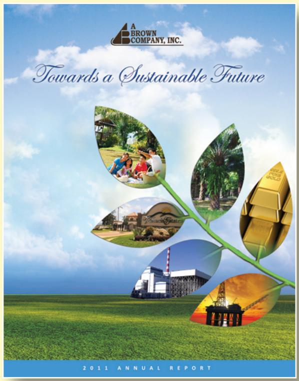
A BROWN COMPANY, INC.

# Towards a Sustainable Future


2011 ANNUAL REPORT

# COVER STORY




A Brown Company, Inc. (ABCI) has been around for over forty years. And it continues to grow.

Opportunities remain vast for the company as it carries on its mission to deliver excellent quality products and services while venturing into new businesses.

This diversification strategy, coupled with the company's firm commitment to improve its value for its stakeholders, equips it well towards a sustainable future.

# CONTENTS

# CORPORATE
# MISSION, VISION & VALUES

## MISSION

We commit to deliver excellent products and services that will exceed customers expectation and ensure growth, financial stability and sustainability by:

> Thinking innovatively, building lasting relationships and acting with genuine concern for all our stakeholders and the environment;
>
> Living the company's shared values of integrity, passion for excellence and family-spirit in everything we do.


## VISION

An enterprise working towards enlightened and happier communities for the common good.

> **CORE BUSINESS VISION**
>
> **Property:** Making dreams come true for happier families.
>
> **Agribusiness:** To be the country's leader in producing basic products sustainably for the world.
>
> **Energy and Utilities:** Energizing the country's development.

## CORE VALUES

**PASSION FOR EXCELLENCE:** Competence, Dependability, Initiative, Enterprising, Responsibility, Optimism, Efficiency, Perseverance, Professionalism

**INTEGRITY:** Honesty, Credibility, Prudence, Love for GOD and fellowmen, Fairness, Stewardship

**FAMILY SPIRIT:** Unity, Loyalty, Respect, Cheerfulness, Generosity, Open Communication, Concern for Others

# JOINT MESSAGE FROM
# THE CHAIRMAN & THE PRESIDENT

The year 2011 proved to be another challenging year for businesses – not only in the Philippines but throughout the world.

Conflicts in the Middle East brought oil prices to new record highs. Financial crises in Europe and the slow and uncertain recovery in the US adversely affected international trade and global business confidence.

On the local front, we have seen a sharp decline in GDP. Economists attribute this to the low level as well as slow pace of public investments in infrastructure. In addition, the onslaught of natural disasters have had a negative impact on agricultural production and adversely affected both residential and business areas in many parts of the country.

While these factors, taken together, resulted in lower demand and higher cost of doing business, all our active business units on the whole performed well.

Sales across all our major product lines – from real estate to crude palm oil to water and hotel services – showed strong growth, which improved our financial performance.

We continue to strengthen our position as one of the foremost real estate development companies in Mindanao. We have successfully carried out expansion activities in Cagayan de Oro City and Bukidnon, and have started the development of our Initao Seasides Estate in Misamis Oriental. At year's end we were reviewing the possibility of starting the development of our Butuan property.

More land has been made available for the programmed expansion of our palm oil production both in Bukidnon and Misamis Oriental, as we look to help fill a large gap in the supply of Palm Oil in the country.

We have also achieved a milestone in our efforts to position our company in the power generation sector, as our coal-fired power plant project in Iloilo is now classified by the Department of Energy as a "committed" project. Preliminary work has started in the areas of renewable energy and basic infrastructure development.

We have also broken ground in the metallic mining sector following our purchase of shares in PhiGold which is planning to start mining operations in Surigao del Sur for gold. Our aggregate production in Bukidnon has also picked up, hand in hand with government moves to accelerate the pace of infrastructure development in Northern Mindanao.

Sales across all our major product lines– from real estate to crude palm oil to water and hotel services– showed strong growth, which improved our financial performance.

...we remain equally focused on keeping an eye out for opportunities that would allow us further diversification while sustaining our growth.

As a result, we ended the year in a financial position that will provide sufficient liquidity to fund our existing operating, investment, capital expenditures and debt service requirements for the next 12 months. We, however, will raise equity for major expansion projects before the end of the second quarter of this year.

We look forward towards an exciting year relative to our own oil and gas involvement through Monte Oro where we effectively have 3.42% participation in SC 72 which is located in the Reed Bank (Recto Bank). We expect completion of seismic processing by the end of the first quarter and a decision to drill before the middle of the year. If all goes well, we expect the first well to be spudded before the end of 2012.

We believe that we are well positioned for the future. We continue to strive to achieve strong growth in our current areas of investment which will sustain us in the years ahead and we remain equally focused on keeping an eye out for opportunities that would allow us further diversification while sustaining our growth.

We are very grateful to our shareholders for their continued support and confidence. We thank all our employees and workers, for their untiring efforts and to all our customers, service providers and suppliers for their individual contributions, as we strive to sustain the momentum of our company's performance. We are confident that the new areas of investment we are undertaking will prove beneficial not only for our stakeholders but for the country as a whole.

**WALTER W. BROWN**
Chairman

**ROBERTINO E. PIZARRO**
Director and President

2011 HIGHLIGHTS OF

# OPERATIONS

Following a strong performance in 2010, the Philippine economy slowed down in 2011 posting a full-year GDP growth of 3.7 percent – nearly 4 percentage points lower than the 7.6 percent GDP growth rate in the previous year.

A myriad of external shocks has buffeted the economy since the onset of 2011, starting with the Middle East and North Africa crisis and the resulting higher oil prices, the Japan and Thailand tragedies which resulted in supply chain disruptions, and the overall weakness of the world economy due in large part to the financial problems of the European and U.S. economies.

On the local front, weather-related disturbances and other calamities affected agriculture and infrastructure during the year. NEDA estimated the damages caused by these natural disasters to represent 0.63 percent of GDP.

**Financial Performance**

| | 2011 | 2010 |
|---|---|---|
| **Operating Results** | | |
| Revenues | P 482,858,037 | P 856,336,690 |
| Net Income | P 22,021,299 | P 485,489,846 |
| Equity holders of the Parent Company | 22,335,446 | 485,471,608 |
| Noncontrolling Interest | 314,147 | 18,238 |
| Return on Assets [1] | 0.57% | 14.69% |
| Return on Equity [2] | 1.08% | 23.32% |
| **Financial Position** | | |
| Total Current Assets | 1,255,232,557 | 1,064,499,463 |
| Total Assets | 3,888,466,643 | 3,304,657,161 |
| Total Current Liabilities | 715,704,860 | 776,783,448 |
| Total Long-term debt | 1,041 ,675,094 | 372,607,072 |
| Total Debt | 1,844,891,776 | 1,222,607,584 |
| Total Equity | 2,043,574,867 | 2,082,049,577 |
| Equity holders of the Parent Company | 2,039,784,490 | 2,078,195,053 |
| Noncontrolling Interest | 3,790,377 | 3,854,524 |
| No. of Shares Outstanding | 1,136,293,229 | 1,136,293,229 |
| Weighted Average No. of Outstanding Shares (WANOS) | 1,136,293,229 | 1,156,101,982 |
| Current Ratio[3] | 1.75 | 1.37 |
| Current Debt to Equity Ratio[4] | 0.35 | 0.37 |
| Total Debt to Equity Ratio[5] | 0.90 | 0.59 |
| **Earnings Per Share Data** [6] | P 0.0197 | P 0.4199 |
| **Net Book Value Per Share** [7] | P 1.795 | P 1.829 |
| **Net Asset Value Per Share** [8] | P 2.338 | P 2.532 |

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

Revenues of our operating businesses in 2011 more than doubled, posting a P208.87 million increase as compared to 2010. This is a result of the robust performance of our real estate arm and initiatives undertaken in our palm plantation and palm oil milling operations, not to mention our recently revived aggregates business.

Total revenues and net income though declined in 2011 as a result of the non-recurring income in 2010 coming from the sales of Monte Oro Resources and Energy, Inc.'s (MOREI) wholly-owned subsidiary Monte Oro Grid Resources Corporation (MOGRC). Comparing 2011 and 2010 results (excluding non-recurring items), total revenues and net income after tax increased by 71.26% and 202%, respectively.

The increase in cost of sales and services by P93.8M – an 80% increment from the previous year's level is a function of the increase in the net sales of real estate and production cost of crude palm oil.

**Real Estate**

Real estate sales remained the company's top income driver, exceeding P315.36 million in 2011 – a significant 107% increase from the previous year's sales of just over P152.26 million.

Prospects remain bright for the Philippine real estate sector evidenced by the rise in new development projects, the continuously growing demand for residential property by foreign nationals (retirees) and the continued interest of overseas-based Filipinos to invest in real estate.

Being at the forefront of real estate development in Mindanao, ABCI will continue to pursue real estate projects in key cities in the region. ABCI will remain focused on increasing

revenue generation and efficiency in its operations to continuously provide growth in shareholder value.

Demand remains strong for Xavier Estates lots in Cagayan de Oro City – which is a preferred choice among overseas-based Filipinos and foreign nationals married to Filipinos due to its strategic location as well as outstanding facilities.

We will continue to roll-out new phases in Xavier Estates to expand our product offerings and build up a portfolio across a wider market. This will be complemented by intensified sales and marketing efforts to broaden market reach and tap the growing market of overseas-based Filipinos.

Phase 4E of Xavier Estates – which covers an area of 4.60 hectares, of which 2.9 hectares are buildable area – is already 100% complete. The development of Phase 5 with an area of 22 hectares and consisting of 411 saleable lots and house and lot packages with an average cut of 110 square meters is targeted to be completed by December 2014. As of end of 2011, the horizontal works on cluster A was already 54% accomplished.

Adjacent to the Xavier Estates, we have finished both Phase 1 and 2 of our Xavierville Homes project.

Also in Cagayan de Oro City, sales of our Teakwood Hills Subdivision lots continue to pick-up mainly due to its magnificent location which overlooks Macajalar Bay. Development of Phase 1 with an area of 10.56 hectares, is complete. Phase 2, which covers 11.55 hectares is 93% complete and is targeted for completion in May 2012. Works on Phase 3 with an area of 12 hectares, will commence by October 2012 and will be completed by December 2014. An additional 5.6 hectares is reserved for future expansion.

Horizontal development in our St. Therese Subdivision project is already 90.76% complete. Located in mid-Balulang, Cagayan de Oro, St. Therese Subdivision is a 1.6720-hectare socialized housing project that will open up 155 lots to employees of ABCI, its subsidiaries and affiliates. The remaining inventory will be opened to the public.

Another residential development is the Initao Seasides Estates located in Misamis Oriental with a total land area of 10 hectares. As of the end of 2011, works on the project's first phase is 13.45% completed.

In Bukidnon, we have finished the horizontal development of Valencia Estates. The main gate as well as the construction of the multi-purpose hall and swimming pool has also been completed, along with Model House 1 and 2 with lot area of 150 square meters each.

**Palm Oil**

In the past 30 years, palm oil consumption has increased tenfold from 4.5 to 45 million tonnes (including growth of 100% in the last decade) and now comprises 34% of the world market.

The Hamburg-based ISTA Mielke GmbH which publishes Oil World predicts that world palm oil consumption will surge from 38 million tons to 63 million tons in 2015 and increase further to 77 million tons in 2020.

Locally, 50,000 metric tons of crude palm oil production in 2008 remained insufficient to meet local demand. Hence, the country imported about 300,000 metric tons of palm oil during the period. This volume of crude palm oil import translates to an immediate requirement of 80,000 hectares of mature oil palm plantation to cope with the domestic demand.

With the significant shortfall in supply to meet domestic demand for palm oil over the past years, there has been an upsurge of investment in the establishment of oil palm plantations and interest in establishing more palm oil mills.

Key industry players, particularly officers of the Philippine Palm Oil Industry Development Council, are enthusiastic about the bright prospect of increasing palm oil production amidst the high prices of this commodity in the

world market, as a result of the great demand of the domestic market and the prospect of eventually tapping the export market.

Given current domestic demand, supply conditions and projected growth in the incoming years, there will be a great disparity between production and consumption which needs to be addressed.

These facts and figures support our assertion that palm oil production and processing remains a promising enterprise.

In 2011, company sales of crude palm oil reached P71.31 million – a 108% increase from sales of P34.28 million in 2010.

To respond to the lack of adequate local production, the company targets to develop an additional 2,000 hectares of oil palm plantation in Kalabugao, Impasug-ong, Bukidnon in 3 to 5 years' time.

As of the end of 2011, the company has acquired about 1,272 hectares of land for palm oil production, of which almost 886 hectares were planted while about 386 hectares are being prepared for planting.

The company is also looking to expand its operations in palm oil production in Opol, Misamis Oriental where it currently maintains a 430-hectare plantation with 382 hectares more available for planting.

The company is anticipating the signing of agreements with local communities in Misamis Oriental for its expansion program aggregating to 3,000 hectares.

**Power Generation**

Palm Concepcion Power Corporation (PCPC) is now finalizing commercial and technical agreements for the proposed coal-fired power plant project in the Visayas. Efforts are now underway to complete all the requirements for the financial closing, the selection of the Engineering, Procurement, and Construction (EPC) contractor, and prepare the host community for the construction phase of the project.

PCPC – whose outstanding capital stock has been acquired by the Palm Thermal Consolidated Holdings Corp. in 2010 – is the project company that will construct and operate the proposed 2x135 megawatt coal-fired power plant in Concepcion, Iloilo. This project will be a baseload plant and will make use of Circulating Fluidized Bed Combustion (CFBC) technology.

The proposed power plant is expected to increase sources of reliable and stable electricity in Visayas at competitive prices and is scheduled to generate power in time to meet the increasing power demand in the region by 2015.

This project has been classified by the Department of Energy (DOE) as a "committed" project.

**Mining**

Amidst the increasing gold prices in the world market, the company approved on November 29, 2011 the acquisition of 29,376,039 of PhiGold shares

representing 22.87% of its outstanding equity.

PhiGold subsidiary, PhiGold Metallic Ore, Inc. (PMOI), is the contractor of its acquired mining property covered by Mineral Production Sharing Agreement 190-2009-XIII (MPSA 190) granted by the Philippine Government through the Mines and Geosciences Bureau (MGB) under the Department of Environment and Natural Resources (DENR). It has a term of 25 years and is renewable for another term of 25 years. MPSA 190, which has gold and other mineral deposits, is situated in Barobo, Surigao del Sur and has an area of 449.49 hectares.

**Looking to the Future**

ABCI's focus on improving operational efficiency of its various businesses and its commitment to world-class excellence in all its products are the foundation of the company's reputation and track record.

Its diverse investments in ventures in industries with high – and still growing demand – reflects a thoughtful and strategic approach to building value, both for clients and shareholders.

The company's efforts to move quickly into nascent industries demonstrate its keen eye on the future, bringing it into position to take advantage of opportunities of today and the prospects of tomorrow.

Its diverse investments in ventures in industries with high – and still growing demand – reflects a thoughtful and strategic approach to building value, both for clients and shareholders.

## CORPORATE SOCIAL RESPONSIBILITY REPORT

# REBUILDING CAGAYAN DE ORO

***CLEARING OPERATIONS.*** *A Brown engineering personnel conduct clearing operations in Brgy. Balulang, an urban barangay in Cagayan de Oro City that was badly hit by Typhoon Sendong.*

Like most parts of Mindanao, Cagayan de Oro City is blessed with tropical weather rarely disturbed by typhoons that frequently hit the country. It is perhaps due to this rarity that the city was unprepared to face the disaster of Typhoon Sendong.

It was December 16, 2011. Many residents were sleeping in their homes when torrential rains brought rampaging waters from the mountains and down to the lowland communities.

Thousands were either killed or hurt, many more have been left homeless.

One of the hardest-hit areas in the city was Brgy. Balulang which hosts the Xavier Sports and Country Club – one of the only few establishments which withstood the typhoon's wrath.

Around Balulang, houses were inundated with flood water up to their roofs. The day after Sendong hit, cars could be seen heaped on top of each other, and even on top of trees. Most of the area was covered with ankle-deep mud.

As residents were returning to their homes, A Brown sent its bulldozers and backhoes to clear the tons of debris that have clogged Balulang streets. The backhoes cleared the gutters and waterways of debris, while the bulldozers scraped up the mud and placed them on dump trucks.

After the Balulang work which lasted for over a week, the bulldozers, backhoes, graders, and dump trucks were sent to Lumbia, where Xavier University set aside five hectares of land it owns for common use by Sendong victims. Being a development partner of the university, A Brown was entrusted to clear and prepare the land. In addition, the company also tapped renowned architect Estela Lopez to prepare the master plan.

Despite the destruction that dealt immeasurable loss for many families living in Cagayan de Oro, Typhoon Sendong brought out the best in its community.

"We knew that the task of rebuilding our community rests on our hands. This is a responsibility that we recognize which we share with the rest of Cagayan de Oro and the Province of Bukidnon," A Brown President Robertino Pizarro said.

## ABCI IN ACTION

**HELPING SAVE LIVES.** For 2011, ABCI organized three batches of blood donation program, in coordination with the Philippine National Red Cross. A total of 96 donors participated in the campaign held in Bukidnon, Cagayan de Oro and Misamis Oriental.


**ABCI GOES GREEN.** In support of the National Greening Program, employees of ABCI joined the tree planting activity held in November 2011 at Brgy. Tagpangi, Cagayan de Oro City.

