The carryforward benefits of the NOLCO and the excess of the MCIT over the RCIT, which can be claimed by the Group as credits against the RCIT, are as follows:

Year Incurred	NOLCO	MCIT	Expiry Date
	(In Thousands)		
2011	₱23,306	₱50	December 31, 2014
2010	20,775	395	December 31, 2013
2009	–	1,540	December 31, 2012
	<b>₱44,081</b>	<b>₱1,985</b>	



The following are the movements in NOLCO and MCIT:

NOLCO	2011	2010
	(In Thousands)	
At January 1	<b>₱23,514</b>	₱13,563
Addition	<b>23,306</b>	20,845
Applied	<b>(665)</b>	(10,883)
Expired	<b>(2,074)</b>	(11)
At December 31	<b>₱44,081</b>	₱23,514

MCIT	2011	2010
	(In Thousands)	
At January 1	<b>₱2,253</b>	₱1,858
Addition	<b>50</b>	395
Expired	<b>(318)</b>	—
At December 31	<b>₱1,985</b>	₱2,253

The reconciliation of the provision for income tax at statutory tax rate to the actual provision for income tax follows:

	2011	2010	2009
		(In Thousands)	
Income tax at statutory tax rate	<b>₱1,044,614</b>	₱1,054,193	₱649,942
Adjustments for:			
Tax-free net income on sales of BOI-registered projects (Note 32)	<b>(186,855)</b>	(83,030)	(99,772)
Tax-free realized gross profit on socialized housing units	<b>(118,188)</b>	(111,411)	(19,948)
Income covered by PEZA (Note 31)	<b>(90,138)</b>	(88,825)	(57,208)
Interest on HGC-enrolled contracts receivables	<b>(84,919)</b>	(71,964)	(138,983)
Equity in net earnings of an associate	<b>(19,022)</b>	(16,565)	(11,258)
Income subjected to final tax	<b>(11,958)</b>	(36,085)	(39,225)
Nondeductible interest expense	<b>7,047</b>	7,244	6,849
Other nondeductible expenses	<b>2,625</b>	64,737	2,976
Income subjected to capital gains tax	<b>(1,401)</b>	(2,036)	(2,581)
Change in unrecognized deferred tax assets	<b>(99)</b>	3,380	(8,539)
Gain from remeasurement of previously held interest in a business combination	—	(155,172)	—
Excess of fair value of net identifiable assets over consideration transferred	—	(2,717)	—
Reversal of deferred gross profit on installment sales	—	—	(133,979)
	<b>₱541,706</b>	₱561,749	₱148,274



## 29. Financial Assets and Liabilities

The following table sets forth the carrying and fair values of financial assets and liabilities recognized as of December 31, 2011 and 2010. There are no material unrecognized financial assets and liabilities as of December 31, 2011 and 2010.

	2011	
	Carrying Values	Fair Values
	(In Thousands)	
<b>Financial Assets at Amortized Cost</b>		
Cash and cash equivalents:		
Cash on hand and in banks	₱486,179	₱486,179
Short-term deposits	667,127	667,127
Contracts receivable:		
Contracts receivable	8,085,680	8,236,617
Receivables from government and financial institutions	367,228	367,228
Due from related parties	246,757	246,757
Other receivables:		
Receivable from tenants - net	229,151	229,151
Receivable from homeowners' association	109,136	109,136
Others	99,552	99,552
Other assets (short-term deposits):		
Short-term deposits	29,080	29,080
<b>Total financial assets at amortized cost</b>	<b>10,319,890</b>	<b>10,470,827</b>
<b>Financial Assets at FVTOCI</b>		
Investments in shares of stocks:		
Quoted	3,321	3,321
Unquoted	21,305	21,305
<b>Total Financial assets at FVTOCI</b>	<b>24,626</b>	<b>24,626</b>
	<b>₱10,344,516</b>	<b>₱10,495,453</b>
<b>Financial Liabilities at Amortized Cost</b>		
Accounts payable and accrued expenses:		
Accounts payable	₱1,487,042	₱1,423,461
Liabilities on receivables sold to banks	1,947,377	1,815,385
Deposits for registration and insurance	680,795	651,687
Deposits from tenants	533,876	511,049
Retention fees payable	468,277	468,277
Advances and deposits from customers	716,212	716,212
Accrued expenses	252,328	252,328
Other payables	69,055	69,055
Due to related parties	48,411	48,411
Loans payable	8,511,007	7,666,459
Bonds payable	7,977,009	7,390,067
<b>Total financial liabilities at amortized cost</b>	<b>₱22,691,389</b>	<b>₱21,012,391</b>



	2010	
	Carrying Values	Fair Values
	(In Thousands)	
<b>Loans and Receivables</b>		
Cash and cash equivalents:		
Cash on hand and in banks	₱325,903	₱325,903
Short-term deposits	1,432,822	1,432,822
Contracts receivable:		
Contracts receivable	6,826,127	6,953,552
Receivables from government and financial institutions	1,019,744	1,019,744
Due from related parties	185,922	185,922
Other receivables:		
Receivable from tenants-net	227,696	227,696
Receivable from homeowners' association	170,146	170,146
Others	60,219	60,219
Other assets (short-term deposits):		
Short-term deposits	30,707	30,707
Total loans and receivables	10,279,286	10,406,711
AFS Financial assets		
Investments in bonds	95,444	95,444
Investments in shares of stocks:		
Quoted	3,321	3,321
Unquoted	24,305	24,305
Total AFS financial assets	123,070	123,070
	₱10,402,356	₱10,529,781
<b>Other Financial Liabilities</b>		
Accounts payable and accrued expenses:		
Accounts payable	₱1,790,770	₱1,714,203
Liabilities on receivables sold to banks	1,773,391	1,653,192
Advances and deposits from customers	1,081,408	1,081,408
Deposits for registration and insurance	487,298	466,463
Deposits from tenants	482,472	461,843
Retention fees payable	424,960	424,960
Accrued expenses	204,069	204,069
Other payables	65,819	65,819
Due to related parties	82,643	82,643
Loans payable	6,961,167	6,885,063
Bonds payable	4,949,241	4,613,938
Total other financial liabilities	₱18,303,238	₱17,653,601

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

- *Cash and cash equivalents, due from and to related parties, other receivables and other assets:* Due to the short-term nature of these accounts, their fair values approximate their carrying amounts.
- *Contracts receivable:* Estimated fair value of contracts receivable is based on the discounted value of future cash flows using the prevailing interest rates for similar types of receivables as of the reporting date. Interest rates used are 2% and 1.83% in 2011 and 2010, respectively. Due to the short-term nature of receivables from government and financial institutions, carrying amounts approximate fair values.



- *Financial assets at FVTOCI*: Fair values were determined using quoted market prices at reporting date. Financial assets at FVTOCI not quoted in an active market are recorded at cost.
- *AFS financial assets*: Fair values were determined using quoted market prices at reporting date. AFS financial assets not quoted in an active market are recorded at cost.
- *Accounts payable and accrued expenses*: On accounts due within one year, the fair value of accounts payable and accrued expenses approximates the carrying amounts. On accounts due for more than a year, estimated fair value is based on the discounted value of future cash flows using the prevailing interest rates on loans and similar types of payables as of the reporting date. Interest rates used are 4.28% and 4.98% in 2011 and 2010, respectively.
- *Long-term debt*: Estimated fair value on debts with fixed interest and not subjected to quarterly repricing is based on the discounted value of future cash flows using the applicable interest rates for similar types of loans as of reporting date. Long term debt subjected to quarterly repricing is not discounted since it approximates fair value. The discount rates used range from 5.0% to 7.7% and 6.4% to 7.9% as of December 31, 2011 and 2010, respectively.