**BUILDING A COMMUNITY.** Amid ongoing activities to construct a power plant in Iloilo, Palm Concepcion Power Corporation ensures relocated residents of Sitio Puntales have access to road, water and electricity.

**A BETTER FUTURE FOR HIGAONON'S YOUTH.** The first batch of A Brown scholars from the Higaonon Tribe are now enrolled at the Bukidnon State University and the Opol Community College in Misamis Oriental.

# AUDIT COMMITTEE REPORT

March 12, 2012

**The Board of Directors**
**A Brown Company, Inc.**

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

Further to our compliance with applicable corporate governance laws and rules, we confirm for 2011 that:

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

- In the performance of our oversight responsibilities, we have reviewed and discussed the audited financial statements of A Brown Company, Inc. and Subsidiaries, or ABCI Group, as of and for the year ended December 31, 2011, with ABCI Group's management, which has the primary responsibility for the financial statements, and with Constantino Guadalquiver and Co., CPAS, the ABCI Group's independent auditor, who is responsible for expressing an opinion on the conformity of the ABCI Group's audited financial statements with generally accepted accounting principles;

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

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

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

- Based on the reviews and discussions referred to above, in reliance on the ABCI Group's management and Constantino Guadalquiver and Co., CPAs and subject to the limitations of our role, we recommended to the Boards of Directors and the Board has approved the includsion of the ABCI Group's audited financial statements as of and for the year ended December 31, 2011 in the ABCI Group's Annual Report to the Stockholders and to the Philippine Stock Exchange, Inc. and the Securities and Exchange Commission on Form 17-A; and

- Based on the review of Constantino Guadalquiver and Co., CPAs performance and qualifications, including consideration of the management's recommendation, we approved the appointment of Constantino Guadalquiver and Co., CPAs as the ABCI Group's independent auditor.

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

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

Subscribed and Sworn to before me this
exhibit to me his/her CTC No
ed on / at 28 MAR 2012

ATTY. TOMAS F. DULAY, JR.
Notary Public
Until December 31, 2014
Roll No. 165830 / 03-13-61
IBP No. 823230 / cy 2012 - Q.C.
PTR No. 6031384 / 01-02-12 - Q.C.
TIN No. 41022591692
92 Legaspi St. Proj. 4, Q.C.
MCLE EXEMPTED

Doc. No. 69
Page No. 14
Book No. 81
Series of 2012

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of A Brown Company, Inc. and its 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 reviews and approves the financial statements and submit the same to the stockholders.

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

WALTER W. BROWN
Executive Chairman

ROBERTINO E. PIZARRO
President

ATTY. ROSA ANNA DUAVIT-SANTIAGO
Chief Financial Officer

Subscribed and sworn to before me this 28th day of March 2012, affiants exhibiting to me their respective passports as follows:

| NAMES | PASSPORT NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---|---|---|---|
| Walter W. Brown | EB3952116 | October 27, 2011 | Manila |
| Robertino E. Pizarro | XX2516380 | November 17, 2008 | Cagayan de Oro City |
| Rosa Anna Duavit-Santiago | XX3069423 | February 24, 2009 | Manila |

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Page No. 15
Book No. 82
Series of 2012

ATTY. TOMAS F. DULAY JR.
Notary Public
Until December 31, 2014
Roll No. 165830 / 03-13-61
IBP No. 823239 / cy 2012 - Q.C.
PTR No. 6031383 / 01-02-12 - Q.C.
TIN No. 41022591692
92 Legaspi St. Proj. 4, Q.C.

**Constantino Guadalquiver & Co.**
Certified Public Accountants

15th Floor Citibank Tower
8741 Paseo de Roxas Street
Salcedo Village, Makati City, Philippines
Telephone (+632) 848-1051
Fax (+632) 728-1014
E-mail address:mail@cgco.com.ph

# INDEPENDENT AUDITORS' REPORT

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

*Report on Financial Statements*

We have audited the accompanying consolidated financial statements of A Brown Company, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

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

*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 whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have 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 A Brown Company, Inc. and Subsidiaries as of December 31, 2011 and 2010, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

CONSTANTINO GUADALQUIVER & CO.

By:

ROGELIO M. GUADALQUIVER
Partner
CPA Certificate No. 0013608
PTR No. 3189953, January 11, 2012, Makati City
TIN 123-305-015-000
BIR Accreditation No. (AN) 08-001507-1-2012
BIR AN Valid Until: January 4, 2015
SEC Accreditation No.(Partner) 0017-AR-2
SEC Accreditation No. (Firm) 003-FR-2
PRC-BOA Accreditation No. (AN) 0213
PRC-BOA AN Valid Until: December 31, 2013

March 12, 2012

DECEMBER 31, 2011 AND 2010 (Amounts in Philippine Pesos)

| | Note | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 6 | **P 149,709,918** | P 64,449,472 |
| Current portion of accounts receivable – net | 7 | **231,234,833** | 224,710,449 |
| Notes receivable | 8 | **920,417** | 1,250,000 |
| Due from related parties | 21 | **4,988,050** | 8,709,340 |
| Real estate held for sale | 9 | **702,986,307** | 691,157,369 |
| Prepayments and other current assets | 10 | **165,393,032** | 74,222,833 |
| Total Current Assets | | **1,255,232,557** | 1,064,499,463 |
| **Noncurrent Assets** | | | |
| Noncurrent portion of accounts receivable | 7 | **267,795,047** | 188,377,475 |
| Available-for-sale investments | 11 | **727,189,676** | 787,935,685 |
| Investment in an associate | 12 | **213,791,918** | – |
| Investment properties – net | 13 | **510,877,403** | 515,751,191 |
| Property and equipment – net | 14 | **292,311,079** | 214,694,386 |
| Land and improvements | 15 | **332,452,302** | 315,015,162 |
| Biological assets | 16 | **181,852,081** | 120,874,608 |
| Goodwill | 2 | **22,921,942** | 21,472,567 |
| Leasehold rights | 17 | **27,704,147** | 16,540,003 |
| Pension asset | 28 | **4,361,002** | 3,822,658 |
| Deferred tax assets | 30 | **51,961,969** | 55,658,443 |
| Other noncurrent assets | | **15,520** | 15,520 |
| Total Noncurrent Assets | | **2,633,234,086** | 2,240,157,698 |
| | | **P 3,888,466,643** | P 3,304,657,161 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Short-term debt | 20 | **P 100,000,000** | P 147,492,000 |
| Current portion of long-term debt | 20 | **19,308,320** | 89,486,807 |
| Accounts payable and accrued expenses | 18 | **439,361,442** | 371,208,088 |
| Deposit from customers | 32, 33 | **40,166,673** | 42,107,246 |
| Due to related parties | 21 | **76,885** | 9,616,172 |
| Income tax payable | | **–** | 23,006 |
| Dividends payable | 35 | **2,240,877** | 2,299,466 |
| Subscription payable | 11, 32, 33 | **114,550,663** | 114,550,663 |
| Total Current Liabilities | | **715,704,860** | 776,783,448 |

*(Forward)*

DECEMBER 31, 2011 AND 2010 (Amounts in Philippine Pesos)

*(Carryforward)*

| | Note | 2011 | 2010 |
|---|---|---|---|
| **Noncurrent Liabilities** | | | |
| Long-term debt – net of current portion | 20 | **P 1,041,675,094** | P 372,607,072 |
| Deferred tax liabilities | 30 | **87,511,822** | 73,217,064 |
| Total Noncurrent Liabilities | | **1,129,186,916** | 445,824,136 |
| Total Liabilities | | **1,844,891,776** | 1,222,607,584 |
| **Equity** | 34 | | |
| **Equity attributable to equity holders of Parent Company** | | | |
| Share capital | 22 | **1,309,924,887** | 1,309,924,887 |
| Additional paid-in capital | 22 | **155,948,570** | 155,948,570 |
| Net unrealized gain on available-for-sale investments | | **167,082,038** | 227,828,047 |
| Retained earnings | | **610,442,318** | 588,106,872 |
| Treasury shares | 41 | **(203,613,323)** | (203,613,323) |
| | | **2,039,784,490** | 2,078,195,053 |
| **Noncontrolling interests** | | **3,790,377** | 3,854,524 |
| Total Equity | | **2,043,574,867** | 2,082,049,577 |
| | | **P 3,888,466,643** | P 3,304,657,161 |

*See accompanying Notes to Consolidated Financial Statements.*

| | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sales | 23 | **P 415,442,577** | P 206,573,635 | P 216,314,057 |
| Financial income | 24 | **28,380,996** | 65,402,034 | 202,791,149 |
| Rental income | 21, 29 | **7,210,538** | 8,958,302 | 10,211,358 |
| Gain on sale of property and equipment | 14 | **8,929** | 8,165,826 | 7,999 |
| Dividend income | 11 | **2,450** | 384,948,285 | – |
| Gain on sale of available-for-sale investments | 11 | **–** | 167,682,810 | 1,654,091 |
| Gain on sale of investment properties | 13 | **–** | – | 168,666,493 |
| Others | 25 | **31,812,547** | 14,605,798 | 25,201,624 |
| | | **482,858,037** | 856,336,690 | 624,846,771 |
| **COST AND EXPENSES** | | | | |
| Cost of sales and services | 26 | **211,475,804** | 117,662,185 | 117,443,465 |
| General and administrative | 27 | **158,459,265** | 133,358,413 | 113,822,280 |
| Finance costs | 19, 20 | **40,898,953** | 97,894,898 | 236,342,887 |
| Marketing | | **30,029,784** | 18,829,476 | 27,667,800 |
| Provision for impairment loss | 13 | **1,528,600** | 1,528,600 | 1,528,600 |
| Loss on investment in Texas oil-prospects | 40 | **–** | 16,911,988 | – |
| | | **442,392,406** | 386,185,560 | 496,805,032 |
| **INCOME BEFORE INCOME TAX** | | **40,465,631** | 470,151,130 | 128,041,739 |
| **INCOME TAX EXPENSE (BENEFIT)** | 30 | | | |
| Current | | **453,101** | 3,713,120 | 7,194,354 |
| Deferred | | **17,991,231** | (19,051,836) | 17,956,600 |
| | | **18,444,332** | (15,338,716) | 25,150,954 |
| **NET INCOME** | | **P 22,021,299** | P 485,489,846 | P 102,890,785 |
| | | | | |
| **NET INCOME ATTRIBUTABLE TO:** | | | | |
| Equity holders of the Parent Company | | **P 22,335,446** | P 485,471,608 | P 103,052,932 |
| Noncontrolling interests | | **(314,147)** | 18,238 | (162,147) |
| | | **P 22,021,299** | P 485,489,846 | P 102,890,785 |
| | | | | |
| **BASIC AND DILUTED EARNINGS PER SHARE** | 31 | | | |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | | **P 0.01966** | P 0.41992 | P 0.07867 |

*See accompanying Notes to Consolidated Financial Statements.*

| | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **NET INCOME** | | **P 22,021,299** | P 485,489,846 | P 102,890,785 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Unrealized gain (loss) on available-for-sale investments | 11 | **(60,746,009)** | (1,501,225) | 159,948,724 |
| **COMPREHENSIVE NET INCOME (LOSS)** | | **(P 38,724,710)** | P 483,988,621 | P 262,839,509 |
| **Attributable to:** | | | | |
| Equity holders of the Parent Company | | **(P 38,410,563)** | P 483,970,383 | P 263,001,656 |
| Noncontrolling interests | | **(314,147)** | 18,238 | (162,147) |
| | | **(P 38,724,710)** | P 483,988,621 | P 262,839,509 |

*See accompanying Notes to Consolidated Financial Statements.*

| | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax and noncontrolling interest | | **P 40,465,631** | P 470,151,130 | P 128,041,739 |
| Adjustments for: | | | | |
| Finance costs | 19,20 | **40,898,953** | 97,894,898 | 236,342,887 |
| Depreciation and amortization | 13,14 | **39,265,107** | 26,802,917 | 21,671,540 |
| Financial income | 24 | **(28,380,996)** | (65,402,034) | (202,791,149) |
| Provisions for: | | | | |
| Retirement | 28 | **2,921,470** | 1,767,467 | 2,076,345 |
| Impairment losses | 13 | **1,528,600** | 1,528,600 | 1,528,600 |
| Doubtful accounts | 27 | **–** | 4,339,886 | – |
| Decrease in fair value of biological assets | 16 | **2,494,221** | – | – |
| Equity in net loss of associate | 12 | **1,107,337** | – | – |
| Amortization of leasehold rights | 17 | **929,088** | 435,795 | 338,348 |
| Accounts receivable written-off | | **398,882** | – | – |
| Unrealized foreign exchange loss (gain) | 6 | **(15,500)** | 46,595 | 72,424 |
| Gain on sale of: | | | | |
| Property and equipment | 14 | **(8,929)** | (8,165,826) | (7,999) |
| Available-for-sale investments | 11 | **–** | (167,682,810) | (1,654,091) |
| Investment properties | 13 | **–** | – | (168,666,493) |
| Dividend income | 11 | **(2,450)** | (384,948,285) | – |
| Loss on investment account | 40 | **–** | 16,911,988 | – |
| Operating income (loss) before working capital changes | | **101,601,414** | (6,319,679) | 16,952,151 |
| Decrease (increase) in: | | | | |
| Accounts receivable | 7 | **(80,689,352)** | 162,239,066 | 2,587,587 |
| Real estate held for sale | 9 | **(11,828,938)** | (29,302,786) | (189,177,096) |
| Prepayments and other current assets | 10 | **(90,415,433)** | 105,474,079 | 991,642 |
| Other noncurrent assets | | **–** | 12,231,081 | 202,929 |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | 18 | **(63,773,769)** | (8,457,183) | 39,805,323 |
| Deposit from customers | 32,33 | **(1,940,573)** | 4,115,843 | (3,048,898) |
| Cash provided by (used in) operations | | **(147,046,651)** | 239,980,421 | (131,686,362) |
| Interest received | | **28,389,200** | 109,746,056 | 165,609,432 |
| Contributions to plan assets | 28 | **(3,459,814)** | (3,846,570) | (3,642,064) |
| Income tax paid | | **(1,230,872)** | (5,076,701) | (13,291,445) |
| Net cash provided by (used in) operating activities | | **(123,348,137)** | 340,803,206 | 16,989,561 |

*(Forward)*

*(Carryforward)*

| | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Property and equipment | 14 | **(P 153,688,999)** | (P 98,652,055) | (P 19,698,504) |
| Land and improvements | 15 | **(23,096,829)** | (46,467,172) | (3,143,059) |
| Leasehold rights | 17 | **(12,093,232)** | (11,791,787) | (51,755) |
| Investment properties | 13 | **(5,391,831)** | (66,985,246) | (619,592) |
| Available-for-sale investments | 11 | **–** | (44,999,881) | – |
| Investment in an associate | 12 | **(85,619,255)** | – | – |
| Decrease (increase) in: | | | | |
| Biological assets | 16 | **(63,471,694)** | (42,644,664) | (29,047,895) |
| Loans receivable | | **–** | 24,002,191 | 35,000,000 |
| Proceeds from disposal of: | | | | |
| Property and equipment | 14 | **36,233,129** | 10,217,001 | 7,999 |
| Investment properties | 13 | **9,320,018** | – | 148,315,349 |
| Available-for-sale investments | 11 | **–** | 347,832,810 | 1,804,091 |
| Goodwill on the acquisition of new subsidiaries | 2 | **(1,449,375)** | (21,472,567) | – |
| Collection of notes receivable a related party | 8 | **329,583** | 1,250,000 | – |
| Dividend received | 11 | **2,450** | 384,948,285 | – |
| Collection of loan from a related party | 19 | **–** | 1,921,938,216 | – |
| Return of available-for-sale investment | 11 | **–** | 308,227,838 | – |
| Payment of subscription payable | 32,33 | **–** | (139,722,624) | – |
| Loss on investment in Texas oil-prospects | 40 | **–** | (16,911,988) | – |
| Notes receivable to a related party | 8 | **–** | (2,500,000) | – |
| Loan to a related party | 19 | **–** | – | (1,921,938,216) |
| Net cash provided by (used in) investing activities | | **(298,926,035)** | 2,506,268,357 | (1,789,371,582) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from long-term debt | 20 | **950,000,000** | 535,534,204 | 117,788,331 |
| Payments of long-term debt | 20 | **(398,602,465)** | (671,606,400) | (63,572,188) |
| Finance cost paid | 19,20 | **(38,251,831)** | (136,097,278) | (200,261,962) |
| Decrease in due to related parties – net | 21 | **(5,817,997)** | (94,751,937) | (133,697) |
| Increase in noncontrolling interests of subsidiaries | | **250,000** | 162,500 | – |
| Cash dividends paid | 35 | **(58,589)** | (199,873,558) | – |
| Payment of loans payable | 19 | **–** | (1,921,938,216) | – |
| Reacquisition of treasury shares | 41 | **–** | (335,212,810) | – |
| Proceeds from sale of treasury shares | 41 | **–** | 192,235,772 | – |
| Return of deposits for future stock subscriptions | 37 | **–** | (191,597,114) | – |
| Deposits received for future stock subscriptions | 37 | **–** | 3,767,575 | – |
| Collections of stock subscription receivables | 22 | **–** | 1,294,269 | 10,764 |
| Proceeds from loan availment | 19 | **–** | – | 1,921,938,216 |
| Net cash provided by (used in) financing activities | | **507,519,118** | (2,818,082,993) | 1,775,769,464 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | 6 | **P 15,500** | (P 46,595) | (P 72,424) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **85,260,446** | 28,941,975 | 3,315,019 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **64,449,472** | 35,507,497 | 32,192,478 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 6 | **P 149,709,918** | P 64,449,472 | P 35,507,497 |
| **SUPPLEMENTAL DISCLOSURE ON NONCASH FINANCING ACTIVITY** | | | | |
| Reissuance of treasury shares as property dividends | 35 | **P –** | P 60,237,481 | P – |