The following table shows financial instruments recognized at fair value as of December 31, 2011 and 2010, analyzed between those whose fair value is based on:

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

	2011	2010
	(In Thousands)	
Level 1:		
Financial assets at FVTOCI:		
Investment in bonds	₱—	₱95,444
Investment in shares of stock	3,321	3,321
	<b>₱3,321</b>	<b>₱98,765</b>

There are no financial instruments recognized at fair value based on Levels 2 and 3 categories. There are no transfers in and out of Level 3 categories in 2011 and 2010.

#### Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash and cash equivalents, contracts receivable and other receivables, due from related parties, financial assets at FVTOCI (from January 1, 2011), AFS financial assets (prior to January 1, 2011), accounts payable and accrued expenses, due to related parties and long-term debt. The main purpose of these financial instruments is to raise financing for the Group's operations.



The main objectives of the Group's financial risk management are as follows:

- To identify and monitor such risks on an ongoing basis;
- To minimize and mitigate such risks; and
- To provide a degree of certainty about costs.

The Group's finance and treasury function operates as a centralized service for managing financial risks and activities as well as providing optimum investment yield and cost-efficient funding for the Group. The Group's BOD reviews and approves the policies for managing each of these risks.

The policies are not intended to eliminate risk but to manage it in such a way that opportunities to create value for the stakeholders are achieved. The Group's risk management takes place in the context of the normal business processes such as strategic planning, business planning, operational and support processes.

The main risks arising from the Group's financial instruments are liquidity risk, credit risk and interest rate risk. The Group also monitors the foreign currency risk and market price risk arising from all financial instruments.

### Liquidity Risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group seeks to manage its liquidity profile to be able to finance capital expenditures and service maturing debts. To cover its financing requirements, the Group intends to use internally generated funds and available long-term and short-term credit facilities.

As of December 31, 2011 and 2010, the Group has ₪3.95 billion and ₪3.39 billion, respectively, in undrawn uncommitted short-term credit lines, and, ₪9.13 billion and ₪10.81 billion, respectively, in undrawn committed long-term credit facilities.

As part of its liquidity risk management, the Group regularly evaluates its projected and actual cash flows. It also continuously assesses conditions in the financial markets for opportunities to pursue fund raising activities, in case any requirements arise. Fund raising activities may include bank loans and capital market issues.

The tables below summarize the maturity profile of the Group's financial liabilities as of December 31, 2011 and 2010 based on contractual undiscounted payments.

	2011						
	On demand	Less than 3 months	3 months to 1 year	1 to 3 Years	3 to 5 years	Over 5 years	Total
	(In Thousands)						
<b>Accounts Payable and Accrued Expenses</b>							
Accounts payable	₱800,912	₱272,655	₱–	₱286,096	₱91,735	₱35,644	₱1,487,042
Liabilities on receivables sold to banks	–	115,893	459,448	576,429	562,348	233,259	1,947,377
Deposits for registration and insurance	261	906	168,003	509,486	2,139	–	680,795
Deposits from tenants	43,648	93,095	319,040	33,273	2,486	42,334	533,876
Retention fees payable	–	–	147,011	321,266	–	–	468,277

(Forward)



2011							
	On demand	Less than 3 months	3 months to 1 year	1 to 3 Years	3 to 5 years	Over 5 years	Total
(In Thousands)							
Advances and deposits from customers	₱715,392	₱820	₱-	₱-	₱-	₱-	₱716,212
Accrued expenses	146,452	78,191	27,685	-	-	-	252,328
Other payables	21,932	47,123	-	-	-	-	69,055
<b>Interest on Accounts Payable and Accrued Expenses</b>	-	1,660	58,847	80,784	45,620	12,155	199,066
	1,728,597	610,343	1,180,034	1,807,334	704,328	323,392	6,354,028
<b>Due to Related Parties</b>	48,411	-	-	-	-	-	48,411
<b>Loans Payable</b>	-	291,500	1,349,500	4,380,250	2,507,250	-	8,528,500
<b>Bonds Payable</b>	-	-	500,000	4,500,000	3,000,000	-	8,000,000
<b>Interest on Loans and Bonds Payable</b>	-	239,609	574,196	1,652,602	469,406	-	2,935,813
	₱1,777,008	₱1,141,452	₱3,603,730	₱12,340,186	₱6,680,984	₱323,392	₱25,866,752

2010							
	On demand	Less than 3 months	3 months to 1 year	1 to 3 Years	3 to 5 years	Over 5 years	Total
(In Thousands)							
<b>Accounts Payable and Accrued Expenses</b>	₱-	₱143,262	₱537,231	₱1,074,462	₱35,815	₱-	₱1,790,770
Liabilities on receivables sold to banks	-	114,211	308,793	696,976	361,304	292,107	1,773,391
Advances and deposits from customers	1,081,408	-	-	-	-	-	1,081,408
Deposits for registration and insurance	-	68,222	146,189	146,189	121,824	4,874	487,298
Deposits from tenants	48,248	57,897	221,936	96,494	9,649	48,248	482,472
Accrued expenses	-	204,069	-	-	-	-	204,069
Other payables	11,809	57,268	130,155	203,041	88,505	-	490,778
<b>Interest on Accounts Payable and Accrued Expenses</b>	-	1,428	24,382	133,048	67,569	29,211	255,638
	1,141,465	646,357	1,368,686	2,350,210	684,666	374,440	6,565,824
<b>Due to Related Parties</b>	82,643	-	-	-	-	-	82,643
<b>Loans Payable</b>	-	300,667	1,352,000	4,543,500	765,000	-	6,961,167
<b>Bonds Payable</b>	-	-	-	500,000	4,500,000	-	5,000,000
<b>Interest on Loans and Bonds Payable</b>	-	176,597	668,351	1,292,536	445,945	-	2,583,429
<b>Commitments</b>	-	-	100,772	-	-	-	100,772
	₱1,224,108	₱1,123,621	₱3,489,809	₱8,686,246	₱6,395,611	₱374,440	₱21,293,835

The tables below summarize the maturity profile of the Group's financial assets held to manage liquidity as of December 31, 2011 and 2010:

2011							
	On demand	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
(In Thousands)							
<b>Financial Assets at Amortized Cost</b>							
Cash and cash equivalents:							
Cash on hand and in banks	₱486,179	₱-	₱-	₱-	₱-	₱-	₱486,179
Short-term deposits	-	667,127	-	-	-	-	667,127
Contracts receivable:							
Contracts receivable	-	228,399	720,158	531,248	330,447	6,275,428	8,085,680
Receivables from government and financial institutions	-	-	367,228	-	-	-	367,228
Due from related parties	246,757	-	-	-	-	-	246,757
Other receivables:							
Receivable from tenants-net	213,464	450	15,237	-	-	-	229,151
Receivable from homeowners' associations	70,261	38,875	-	-	-	-	109,136
Others	99,552	-	-	-	-	-	99,552
Other assets:							
Short-term deposits	29,080	-	-	-	-	-	29,080
<b>Financial Assets at FVTOCI</b>							
Investment in Bonds	-	-	-	-	-	-	-
Investments in shares of stocks:							
Quoted	-	-	3,321	-	-	-	3,321
Unquoted	-	-	21,305	-	-	-	21,305
	₱1,145,293	₱934,851	₱1,127,249	₱531,248	₱330,447	₱6,275,428	₱10,344,516





2010							
	On demand	Less than 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
(In Thousands)							
<b>Loans and Receivables</b>							
Cash and cash equivalents:							
Cash on hand and in banks	₱325,903	₱—	₱—	₱—	₱—	₱—	₱325,903
Short-term deposits	—	1,432,822	—	—	—	—	1,432,822
Contracts receivable:							
Contracts receivable		369,741	1,083,805	2,057,027	1,513,353	1,802,201	6,826,127
Receivables from government and financial institutions	—	—	1,019,744	—	—	—	1,019,744
Due from related parties	185,922	—	—	—	—	—	185,922
Other receivables:							
Receivable from tenants-net	227,696	—	—	—	—	—	227,696
Receivable from homeowners' associations	170,146	—	—	—	—	—	170,146
Others	60,219	—	—	—	—	—	60,219
Other assets							
Short-term deposits	30,707	—	—	—	—	—	30,707
<b>AFS Financial Assets</b>							
Investment in bonds	—	—	95,444	—	—	—	95,444
Investments in shares of stocks:							
Quoted	—	—	3,321	—	—	—	3,321
Unquoted	—	—	24,305	—	—	—	24,305
	₱1,000,593	₱1,802,563	₱2,226,619	₱2,057,027	₱1,513,353	₱1,802,201	₱10,402,356

### *Credit Risk*

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily for its mortgage notes and contract receivables and other receivables.