*See accompanying Notes to Consolidated Financial Statements.*

| | Note | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY** | | | | |
| **SHARE CAPITAL -** P 1 par value | | | | |
| Authorized – 1,320,000,000 shares | | | | |
| Subscribed – 1,309,926,933 shares (net of subscriptions receivable of P 2,046 in 2011 and 2010, and P 1,296,315 in 2009) | 22 | **P 1,309,924,887** | P 1,309,924,887 | P 1,308,630,618 |
| **ADDITIONAL PAID-IN CAPITAL** | 22 | | | |
| Balance at beginning of year | | **155,948,570** | 35,074,804 | 35,074,804 |
| Additions during the year | 41 | **–** | 120,873,766 | – |
| Balance at end of year | | **155,948,570** | 155,948,570 | 35,074,804 |
| **DEPOSITS FOR FUTURE STOCKS SUBSCRIPTIONS** | | | | |
| Balance at beginning of year | | **–** | 187,829,539 | 187,829,539 |
| Additional deposits during the year | | **–** | 3,767,575 | – |
| Return of deposits during the year | | **–** | (191,597,114) | – |
| Balance at end of year | | **–** | – | 187,829,539 |
| **NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENTS** | | | | |
| Balance at beginning of year | | **227,828,047** | 229,329,272 | 69,380,548 |
| Net unrealized gain (loss) during the year | 11 | **(60,746,009)** | (1,501,225) | 159,948,724 |
| Balance at end of year | | **167,082,038** | 227,828,047 | 229,329,272 |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of year | | **588,106,872** | 379,609,123 | 276,556,191 |
| Dividends declared | 35 | **–** | (276,973,859) | – |
| Net income during the year | | **22,335,446** | 485,471,608 | 103,052,932 |
| Balance at end of year | | **610,442,318** | 588,106,872 | 379,609,123 |
| **TREASURY SHARES, AT COST** | 35, 41 | | | |
| Balance at beginning of year | | **(203,613,323)** | (335,212,810) | – |
| Reissuance of treasury shares (126,366,296 shares in 2010) | | **–** | 131,599,487 | – |
| Balance at end of year (173,633,704 shares) | | **(203,613,323)** | (203,613,323) | – |
| Total Equity Attributable to Equity Holders of Parent Company | | **2,039,784,490** | 2,078,195,053 | 2,140,473,356 |
| **NONCONTROLLING ASSETS** | | | | |
| Balance at beginning of year | | **P 3,854,524** | P 3,673,786 | P 3,835,933 |
| Increase in noncontrolling asset | | **250,000** | 162,500 | – |
| Net Income (loss) during the year | | **(314,147)** | 18,238 | (162,147) |
| Balance at end of year | | **3,790,377** | 3,854,524 | 3,673,786 |
| | | **P 2,043,574,867** | P 2,082,049,577 | P 2,144,147,142 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. CORPORATE INFORMATION

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

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

| Name of Subsidiary | Principal Activity |
|---|---|
| A Brown Energy and Resources Development, Inc. (ABERDI) | Manufacturing, trading of goods on wholesale and retail basis and other services. |
| Brown Resources Corporation (BRC) | Real estate holding and management of chalet operations. |
| Andesite Corporation (AC), Bonsai Agri Corporation (BAC) and Nakeen Corporation (NC) | Development of land for palm oil production and sale of palm seedlings and crude palm oil. |
| Masinloc Consolidated Power, Inc. (MCPI) | Operating of power plants and/or purchase, generation, production supply and sale of power. However, as of March 12, 2012, the Company has not yet started commercial operations. |
| Panay Consolidated Land Holdings Corp. (PCLHC) and Palm Thermal Consolidated Holdings, Corp. (PTCHC) | Holding of properties of every kind and description. |
| Palm Concepcion Power Corporation (PCPC) and Hydro Link Projects Corp. (HLPC) | Constructing and operating power generating plants. |

The Parent Company's registered office and principal place of business is at Xavier Estates, Upper Balulang, Cagayan de Oro City, Philippines (see Note 37).

The accompanying consolidated financial statements of the Parent Company and the above mentioned subsidiaries (collectively referred herein as "the Group") as of and for each of the three years ended December 31, 2011, 2010 and 2009 were authorized for issue by the Board of Directors on March 12, 2012.

## 2. BASIS OF PREPARATION

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

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

(Amounts in Philippine Pesos)

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

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

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

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

| | | Percentage of ownership | |
|---|---|---|---|
| Name of subsidiary | Nature of business | 2011 | 2010 |
| ABERDI | Manufacturing and trading/Service/Agriculture | **99.9998** | 99.9998 |
| AC | Agriculture | **99.9500** | 99.9500 |
| BAC | Agriculture | **99.8792** | 99.8792 |
| NC | Agriculture | **99.9188** | 99.9188 |
| BRC | Real estate holding/Hotel operations | **99.9993** | 99.9993 |
| MCPI | Power plant operation | **49.0000** | 49.0000 |
| PCLHC | Holdings | **100.0000** | 100.0000 |
| PTCHC | Holdings | **95.0000** | 95.0000 |
| PCPC | Power plant operation | **95.0000** | 95.0000 |
| HLPC | Power plant operation | **100.0000** | – |

All of the above subsidiaries were incorporated in the Philippines.

ABERDI obtained control in the ownership of AC, BAC and NC. AC and BAC are still in their development stages. NC started its commercial operations as of March 1, 2007. NC manages the palm oil nursery and plantations operations. The separate financial statements of these companies are included in the consolidated financial statements as of December 31, 2011 and 2010.

In 2007, the Parent Company invested P4.9 million in MCPI representing 49% equity holdings. However, control over the operating and financial policies of MCPI is exercised by the Parent Company through its representations in the Board. Accordingly, MCPI qualifies as a subsidiary of the Parent Company. The financial statements of MCPI as of and for each the three years ended December 31, 2011, 2010 and 2009 are included in the consolidated financial statements.

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

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

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

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

On March 6, 2012, the BOD of ABERDI and NC approved and authorized the application of merger of the two subsidiaries. The processing of the application is still ongoing as of March 12, 2012.

## 3. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Group are consistent with those of the previous financial year except for the adoption of the new and amendments to PAS, PFRS and interpretations issued by FRSC, which became effective on or before January 1, 2011 as follows:

- *Amendment to PAS 24, Related Party Disclosures.* The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified 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.

  The above amendment had no material impact in the Group's consolidated financial statements.

- *Amendment to PAS 32, Financial Instruments: Presentation - Classification of Rights Issues.* The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and 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.

  This amendment did not have impact on the Group as it has not entered into rights issues.

- *Amendment to Philippine Interpretation IFRIC 14, Prepayments of a Minimum Funding Requirement.* The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment 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.

  The amendment did not have material impact on the consolidated financial statements.

- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments.* Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation 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 the statement of comprehensive income.

  The amendment did not have material impact on the consolidated financial statements.

**Improvements to Existing Standards.** The omnibus amendments to PFRSs issued in 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2011.

- *PFRS 3, Business Combinations (Revised).* This limits the scope of the measurement choices to only components of non-controlling interests that are present ownership interests, entitling their holders to a proportionate share of the entity's net assets, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date at fair value, unless another measurement basis is required by another PFRS.

An acquirer accounts for the voluntary replacement of an acquiree's share-based payment transaction in the same way as for a mandatory replacement, by splitting the market between consideration given and post-combination expenses.

- *PFRS 7, Financial Instruments: Disclosures.* The change emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.
  - o Clarify that only financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk;
  - o Require disclosures on the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk;
  - o Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;
  - o Remove disclosures on financial assets renegotiated to avoid becoming past due or impaired;
  - o Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- *PAS 1, Presentation of Financial Statements*. This allows the choice to present the analysis of other comprehensive income either in the statement of changes in equity or in the notes.

- *PAS 27, Consolidated and Separate Financial Statements*. This eliminates the requirement to restate financial statements for a reporting period when significant influence or joint control is lost and the entity accounts for the remaining investment under PAS 39. This includes the effect on accumulated foreign exchange differences on such investments.

- *PAS 34, Significant events and transactions.* This provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
  - o Circumstances likely to affect fair values of financial instruments and their classification;
  - o Transfers of financial instruments between different levels of the fair value hierarchy;
  - o Changes in classification of financial assets;
  - o Changes in contingent liabilities and assets.

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes.* When the fair value of award credits is measured based on the value of awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

  The above improvements did not have significant effects on the Group's consolidated financial statements.

**Future Changes in Accounting Policies.** The Group did not early adopt the following standards or Philippine Interpretations that have been approved but are not yet effective:

Effective in 2012

- *Amendment to PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets.* The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

- *Amendment to PAS 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets.* The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- *PAS 1, Presentation of Financial Statements - Presentation of Items in Other Comprehensive Income (effective for annual periods beginning on or after January 1, 2012)*. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no other impact on the Group's financial position and performance.

Effective in 2013

- *PFRS 10, Consolidated Financial Statements and PAS 27, Separate Financial Statements (effective for annual periods beginning on or after January 1, 2013)* PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes issues raised in SIC 12, Consolidation for Special Purpose Entities, resulting in SIC 12 being withdrawn.

  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 the parent, compared with the requirements of PAS 27.

- *PFRS 11, Joint Arrangements and PAS 28, Investments in Associates and Joint Ventures.* PFSR 11 replaces PAS 31, Interest in Joint Ventures and SIC-13, Jointly-controlled Entities – Non-monetary Contributions by Venturers (effective for annual periods beginning on or after January 1, 2013)

  PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using equity method.

- *PFRS 12, Disclosure of Interest in Other Entities (effective for annual periods beginning on or after January 1, 2013)* PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all the disclosures that were previously in PAS 31, and PAS 28. These disclosures related 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 (effective for annual periods beginning on or after January 1, 2013)* 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.

- *PAS 19, Employee Benefits (effective for annual periods beginning on or after January 1, 2013)* The IASB has issued numerous amendments to PAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns from plan assets to simple clarifications and re-wording. For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in the other comprehensive income when they occur. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit or loss.

- *PAS 27, Separate Financial Statements (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013).* As a consequence of the new PFRS 10 and 12, 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 (as revised in 2011) (effective for annual periods beginning on or after January 1, 2013).* As a consequence of the new PFRS 10 and 12, PAS 28 has been renamed PAS 28, Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

Effective in 2015

- *PFRS 9, Financial Instruments,* The first phase of PFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2015, addresses the classification and measurement of financial instruments. Phase 1 of PFRS 9 applies to all financial assets within the scope of PAS 39. The key requirements of PFRS 9 are as follow:
  i. At initial recognition, all financial assets are measured at fair value.
  ii. Debt instruments may (if the Fair Value Option is not invoked) be subsequently measured at amortized cost if: (a) the asset is held within a business model whose objective is to hold the assets to collect contractual cash flows and (b) 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 outstanding. All other debt instruments are subsequently measured at fair value.
  iii. All equity investment financial assets are measured at fair value either through other comprehensive income or profit or loss. Entities must make an irrevocable choice for each instrument, unless they are held for trading, in which case they must be measured at fair value through profit or loss.
  iv. For financial liabilities to which the Fair Value Option is invoked, the amount of change in the fair value of a liability attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

  Management is yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Group.

  *Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate.* The implementation of the Philippine Interpretation is deferred until the final *Review Standard* is issued by IASB and after an evaluation on the requirements and guidance in the standard vis-à-vis the practices and regulations in the Philippine real estate industry is completed. This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING AND FINANCIAL REPORTING POLICIES

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

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

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

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

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

- *Sale of seedlings and fresh fruit bunch.* Revenue is recognized when goods are delivered to the buyer.
- *Water service income.* Revenue is recognized when services are rendered and normally when billed.
- *Hotel operations.* Revenue is recognized when the services are rendered and when goods are delivered to the buyer.
- *Interest income.* Interest income is recognized as the interest accrues, taking into account the effective yield on the asset. Interest income from bank deposits is recognized on a time proportion basis on the principal outstanding and at the rate applicable.
- *Rental income.* Rental income on leased properties arising from operating leases or investment properties is accounted for on a straight-line basis over the lease term.
- *Other income.* Revenue is recognized as other income accrues.
- *Realized gains and losses.* Realized gains and losses are recognized when the sale transaction occurs.

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

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

**Preoperating Expenses**. Preoperating expenses are expensed as incurred.

**Cash and cash equivalents**. Cash is stated at face value and includes cash on hand and in banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

**Financial Assets and Liabilities**

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

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

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

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

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

As of December 31, 2011 and 2010, the Group has no financial asset at FVPL.

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

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

  The Group's cash and cash equivalents, accounts receivable, notes receivable, due from related parties and refundable deposits under prepayments and other current assets account, are included in this category (see Notes 6, 7, 8, 10, 21 and 32).

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

  As of December 31, 2011 and 2010, the Group has no held-to-maturity investments.

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

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

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

*Financial Liabilities*

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

  As of December 31, 2011 and 2010, the Group has no financial liabilities at FVPL.

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

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

The Group's loans payable, short-term and long-term debt, accounts payable and accrued expenses, deposit from customers, due to related parties, dividends payable and subscription payable are included in this category (see Notes 18, 19, 20, 21 and 32).

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

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

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

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

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

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

*Derecognition of Financial Assets and Liabilities*

*Financial Assets.* A financial asset is derecognized when (1) the rights to receive cash flows from the financial instruments expire, (2) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or (3) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows of an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of an asset nor transferred control of the assets, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where the existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in consolidated statements of income.

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

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

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

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

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

**Inventories**. Finished goods are valued at the lower of cost and net realizable value. Costs incurred in bringing inventory to its present conditions are accounted for as follows:

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

- *Materials and supplies –* at cost using the first-in-first out method.

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

- *Input Tax.* Input tax is recognized when an entity in the Group purchases goods or services from a Value Added Tax (VAT)-registered supplier. This account is offset, on a per entity basis, against any output tax previously recognized.

- *Prepaid Commission and Other Expenses.* Prepaid commission and other expenses are apportioned over the period covered by the payment and charged to the appropriate account in the consolidated statements of income when incurred.

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

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

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

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

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

**Investment in a Joint Venture**. Investment in joint venture is initially accounted for at cost and is reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The Group has an investment in a jointly controlled operations whereby the venturers have a contractual arrangement that establishes joint control. The operation of the joint venture involves the use of the assets and other resources of the venturers rather than the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture activities may be carried out by the venturer's employees alongside the venturer's similar activities. The joint venture agreement usually provides a means by which the revenue from the sale of the joint venture product and any expenses in common are shared among the venturers.

As discussed in Note 40, in 2010, the Group participated in a project to drill a well in Texas, USA, which was expected to contain commercial oil and gas deposits. However in the same year, it was confirmed that the reservoir does not have sufficient permeability to justify production. The Group has concurred with the recommendation of its co-venturer to plug and abandon the well. The Group recognized its investment with the project amounting to P16,911,988 as a loss during the period.

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

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

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

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

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

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives, except for leasehold improvements, which are amortized over their estimated lives or term of the lease, whichever is shorter:

| CATEGORY | ESTIMATED USEFUL LIFE |
|---|---|
| Land improvements | 1 to 10 years |
| Building and improvements | 10 to 20 years |
| Leasehold improvements | 2 to 5 years |
| Machinery and equipment | 2 to 10 years |
| Furniture, fixtures and equipment | 2 to 9 years |
| Transportation equipment | 2 to 5 years |
| Tools and other equipment | 2 to 5 years |
| Other fixed assets | 3 to 5 years |

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

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

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

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

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

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

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

These are carried at its fair value with any resultant gain or loss recognized in the statements of income. The fair value of the biological assets is determined using the cost approach of fair valuation. It involves valuing based on the original cost plus improvements to the biological assets.

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

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

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

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

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

**Employee benefits**

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

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

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

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

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

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

**Operating Lease**

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

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

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

All other borrowing costs are expensed as incurred.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Segment reporting.** For management purposes, the Group is organized into six (6) major operating businesses which comprise the bases on which the Group reports its primary segment information. Financial information on business segments is presented in Note 36. The Group has no geographical segments as all of the companies primarily operate only in the Philippines.

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

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

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

## 5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Also, the Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from real estate sales are recognized based on the percentage-of-completion and the completion rate is measured principally on the basis of the estimated completion of a physical proportion of the contract work, and by reference to the actual costs incurred to date over the estimated total costs of projects. Revenue and costs from sale of real estate are shown in Notes 23 and 26, respectively.

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

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

  The summary of the carrying values and fair values of the Group's financial instruments as of December 31, 2011 and 2010 is shown in Note 32.

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

  The Group's allowance for doubtful accounts amounted to P0.5 million and P13.4 million as of December 31, 2011 and 2010, respectively (see Note 7). The carrying values of accounts receivables, notes receivable and amounts due from related parties as of December 31, 2011 and 2010 are shown in Notes 7, 8 and 21, respectively.

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

  No impairment losses on financial assets were recognized in 2011 and 2010.

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

  The carrying value of the Group's investment properties, depreciable property and equipment, and leasehold rights amounted to P510.9 million, P292.3 million and P27.7 million, respectively as of December 31, 2011, and P515.8 million, P214.7 million and P16.5 million, respectively as of December 31, 2010 (see Notes 13, 14 and 17).

  As of December 31, 2011 and 2010, the Group's property and equipment have no residual values.

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

- **Impairment of Nonfinancial Assets.** The Group reviews land and improvements, investment properties, property and equipment, biological assets, leasehold rights and other assets for impairment of value. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, plans in the real estate projects, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. As described in the accounting policy, the Group estimates the recoverable amount as the higher of the net selling price and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect land and improvements, investment properties, property and equipment, biological assets and other assets.

  The Group's allowance for impairment loss pertaining to an investment property amounted to P12.2 million and P10.7 million as of December 31, 2011 and 2010, respectively (see Note 13). Provision for impairment loss recognized in the consolidated statements of income amounted to P1.5 million in 2011, 2010 and 2009.

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

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

  The assumptions for pension costs and other retirement benefits are described in Note 28, and include among others, expected returns on plan assets and rates of compensation increase. In accordance with PFRS, actual results that differ from our assumptions are accumulated and amortized over future periods and therefore, generally affect the Group's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Group's pension and other retirement obligations.

  Retirement benefit costs amounted to P2.9 million in 2011, P1.8 million in 2010 and P2.1 million in 2009. Pension assets amounted to P4.4 million and P3.8 million as of December 31, 2011 and 2010, respectively (see Note 28).

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

  The Group's deferred income tax assets amounted to P52.0 million and P55.7 million as of December 31, 2011 and 2010, respectively (see Note 30). The Group's deferred tax liabilities amounted to P87.5 million and P73.2 million as of December 31, 2011 and 2010, respectively (see Note 30).

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

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

  There is no provision for probable losses recognized in the consolidated financial statements in 2011, 2010 and 2009.

(Amounts in Philippine Pesos)

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

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

- **Estimation of Fair Value of Biological Assets and Agricultural Produce.** The fair value of the oil palm plantation is determined using the cost approach of determining fair value. This involves valuing the biological assets based on its original cost plus any improvements made to biological assets. The fair value of the fresh fruit bunches is largely dependent on the prevailing market price of the processed products after harvest, being crude palm oil and palm kernel.

  As of December 31, 2011 and 2010, the Group's biological assets have a fair value of P181.9 million and P120.9 million, respectively (see Note 16).

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

  Rental expense and income for 2011, 2010 and 2009 are shown in Notes 27 and 29, respectively.

## 6. CASH AND CASH EQUIVALENTS

This account consists of:

| | | **2011** | | 2010 |
|---|---|---|---|---|
| Cash on hand | **P** | **698,744** | P | 693,526 |
| Cash in banks | | **142,011,174** | | 56,611,380 |
| Cash equivalents | | **7,000,000** | | 7,144,566 |
| | **P** | **149,709,918** | P | 64,449,472 |

Cash in banks pertain to savings and current account that generally earn interest rates based on prevailing respective bank deposit rates of approximately 0.25% to 0.65% per annum in 2011 and 2010.

The Group's cash in banks include a dollar denominated account with Peso equivalent amounting to P1,860,133 and P3,524,727 as of December 31, 2011 and 2010, respectively. The Group's foreign currency denominated cash account is translated to Peso equivalents using an exchange rate of P43.928/$1.00 and P43.885/$1.00 as at December 31, 2011 and 2010, respectively.

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

Financial income recognized in the consolidated Statements of income on cash in banks and cash equivalents amounted to P8.3 million in 2011, P2.3 million in 2010 and P0.6 million in 2009 (see Note 24).

(Amounts in Philippine Pesos)

## 7. ACCOUNTS RECEIVABLE

This account consists of:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Contract receivables on sale of real estate | **P** | **388,679,595** | P | 311,348,334 |
| Trade receivables | | **3,071,336** | | 3,471,875 |
| Receivables from affiliated companies (Note 20) | | **2,892,019** | | 3,115,999 |
| Advances to officers and employees | | **1,813,702** | | 4,729,857 |
| Accrued interest receivable (Note 8) | | **1,322** | | 9,526 |
| Others | | **103,025,131** | | 103,770,275 |
| Total receivables | | **499,483,105** | | 426,445,866 |
| Allowance for doubtful accounts | | **(453,225)** | | (13,357,942) |
| | | **499,029,880** | | 413,087,924 |
| Noncurrent portion of contract receivables on sale of real estates | | **(267,795,047)** | | (188,377,475) |
| | **P** | **231,234,833** | P | 224,710,449 |

Contract receivables on sale of real estate represent amounts due and collectible in monthly installment over a period of 5 to 15 years, and bear interest ranging from less than 1% to 18% in 2011 and less than 1% to 15% in 2010 and 2009. The transfer certificates of title remain in the possession of the Group until full payment has been made by the customers.

Interest income on contract receivables on sale of real estate amounted to P20.1 million in 2011 and P28.7 million in 2010.

Also, contract receivables on sale of real estate with an outstanding balance of P79.7 million as of December 31, 2010, are collateralized to the loans obtained from Rizal Commercial Banking Corporation (see Note 20). No contract receivables on sale of real estate is collateralized as of December 31, 2011.

Receivables from affiliated companies pertain to unsecured and noninterest cash advances for operational expenses which have no definite terms of payment.

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

Other receivables are interest-free. These include receivables from various companies for the sale of available-for-sale investments in 2008 amounting to P83.5 million.

Other receivables amounting to P0.5 million and P13.4 million as of December 31, 2011 and 2010, respectively, were impaired and fully provided for (see Note 33). Movements in the allowance for doubtful accounts is shown below:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Balance at January 1 | **P** | **13,357,942** | P | 19,861,122 |
| Collection of receivables previously provided with allowance | | **(12,904,717)** | | (10,843,066) |
| Provisions (Note 27) | | **–** | | 4,339,886 |
| Balance at December 31 | **P** | **453,225** | P | 13,357,942 |

## 8. NOTES RECEIVABLE

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

The Group granted another loan to XSCCI on March 5, 2010 amounting to P1.0 million and bears an interest of 10% per annum and collectible within one (1) year for twelve monthly equal installments.

Total collections made from loans to XSCCI amounted to P1,250,000 and P329,583 in 2011 and 2010, respectively.

Interest income on the notes receivable amounted to P70,104 in 2011 and P66,698 in 2010.

(Amounts in Philippine Pesos)

## 9. REAL ESTATE HELD FOR SALE

Real estate held for sale represents land and development costs of various projects in Cagayan de Oro City, Valencia City, Bukidnon and Cainta, Rizal detailed as follows:

| | 2011 | 2010 |
|---|---|---|
| Land | **P 225,345,668** | P 225,345,668 |
| Development Cost | **477,640,639** | 465,811,701 |
| | **P 702,986,307** | P 691,157,369 |

Real estate held for sale with carrying value of P548.9 million and P484.2 million as of December 31, 2011 and 2010, respectively, are collateralized to the loans obtained from BPI, BPIF, UCPB and CBC and UBP (see Note 20).

The Group reclassified land cost of P21.6 million in 2010 into real estate held for sale previously accounted for as land and improvements, investment properties and property and equipment (see Notes 13, 14 and 15).

## 10. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

| | 2011 | 2010 |
|---|---|---|
| Creditable withholding taxes | **P 52,355,825** | P 42,222,339 |
| Deposit for land acquisition | **35,921,937** | – |
| Refundable deposits | **24,181,212** | 4,439,014 |
| Prepaid expenses | **23,701,338** | 16,484,250 |
| Inventories | **19,806,315** | 8,380,669 |
| Value-added input taxes | **8,798,063** | 2,460,415 |
| Others | **628,342** | 236,146 |
| | **P 165,393,032** | P 74,222,833 |

In 2011, the Group entered into several contract to sell to several seller of land. Installments made by the Group to the seller were presented as deposit for land acquisition as the Transfer Certificates of Title were not yet transferred to the name of the former.

Also in 2011, the Group paid for refundable deposits amounting to P17,532,548 which pertains to payments made by the Group in connection with its engagement to a third party to look for suitable parties for the Group to enter into a joint venture agreement for acceptable plant facilities. Such payment will be used to answer for the out-of-pocket expenses incurred in relation to and during the engagement. After the termination of the engagement or if they fail to find a suitable party by end of 2012, the entire balance of the deposit will be refunded, without interest.

## 11. AVAILABLE-FOR-SALE INVESTMENTS

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

| | 2011 | | | |
|---|---|---|---|---|
| | Golf, Sports and Country Clubs | Non-listed Companies | Listed Companies | Total |
| Carrying value: | | | | |
| Balance at beginning of year | P 279,780,001 | P 296,094,152 | P 212,061,532 | P 787,935,685 |
| Unrealized loss | – | – | (60,746,009) | (60,746,009) |
| Balance at end of year | P 279,780,001 | P 296,094,152 | P 151,315,523 | P 727,189,676 |

| | 2010 | | | |
|---|---|---|---|---|
| | Golf, Sports and Country Clubs | Non-listed Companies | Listed Companies | Total |
| Carrying value: | | | | |
| Balance at beginning of year | P 281,120,001 | P 708,322,288 | P 13,372,657 | P1,202,814,946 |
| Additions | – | 74,999,802 | – | 74,999,802 |
| Disposal | (150,000) | (180,000,000) | – | (180,150,000) |
| Return of investment | – | (308,227,838) | – | (308,227,838) |
| Unrealized gain (loss) | (1,190,000) | 999,900 | (1,311,125) | (1,501,225) |
| Balance at end of year | P 279,780,001 | P 296,094,152 | P 212,061,532 | P 787,935,685 |

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

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

The related subscriptions payable on the above investment in listed companies amounted to P114.6 million as of December 31, 2011 and 2010.

The Group's realized gain on sale of AFS amounted to P167.7 million in 2010 and P1.7 million in 2009.

As of December 31, 2011 and 2010, the Group had investments in MOREI of P295.1 million, representing 11.42% equity holdings. The Group has no power to govern the financial and operating policies of MOREI. In June 2010, the Group sold 180,000,000 shares of MOREI to a foreign company for P335.2 million.

In 2010, the SEC approved the reduction in the authorized capital stock of MOREI. As a result, the Group received cash representing return of investment amounting to P308.2 million in proportion to its shareholdings with MOREI. After the decrease in capital, the Group will continue to hold 265.1 million shares of the reduced outstanding capital stock of MOREI.

Also in 2010, the Group received dividend income from MOREI amounting to P384.9 million which was recognized in the consolidated statements of income.

## 12. Investment in an Associate

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

| | Amount |
|---|---|
| Acquisition cost: | P214,899,255 |
| Equity in net loss for the year | (1,107,337) |
| Net carrying value | P213,791,918 |

Summarized financial information of the Phigold follows:

| | Amount in US Dollar |
|---|---|
| Total assets: | |
| Current assets | $6,970,302 |
| Total liabilities: | |
| Current liabilities | 739,139 |
| Non-current liabilities | 739,014 |
| | 1,478,153 |
| Equity | 5,492,149 |
| Gross revenue for the year | 275,779 |
| Net loss for the year | (1,341,454) |

(Amounts in Philippine Pesos)

## 13. INVESTMENT PROPERTIES

This account consists of:

| | 2011 | 2010 |
|---|---|---|
| Properties held for capital appreciation – net | **P 431,910,263** | P 437,492,050 |
| Properties held under lease | **78,967,140** | 78,259,141 |
| | **P 510,877,403** | P 515,751,191 |

Investment properties are stated at cost less any impairment. Investment properties have a fair market value of about P732.9 million and P643.7 million as of December 31, 2011 and 2010, respectively, as determined by an independent firm of appraisers. The excess of the fair market value over the carrying amount of the asset is not recognized in the consolidated financial statements.

The rollforward analysis of properties held for capital appreciation as of and for the years ended December 31, 2011 and 2010 follows:

| | **2011** | | |
|---|---|---|---|
| | Land and improvements | Building | Total |
| Cost: | | | |
| Balance at beginning of year | P 417,659,445 | P 30,532,806 | P 448,192,251 |
| Additions | 5,266,831 | – | 5,266,831 |
| Disposal | (9,320,018) | – | (9,320,018) |
| Balance at end of year | 413,606,258 | 30,532,806 | 444,139,064 |
| Allowance for impairment loss: | | | |
| Balance at beginning of year | – | 10,700,201 | 10,700,201 |
| Additions | – | 1,528,600 | 1,528,600 |
| Balance at end of year | – | 12,228,801 | 12,228,801 |
| Net book value | P 413,606,258 | P 18,304,005 | P 431,910,263 |

| | 2010 | | |
|---|---|---|---|
| | Land and improvements | Building | Total |
| Cost: | | | |
| Balance at beginning of year | P 324,508,203 | P 30,532,806 | P 355,041,009 |
| Additions | 66,985,246 | – | 66,985,246 |
| Reclassification - net | 26,165,996 | – | 26,165,996 |
| Balance at end of year | 417,659,445 | 30,532,806 | 448,192,251 |
| Allowance for impairment loss: | | | |
| Balance at beginning of year | – | 9,171,601 | 9,171,601 |
| Additions | – | 1,528,600 | 1,528,600 |
| Balance at end of year | – | 10,700,201 | 10,700,201 |
| Net book value | P 417,659,445 | P 19,832,605 | P 437,492,050 |

The Group reclassified land cost in 2010 amounting to P5.6 million and P21.6 million to investment properties previously accounted as property and equipment and land and improvements, respectively (see Notes 14 and 15).

The Group reclassified land cost of P1.0 million in 2010 into real estate held for sale previously accounted as investment properties (see Note 9).

In 2009, the Group sold one of its properties in Palawan with carrying amount of P54.5 million to a domestic corporation. Realized gain on sale from this transaction amounted to P168.7 million. Capital gains tax paid amounted to P13.4 million.

The provision for impairment loss of P1.5 million in 2011, 2010 and 2009, represents the write-down of an unfinished building to its estimated net recoverable amount.

(Amounts in Philippine Pesos)

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

| | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Security | **P** | **2,126,090** | P | 6,865,073 | P | 1,433,098 |
| Taxes and licenses | | **1,389,900** | | 1,033,610 | | 6,378,619 |
| Repairs and maintenance | | **356,199** | | 2,615,362 | | 470,284 |
| Utilities | | **143,159** | | 209,124 | | 204,517 |
| Transportation | | **44,480** | | – | | – |
| Insurance | | **657** | | 81,097 | | 106,417 |
| Others | | **61,401** | | – | | – |
| | **P** | **4,121,886** | P | 10,804,266 | P | 8,592,935 |

The details of the properties held under lease follows:

| | **2011** | | |
|---|---|---|---|
| | Land | Building and improvements | Total |
| Cost: | | | |
| Balance at beginning of year | P 17,579,024 | P 134,881,724 | P 152,460,748 |
| Additions | – | 125,000 | 125,000 |
| Disposal | – | (333,200) | (333,200) |
| Reclassification | 7,959,109 | – | 7,959,109 |
| Balance at end of year | 25,538,133 | 134,673,524 | 160,211,657 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | – | 74,201,607 | 74,201,607 |
| Additions | – | 7,376,110 | 7,376,110 |
| Disposal | – | (333,200) | (333,200) |
| Balance at end of year | – | 81,244,517 | 81,244,517 |
| Net book value | P 25,538,133 | P 53,429,007 | P 78,967,140 |

| | 2010 | | |
|---|---|---|---|
| | Land | Building and improvements | Total |
| Cost | P 17,579,024 | P 134,881,724 | P 152,460,748 |
| Accumulated depreciation: | | | |
| Balance at beginning of year | – | 66,223,895 | 66,223,895 |
| Additions | – | 7,977,712 | 7,977,712 |
| Balance at end of year | – | 74,201,607 | 74,201,607 |
| Net book value | P 17,579,024 | P 60,680,117 | P 78,259,141 |

In 2011, the Group reclassed land cost amounting to P8.0 million into investment properties previously accounted as property and equipment (see Note 14).

Rental income generated from investment properties held under lease amounted to P7.2 million in 2011, P9.0 million in 2010 and P10.2 million in 2009 (see Note 29).

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

| | | 2011 | | 2010 | | 2009 |
|---|---|---|---|---|---|---|
| Depreciation (Notes 26 and 27): | | | | | | |
| General and administrative expense | **P** | **5,802,144** | P | 6,403,746 | P | 6,195,753 |
| Cost of services - other direct cost | | **1,573,966** | | 1,573,966 | | 1,560,955 |
| | | **7,376,110** | | 7,977,712 | | 7,756,708 |
| Utilities | | **119,712** | | 245,231 | | 224,640 |
| Insurance | | **23,996** | | 116,298 | | 159,308 |
| Taxes and licenses | | **–** | | 1,080,969 | | 1,136,758 |
| Repairs and maintenance | | **–** | | – | | 541,572 |
| | **P** | **7,519,818** | P | 9,420,210 | P | 9,818,986 |

(Amounts in Philippine Pesos)

There are no restrictions on the realizability of investment properties nor on the remittance of income. There are also no contractual obligations to purchase, construct or develop investment properties for repairs, maintenance or enhancements as of December 31, 2011.