It is the Group's policy that buyers who wish to avail the in-house financing scheme be subjected to credit verification procedures. Receivable balances are being monitored on a regular basis and subjected to appropriate actions to manage credit risk. Moreover, as discussed in Note 7, the Group has a mortgage insurance contract with Home Guaranty Corporation for a retail guaranty line.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVTOCI (from January 1, 2011) and AFS financial assets (prior to January 1, 2011), the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group entered into various purchase agreements with financial institutions whereby the Group sold its contracts receivable with a provision that the Group should buy back these receivables in case these become overdue for two to three consecutive months or when the contract to sell has been cancelled.

The table below shows the comparative summary of maximum credit risk exposure on assets as of December 31, 2011 and 2010:

	2011	2010
	(In Thousands)	
<b>Financial Assets at Amortized Cost</b>		
Cash and cash equivalents:		
Cash in banks	₱486,179	₱319,404
Short-term deposits	667,127	1,432,822

(Forward)



	2011	2010
	(In Thousands)	
Contracts receivable:		
Contracts receivable	₱8,085,680	₱6,826,127
Receivables from government and financial institutions	367,228	1,019,744
Due from related parties	246,757	185,922
Other receivables:		
Receivables from tenants - net	229,151	227,696
Receivables from homeowners' association	109,136	170,146
Others	99,552	60,219
Other asset:		
Short-term deposits	29,080	30,707
Total financial assets at amortized cost	10,319,890	10,272,787
<b>Financial Assets at FVTOCI</b>		
Investments in shares of stocks:		
Quoted	3,321	—
Unquoted	21,305	—
Total financial assets at FVTOCI	24,626	—
<b>AFS Financial Assets</b>		
Investment in bonds	—	95,444
Investments in shares of stocks:		
Quoted	—	3,321
Unquoted	—	24,305
Total AFS financial assets	—	123,070
<b>Commitments</b>	—	100,772
	<b>₱10,344,516</b>	<b>₱10,496,629</b>

The Group's commitments (off-balance sheet arrangements) pertain to forward and spot exchange contract entered into by Parent Company in connection with its US Dollar-denominated investments in bonds (see Note 10). Such transaction was recognized in the Group's consolidated statement of financial position upon settlement.

The forward and spot exchange contract as of December 31, 2010 matured in July 2011.

Based on the Group's experience, the said assets are highly collectible or collectible on demand. The Group holds as collaterals the corresponding properties which the third parties had bought on credit. In few cases of buyer defaults, the Group can repossess the collateralized properties and resell them at the prevailing market price.

The following tables show the credit quality by class of asset as of December 31, 2011 and 2010. The Group's high-grade receivables pertain to receivables from related parties and third parties which, based on experience, are highly collectible or collectible on demand, and of which



exposure to bad debt is not significant. Receivables assessed to be of standard grade are those which had passed a certain set of credit criteria, and of which the Group has not noted any extraordinary exposure which calls for a substandard grade classification.

December 31, 2011					
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Standard Grade			
			(In Thousands)		
Cash and cash equivalents	₱1,153,306	₱—	₱—	₱—	₱1,153,306
Contracts receivable	—	7,683,840	401,840	—	8,085,680
Contracts receivable	—	7,683,840	401,840	—	8,085,680
Receivables from government and financial institutions	367,228	—	—	—	367,228
Due from related parties	246,757	—	—	—	246,757
Other receivables	—	229,151	—	26,961	256,112
Receivables from tenants	—	109,136	—	36,014	145,150
Receivables from homeowners' association	—	99,552	—	—	99,552
Others	—	99,552	—	—	99,552
Other assets	—	—	—	—	—
Short-term deposits	29,080	—	—	—	29,080
Financial assets at FVTOCI	—	—	—	—	—
Investment in shares of stock	—	—	—	—	—
Quoted	3,321	—	—	—	3,321
Unquoted	21,305	—	—	—	21,305
	₱1,820,997	₱8,121,679	₱401,840	₱62,975	₱10,407,491

December 31, 2010					
	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High grade	Standard Grade			
			(In Thousands)		
Cash and cash equivalents	₱1,752,226	₱—	₱—	₱—	₱1,752,226
Contracts receivable	—	6,611,164	214,963	—	6,826,127
Contracts receivable	—	6,611,164	214,963	—	6,826,127
Receivables from government and financial institutions	1,019,744	—	—	—	1,019,744
Due from related parties	185,922	—	—	—	185,922
Other receivables	—	227,696	—	54,087	281,783
Receivables from tenants	—	170,146	—	—	170,146
Receivables from homeowners' association	—	60,219	—	—	60,219
Others	—	60,219	—	—	60,219
Other assets	—	—	—	—	—
Short-term deposits	30,707	—	—	—	30,707
AFS financial assets	—	—	—	—	—
Investment in bonds	95,444	—	—	—	95,444
Investment in shares of stock	—	—	—	—	—
Quoted	3,321	—	—	—	3,321
Unquoted	—	24,305	—	—	24,305
	₱3,087,364	₱7,093,530	₱214,963	₱54,087	₱10,449,944

As at December 31, 2011 and 2010, the analysis of contracts receivable that were past due but not impaired is as follows:

2011							
	Neither past due nor impaired	Past due but not impaired					Total
		Less than 30 days	30 to 60 days	60 to 90 days	90 to 120 days	Over 120 days	
				(In Thousands)			
Contracts receivable	₱7,683,840	₱62,956	₱75,329	₱14,588	₱147,116	₱101,851	₱8,085,680
Receivables from governments and financial institutions	367,228	—	—	—	—	—	367,228
	₱8,051,068	₱62,956	₱75,329	₱14,588	₱147,116	₱101,851	₱8,452,908



	2010						
	Neither past due nor impaired	Past due but not impaired					
		Less than 30 days	30 to 60 days	60 to 90 days	90 to 120 days	Over 120 days	Total
				(In Thousands)			
Contracts receivable	₱6,611,164	₱30,243	₱19,287	₱15,104	₱11,702	₱138,627	₱6,826,127
Receivables from governments and financial institutions	1,019,744	—	—	—	—	—	1,019,744
	₱7,630,908	₱30,243	₱19,287	₱15,104	₱11,702	₱138,627	₱7,845,871

There is no concentration risk on the Group's financial assets as of December 31, 2011 and 2010.

#### Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's financial instruments affected by market risk include loans payable, cash and cash equivalents and available-for sale financial assets.

#### a) Interest Rate Risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's loans from various financial institutions. To manage interest rate risk, the Group renegotiates the interest rates for certain long term debts to convert them from fixed-rate debt to floating-rate debt as the Group believes that the current interest rate environment makes it more favorable to carry floating-rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no other impact on the Group's other comprehensive income other than those already affecting the profit and loss.

	Increase (decrease) in basis points	Effect on income before income tax (In Thousands)
<b>2011</b>	<b>+200</b>	<b>(₱138,720)</b>
	<b>-200</b>	<b>₱138,720</b>
<b>2010</b>	<b>+200</b>	<b>(₱98,723)</b>
	<b>-200</b>	<b>₱98,723</b>

The sensitivity analysis shown above is based on the assumption that interest rate movement will most likely be limited to a two hundred basis point upward or downward fluctuation. The Group, used as basis of these assumptions, the annual percentage change of 3-month PDST-F rate for the past five years as obtained from PDEX. Effect on the Group's income before tax is computed on the carrying amount of the Group's floating rate loans payable as of December 31, 2011 and 2010.