## 14. PROPERTY AND EQUIPMENT

The net carrying value of this account is as follows:

| | **2011** | 2010 |
|---|---|---|
| Land | **P 16,098,819** | P 24,057,928 |
| Land improvements | **2,805,154** | 1,258,395 |
| Building and improvements | **31,353,204** | 23,278,941 |
| Leasehold improvements | **461,520** | 216,995 |
| Machinery and equipment | **154,134,390** | 108,830,242 |
| Furniture, fixtures and equipment | **3,723,581** | 2,305,872 |
| Transportation equipment | **19,569,853** | 16,933,613 |
| Tools and other equipment | **352,461** | 235,202 |
| Other fixed assets | **7,385,713** | 3,056,103 |
| Construction in progress | **56,426,384** | 34,521,095 |
| | **P 292,311,079** | P 214,694,386 |

Rollforward analysis of this account is shown below:

| | **2011** | | | |
|---|---|---|---|---|
| | Balance at beginning of year | Additions/ Depreciations | Reclassification/ Disposals | Balance at end of year |
| Cost: | | | | |
| Land | P 24,057,928 | P – | (P 7,959,109) | P 16,098,819 |
| Land improvements | 1,604,800 | 1,950,801 | – | 3,555,601 |
| Building and improvements | 63,276,899 | 11,755,271 | – | 75,032,170 |
| Leasehold improvements | 1,258,810 | 373,980 | – | 1,632,790 |
| Machinery and equipment | 174,941,483 | 60,168,102 | – | 235,109,585 |
| Furniture, fixtures and equipment | 17,957,867 | 3,331,709 | – | 21,289,576 |
| Transportation equipment | 39,506,944 | 12,040,574 | (3,295,832) | 48,251,686 |
| Tools and other equipment | 1,850,172 | 425,204 | (70,893) | 2,204,483 |
| Other fixed assets | 11,246,919 | 7,049,451 | (459,769) | 17,836,601 |
| Construction in progress | 34,521,095 | 56,593,907 | (34,688,618) | 56,426,384 |
| | 370,222,917 | 153,688,999 | (46,474,221) | 477,437,695 |
| Accumulated depreciation and amortization: | | | | |
| Land improvements | 346,405 | 404,042 | – | 750,447 |
| Building and improvements | 39,997,958 | 3,681,008 | – | 43,678,966 |
| Leasehold improvements | 1,041,815 | 129,455 | – | 1,171,270 |
| Machinery and equipment | 66,111,241 | 14,863,954 | – | 80,975,195 |
| Furniture, fixtures and equipment | 15,651,995 | 1,914,000 | – | 17,565,995 |
| Transportation equipment | 22,573,331 | 8,140,781 | (2,032,279) | 28,681,833 |
| Tools and other equipment | 1,614,970 | 289,694 | (52,642) | 1,852,022 |
| Other fixed assets | 8,190,816 | 2,466,063 | (205,991) | 10,450,888 |
| | 155,528,531 | 31,888,997 | (2,290,912) | 185,126,616 |
| Net Book Value | P 214,694,386 | P 121,800,002 | (P 44,183,309) | P 292,311,079 |

(Amounts in Philippine Pesos)

| | 2010 | | | |
|---|---|---|---|---|
| | Balance at beginning of year | Additions/ Depreciations | Reclassification/ Disposals | Balance at end of year |
| Cost: | | | | |
| Land | P 30,052,709 | P 997,565 | (P 6,992,346) | P 24,057,928 |
| Land improvements | 1,604,800 | – | – | 1,604,800 |
| Building and improvements | 63,862,118 | 8,470,026 | (9,055,245) | 63,276,899 |
| Leasehold improvements | 1,108,412 | 220,996 | (70,598) | 1,258,810 |
| Machinery and equipment | 126,952,119 | 48,989,365 | (1,000,001) | 174,941,483 |
| Furniture, fixtures and equipment | 16,325,306 | 2,562,189 | (929,628) | 17,957,867 |
| Transportation equipment | 26,334,455 | 13,788,398 | (615,909) | 39,506,944 |
| Tools and other equipment | 1,821,691 | 148,352 | (119,871) | 1,850,172 |
| Other fixed assets | 10,025,456 | 1,551,268 | (329,805) | 11,246,919 |
| Construction in progress | 12,399,478 | 21,923,896 | 197,721 | 34,521,095 |
| | 290,486,544 | 98,652,055 | (18,915,682) | 370,222,917 |
| Accumulated depreciation and amortization: | | | | |
| Land improvements | P 170,027 | P 176,378 | P – | P 346,405 |
| Building and improvements | 44,206,248 | 2,598,061 | (6,806,351) | 39,997,958 |
| Leasehold improvements | 1,104,949 | 7,464 | (70,598) | 1,041,815 |
| Machinery and equipment | 58,005,799 | 9,105,441 | (999,999) | 66,111,241 |
| Furniture, fixtures and equipment | 15,715,987 | 865,636 | (929,628) | 15,651,995 |
| Transportation equipment | 18,347,380 | 4,841,859 | (615,908) | 22,573,331 |
| Tools and other equipment | 1,550,785 | 184,056 | (119,871) | 1,614,970 |
| Other fixed assets | 7,474,311 | 1,046,310 | (329,805) | 8,190,816 |
| | 146,575,486 | 18,825,205 | (9,872,160) | 155,528,531 |
| Net Book Value | P 143,911,058 | P 79,826,850 | (P 9,043,522) | P 214,694,386 |

In 2011, the Group reclassified land cost previously accounted as property and equipment amounting to P8.0 million into investment properties (see Note 13).

In 2010, the Group reclassified land cost previously accounted as property and equipment amounting to P1.4 million and P5.6 million into real estate held for sale and investment properties, respectively (see Notes 9 and 13).

The Group's management had reviewed the carrying values of the property and equipment as of December 31, 2011 and 2010 for any impairment. Based on the evaluation, there are no indications that the property and equipment might be impaired. Furthermore, there is no property whose title is restricted from use of the Group in both years.

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| General and administrative expenses (Note 27) | **P 11,626,656** | P 15,165,395 | P 9,311,640 |
| Cost of sales and services (Note 26) | **11,114,029** | 1,951,382 | 2,948,170 |
| Real estate held for sale | **9,148,312** | 1,708,428 | 1,655,022 |
| | **P 31,888,997** | P 18,825,205 | P 13,914,832 |

## 15. LAND AND IMPROVEMENTS

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

(Amounts in Philippine Pesos)

The rollforward analysis of this account is shown below:

| | 2011 | | |
|---|---|---|---|
| | Land | Improvements | Total |
| December 31, 2010 | P 281,561,226 | P 33,453,936 | P 315,015,162 |
| Additions | 11,544,692 | 11,552,136 | 23,096,828 |
| Reclassifications | – | (5,659,688) | (5,659,688) |
| December 31, 2011 | P 293,105,918 | P 39,346,384 | P 332,452,302 |

| | 2010 | | |
|---|---|---|---|
| | Land | Improvements | Total |
| December 31, 2009 | P 291,301,680 | P 18,067,517 | P 309,369,197 |
| Additions | 31,080,753 | 15,386,419 | 46,467,172 |
| Reclassifications | (40,821,207) | – | (40,821,207) |
| December 31, 2010 | P 281,561,226 | P 33,453,936 | P 315,015,162 |

In 2011, the Group reclassified land improvements amounting to P5.7 million into accounts receivable – others.

In 2010, the Group reclassified land cost previously accounted as land and improvements amounting to P19.2 million and P21.6 million into real estate held for sale and investment properties, respectively (see Notes 9 and 13).

## 16. BIOLOGICAL ASSETS

These represent the fair value of oil palm trees as follows:

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | P 120,874,608 | P 78,229,944 |
| Additions during the year | | |
| Existing trees | 36,078,815 | 16,362,994 |
| Additional trees | 27,392,879 | 26,281,670 |
| | 63,471,694 | 42,644,664 |
| | 184,346,302 | 120,874,608 |
| Decrease in valuation of biological asset | (2,494,221) | – |
| Balance at end of year | P 181,852,081 | P 120,874,608 |

The fair value of the biological assets in 2011 and 2010 is determined using the cost approach of fair valuation.

The decrease in valuation of biological assets was charged to cost of sales of fresh fruit bunch.

## 17. LEASEHOLD RIGHTS

This account pertains to amounts paid by the Group for the rights to use a parcel of land in Impasug-ong, Bukidnon and develop it as an oil palm commercial plantation relative to the Development Contract entered into with Kapunungan Sa Mga Mag-uuma Sa Kaanibungan (KASAMAKA) (see Note 38).

Rollforward analysis of this account is shown below:

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | P 17,860,514 | P 6,068,727 |
| Additions during the year | 12,093,232 | 11,791,787 |
| | 29,953,746 | 17,860,514 |
| Accumulated amortization | (2,249,599) | (1,320,511) |
| Balance at end of year | P 27,704,147 | P 16,540,003 |

(Amounts in Philippine Pesos)

Rollforward analysis of the accumulated amortization as of December 31, 2011 and 2010 is shown below:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Balance at beginning of year | P | 1,320,511 | P | 884,716 |
| Amortization during the year | | 929,088 | | 435,795 |
| Balance at end of year | P | 2,249,599 | P | 1,320,511 |

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

## 18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

This account consists of:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Accounts payable | P | 251,274,221 | P | 324,164,458 |
| Accrued expenses | | 17,562,706 | | 12,223,144 |
| Contracts payable | | 8,153,892 | | 17,771,644 |
| Accrued interest payable | | 6,260,886 | | 3,613,763 |
| Retention payable | | 4,006,329 | | 3,407,773 |
| Others | | 152,103,408 | | 10,027,306 |
| | P | 439,361,442 | P | 371,208,088 |

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

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Output VAT payable | P | 13,229,262 | P | 1,520,987 |
| Withholding tax payable | | 2,137,840 | | 1,437,071 |
| Deposit from subscribers | | 1,300,659 | | 1,300,659 |
| SSS, HDMF, PHIC premium payable | | 425,725 | | 362,515 |
| Others | | 135,009,922 | | 5,406,074 |
| | P | 152,103,408 | P | 10,027,306 |

Others include the amount paid by Strait Fire Limited, a company with a common stockholder as the Group, amounting to P129,280,000 pertaining to the Group's investment in Phigold Limited (see Note 12). The payable is due to be settled on or before the end of two (2) years from the date of acquisition.

## 19. LOANS PAYABLE

On January 7, 2009, Banco De Oro (BDO) granted the Parent Company P2 billion loan for relending to Monte Oro Grid Resources Corporation (MOGRC), a wholly owned subsidiary of MOREI, to finance part of MOGRC's equity contribution in National Grid Consolidated Power (NGCP). To induce BDO to extend the financing, the Parent Company and its stockholders agreed to provide certain collateral securities in trust for the benefit of the bank. The loan bears annual interest based on a 3-month Philippine Dealing System Treasury-Fixing (PDST-F) rate plus spread per annum.

Relative to the payments of the loan, the Parent Company opened a debt service reserve account equal to the aggregate amount of interest payments due and payable on all outstanding advances for six (6) months calculated at a minimum interest rate of 11% per annum.

MOGRC which was wholly owned by MOREI was subsequently acquired by a certain company in March 2010. Relative to this transaction, the notes receivable from MOGRC was fully settled, the loans payable to BDO was fully paid and the debt service account was released. Accordingly, accrued interest receivable and payable related to the loan was fully settled in 2010.

Interest expense related to the loan amounted to P34.2 million in 2010 and P173.5 million in 2009, which is also the same as the interest earned relative to the on-lending agreement with MOGRC (see Notes 21 and 24).

(Amounts in Philippine Pesos)

## 20. SHORT-TERM AND LONG-TERM DEBT

Short-term debt consists of loans obtained from the following:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Financial Institutions: | | | | |
| Unionbank (UBP) | P | 100,000,000 | P | 100,000,000 |
| United Coconut Planters Bank (UCPB) | | – | | 47,492,000 |
| | P | 100,000,000 | P | 147,492,000 |

The loan from UBP pertains to the term loan availed by the Group amounting to P100 million in October 2011 and November 2010. The loan bears annual interest rate of 5.5% and will mature one (1) year from the date of availment. The loan is secured by real estate held for sale with carrying value of P56.5 million as of December 31, 2011 and 2010 (see Note 9).

Long-term debt consists of loans obtained from the following:

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Financial Institutions: | | | | |
| United Coconut Planters Bank (UCPB) | P | 400,000,000 | P | 232,934,084 |
| Bank of the Philippine Islands (BPI) | | 135,000,000 | | – |
| BPI Family Savings Bank (BPIF) | | 225,983,414 | | 138,811,472 |
| China Banking Corp. (CBC) | | 300,000,000 | | 15,729,603 |
| Rizal Commercial Banking Corp. (RCBC) | | – | | 66,618,720 |
| | | 1,060,983,414 | | 454,093,879 |
| Others/Individual | | – | | 8,000,000 |
| Less current portion | | (19,308,320) | | (89,486,807) |
| | P | 1,041,675,094 | P | 372,607,072 |

The loans from UCPB were availed of in various dates within 2008 to 2010 and will mature six (6) months to five (5) years after loan release dates. These are collateralized by real estate mortgage over the real estate held for sale with a carrying value of P243.4 million as of December 31, 2010 (see Note 9). The loans bear interest rates ranging from 6.64% to 9.8% per annum.

On August and December of 2011, the Group obtained another P400 million loan from UCPB to refinance its outstanding term loan and finance various real estate development projects. The loan shall have a term which shall expire at the end of ten (10) years from initial date of drawdown and shall bear interest payable quarterly in arrears, based on 3-month Philippine Dealing System Treasury-Fixing rate obtaining at the time of availment, plus a spread of two percent (2.0%) inclusive of Gross Receipt Tax (GRT) or floor rate 5.25% inclusive of GRT per annum whichever is higher, subject to quarterly payment and resetting. This loan is collateralized by real estate mortgage over the real estate held for sale with a carrying value of P247.3 million as of December 31, 2011 (see Note 9).

The loans from BPI were obtained on various dates within 2011 and will mature five (5) years after loan release dates, the last of which being 2016. These bear interest at 3-month Philippine Dealing System Treasury- R2 plus a spread of one and a half percent (1.50%) per annum or the applicable bank floor lending rate at the time of availment, whichever is higher, subject to monthly payment and quarterly resetting, with one time option to fix rate based on 5-year Philippine Dealing System Treasury- R2 rate, plus a spread of one and a quarter percent (1.25%) per annum. The interest rate is currently at 4.75% per annum.

The loans from BPIF were obtained on various dates within 2004 to 2011 and will mature ten (10) years after loan release dates, the last of which will be in 2020. These bear interest at the rates ranging from 5.5% to 11.50% per annum. These are collateralized by real estate mortgages over the real estate held for sale of the Group with a total carrying value of P245.1 million and P167.2 million as of December 31, 2011 and 2010, respectively (see Note 9).

The loans from RCBC represent availments from an approved credit facility with interest of 10.25% to 11.50% per annum. These are collateralized by deeds of assignment on accounts receivable with a total value of P79.7 million as of December

(Amounts in Philippine Pesos)

31, 2010, and will continue to be in full force until revoked or terminated by RCBC upon the occurrence of certain events stipulated in the agreement (see Note 6). In 2011, this loan has been paid in full.

The loan from CBC represents a 10-year loan approved on November 5, 2007 and will mature on November 5, 2017. This bears interest at 9.5% to 9.75% per annum. The loan is repayable monthly in accordance with an amortization schedule and is collateralized by real estate mortgage over real estate held for sale of the Group with a carrying value of P17.1 million as of December 31, 2010. As of December 31, 2011 this loan has been paid in full.

The Group again availed several loans from CBC on various dates within February to July 2011 which will mature five (5) years after loan release dates, the last of which will be in 2016. These loans bear interest rates ranging from 5.25% to 9.67% per annum.

Loans from a certain individual bear interest of 10% to 12% per annum which are payable in lump-sum amount in 2012. This loan has been paid in full in 2011.

The following table presents the contractual maturity of short-term and long-term debt as of December 31, 2011 and 2010:

| | **2011** | 2010 |
|---|---|---|
| Due within 1 year | **P 119,308,320** | P 236,978,807 |
| Due beyond 1 year, not later than 5 years | **697,926,900** | 303,906,675 |
| Due beyond 5 years | **343,748,194** | 68,700,397 |
| | **P 1,160,983,414** | P 609,585,879 |

The Group's short-term and long-term debts as of December 31, 2011 and 2010 do not include any significant warranties and covenants.

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Finance costs | **P 40,898,953** | P 63,657,833 | P 62,872,986 |
| Construction in progress | **18,796,200** | 1,849,315 | 1,849,315 |
| Biological assets (Note 16) | **–** | 7,722,292 | 7,516,667 |
| | **P 59,695,153** | P 73,229,440 | P 72,238,968 |

## 21. RELATED PARTY TRANSACTIONS

The Group and certain related parties, in the normal course of business, have entered into transactions with each other principally consisting of interest-bearing notes receivable and payable, reimbursement of expenses and purchases of services at prices and terms comparable to those charged by outside suppliers or billed to other customers. Related party transactions also include noninterest-bearing and unsecured cash advances and intercompany charges with no specific repayment terms, and are payable on demand.

a. The significant transactions with related parties representing lease of properties, either as a lessor or lessee, with affiliates as discussed in Note 29 include the following:

| Related party | Year | Rental income | Rental expense |
|---|---|---|---|
| Xavier Sports and Country Club, Inc. | 2011 | P – | P 1,771,873 |
| | 2010 | – | 888,654 |
| | 2009 | 571,677 | 959,570 |
| PBJ Corporation | 2011 | 163,636 | |
| | 2010 | 163,636 | – |
| | 2009 | 163,636 | – |

(Amounts in Philippine Pesos)

b. The outstanding balances of due to/due from affiliates as of December 31, 2011 and 2010 follow:

| | **2011** | 2010 |
|---|---|---|
| Due from related parties: | | |
| Xavier Sports and Country Club, Inc. | **P 1,038,948** | P – |
| Minpalm Agri Corporation | **971,325** | 3,453,192 |
| PBJ Corporation | **5,646** | 1,120,138 |
| Other related parties | **2,972,131** | 4,136,010 |
| | **P 4,988,050** | P 8,709,340 |

| | **2011** | 2010 |
|---|---|---|
| Due to related parties: | | |
| Other related parties | **P 76,885** | P 9,616,172 |

Amounts owed by related parties consist of advances for operating purposes which are noninterest-bearing and are due and demandable.

Due from related parties excludes other receivables from affiliated companies for noninterest-bearing cash advances included under Accounts receivable in Note 7. The related receivable balance under accounts receivable amounted to P2.9 million and P3.1 million as of December 31, 2011 and 2010, respectively.

c. The Parent Company entered into an on-lending agreement in 2009 with MOGRC, a wholly owned subsidiary of MOREI, wherein the proceeds of the loan availed by the Parent Company from BDO was loaned to MOGRC. The agreement has the same terms with the loan obtained from BDO (see Note 19). In view of the settlement of the loan in 2010 as discussed in Note 19, the payable to MOREI was also settled.

d. The Parent Company and its subsidiaries, in the normal course of their business, entered into transactions with each other, which consist primarily of making deposits for future stock subscription and reimbursements of expenses and purchases of services.

Below are the account balances as of December 31, 2011 on the separate financial statements of the companies within the Group which were eliminated upon consolidation:

- Receivables/Payables

| | Payable | | | | | | |
|---|---|---|---|---|---|---|---|
| Receivable | ABCI-Parent Company | ABERDI | Andesite | Palm Thermal | Palm Concepcion | Nakeen | Total |
| ABCI-Parent Company | P – | P 130,000,000 | P – | P – | P – | P – | P 130,000,000 |
| Palm Concepcion | 3,204,224 | – | – | – | – | – | 3,204,224 |
| Nakeen | 2,003,695 | – | – | – | – | – | 2,003,695 |
| Panay Land | – | – | – | 880,570 | 388,422 | – | 1,268,992 |
| ABERDI | – | – | 702,768 | – | – | – | 702,768 |
| Bonsai Agri | – | – | – | – | – | 281 | 281 |
| | P 5,207,919 | P 130,000,000 | P 702,768 | P 850,570 | P 388,422 | P 281 | P 137,179,960 |

- Deposits for future stock subscription

| | Deposits from | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Deposits to | ABERDI | Bonsai Agri | BRC | Panay Land | Palm Thermal | Palm Concepcion | Nakeen | Hydro Link | Total |
| ABCI-Parent Company | P 146,042,030 | P – | P 13,740,856 | P 58,306,300 | P 103,163,600 | P – | P – | P 3,604,761 | P 324,867,547 |
| ABERDI | – | 2,044,395 | – | – | – | – | 250,787,201 | – | 252,831,596 |
| Palm Thermal | – | | – | – | – | 67,680,960 | – | – | 67,680,960 |
| | P 146,042,030 | P 2,044,395 | P 13,740,856 | P 58,306,300 | P 103,163,600 | P 67,680,960 | P 250,787,201 | P 3,604,761 | P 645,380,103 |

(Amounts in Philippine Pesos)

e. Compensation of key management personnel by benefit type follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Salaries and wages | **P 22,326,780** | P 8,749,344 | P 4,532,756 |
| Short-term employee benefits | **3,287,441** | 8,685,519 | 1,281,674 |
| Post-employment benefits | **2,941,908** | 2,210,903 | 2,825,524 |
| | **P 28,556,129** | P 19,645,766 | P 8,639,954 |

## 22. SHARE CAPITAL

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

| | **2011** | 2010 |
|---|---|---|
| Authorized | **1,320,000,000** | 1,320,000,000 |
| Subscribed: | | |
| Subscribed and issued | **1,309,916,933** | 1,309,916,933 |
| Subscribed but not issued | **10,000** | 10,000 |
| | **1,309,926,933** | 1,309,926,933 |
| Treasury shares | **(173,633,704)** | (173,633,704) |
| Subscribed and outstanding | **1,136,293,229** | 1,136,293,229 |

Movements of the amount of subscribed capital stock and additional paid in capital (APIC) during the years 2011 and 2010 follow:

| | 2011 | | | |
|---|---|---|---|---|
| | Share Capital | | | |
| | Subscribed and issued | Subscribed but not issued | Total | APIC |
| Balance as at December 31, 2011 and 2010 | P 1,309,916,933 | P 7,954 | P 1,309,924,887 | P 155,948,570 |

| | 2010 | | | |
|---|---|---|---|---|
| | Share Capital | | | |
| | Subscribed and issued | Subscribed but not issued | Total | APIC |
| Balance as at December 31, 2009 | P 1,306,584,933 | P 2,045,685 | P 1,308,630,618 | P 35,074,804 |
| Collections of unpaid subscriptions | – | 1,294,269 | 1,294,269 | – |
| Transfer of paid-up shares | 3,332,000 | (3,332,000) | – | – |
| Reissuance of treasury shares (Note 41) | – | – | – | 120,873,766 |
| Balance as at December 31, 2010 | P 1,309,916,933 | P 7,954 | P 1,309,924,887 | P 155,948,570 |

The Securities and Exchange Commission (SEC) issued the following orders related to the Group's registration of its securities: SEC-BED Order No. 1179 issued on December 17, 1993 amounting to P200,000,000; SEC-BED Order No. 847 issued on August 15, 1994 amounting to P230,000,000 and SEC-CFD Order No. 64 issued on March 12, 1996 totaling P530,000,000. Common shares are the only equity securities registered and issued by the Group. As of December 31, 2011, there are two thousand one hundred seventy seven (2,177) stockholders in the records of the transfer agent, Fidelity Stock Transfers, Inc. (FSTI).

(Amounts in Philippine Pesos)

## 23. SALES

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Real estate | **P 315,358,517** | P 152,264,626 | P 182,032,707 |
| Crude palm oil | **71,318,039** | 34,289,633 | 23,534,743 |
| Hotel operations (Note 13) | **10,766,361** | 8,272,279 | 2,089,795 |
| Water service | **9,246,993** | 8,080,397 | 8,145,938 |
| Crop | **7,201,494** | – | – |
| Palm seedlings and kernel nuts | **1,386,893** | 923,050 | 510,874 |
| Fertilizer | **164,280** | 2,743,650 | – |
| | **P 415,442,577** | P 206,573,635 | P 216,314,057 |

## 24. FINANCIAL INCOME

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Interest from: | | | |
| Sales of real estate (Note 7) | **P 20,108,810** | P 28,676,587 | 28,668,420 |
| Cash in banks and cash equivalents (Note 6) | **8,272,186** | 2,278,678 | 582,464 |
| Notes and loans receivable (Notes 8, 19 and 21) | **–** | 34,430,045 | 173,497,984 |
| Others | **–** | 16,724 | 42,281 |
| | **P 28,380,996** | P 65,402,034 | P 202,791,149 |

## 25. OTHER INCOME

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income from forfeited accounts | **P 7,698,999** | P 5,531,832 | P 15,088,657 |
| Surcharge income | **5,423,408** | 2,720,686 | 4,044,022 |
| Others | **18,690,140** | 6,353,280 | 6,068,945 |
| | **P 31,812,547** | P 14,605,798 | P 25,201,624 |

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

## 26. COST OF SALES AND SERVICES

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Land development costs | **P 74,462,877** | P 40,022,440 | P 53,158,282 |
| Crude palm oil | **59,590,291** | 22,993,689 | 20,610,415 |
| Land | **46,594,787** | 39,579,679 | 35,917,741 |
| Water | **3,323,972** | – | – |
| Aggregates | **2,676,982** | – | – |
| Water services | **972,624** | 3,170,457 | 2,470,328 |
| Palm seedlings and kernel nut | **816,347** | 409,664 | 344,197 |
| Fertilizer | **103,357** | 1,690,598 | – |
| Other direct cost (Notes 13 and 14) | **22,934,567** | 9,795,658 | 4,942,502 |
| | **P 211,475,804** | P 117,662,185 | P 117,443,465 |

Other direct cost includes depreciation charges and other direct costs (e.g. repairs and maintenance, salaries and wages) related to the Group's investment properties and property and equipment.

(Amounts in Philippine Pesos)

## 27. GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Personnel cost (Notes 21 and 28) | **P 50,171,005** | P 26,375,161 | P 29,098,338 |
| Taxes and licenses | **23,454,478** | 32,888,832 | 28,795,613 |
| Depreciation and amortization (Notes 13 and 14) | **19,002,766** | 19,520,329 | 15,507,393 |
| Repairs and maintenance | **8,550,582** | 9,805,955 | 6,439,538 |
| Utilities and supplies | **6,856,919** | 5,298,679 | 3,304,792 |
| Rental (Notes 21 and 29) | **3,613,892** | 1,970,778 | 1,716,578 |
| Entertainment, amusement and recreation | **2,583,193** | 909,340 | 3,840,303 |
| Equity in net loss of associate (Note 12) | **1,107,337** | – | – |
| Accounts receivable written-off | **398,882** | – | – |
| Provision for doubtful accounts (Note 7) | **–** | 4,339,886 | – |
| Others | **42,720,211** | 32,249,453 | 25,119,725 |
| | **P 158,459,265** | P 133,358,413 | P 113,822,280 |

Significant components of other operating expenses follow:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Professional fees | **P 11,006,212** | P 6,485,288 | P 4,302,075 |
| Transportation and travel | **10,065,944** | 7,926,581 | 4,828,924 |
| Security services | **9,388,789** | 7,335,210 | 6,340,583 |
| Board meetings | **1,204,859** | 1,528,544 | 983,434 |
| Insurance | **622,403** | 563,961 | 430,466 |
| Trainings and seminars | **511,513** | 394,693 | 207,912 |
| Subscription and dues | **293,271** | 215,645 | 162,256 |
| Bank charges | **208,422** | 80,711 | 35,050 |
| Litigation fees | **141,661** | 3,668,908 | – |
| Unrealized foreign exchange loss | **–** | 46,595 | 72,424 |
| Miscellaneous | **9,277,137** | 4,003,317 | 7,756,601 |
| | **P 42,720,211** | P 32,249,453 | P 25,119,725 |

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

## 28. RETIREMENT BENEFITS COSTS

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

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

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

| | 2011 | 2010 |
|---|---|---|
| Discount rate, beginning of year | **8.17%** | 9.43% |
| Discount rate, end of year | **6.71%** | 9.43% |
| Expected rate of return on plan assets, beginning of year | **3.25%** | 3.25% |
| Salary increase rate , beginning of year | **5.00%** | 5.00% |
| Salary increase rate, end of year | **5.00%** | 5.00% |

(Amounts in Philippine Pesos)

The amounts recognized in the consolidated statements of financial position as of December 31, 2011 and 2010 were determined as follows:

| | 2011 | 2010 |
|---|---|---|
| Present value of funded retirement benefit obligations | P 19,525,249 | P 11,658,526 |
| Less fair value of plan assets | 15,004,547 | 11,068,331 |
| Underfunded obligation | 4,520,702 | 590,195 |
| Adjustments for: | | |
| Unrecognized transitional obligation | (38,207) | (76,409) |
| Unrecognized actuarial gain | (8,843,497) | (4,336,444) |
| Pension asset recognized in consolidated statements of financial position | (P 4,361,002) | (P 3,822,658) |

The rollforward of present value of defined benefit obligation follows:

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | P 11,658,526 | P 7,582,794 |
| Actuarial loss on obligation | 4,785,228 | 2,313,601 |
| Current service cost | 2,128,685 | 1,161,908 |
| Interest cost | 952,810 | 715,058 |
| Benefits paid | – | (114,835) |
| Balance at end of year | P 19,525,249 | P 11,658,526 |

The rollforward of fair value of plan assets follows:

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | P 11,068,331 | P 6,960,435 |
| Contributions | 3,459,814 | 3,846,570 |
| Expected return on plan assets | 359,720 | 226,213 |
| Benefits paid | – | (114,835) |
| Actuarial gain on plan assets | 116,682 | 149,948 |
| Balance at end of year | P 15,004,547 | P 11,068,331 |

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

The actual return on plan assets amounted to P495,497 in 2011 and P376,160 in 2010.

The amounts recognized in the consolidated statements of income included in Personnel cost under General and dministrative expenses in Note 27 were determined as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Current service cost | P 2,128,685 | P 1,161,908 | P 687,278 |
| Interest cost | 952,810 | 715,058 | 1,091,422 |
| Amortization of: | | | |
| Actual loss | 161,489 | 78,508 | 248,303 |
| Transition obligation | 38,206 | 38,206 | 175,263 |
| Expected return on plan assets | (359,720) | (226,213) | (125,921) |
| Amount recognized in the consolidated statements of income (Note 27) | P 2,921,470 | P 1,767,467 | P 2,076,345 |

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

| | 2011 | 2010 |
|---|---|---|
| Net pension asset at beginning of year | P 3,822,658 | P 1,743,555 |
| Expense recognized in the consolidated statements of income | (2,921,470) | (1,767,467) |
| Actual contributions | 3,459,814 | 3,846,570 |
| Net pension asset at end of year | P 4,361,002 | P 3,822,658 |

(Amounts in Philippine Pesos)

## 29. LEASE AGREEMENT

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

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

Estimated future minimum rental receipts follow:

| | **2011** | 2010 |
|---|---|---|
| Due within one year | **P 6,505,129** | P 7,910,390 |
| Due beyond one year, not later than five years | **1,226,257** | 7,731,386 |
| | **P 7,731,386** | P 15,641,776 |

Breakdown of rental income under these operating leases are as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Nonrelated parties | **P 7,210,538** | P 8,794,666 | P 9,476,045 |
| Related parties (Note 20) | **–** | 163,636 | 735,313 |
| | **P 7,210,538** | P 8,958,302 | P 10,211,358 |

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

Estimated future minimum rental payments which will be due in 2012 amounted to P3,356,203.

Breakdown of rent expense under general and administrative expenses (see Note 27) for lease of office space is as follows:

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Related party (Note 21) | **P 1,771,873** | P 888,654 | P 959,570 |
| Nonrelated party | **1,842,019** | 1,082,124 | 757,008 |
| | **P 3,613,892** | P 1,970,778 | P 1,716,578 |

## 30. INCOME TAXES

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| MCIT | **P 247,441** | P 3,582,940 | P 6,688,155 |
| Regular corporate income tax | **205,660** | 130,180 | 506,199 |
| | **P 453,101** | P 3,713,120 | P 7,194,354 |

(Amounts in Philippine Pesos)

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

| | 2011 | 2010 |
|---|---|---|
| Deferred tax liabilities | | |
| Tax effects of: | | |
| NOLCO | **P 26,718,443** | P 23,103,536 |
| Allowance for impairment losses on investment properties | **3,668,640** | 3,210,060 |
| Unamortized past service cost | **1,698,031** | 1,434,006 |
| Allowance for doubtful accounts | **135,968** | 4,007,383 |
| Accrued retirement liability | **13,776** | – |
| Others | **10,045,835** | 10,045,835 |
| MCIT | **9,681,276** | 13,857,623 |
| | **P 51,961,969** | P 55,658,443 |

| | 2011 | 2010 |
|---|---|---|
| Deferred tax liabilities | | |
| Tax effects of: | | |
| Deferred income on sale of real estate | **P 87,412,166** | P 73,189,424 |
| Deferred rental income | **88,566** | 25,278 |
| Unrealized foreign exchange gain | **11,090** | 2,362 |
| | **P 87,511,822** | P 73,217,064 |

The Group did not recognize the deferred income tax asset on NOLCO amounting to P455,493 as of December 31, 2011 since management believes that this could not be utilized prior to its expiration. NOLCO amounting to P89.5 million as of December 31, 2011, can be carried forward and claimed as deduction against regular taxable income for the next three (3) years as follows:

| Date Incurred | Amount | Expired/Applied | Balance | Expiry Date |
|---|---|---|---|---|
| December 31, 2008 | P 19,430,322 | (P 19,430,322) | P – | December 31, 2011 |
| December 31, 2009 | 27,289,212 | (5,000,000) | 22,289,212 | December 31, 2012 |
| December 31, 2010 | 33,205,727 | – | 33,205,727 | December 31, 2013 |
| December 31, 2011 | 34,022,032 | – | 34,022,032 | December 31, 2014 |
| | P 113,947,293 | (P 24,430,322) | P 89,516,971 | |

The carry forward benefits of MCIT totaling P14.7 million as of December 31, 2011, can be claimed as deduction from regular corporate income tax for the next three (3) years as follows:

| Date Incurred | Amount | Expired/Applied | Balance | Expiry Date |
|---|---|---|---|---|
| December 31, 2008 | P 3,587,050 | (P 3,587,050) | P – | December 31, 2011 |
| December 31, 2009 | 6,688,155 | (837,130) | 5,851,025 | December 31, 2012 |
| December 31, 2010 | 3,582,940 | – | 3,582,940 | December 31, 2013 |
| December 31, 2011 | 247,441 | – | 247,441 | December 31, 2014 |
| | P 14,105,586 | (4,424,180) | P 9,681,406 | |

The Group did not recognize the carry forward benefits of MCIT amounting to P130 since management believes that this could not be utilized prior to its expiration.