The following tables set out the carrying amount (in thousands), by maturity, of the Group's long-term debt that are exposed to interest rate risk:

Variable interest rate	91-day Treasury bill plus 1% to 2% margin					Total
	Below 1 Year	1-2 Years	2-3 Years	3-4 Years	Over 4 Years	
As of December 31, 2011	₱1,185,884	₱2,554,433	₱916,591	₱966,079	₱1,313,020	₱6,936,007
As of December 31, 2010	₱1,202,667	₱1,352,667	₱2,290,833	₱20,000	₱70,000	₱4,936,167



*b) Foreign Currency Risk*

Financial assets and financing facilities extended to the Group were mainly denominated in Philippine Peso. As such, the Group's exposure to this risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). PDEX closing rates used are ₱43.84 on December 31, 2011 and 2010. There is no other impact on the Group's other comprehensive income other than those already affecting the profit and loss.

	Increase (decrease) in US dollar rate	Effect on income before income tax (In Thousands)
<b>2011</b>	<b>+5%</b>	<b>₱471</b>
	<b>-5%</b>	<b>(₱471)</b>
<b>2010</b>	<b>+5%</b>	<b>₱2,750</b>
	<b>-5%</b>	<b>(₱2,750)</b>

The sensitivity analysis shown above is based on the assumption that movement in US dollar-peso exchange rate will most likely be limited to five percent (5%) upward or downward fluctuation in 2010. The Group, used as basis of these assumptions, the annual percentage change of US dollar exchange rate for the past five years as obtained from BSP. Effect on the Group's income before tax is computed on the carrying amount of the Group's US dollar-denominated financial assets (cash in bank and short term investments) as of December 31, 2011 and 2010.

*c) Equity Price Risk*

The table below demonstrates the sensitivity to a reasonably possible change in the market price of country club shares classified as financial assets at FVTOCI in 2011 and AFS investments in 2010, with all other variables held constant, of the Group's equity. The impact on the Group's equity already excludes the impact on transactions affecting the profit and loss.

	Increase/ decrease in market price	Effect on equity (In Thousands)
<b>2011</b>	<b>+5%</b>	<b>₱153</b>
	<b>-5%</b>	<b>(₱153)</b>
<b>2010</b>	<b>+10%</b>	<b>₱306</b>
	<b>-10%</b>	<b>(₱306)</b>

The sensitivity analysis shown above is based on the assumption that movement in the price of investments in quoted equity securities will most likely be limited to five percent (5%) and ten percent (10%) upward or downward fluctuation in 2011 and 2010, respectively. The Group, used as basis of these assumptions, the annual percentage change of quoted prices for the past five years as obtained from published quotes of club share brokers.



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### 30. Contingencies and Commitments

The Group is involved in various legal actions, claims and contingencies incident to the ordinary course of the business. Management believes that any amount the Group may have to pay in connection with any of these matters would not have a material adverse effect on the consolidated financial position or operating results.

In connection with the joint venture agreement entered into by the Parent Company with Cebu City Government, the Parent Company is committed to (a) purchase 10.6 hectares of the property payable in six (6) years, to be developed into a modern urban center and (b) develop 40 hectares of the property in four (4) phases, mainly mid-rise residential buildings, over a 20-year period.

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### 31. Registration with PEZA

On February 13, 2002, the Group was registered with Philippine Economic Zone Authority (PEZA) pursuant to the provisions of the Republic Act (RA) No. 7916 as the Ecozone Developer/Operator to lease, sell, assign, mortgage, transfer or otherwise encumber the area designated as a Special Economic Zone (Ecozone) to be known as Filinvest Technology Park-Calamba.

Under the registration, the Group shall enjoy 5% preferential tax privilege on income generated from the Ecozone as opposed to the regular income tax rate.

On June 11, 2001, FAC was registered with PEZA as the developer/operator of PBCom Tower and as such it will not be entitled to any incentives, however, IT enterprises which shall locate in PBCom Tower shall be entitled to tax incentives pursuant to RA No. 7916.

On June 6, 2000, CPI was registered with PEZA as an ECOZONE Facilities Enterprise. As a registered enterprise, it is also entitled to certain tax and non-tax benefits such as exemption from payment of national and local taxes and instead a special tax rate of five percent (5%) of gross income.

The Group is also entitled to zero percent (0%) value-added tax for sales made to ECOZONE enterprises.

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### 32. Registration with the Board of Investments (BOI)

The Group has registered the following projects with the BOI under the Omnibus Investments Code of 1987 (Executive Order No. 226):

As of December 31, 2011:

Name	Reg. No.	Date Registered	Type of Registration
Asenso Village -General Trias	2007-035	03/03/07	New Developer of Low-Cost Mass Housing Project
Palmridge Phase I	2007-042	03/13/07	New Developer of Low-Cost Mass Housing Project
Asenso Village - Ciudad de Calamba	2007-110	06/28/07	New Developer of Micro, Small and Medium Enterprises Business Park
Aldea Real	2007-163	09/12/07	New Developer of Low-Cost Mass Housing Project



Name	Reg. No.	Date Registered	Type of Registration
Summerbreeze 1	2007-191	10/26/07	New Developer of Low-Cost Mass Housing Project
One Oasis - Ortigas (A to E)	2008-225	08/14/08	New Developer of Low-Cost Mass Housing Project
Westwood Mansions	2008-257	09/02/08	New Developer of Low-Cost Mass Housing Project
Palm Ridge - Phase 3	2008-310	11/17/08	New Developer of Low-Cost Mass Housing Project
Summerbreeze 2	2008-311	11/17/08	New Developer of Low-Cost Mass Housing Project
Park Spring - The Glens	2008-326	12/15/08	New Developer of Low-Cost Mass Housing Project
One Oasis - Ortigas (F to M)	2011-120	06/15/11	New Developer of Low-Cost Mass Housing Project
La Brisa Townhomes	2011-117	06/09/11	New Developer of Low-Cost Mass Housing Project
The Linear	2011-121	06/15/11	New Developer of Low-Cost Mass Housing Project
Bali Oasis 3 & 4	2011-134	06/27/11	New Developer of Low-Cost Mass Housing Project
Ocean Cove	2011-133	06/27/11	New Developer of Low-Cost Mass Housing Project
Villa Montserrat - Expansion	2011-132	06/27/11	New Developer of Low-Cost Mass Housing Project
Escala @ Corona del Mar	2011-167	07/29/11	New Developer of Low-Cost Mass Housing Project
Filinvest Homes Tagum Phase 1	2011-171	08/02/11	New Developer of Low-Cost Mass Housing Project
Filinvest Homes Tagum Phase 2	2011-214	09/26/11	New Developer of Low-Cost Mass Housing Project
One Oasis Davao 1, 2, 3	2011-194	09/02/11	New Developer of Low-Cost Mass Housing Project
Villa Mercedita	2011-154	07/19/11	New Developer of Low-Cost Mass Housing Project
Villa San Ignacio	2011-148	07/14/11	New Developer of Low-Cost Mass Housing Project
Tierra Vista	2011-191	08/31/11	New Developer of Low-Cost Mass Housing Project
Tamara Lane	2011-215	09/26/11	New Developer of Low-Cost Mass Housing Project
Austine Homes	2011-252	11/25/11	New Developer of Low-Cost Mass Housing Project
The Glens Phase 2	2011-216	09/26/11	New Developer of Low-Cost Mass Housing Project
The Glens Phase 2	2011-217	09/26/11	New Developer of Low-Cost Mass Housing Project
The Glens Phase 4	2011-218	09/26/11	New Developer of Low-Cost Mass Housing Project
Somerset Lane	2011-273	12/21/11	New Developer of Low-Cost Mass Housing Project

As a registered enterprise, the Group is entitled to certain tax and nontax incentives, subject to certain conditions.



## FILINVEST LAND, INC. AND SUBSIDIARIES

### SUPPLEMENTARY INFORMATION AND DISCLOSURES REQUIRED ON SRC RULE 68 AND 68.1 AS AMENDED DECEMBER 31, 2011

Philippine Securities and Exchange Commission (SEC) issued the amended Securities Regulation Code Rule SRC Rule 68 and 68.1 which consolidates the two separate rules and labeled in the amendment as “Part I” and “Part II”, respectively. It also prescribed the additional information and schedule requirements for issuers of securities to the public.

Below are the additional information and schedules required by SRC Rule 68 and 68.1 as amended that are relevant to the Group. This information is presented for purposes of filing with the SEC and is not required part of the basic financial statements.

#### Schedule A. Financial Assets in Equity Securities

Below is the detailed schedule of financial assets in equity securities of the Group as of December 31, 2011:

Name of Issuing entity and association of each issue	Number of Shares	Amount Shown in the Statement of Financial Position	Value Based on Market Quotation at end of year	Income Received and Accrued
(In Thousands)				
<b>Financial assets at FVTOCI</b>				
Quoted:				
The Palms Country Club	—	₱3,060	₱3,060	₱—
Philippine Long Distance Telephone Company	26.1	261	261	—
		3,321	3,321	—
Unquoted:				
Manila Electric Company (MERALCO)	1,744	17,435	17,435	—
Timberland Sports and Nature Club	3	2,995	2,995	—
FITI	875	875	875	—
		21,305	21,305	—
		₱24,626	₱24,626	₱—

The Group has no income received and accrued related to the financial assets at FVTOCI during the year.

The Group’s investment in MERALCO is in unlisted preferred shares acquired in connection with the infrastructure that it provides for the Group’s real estate development projects. These are carried at cost less impairment, if any.





Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (other than related parties)

Below is the schedule of advances to employees of the Group with balances above ₱100,000 as of December 31, 2011:

Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of year
	(In Thousands)			
Antonio Cenon	₱24,331	₱138,776	(₱122,680)	₱40,427
Archie Igot	3,090	6,720	(3,084)	6,726
Estrella Pable	7,446	607	(2,608)	5,445
Alan Barquilla	4,861	293	(273)	4,881
Marie Angeli Samala	5,081	8,605	(9,555)	4,131
Luis T. Fernandez	4,582	35,712	(36,135)	4,159
Tristaneil Las Marias	3,515	1,658	(1,422)	3,751
Julian Jr. Concepcion	3,726	1,318	(1,360)	3,684
Wilfredo Abuena	2,376	1,843	(788)	3,431
Adam Christopher C. Sacro	—	4,842	(1,883)	2,959
Reynaldo Ascaño	2,139	1,350	(557)	2,932
Arvin L. Pamalaran	944	2,849	(1,022)	2,771
Michael B. Mamalateo	2,212	2,893	(2,685)	2,420
Carlo Chavez	2,204	702	(739)	2,167
Francelia M. Mozo	1,758	—	—	1,758
Agnes L. Agcaoili	10	74,830	(73,124)	1,716
Boler L. Binamira Jr.	1,499	—	(9)	1,490
Winnifred Lim	1,667	1,696	(1,972)	1,391
Jeannora B. Apasan	—	1,948	(635)	1,313
Geraldine Marie De Gorostiza	305	1,171	(299)	1,177
Bernadette M. Ramos	1,146	7	—	1,153
Ma. Teresita Abad Santos	4,359	4,023	(7,230)	1,152
Clodualdo A. Agena	2,877	106	(1,889)	1,094
Pablito A. Perez	335	1,176	(439)	1,072
Edward Neil S. Aquino	1,045	—	(33)	1,012
Rowena Sikat	3	4,012	(3,057)	958
Andres II J. Calizo	645	472	(215)	902
Sean Philip Imperial	(76)	1,901	(986)	839
Novie C. Verano	833	—	—	833
Estela Bibiano	863	—	(100)	763
Eva Marie Bernardo	805	305	(522)	588
Dominador Casiño	3	1,043	(467)	579
Alberto Morales	825	301	(616)	510
Danilo Salonga	13	1,531	(1,038)	506
Salvador C. Reyes Jr.	279	1,581	(1,366)	494
Alexander James E. Jazminez	430	—	—	430
Katrina Denise L. Madrid	—	417	(1)	416
Ma. Consuelo G. Cosio	398	—	—	398
Maria Felicidad D. Alfonso	1	4,943	(4,574)	370
Clarissa Grindulo	8	682	(329)	361
Rolando C. Acuesta	348	—	—	348
Noel Advincula	334	141	(141)	334
Louie Henry Carandang	302	—	—	302
Rogelio T. Chavez Jr.	4	500	(205)	299
Enrique Lingad	319	15	(90)	244
Majella Faduga	242	—	—	242
Rafael Barretto	238	—	—	238
Adrian V. Bancoro	17	33,856	(33,646)	227

(Forward)



Name	Balance at beginning of year	Additions	Collections/ Liquidations	Balance at end of year
		(In Thousands)		
Julieta Castaños	₱1,502	₱37	(₱1,321)	₱218
Maria Louella D. Senia	203	28	(25)	206
Manuel dennis Molina	200	4	—	204
Edwin Esteller	54	950	(805)	199
Nilo S. Beriña	(284)	679	(204)	191
Edgar Nocillado	519	2,508	(2,844)	183
Evelyn P. Michaud	169	—	—	169
Thomas Salonga	48	4,257	(4,144)	161
Ma. Rowena M. Pasimio	159	—	—	159
Trina C. Borgonia	158	—	—	158
Susana Makabenta	147	538	(530)	155
Roy Vincent Lumayag	149	—	—	149
Noel Oblefias	256	643	(755)	144
Kotcela E. Cayonda	(23)	203	(38)	142
Laseo Masangcay	7	158	(26)	139
Ma. Elena G. Santos	137	—	—	137
Jose Patrick H. Rosales	72	483	(422)	133
Paul Francisco	30	183	(85)	128
Edilberta I. Jasmin	5	146	(31)	120
Janice N. Trinanes	—	125	(6)	119
Imelda L. Landicho	118	—	—	118
Hazel Q. Magpuyo	117	—	—	117
John Delmer P. Vitaliz	38	179	(102)	115
Jasper June Gaerlan	33	123	(45)	111
Bernarda T. Gitalan	33	242	(169)	106
Rey Ferdinand C. Maribao	110	282	(288)	104
Jocelyn SG. Sapsal	103	—	—	103
Elmer Barros	93	43	(35)	101
Jeffrey Nisnisan	124	185	(208)	101
	₱92,619	₱356,821	(₱329,857)	₱119,583

These advances were obtained by the Group's employees for expenses and disbursements necessary in carrying out their functions in the ordinary course of business such as for selling and marketing activities, official business trips, emergency and cash-on-delivery purchases of materials, equipment and supplies, repair of Group's vehicles, model units and housing units, registration of titles, etc. The advances will be liquidated when the purposes for which these advances were granted are accomplished or completed. There were no amounts written off during the year and all receivables are expected to be collected/liquidated within the next twelve months.