(Amounts in Philippine Pesos)

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

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Income tax expense computed at statutory tax rate | **P 12,139,464** | P 141,045,340 | P 38,412,523 |
| Income tax effects of: | | | |
| Write-off of expired NOLCO and other deferred tax assets | **2,213,263** | 872,476 | 31,578,908 |
| Non-deductible taxes and other expenses | **1,634,862** | – | 25,702 |
| Losses subjected to income tax holiday | **1,415,904** | – | – |
| Equity in net loss of associate | **332,201** | – | – |
| Capital gains tax paid | **324,320** | 4,895,784 | – |
| Interest income subjected to final tax | **(262,036)** | (567,902) | (174,740) |
| Accounts written – off | **119,664** | 3,252,920 | – |
| Non-deductible interest expense | **98,836** | – | 39,993 |
| Excess of provision over contribution on plan asset | **85,139** | – | – |
| Unrecognized NOLCO | **55,276** | 34,269 | 47,624 |
| Dividend income | **(735)** | (115,484,485) | – |
| Gain on sale of asset already subjected to capital gains tax | **–** | (50,304,843) | (51,096,175) |
| Non-deductible representation and entertainment expense | **–** | 251,123 | 609,049 |
| Excess of contribution over provision on plan asset | **–** | (16,199) | (99,551) |
| Allowance for impairment written-off | **–** | – | 211,078 |
| Others | **–** | 514,289 | 5,535,803 |
| Expired MCIT | **288,174** | 168,512 | 60,740 |
| | **P 18,444,332** | (P 15,338,716) | P 25,150,954 |

d. The Group opted for the itemized deduction scheme for its income tax reporting in 2011 and 2010.

## 31. EARNINGS PER SHARE (EPS)

Basic EPS is computed as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net income attributable to equity holders of Parent Company | **P 22,335,446** | P 485,471,608 | P 103,052,932 |
| Divided by weighted average number of shares outstanding | **1,136,296,109** | 1,156,101,982 | 1,309,926,933 |
| Basic earnings per share | **P 0.01966** | P 0.41992 | P 0.07867 |

The Group has no dilutive potential shares as of December 31, 2011, 2010 and 2009 (see Note 22)

## 32. FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying values and estimated fair values of Group's financial instruments as of December 31, 2011 and 2010:

| | **2011** | |
|---|---|---|
| | Carrying value | Fair value |
| Financial assets: | | |
| Cash and cash equivalents | P 149,709,918 | P 149,709,918 |
| Accounts receivable | 499,029,880 | 499,029,880 |
| Notes receivable | 920,417 | 920,417 |
| Due from related parties | 4,988,050 | 4,988,050 |
| Refundable deposits | 24,181,212 | 24,181,212 |
| AFS investments | 727,189,676 | 727,189,676 |
| | P 1,406,019,153 | P 1,406,019,153 |

(Amounts in Philippine Pesos)

| | | | | |
|---|---|---|---|---|
| Financial liabilities: | | | | |
| Short-term debt | P | 100,000,000 | P | 100,000,000 |
| Long-term debt | | 1,060,983,414 | | 1,060,983,414 |
| Accounts payable and accrued expenses | | 439,361,442 | | 439,361,442 |
| Deposit from customers | | 40,166,673 | | 40,166,673 |
| Due to related parties | | 76,885 | | 76,885 |
| Dividends payable | | 2,240,877 | | 2,240,877 |
| Subscription payable | | 114,550,663 | | 114,550,663 |
| | P | 1,757,379,954 | P | 1,757,379,954 |

| | 2010 | | | |
|---|---|---|---|---|
| | | Carrying value | | Fair value |
| Financial assets: | | | | |
| Cash and cash equivalents | P | 64,449,472 | P | 64,449,472 |
| Accounts receivable | | 413,087,924 | | 413,087,924 |
| Notes receivable | | 1,250,000 | | 1,250,000 |
| Due from related parties | | 8,709,340 | | 8,709,340 |
| Refundable deposits | | 4,439,014 | | 4,439,014 |
| AFS investments | | 787,935,685 | | 787,935,685 |
| | P | 1,279,871,435 | P | 1,279,871,435 |
| Financial liabilities: | | | | |
| Short-term debt | P | 147,492,000 | P | 147,492,000 |
| Long-term debt | | 462,093,879 | | 462,093,879 |
| Accounts payable and accrued expenses | | 371,208,088 | | 371,208,088 |
| Deposit from customers | | 42,107,246 | | 42,107,246 |
| Due to related parties | | 9,616,172 | | 9,616,172 |
| Dividends payable | | 2,299,466 | | 2,299,466 |
| Subscription payable | | 114,550,663 | | 114,550,663 |
| | P | 1,149,367,514 | P | 1,149,367,514 |

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models, recent arm's length market transaction, option pricing models and other relevant valuation models, as appropriate.

The carrying value of cash and cash equivalents, accounts receivable, notes receivable, due from related parties, refundable deposits, accounts payable and accrued expenses, deposits from customers, due to related parties and loans payable approximate their fair values due to the relatively short-term maturities of the financial instruments or short-term nature of transactions.

*Fair Value Hierarchy.* The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. Certain available-for-sale investments in listed companies with a carrying value of P151.3 million and P212.1 million as of December 31, 2011 and 2010, respectively, are valued based on published prices (see Note 11).

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value that are not based on observable market data;

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Amounts in Philippine Pesos)

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Cash and cash equivalents | **P** | **149,709,918** | P | 64,449,472 |
| Accounts receivable | | **499,029,880** | | 413,087,924 |
| Notes receivable | | **920,417** | | 1,250,000 |
| Due from related parties | | **4,988,050** | | 8,709,340 |
| Refundable deposits | | **24,181,212** | | 4,439,014 |
| Available-for-sale investments | | **727,189,676** | | 787,935,685 |
| | **P** | **1,406,019,153** | P | 1,279,871,435 |

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

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

  Accounts receivables which have been used as collateral for the loans obtained by the Group amounted to P79,681,668 as of December 31, 2010 (see Note 20).

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

(Amounts in Philippine Pesos)

Below is the quality per class of financial assets:

| | 2011 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
| Cash and cash equivalents | P 149,709,918 | P – | P – | P 149,709,918 |
| Accounts receivable | 469,129,915 | 29,899,965 | 453,225 | 499,483,105 |
| Notes receivable | 920,417 | – | – | 920,417 |
| Due from related parties | 4,988,050 | – | – | 4,988,050 |
| Refundable deposits | 24,181,212 | – | – | 24,181,212 |
| AFS investments | 727,189,676 | – | – | 727,189,676 |
| | P1,376,119,188 | P28,899,965 | P 453,225 | P 1,406,472,378 |

| | 2010 | | | |
|---|---|---|---|---|
| | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
| Cash and cash equivalents | P 64,449,472 | P – | P – | P 64,449,472 |
| Accounts receivable | 390,496,674 | 22,591,250 | 13,357,942 | 426,445,866 |
| Notes receivable | 1,250,000 | – | – | 1,250,000 |
| Due from related parties | 8,709,340 | – | – | 8,709,340 |
| Refundable deposits | 4,439,014 | – | – | 4,439,014 |
| AFS investments | 787,935,685 | – | – | 787,935,685 |
| | P1,257,280,185 | P 22,591,250 | P13,357,942 | P 1,293,229,377 |

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

| | 2011 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 to 60 days | More than 60 days | Total |
| Accounts receivable | P 9,720,591 | P 2,709,806 | P17,469,568 | P 29,899,965 |

| | 2010 | | | |
|---|---|---|---|---|
| | Less than 30 days | 30 to 60 days | More than 60 days | Total |
| Accounts receivable | P 1,541,111 | P 1,213,653 | P19,836,486 | P 22,591,250 |

As of December 31, 2011 and 2010, accounts receivable with nominal value of P0.5 million and P13.4 million, respectively, were impaired and were fully provided for with allowance for doubtful accounts (see Note 7).

Below is the credit quality by class of financial assets as of December 31, 2011 and 2010, gross of allowance for impairment losses.

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | | |
| | High Grade | Standard Grade | Substandard Grade | Past due but not impaired | Impaired | Total |
| Loans and receivable | | | | | | |
| Cash and cash equivalents | P 149,709,918 | P – | P – | P – | P – | P 149,709,918 |
| Accounts receivable (Note 7) | 306,227,096 | 99,650,075 | 63,252,744 | 29,899,965 | 453,225 | 499,483,105 |
| Notes receivable | 920,417 | – | – | – | – | 920,417 |
| Due from related parties | 4,988,050 | – | – | – | – | 4,988,050 |
| Refundable deposits | 24,181,212 | – | – | – | – | 24,181,212 |
| Total loans and receivables | 486,026,693 | 99,650,075 | 63,252,744 | 29,899,965 | 453,225 | 679,282,702 |
| AFS investments (Note 11) | | | | | | |
| Equity securities | 727,189,676 | – | – | – | – | 727,189,676 |
| | P1,213,216,369 | P 99,650,075 | P 63,252,744 | P 29,899,965 | P 453,225 | P1,406,472,378 |

(Amounts in Philippine Pesos)

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Neither past due nor impaired | | | Past due but not impaired | Impaired | Total |
| | High Grade | Standard Grade | Substandard Grade | | | |
| Loans and receivable | | | | | | |
| Cash and cash equivalents | P 64,449,472 | P – | P – | P – | P – | P 64,449,472 |
| Accounts receivable (Note 7) | 309,514,866 | 42,726,190 | 38,255,618 | 22,591,250 | 13,357,942 | 426,445,866 |
| Notes receivable | 1,250,000 | – | – | – | – | 1,250,000 |
| Due from related parties | 8,709,340 | – | – | – | – | 8,709,340 |
| Refundable deposits | 4,439,014 | – | – | – | – | 4,439,014 |
| Total loans and receivables | 388,362,692 | 42,726,190 | 38,255,618 | 22,591,250 | 13,357,942 | 505,293,692 |
| AFS investments (Note 11) | | | | | | |
| Equity securities | 787,935,685 | – | – | – | – | 787,935,685 |
| | P 1,176,298,377 | P 42,726,190 | P 38,255,618 | P 22,591,250 | P 13,357,942 | P 1,293,229,377 |

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

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

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

As of December 31, 2011 and 2010, the available credit lines with banks and outstanding balances are as follows:

| | **2011** | | |
|---|---|---|---|
| | Available credit line | Drawable line | Unpaid |
| UCPB | P 400,000,000 | P – | P 400,000,000 |
| CBC | 330,000,000 | 30,000,000 | 300,000,000 |
| BPIF | 225,983,414 | – | 225,983,414 |
| BPI | 135,000,000 | – | 135,000,000 |
| UBP | 100,000,000 | – | 100,000,000 |
| | P 1,190,983,414 | P 30,000,000 | P 1,160,983,414 |

| | 2010 | | |
|---|---|---|---|
| | Available credit line | Drawable line | Unpaid |
| UCPB | P 425,000,000 | P – | P 280,426,084 |
| BPIF | 225,000,000 | 50,000,000 | 138,811,472 |
| RCBC | 200,000,000 | – | 66,618,720 |
| UBP | 100,000,000 | – | 100,000,000 |
| CBC | 20,000,000 | | 15,729,603 |
| | P 970,000,000 | P 50,000,000 | P 601,585,879 |

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

(Amounts in Philippine Pesos)

The following table presents the Group's non-derivative financial assets and liabilities by contractual maturity and settlement dates as of December 31, 2011 and 2010. These have been based on the undiscounted cash flows and on the earliest date on which the Group will earn and/or will be required to pay.

| | **2011** | | |
|---|---|---|---|
| | Due within one year | Due beyond one year | Total |
| Financial assets: | | | |
| Cash and cash equivalents | P 149,709,918 | P – | P 149,709,918 |
| Accounts receivable | 231,234,833 | 267,795,047 | 499,029,880 |
| Notes receivable | 920,417 | – | 920,417 |
| Due from related parties | 4,988,050 | – | 4,988,050 |
| Refundable deposits | 24,181,212 | – | 24,181,212 |
| AFS investments | – | 727,189,676 | 727,189,676 |
| | P 411,034,430 | P 994,984,723 | P 1,406,019,153 |
| Financial liabilities: | | | |
| Short-term debt | P 100,000,000 | P – | P 100,000,000 |
| Long-term debt | 19,308,320 | 1,041,675,094 | 1,060,983,414 |
| Accounts payable and accrued expenses | 439,361,442 | – | 439,361,442 |
| Deposit from customers | 40,166,673 | – | 40,166,673 |
| Due to related parties | 76,885 | – | 76,885 |
| Dividends payable | 2,240,877 | – | 2,240,877 |
| Subscription payable | 114,550,663 | – | 114,550,663 |
| | P 715,704,860 | P 1,041,675,094 | P 1,757,379,954 |

| | 2010 | | |
|---|---|---|---|
| | Due within one year | Due beyond one year | Total |
| Financial assets: | | | |
| Cash and cash equivalents | P 64,449,472 | P – | P 64,449,472 |
| Accounts receivable | 224,710,449 | 188,377,475 | 413,087,924 |
| Notes receivable | 1,250,000 | – | 1,250,000 |
| Due from related parties | 8,709,340 | – | 8,709,340 |
| Refundable deposits | 4,439,014 | – | 4,439,014 |
| AFS investments | – | 787,935,685 | 787,935,685 |
| | P 303,558,275 | P 976,313,160 | P 1,279,871,435 |
| Financial liabilities: | | | |
| Short-term debt | P 147,492,000 | P – | P 147,492,000 |
| Long-term debt | 89,486,807 | 372,607,072 | 462,093,879 |
| Accounts payable and accrued expenses | 371,208,088 | – | 371,208,088 |
| Deposit from customers | 42,107,246 | – | 42,107,246 |
| Due to related parties | 9,616,172 | – | 9,616,172 |
| Dividends payable | 2,299,466 | – | 2,299,466 |
| Subscription payable | 114,550,663 | – | 114,550,663 |
| | P 776,760,442 | P 372,607,072 | P 1,149,367,514 |

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

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

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

Historically, the rate of fluctuations relative to its cash in bank and cash equivalents are minimal. Interest rates in 2011 and 2010 ranged from 0.25% to 3.0%.

The contract receivables on sale of real estate are managed within the parameters approved by management. Currently, these have been offered at approved fixed rates. Interest rates, which are highly controllable by the Parent Company, ranged from less than 0% to 15% in 2011 and 2010, depending on the terms and length of payment in years. Any changes in the interest rate have been subjected to thorough review and approval of the management.

Long-term debt carries fixed interest rates of 8.6% to 12.0% in 2011 and 2010.

- *Equity Price Risk.* Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. Changes in fair value of Available-for-sale equity instruments due to a reasonably possible change in equity indices, with all other variables held constant will increase equity by P58.2 million as of December 31, 2011, if equity prices will increase by 8%. An equal change in the opposite direction would have decreased equity by the same amount.

- *Foreign Currency Risk.* The Group's exposure to foreign currency risk is very minimal.

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

  The following table demonstrates the sensitivity to a reasonable possible change in the Philippine Peso – US dollar exchange rate, with all variable held constant, the Group's income before tax and the Group's equity on December 31, 2011.

| Reasonably Possible Changes in US Dollar – Philippine Peso Exchange Rate | Effect on Income before tax | Effect on Equity |
|---|---|---|
| 1% | P 18,601 | P 13,021 |
| (1%) | (18,601) | (13,021) |

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

## 34. CAPITAL MANAGEMENT

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

The Group considers the following accounts as its capital:

| | 2011 | 2010 |
|---|---|---|
| Share capital | P 1,309,924,887 | P 1,309,924,887 |
| Additional paid-in capital | 155,948,570 | 155,948,570 |
| Retained earnings | 610,442,318 | 588,106,872 |
| Treasury shares | (203,613,323) | (203,613,323) |
| | P 1,872,702,452 | P 1,850,367,006 |

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

The debt-to-equity ratios as at December 31, 2011 and 2010 follow:

| | 2011 | 2010 |
|---|---|---|
| Total debt | P 1,844,891,776 | P 1,222,607,584 |
| Total equity | 2,043,574,867 | 2,082,049,577 |
| Debt-to-equity ratio | 0.90:1.00 | 0.59:1.00 |

The Group had not been subjected to externally imposed capital requirements in 2011 and 2010. No changes were made in the objectives, policies, and processes during the years ended December 31, 2011 and 2010.

## 35. DIVIDEND DECLARATION

On December 27, 2006, the BOD declared cash dividends equal to P0.05 per share or a total of P49.4 million to shareholders of record as of January 15, 2007 payable on February 8, 2007. Relative to this, dividend payable of P45.9 million (net of withholding tax) was recognized in the December 31, 2006 consolidated statements of financial position. As of December 31, 2011 and 2010, P187,637 remained unpaid.

On July 9, 2010, the Parent Company's Board of Directors, upon the recommendation of Management, declared a cash dividend of Twenty Centavos (P0.20) per share totaling P202.0 million. Conformably with the rules of the Philippine Stock Exchange and SEC, the Record Date for the dividend shall be August 6, 2010 and Payment Date shall be on August 31, 2010.

On August 18, 2010, the Board of Directors has approved the declaration of a total of 63,120,433 of the Parent Company's treasury shares as property dividends to be reissued at P3.20 per share. Shareholders as of record date owning 16 shares shall be entitled to one treasury share. No fractional shares shall be issued. Since the property dividend shall be subject to regulatory approval of the SEC, the record date was set on November 3, 2010 and the distribution date was November 29, 2010 after an instruction was received from the SEC for the Board of Directors to set those pertinent dates. The Parent Company distributed 62,500,591 shares, net of 4,609,685 shares representing the final tax due on the reissuance of treasury shares as property dividends.