Schedule C. Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements

Below is the schedule of receivables (payables) with related parties, which are eliminated in the consolidated financial statements as of December 31, 2011 (amounts in thousands):

	Volume of Transactions	Receivable	Terms
			Non-interest bearing and to be settled within the year
Filinvest AII Philippines, Inc.	Share in expenses	₱634	₱141,078
	Marketing fee		
Property Maximizer Professional Corporation	expense	103,908	Non-interest bearing and to be settled within the year
	Share in expenses	57,196	203,698

(Forward)



Volume of Transactions			Receivable	Terms
Cyberzone Properties, Inc. (CPI)	Rental income	₱86,978	₱46,886	Non-interest bearing and to be settled within the year
Property Specialist Resources, Inc.	Marketing fee expense	2,511		Non-interest bearing and to be settled within the year
	Share in expenses	12,264	19,006	Non-interest bearing and to be settled within the year
	Marketing fee expense	2,406		Non-interest bearing and to be settled within the year
Leisurepro, Inc.	Share in expenses	3,922	5,482	Non-interest bearing and to be settled within the year
	Marketing fee expense	3,851		Non-interest bearing and to be settled within the year
Homepro Realty Marketing, Inc.	Share in expenses	2,638	4,168	
			₱420,318	

Name	Balance at beginning of year	Additions	Collections	Balance at end of year
Filinvest All Philippines, Inc.	194,308	102,774	(156,004)	141,078
Property Maximizer Professional Corporation	159,236	198,570	(154,108)	203,698
Cyberzone Properties, Inc. (CPI)	43,269	320,921	(317,304)	46,886
Property Specialist Resources, Inc.	(3,219)	26,911	(4,686)	19,006
Leisurepro, Inc.	6,093	3,041	(3,652)	5,482
Homepro Realty Marketing, Inc.	6,428	2,582	(4,842)	4,168
	406,115	654,799	(640,596)	420,318

The intercompany transactions between the FLI and the subsidiaries pertain to share in expenses, rental charges, marketing fee and management fee. There were no amounts written off during the year and all amounts are expected to be settled within the year.

#### Related Party Transactions

##### *Due from related parties*

Below is the list of outstanding receivables from related parties of the Group presented in the consolidated statements of financial position as of December 31, 2011 (amount in thousands):

	Relationship	Nature	Balance at end of period
Timberland Sports and Nature Club	Affiliate	A, B	₱171,131
GCK Realty	Affiliate	C, D	46,147
Filinvest Development Corp.	Parent Company	A, C, E	13,116
Davao Sugar Central Corp.	Affiliate	A	6,609
Filinvest Alabang, Inc.	Associate	A, C	5,172
East West Banking Corporation	Affiliate	A	4,012
Filarchipelago Hospitality, Inc.	Affiliate	A	302
The Palms Country Club	Affiliate	A	268
			₱246,757



*Nature of intercompany transactions*

The nature of the intercompany transactions with the related parties is described below:

- A. Expenses - these pertain to the share of the Group of related parties in various common selling and marketing and general and administrative expenses.
- B. Advances - these pertain to temporary advances to/from related parties for working capital requirements
- C. Management and marketing fee
- D. Reimbursable commission expense
- E. Rentals

Schedule D. Intangible Asset

As of December 31, 2011, the Group's intangible asset consists of Goodwill. Goodwill in the Group's consolidated statements of financial position arose from the acquisition of three major assets consisting of (in thousands):

Festival Supermall structure	₱3,745,945
FAC	494,744
CPI	326,553
	<u>₱4,567,242</u>

The beginning balance equal the ending balance.

Schedule E. Long term debt

Below is the schedule of long-term debt of the Group:

Type of Obligation	Amount	Current	Noncurrent
Term loans			
Guaranteed loan amounting to ₱1.13 billion and ₱1.12 billion obtained in October 2005 and July 2007, respectively. Both loan principal is payable in 10 semi-annual installments commencing December 2010 and ending June 2015. The loans carry a fixed interest rate of 7.72% and 7.90% per annum, respectively.	₱1,575,000	₱450,000	₱1,125,000
Developmental loans			
Unsecured loan obtained in October 2008 with interest rate equal to 91-day PDS Treasury Fixing (PDST-F) rate plus a spread of up to 1.5% per annum, payable quarterly in arrears. The principal is payable in eleven (11) equal quarterly installments starting March 2011 up to September 2013 and lump sum full payment due in December 2013.	833,333	166,667	666,666

(Forward)



Type of Obligation	Amount	Current	Noncurrent
Unsecured loan obtained in June 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting June 2013 up to June 2016.	₱746,938	₱—	₱746,938
Unsecured loan obtained in March 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears, 50% of the principal is payable in twelve (12) equal quarterly installments starting June 2013 up to March 2016 and the remaining 50% of the principal is payable in full in March 2016	743,848	—	743,848
Unsecured loan obtained in May 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum but not lower than 4.5%, payable quarterly in arrears, 50% of the principal is payable in twelve 12 equal quarterly installments starting August 2013 up to May 2016 and balance of 50% is payable in full in May 2016	597,409	—	597,409
Unsecured 5-year loan obtained in September 2008 payable in eleven (11) quarterly amortizations starting December 2010 with a balloon payment at maturity date in September 2013 with interest rate equal to 91-day PDST-F rate plus fixed spread of 2% per annum, payable quarterly.	514,584	108,333	406,251
Unsecured loan obtained in April 2011 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum, payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting July 2013 up to April 2016.	497,985	—	497,985
Unsecured loans obtained in August 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum. The principal is payable in twelve (12) equal quarterly installments starting November 2010 up to August 2013.	437,500	250,000	187,500
Unsecured loan obtained in November 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 2% per annum, payable quarterly in arrears. The principal is payable in eleven (11) equal quarterly installments starting November 2010 up to September 2013 and lump sum full payment due in December 2013.	416,667	83,333	333,334

(Forward)



Type of Obligation	Amount	Current	Noncurrent
Unsecured loan granted on November 2011 with a term of five years with interest rate 4.375% (inclusive of GRT), payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting February 2014 up to November 2016.	₱398,058	₱—	₱398,058
Unsecured loan obtained in June 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1.5% per annum, payable quarterly in arrears. Part of the principal is payable in eleven (11) equal quarterly installments starting June 2010 up to March 2013 and lump sum full payment due in June 2013.	375,000	83,333	291,667
Unsecured loan obtained in December 2011 with interest of 4.50% per annum (inclusive of GRT), payable quarterly in arrears. The principal is payable in twelve (12) equal quarterly installments starting March 2014 up to December 2016.	348,270	—	348,270
Unsecured loan obtained by the Group in October 2008 with interest rate equal to 91-day PDST-F rate plus a spread of up to 1% per annum. The principal is payable in twelve (12) quarterly equal installments starting March 2011 up to September 2013.	333,333	166,667	166,666
Unsecured loans granted in May and December 2007 payable over 5-year period inclusive of 2 year grace period; 50% of the loan is payable in twelve (12) equal quarterly amortizations and balance payable on final maturity. The loans carry interest equal to 91-day PDST-F rate plus fixed spread of 2% per annum payable quarterly in arrears	189,999	189,999	—
Unsecured 5-year loan obtained in March 2008, of which 50% of the principal is payable in twelve (12) equal quarterly installments starting September 2010 and the remaining 50% balance is to be paid in lump sum at maturity in June 2013, with interest rate equal to 3-month PDST-F rate plus a spread of up to 2% per annum, payable quarterly in arrears.	177,083	41,667	135,416
Unsecured loan granted on April 2010 with a term of five years with 50% of principal payable in 12 equal quarterly amortization to commence on July 2012 and 50% payable on maturity. The loan carries interest equal to 3-month PDST-F rate plus a spread of 1.5% per annum	120,000	15,000	105,000

(Forward)