There are no income tax consequences for the Group as a result of the cash dividend declared by the Parent Company.

## 36. BUSINESS SEGMENT INFORMATION

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

| | |
|---|---|
| Real estate | Development of land into commercial and residential subdivision, sale of lots and residential houses and the provision of customer financing for sales |
| Service/<br>Manufacturing/<br>Trading | Providing water supply and servicing<br>Manufacturing of crude palm oil<br>Selling of goods on wholesale and retail basis |
| Hotel | Management of hotel operations |
| Agriculture | Development of land for palm oil production and sale of palm seedlings and sale of crude palm oil |
| Power | Operating of power plants and/or purchase, generation, production supply and sale of power. However, there was no commercial operations yet in 2011 and 2010. |
| Holding | Holding of properties of every kind and description |

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

The following tables regarding business segments presents assets and liabilities as of December 31 and revenue and profit information for each of the three years in the period ended December 31, 2011 (in thousands).

(Amounts in Philippine Pesos)

| | 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS | | | | | | | | |
| | Real estate | Service/ Manufacturing/ Trading | Hotel | Agriculture | Power Operations | Holding | Total | Adjustments and eliminations | Consolidated |
| **Revenues** | | | | | | | | | |
| External revenues | P 322,446 | P 75,589 | P 10,889 | P 7,201 | P – | P – | P 416,125 | P – | P 416,125 |
| Inter-segment revenues | 167 | | 3,025 | 4,167 | – | – | 7,359 | (7,359) | – |
| **Total revenues** | 322,613 | 75,589 | 13,914 | 11,368 | – | – | 423,484 | (7,359) | 416,125 |
| Operating expenses | 274,836 | 79,816 | 17,808 | 28,341 | 7,591 | 466 | 408,858 | (7,359) | 401,499 |
| **Operating profit (loss)** | 47,777 | (4,227) | (3,894) | (16,973) | (7,591) | (466) | 14,626 | | 14,626 |
| Dividend income | 2 | – | – | – | – | – | 2 | | 2 |
| Financial income | 36,859 | 14 | 10 | 8 | 55 | 3 | 36,949 | | 36,949 |
| Financial expenses | (39,964) | (9,481) | – | – | – | – | (49,445) | | (49,445) |
| Other income | 35,670 | 2,477 | 186 | – | – | – | 38,333 | | 38,333 |
| Income tax expense (benefit) | (26,084) | 1,443 | 1,112 | 2,784 | 2,162 | 140 | (18,443) | | (18,443) |
| **Net income** | P 54,260 | (P 9,774) | (P 2,586) | (P 14,181) | (P 5,374) | (P 323) | P 22,022 | | P 22,022 |
| Net income attributable to: | | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | | P 22,336 |
| Noncontrolling interest | | | | | | | | | (314) |
| | | | | | | | | | P 22,022 |
| **Other information** | | | | | | | | | |
| Segment assets | P 3,893,245 | P 503,043 | P 70,109 | P 231,011 | P 82,730 | P 167,972 | P 4,948,110 | (P1,111,606) | P 3,836,504 |
| Deferred tax assets | 37,956 | 3,530 | 1,148 | 6,954 | 2,177 | 197 | 51,962 | | 51,962 |
| Total assets | 3,931,221 | 506,573 | 71,257 | 237,965 | 84,907 | 168,169 | 5,000,072 | (1,111,606) | 3,888,466 |
| Segment liabilities | 1,733,158 | 390,727 | 18,291 | 262,210 | 65,429 | 144,750 | 2,614,565 | (857,185) | 1,757,380 |
| Deferred tax liabilities | 87,512 | – | – | – | – | – | 87,512 | | 87,512 |
| Total liabilities | 1,820,670 | 390,727 | 18,291 | 262,210 | 65,429 | 144,750 | 2,702,077 | (857,185) | 1,844,892 |
| Segment additions to property and equipment and investment properties | 33,682 | 52,084 | 9,928 | 11,034 | 50,871 | 1,482 | 159,081 | | 159,081 |
| Depreciation and amortization | (11,012) | (2,653) | (2,234) | (2,722) | (379) | (2) | (19,002) | | (19,002) |
| Impairment loss | (1,529) | – | – | – | – | – | (1,529) | | (1,529) |

(Amounts in Philippine Pesos)

2010

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

| | Real estate | Service / Manufacturing/ Trading | Hotel | Agriculture | Power Operations | Holding | Total | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| External revenues | P 159,750 | P 46,037 | P 9,745 | P – | P – | – | P 215,532 | P – | P 215,532 |
| Inter-segment revenues | 156 | – | 1,808 | 1,992 | – | – | 3,956 | (3,956) | – |
| **Total revenues** | 159,906 | 46,037 | 11,553 | 1,992 | – | – | 219,488 | (3,956) | 215,532 |
| Operating expenses | 231,506 | 44,490 | 11,395 | 4,483 | 169 | 203 | 292,246 | (3,956) | 288,290 |
| **Operating profit (loss)** | (71,600) | 1,547 | 158 | (2,491) | (169) | (203) | (72,758) | – | (72,758) |
| Gain on sale of AFS investment | 167,683 | – | – | – | – | – | 167,683 | – | 167,683 |
| Dividend income | 384,948 | – | – | – | – | – | 384,948 | – | 384,948 |
| Financial income | 65,155 | 15 | 49 | 6 | 176 | – | 65,401 | – | 65,401 |
| Financial expenses | (97,887) | (8) | – | – | – | – | (97,895) | – | (97,895) |
| Other income | 21,236 | 1,313 | 220 | 3 | – | – | 22,772 | – | 22,772 |
| Income tax expense (benefit) | 17,070 | (1,022) | (130) | (652) | 16 | 57 | 15,339 | – | 15,339 |
| **Net income** | P 486,605 | P 1,845 | P 297 | (P 3,134) | (P 23) | (P 146) | P 485,490 | P – | P 485,490 |
| Net income attributable to: | | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | | P 485,472 |
| Noncontrolling interest | | | | | | | | | 18 |
| | | | | | | | | | P 485,490 |
| **Other information** | | | | | | | | | |
| Segment assets | P 3,273,638 | P 271,414 | P 70,570 | P 151,359 | P 12,550 | P 85,976 | P 3,865,507 | (P 616,509) | P 3,248,998 |
| Deferred tax assets | 49,540 | 1,875 | – | 4,170 | 16 | 57 | 55,658 | – | 55,658 |
| Total assets | 3,323,178 | 273,289 | 70,570 | 155,529 | 12,566 | 86,033 | 3,921,165 | (616,509) | 3,304,656 |
| Segment liabilities | 1,132,943 | 147,668 | 21,846 | 167,281 | 2,818 | 84,679 | 1,557,235 | (407,844) | 1,149,391 |
| Deferred tax liabilities | 73,217 | – | – | – | – | – | 73,217 | – | 73,217 |
| Total liabilities | 1,206,160 | 147,668 | 21,846 | 167,281 | 2,818 | 84,679 | 1,630,452 | (407,844) | 1,222,608 |
| Segment additions to property and equipment and investment properties | 58,543 | 22,091 | 15,451 | 6,440 | 2,692 | 60,420 | 165,637 | – | 165,637 |
| Depreciation and amortization | (15,401) | (2,251) | (655) | (1,214) | – | – | (19,521) | – | (19,521) |
| Impairment loss | (1,529) | – | – | – | – | – | (1,529) | – | (1,529) |

(Amounts in Philippine Pesos)

2009

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

| | Real estate | Service/ Manufacturing/ Trading | Hotel | Agriculture | Power Operations | Total | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | |
| External revenues | P 189,342 | P 32,191 | P 4,992 | P – | P – | P 226,525 | P – | P 226,525 |
| Inter-segment revenues | 163 | 150 | 1,811 | 1,458 | – | 3,582 | (3,582) | – |
| **Total revenues** | 189,505 | 32,341 | 6,803 | 1,458 | – | 230,107 | (3,582) | 226,525 |
| Operating expenses | 216,435 | 36,174 | 5,632 | 5,413 | 390 | 264,044 | (3,582) | 260,462 |
| **Operating profit (loss)** | (26,930) | (3,833) | 1,171 | (3,955) | (390) | (33,937) | – | (33,937) |
| Gain on sale of investment property | 168,666 | – | – | – | – | 168,666 | – | 168,666 |
| Gain on sale of AFS investment | 1,654 | – | – | – | – | 1,654 | – | 1,654 |
| Financial income | 202,641 | 28 | 51 | 2 | 70 | 202,792 | – | 202,792 |
| Financial expenses | (236,343) | – | – | – | – | (236,343) | – | (236,343) |
| Other income | 23,410 | 1,703 | 91 | – | 6 | 25,210 | – | 25,210 |
| Income tax expense (benefit) | (21,724) | (4,238) | (378) | 1,189 | – | (25,151) | – | (25,151) |
| **Net income** | P 111,374 | (P 6,340) | P 935 | (P 2,764) | (P 314) | P 102,891 | P – | P 102,891 |
| Net income attributable to: | | | | | | | | |
| Equity holders of Parent Company | | | | | | | | P 103,053 |
| Noncontrolling interest | | | | | | | | (162) |
| | | | | | | | | P 102,891 |
| **Other information** | | | | | | | | |
| Segment assets | P 5,548,089 | P 153,563 | P 62,743 | P 90,236 | P 7,223 | P 5,861,854 | (P 235,574) | P 5,626,280 |
| Deferred tax assets | 28,093 | 2,555 | – | 4,800 | – | 35,448 | – | 35,448 |
| Total assets | 5,576,182 | 156,118 | 62,743 | 95,036 | 7,223 | 5,897,302 | (235,574) | 5,661,728 |
| Segment liabilities | 3,325,963 | 32,342 | 14,791 | 103,840 | 5 | 3,476,941 | (31,417) | 3,445,524 |
| Deferred tax liabilities | 72,058 | – | – | – | – | 72,058 | – | 72,058 |
| Total liabilities | 3,398,021 | 32,342 | 14,791 | 103,840 | 5 | 3,548,999 | (31,417) | 3,517,582 |
| Segment additions to property and equipment and investment properties | 7,929 | 10,381 | 838 | 550 | – | 19,698 | – | 19,698 |
| Depreciation and amortization | (12,765) | (3,179) | (3,215) | (858) | – | (20,017) | – | (20,017) |
| Impairment loss | 1,529 | – | – | – | – | 1,529 | – | 1,529 |

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

| | **2011** | 2010 | 2009 |
|---|---|---|---|
| Real estate: | | | |
| Sale of lot – real estate held for sale | **P 315,358,517** | P 152,264,626 | P 182,032,707 |
| Rental – investment properties | **7,087,811** | 7,485,136 | 7,309,317 |
| | **322,446,328** | 159,749,762 | 189,342,024 |
| Service/Manufacturing and trading: | | | |
| Crude palm oil | **71,318,039** | 34,289,632 | 23,534,743 |
| Crop | **7,201,494** | – | – |
| Water service | **2,719,651** | 8,080,397 | 8,145,939 |
| Palm seedlings and kernel nuts | **1,386,893** | 923,050 | 510,873 |
| Fertilizer | **164,280** | 2,743,650 | – |
| | **82,790,357** | 46,036,729 | 32,191,555 |
| Hotel operations: | | | |
| Rental | **122,727** | 1,473,166 | 2,727,229 |
| Hotel operations | **10,766,361** | 8,272,279 | 2,264,606 |
| | **10,889,088** | 9,745,445 | 4,991,835 |
| | **P 416,125,773** | P 215,531,936 | P 226,525,414 |

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

## 37. AMENDMENTS TO THE ARTICLES OF INCORPORATION

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

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

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

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

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

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

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

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

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

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

   As of March 12, 2012, the pertinent documents necessary to be submitted to the SEC for approval had not yet been forwarded to the latter.

## 38. OTHER MATTER

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

KASAMAKA had been granted with Community Based Forest Management Agreement (CBFMA) No. 55093, by the Department of Environment and Natural Resources (DENR) on December 22, 2000 covering an area of 2,510.8 hectares. Under the CBFMA, KASAMAKA is mandated to develop, manage and protect the allocated community forest project area. Moreover, it is allowed to enter into agreements or contracts with private or government entities for the development of the whole or portion of CBFMA area.

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

The responsibilities of KASAMAKA in regard to the project are as follows:

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

On the other hand, the responsibility of ABERDI in regard to the project is to provide technical and financial resources to develop the 894 hectares into palm oil plantation for a period of 20 years up to 2026. The responsibilities to the contract were transferred to Nakeen Corporation (NC).

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

## 39. LITIGATION

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

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

## 40. INVESTMENT IN TEXAS OIL-PROSPECTS

In June 2010, the Parent Company has acquired a 25% interest on the BG-1 Prospect located in Golland County, Texas, USA which is operated by Esenjay Oil and Gas Limited, an entity based in Corpus Christi, Texas, USA.

The BG-1 Prospect was an untested 530 acre structural fault trap located in an area that was expected to contain commercial oil and gas deposits due to the presence of several producing fields nearby. The prospect was supported by 3D seismic data that was acquired only recently. The Parent Company's investment for the said project amounted to P16,911,988.

The drilling of Albrecht-1 well in BG-1 prospect, Goliad, Texas has been terminated as of July 11, 2010. The well was drilled down to planned total depth of 9,850 feet encountering prognosticated gas charged reservoirs at depth. Subsequent electric logging and formation tests have confirmed that the reservoir does not have sufficient permeability to justify production. The Parent Company has concurred with the recommendation of Esenjay Petroleum Corp. (Operator) to plug and abandon the well. In effect, the Parent Company recognized the loss on its investment in the said project during the period.

## 41. TREASURY SHARES

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

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

After the sale of treasury shares and distribution of property dividends (see Note 35), there are still 173,633,704 shares that are held in treasury as of December 31, 2010.

# BOARD OF DIRECTORS

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

Dr. Brown is currently the President of Monte Oro Resources and Energy, Inc., Vice Chairman of Atok-Big Wedge Co., Inc., Director of Forum Energy Plc., and Director of ISM Communications Corp. He has also held executive posts in various mining and oil companies, both local and international.

**ROBERTINO E. PIZARRO**
**Director and President**

He is the President of ABCI's many subsidiaries: ABERDI, Brown Resources Corporation, NAKEEN Corporation, Xavier Sports and Country Club, Andesite Corporation, Bonsai Agricultural Corporation and Minpalm Agricultural Co., Inc. He also sits as the Secretary of Oil Palm Industries Association of Northern Mindanao (OPIANOM).

**ANNABELLE P. BROWN**
**Director**

She is concurrently the President of PBJ Corporation, Treasurer of Brown Resources Corporation, Treasurer/Director of Bendaña-Brown Holdings Corporation and Pine Mountain Properties Corp. She is also the founding chairperson of Alalay sa Pamilya at Bayan (APB) Foundation, Inc. and is affiliated with several other foundations including DAWV, PCDW, and Educhild.

**ANTONIO S. SORIANO**
**Director**

Atty. Soriano is the Senior Managing Partner of Soriano, Araña, Seriña, Saarenas & Sarceno Law Office and is the Corporate Secretary of various organizations including: RISE Foundation, Inc., ICS Development Corp., PACEMAN General Services, Kagayhaan-Davao Resources Mgt. Corp., and the Kagayhaan - Cagayan de Oro City Resources Mgt. Corp.

**GERARDO DOMENICO V. LANUZA**
**Director**

He sits as Vice President of Campos, Lanuza & Co., Inc. and Director of Philippine Realty and Holdings Corp.

**ELPIDIO M. PARAS**
**Independent Director**

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

**ROLANDO T. DY**
**Independent Director**

Dr. Dy is currently the Exec. Director of the Center for Food and Agri Business and a board member of the Phil. Chamber of Agriculture and Food, Inc. He was formerly Dean of the School of Management of UA&P and has also served the Congressional Oversight Committee for Agriculture and Fisheries Modernization, the Inst. for Agribusiness Dev't. & Policy and the World Bank.

# CORPORATE SECRETARY

**JASON C. NALUPTA**

He is a Partner at Tan Venturanza Valdez specializing on corporate, securities, and business laws. Mr. Nalupta earned his Juris Doctor degree, as well as his Bachelor of Science degree in Management (major in Legal Management), from the Ateneo de Manila University in 1996 and 1992, respectively. Mr. Nalupta was admitted to the Philippine Bar in 1997.

# BOARD COMMITTEES

**EXECUTIVE COMMITTEE**
Chairman: Annabelle P. Brown
Members:
Walter W. Brown
Robertino E. Pizarro

**COMPENSATION COMMITTEE**
Chairman: Rolando T. Dy
Members:
Annabelle P. Brown
Elpidio M. Paras

**NOMINATION COMMITTEE**
Chairman: Rolando T. Dy
Members:
Elpidio M. Paras
Walter W. Brown

**AUDIT & RISK COMMITTEE**
Chairman: Elpidio M. Paras
Members:
Rolando T. Dy
Gerardo Domenico V. Lanuza

**GOVERNANCE COMMITTEE**
Chairman: Rolando T. Dy
Members:
Elpidio M. Paras
Antonio S. Soriano

**COMMITTEE ON CORPORATE CULTURE AND VALUES FORMATION**
Chairman: Annabelle P. Brown
Members:
Rolando T. Dy
Elpidio M. Paras

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