Type of Obligation	Amount	Current	Noncurrent
Unsecured loan granted on November 10, 2011 with a term of 7 years with 2 year grace period on principal repayment. Interest for the first 92 days is 4.5% per annum inclusive of GRT, subject to quarterly repricing and payable quarterly in arrears. 50% of principal is payable in 20 equal quarterly amortizations commencing on February 10, 2014 and 50% is payable on maturity.	₱120,000	₱—	₱120,000
Unsecured loan obtained on December 15, 2006 payable in twenty (20) equal quarterly amortizations starting in March 2008, with interest rate equivalent to 91-day T-Bill rate plus fixed spread of 2% per annum, payable quarterly in arrears and secured by a mortgage of several buildings located at the Northgate Cyberzone and assignment of the corresponding rentals.	46,000	46,000	—
Unsecured loan obtained in July 2007 payable in twenty (20) equal quarterly amortizations starting in March 2008, with interest rate equal to 91-day T-Bill rate plus fixed spread of 2% per annum, payable quarterly in arrears and secured by a mortgage of several buildings located at the Northgate Cyberzone and assignment of the corresponding rentals.	40,000	40,000	—
	8,511,007	1,640,999	6,870,008
<b>Bonds</b>			
Fixed rate bonds with aggregate principal amount of ₱5.00 billion, comprised of three (3)-year fixed rate bonds due in 2012 and five (5)-year fixed rate bonds due in 2014 was issued by the Parent Company on November 19, 2009. The 3-year bonds have a term of 3 years from the issue date, with a fixed interest rate of 7.5269% per annum. Interest is payable quarterly in arrears starting on February 19, 2010. The 5-year bonds have a term of 5 years and one (1) day from the issue date, with a fixed interest rate of 8.4615% per annum. Interest is payable quarterly in arrears starting on February 20, 2010.	4,986,205	500,000	4,486,205
Fixed rate bonds with principal amount of ₱3.00 billion and term of five (5) years from the issue date was issued by the Parent Company on July 7, 2011. The fixed interest rate is 6.1962% per annum, payable quarterly in arrears starting on October 19, 2011.	2,990,804	—	2,990,804
	7,997,009	500,000	7,447,009
	₱16,488,016	₱2,140,999	₱14,347,017



Amounts are presented net of unamortized deferred costs.

Schedule F. Indebtedness to Related Parties (Long Term Loans from Related Companies)

Below is the list of outstanding payables to related parties of the Group presented in the consolidated statements of financial position as of December 31, 2011 (amount in thousands):

	Relationship	Nature	Balance at beginning of period	Balance at end of period
Pacific Sugar Holdings, Corp.	Affiliate	A	₱54,337	₱26,768
Filinvest Alabang, Inc	Affiliate	A	15,353	16,741
ALG Holdings, Corp.	Ultimate Parent	A	1,512	2,608
Festival Supermall, Inc. - Management	Affiliate	A	11,421	2,229
Filinvest Development Corp.	Parent Company	A, C, E	20	65
			₱82,643	₱48,411

*Nature of intercompany transactions*

The nature of the intercompany transactions with the related parties is described below:

- A. Expenses - these pertain to the share of the Group of related parties in various common selling and marketing and general and administrative expenses.
- B. Advances - these pertain to temporary advances to/from related parties for working capital requirements
- C. Management and marketing fee
- D. Reimbursable commission expense
- E. Rentals

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, Officers and Employees	Others
			(In Thousands)			
Common Shares	33,000,000	24,470,708	—	12,969,649	8,101	None
Preferred Shares	8,000,000	8,000,000	—	8,000,000	—	None

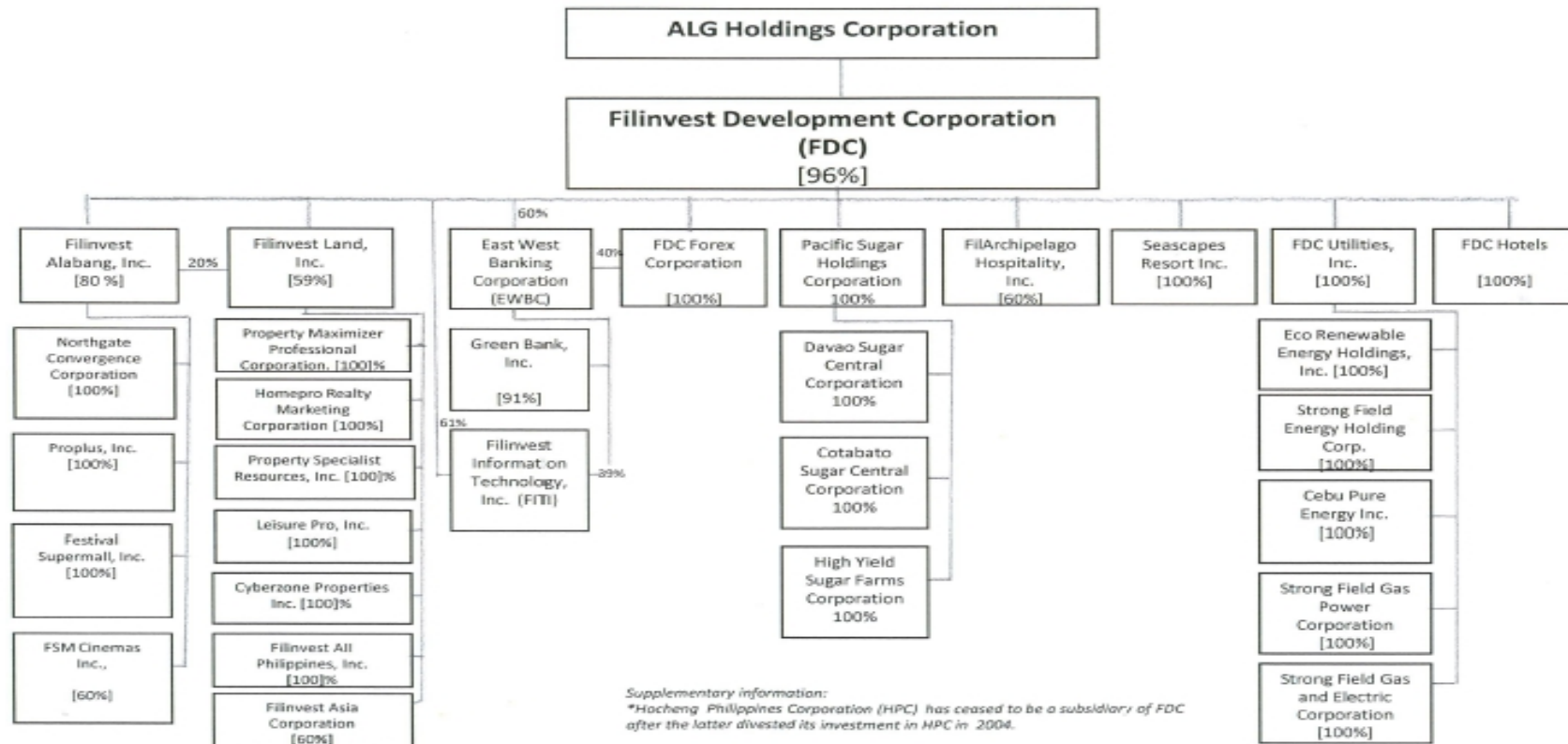




*Group Structure*

Below is a map showing the relationship between and among the Group and its ultimate parent company, subsidiaries, and associates as of December 31, 2011:

## ALG HOLDINGS CORPORATION GROUP STRUCTURE



*Supplementary information:*

\*Hocheng Philippines Corporation (HPC) has ceased to be a subsidiary of FDC after the latter divested its investment in HPC in 2004.

\*FDC's and EWB's investments in FITI amounted to P304,950 and P195,000, respectively. FITI, a dormant entity, ceased operations since 2003.



*Standards adopted by the Group*

Below is the list of all effective Philippine Financial Reporting Standards (PFRS), Philippine Accounting Standards (PAS) and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2011:

<b>PFRSs</b>	<b>Adopted/Not Adopted/ Not Applicable</b>
PFRS 1, <i>First-Time Adoption of Philippine Financial Reporting Standards</i>	Adopted
PFRS 2, <i>Share-based Payment</i>	Adopted
PFRS 3, <i>Business Combinations</i>	Adopted
PFRS 4, <i>Insurance Contracts</i>	Not Applicable
PFRS 5, <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Not applicable
PFRS 6, <i>Exploration for and Evaluation of Mineral Resources</i>	Not applicable
PFRS 7, <i>Financial Instruments - Disclosures</i>	Adopted
PAS 1, <i>Presentation of Financial Statements</i>	Adopted
PAS 2, <i>Inventories</i>	Adopted
PAS 7, <i>Statement of Cash Flows</i>	Adopted
PAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Adopted
PAS 10, <i>Events after the Reporting Period</i>	Adopted
PAS 11, <i>Construction Contracts</i>	Not Applicable
PAS 12, <i>Income Taxes</i>	Adopted
PAS 16, <i>Property, Plant and Equipment</i>	Adopted
PAS 17, <i>Leases</i>	Adopted
PAS 18, <i>Revenue</i>	Adopted
PAS 19, <i>Employee Benefits</i>	Adopted
PAS 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	Not applicable
PAS 21, <i>The Effects of Changes in Foreign Exchange Rates</i>	Adopted
PAS 23, <i>Borrowing Costs</i>	Adopted
PAS 24, <i>Related Party Transactions (Amendment)</i>	Adopted
PAS 26, <i>Accounting and Reporting by Retirement Benefits</i>	Not applicable
PAS 27, <i>Consolidated and Separate Financial Statements</i>	Adopted
PAS 28, <i>Investment in Associates</i>	Adopted
PAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	Not applicable
PAS 31, <i>Interests in Joint Ventures</i>	Adopted
PAS 32, <i>Financial Instruments: Presentation (Amendment)</i>	Adopted

(Forward)



<b>PFRSs</b>	<b>Adopted/Not Adopted/ Not Applicable</b>
PAS 33, <i>Earnings per share</i>	Adopted
PAS 34, <i>Interim Financial Statements</i>	Adopted
PAS 36, <i>Impairment of Assets</i>	Adopted
PAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Adopted
PAS 38, <i>Intangible Assets</i>	Adopted
PAS 39, <i>Financial Instruments: Recognition and Measurement</i>	Adopted
PAS 40, <i>Investment Property</i>	Adopted
PAS 41, <i>Agriculture</i>	Not applicable
Philippine Interpretation IFRIC - 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	Not applicable
Philippine Interpretation IFRIC - 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	Not applicable
Philippine Interpretation IFRIC - 4, <i>Determining whether an Arrangement contains a Lease</i>	Adopted
Philippine Interpretation IFRIC - 5, <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	Not applicable
Philippine Interpretation IFRIC - 6, <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>	Not applicable
Philippine Interpretation IFRIC - 7, <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>	Not applicable
Philippine Interpretation IFRIC - 9, <i>Reassessment of Embedded Derivatives</i>	Adopted
Philippine Interpretation IFRIC - 10, <i>Interim Financial Reporting and Impairment</i>	Adopted
Philippine Interpretation IFRIC - 12, <i>Service Concession Arrangements</i>	Not applicable
Philippine Interpretation IFRIC - 13, <i>Customer Loyalty Programmes</i>	Not applicable
Philippine Interpretation IFRIC - 16, <i>Hedges of a Net Investment in a Foreign Operation</i>	Not applicable
Philippine Interpretation IFRIC - 17, <i>Distributions of Non-cash Assets to Owners</i>	Not applicable
Philippine Interpretation IFRIC - 18, <i>Transfers of Assets from Customers</i>	Not applicable
Philippine Interpretation IFRIC -19, <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Adopted

(Forward)



<b>PFRSs</b>	<b>Adopted/Not Adopted/ Not Applicable</b>
Philippine Interpretation SIC - 7, <i>Introduction of the Euro</i>	Not applicable
Philippine Interpretation SIC - 10, <i>Government Assistance - No Specific Relation to Operating Activities</i>	Not applicable
Philippine Interpretation SIC - 12, <i>Consolidation - Special Purpose Entities</i>	Not applicable
Philippine Interpretation SIC - 13, <i>Jointly Controlled Entities - Non-Monetary Contributions by Venturers</i>	Adopted
Philippine Interpretation SIC - 15, <i>Operating Leases - Incentives</i>	Adopted
Philippine Interpretation SIC - 21, <i>Income Taxes - Recovery of Revalued Non-Depreciable Assets</i>	Adopted
Philippine Interpretation SIC - 25, <i>Income Taxes - Changes in the Tax Status of an Entity or its Shareholders</i>	Not applicable
Philippine Interpretation SIC - 27, <i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	Adopted
Philippine Interpretation SIC - 29, <i>Service Concession Arrangements: Disclosures</i>	Not applicable
Philippine Interpretation SIC - 31, <i>Revenue - Barter Transactions Involving Advertising Services</i>	Not applicable
Philippine Interpretation SIC - 32, <i>Intangible Assets - Web Site Costs</i>	Not applicable

*Standards Issued but not yet Effective as of December 31, 2011*

<b>Standard(s)/Interpretation(s) /Amendment (s) issued but not yet effective</b>	<b>Applicable to annual period beginning on or after</b>	<b>Early application allowed</b>	<b>Adopted/Not adopted/Not applicable</b>
Amendments to PFRS 7: <i>Disclosures - Transfers of Financial Assets</i>	July 1, 2011	Yes	Not adopted
Amendments to PFRS 7: <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013	Not mentioned	Not adopted
PFRS 9, <i>Financial Instruments</i>	January 1, 2015	Yes	Adopted
PFRS 10, <i>Consolidated Financial Statements</i>	January 1, 2013	Yes	Not adopted
PFRS 11, <i>Joint Arrangements</i>	January 1, 2013	Yes	Not adopted
PFRS 12, <i>Disclosure of Interests in Other Entities</i>	January 1, 2013	Yes	Not adopted
PFRS 13, <i>Fair Value Measurement</i>	January 1, 2013	Yes	Not adopted
Amendments to PAS 1: <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012	Yes	Not adopted

(Forward)



Standard(s)/Interpretation(s) /Amendment (s) issued but not yet effective	Applicable to annual period beginning on or after	Early application allowed	Adopted/Not adopted/Not applicable
Amendments to PAS 12 - <i>Deferred Tax:</i>			
<i>Recovery of Underlying Assets</i>	January 1, 2012	Yes	Not adopted
PAS 19, <i>Employee Benefits (Revised)</i>	January 1, 2013	Yes	Not adopted
PAS 27, <i>Separate Financial Statements</i>	January 1, 2013	Yes	Not adopted
PAS 28, <i>Investments in Associates and Joint Ventures</i>	January 1, 2013	Yes	Not adopted
Amendments to PAS 32, <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014	Yes	Not adopted
Philippine Interpretation IFRIC - 15, <i>Agreements for the Construction of Real Estate</i>	Deferred by SEC and FRSC	No	Not adopted
Philippine Interpretation IFRIC - 20, <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013	Yes	Not applicable

#### *Financial Soundness Indicator*

Below are the financial ratios that are relevant to the Group for the year ended December 31, 2011:

Financial ratios		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.75
Long term debt-to-equity ratio	$\frac{\text{Long term debt}}{\text{Equity}}$	0.38
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	0.36
EBITDA to total interest paid	$\frac{\text{EBITDA}}{\text{Total interest paid}}$	4.40
Price Earnings Ratio	$\frac{\text{Closing price*}}{\text{Earnings per share}}$	8.16

\*Closing price at December 29, 2011

In computing the current ratio, the Group considered the following accounts as current (based on the maturity profile of each accounts):

#### *Assets*

- Cash and cash equivalents
- Contracts receivables
- Due from related parties
- Other receivables
- Real estate inventories



*Liabilities*

- Accounts payable and accrued expenses
- Due to related parties
- Income tax payable
- Loans payable
- Bonds payable



**FILINVEST LAND, INC.****PARENT COMPANY UNAPPROPRIATED RETAINED EARNINGS  
AVAILABLE FOR DIVIDEND DISTRIBUTION**  
(Amounts in Thousands of Pesos)

<b>Balance as of January 1, 2011</b>	<b>₱6,559,914</b>
<b>Net income actually earned/realized during the year</b>	
Net income during the year	3,163,087
Non-actual/unrealized losses net of tax	
Movement in deferred tax assets	(3,454)
	<u>3,268,139</u>
Less: Dividend declarations during the year	<u>(950,592)</u>
<b>Total Parent Company Unappropriated Retained Earnings Available For Dividend Distribution, December 31, 2011</b>	<b><u>₱8,768,955</u></b>

