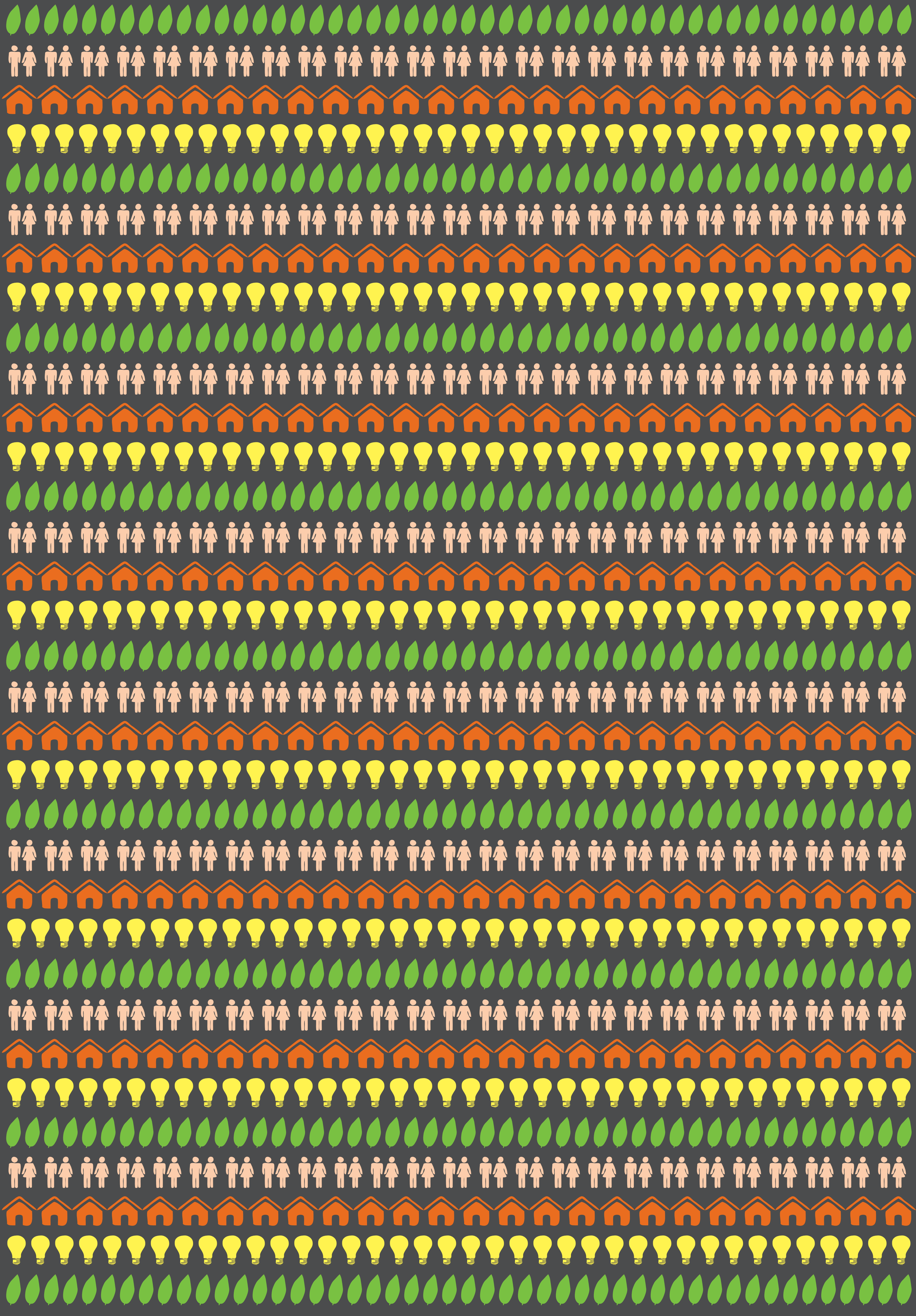
A BROWN COMPANY, INC.

A BRIGHT UNDERTAKING

2012 Annual Report

Contents



About the Cover

The artistic cover of this year's annual report illustrates the wondrous Philippine archipelago. Highlighted is the island of Mindanao, the centre place of our operations. The icons are simple representations of the vast work of A Brown Company, Inc. – real estate, palm oil, and power generation.

The title "A Bright Undertaking" speaks for the impact of the company's operations in the Mindanao area. The work of our company aims to both empower and brighten the lives of the people.

Mission

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

Thinking innovatively, building lasting relationships and acting with genuine concern for all our stakeholders and the environment;

Responsibly utilizing and managing the resources for the development of products and services for love of the common good;

Incessantly providing means for its workers to develop their potentials to the fullest; and

Living the company's shared values of integrity; passion for excellence and love for work; 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.

Shared Values

Passion for Excellence and Love for Work:
Order and Discipline; Initiative; Innovativeness and Enterprising; Sound Judgement; Optimism and Efficiency; Competence and Professionalism;

Family Spirit: Unity; Loyalty and Concern; Respect and Humility; Cheerfulness; Generosity

Integrity: Love for GOD and others; Moral Integrity; Honesty and Credibility; Stewardship; Prudence

Walter W. Brown
Executive Chairman

Robertino E. Pizarro
President

Joint Message of the Executive Chairman and the President

2012 was a banner year for both the Philippines and our company. Philippine GDP grew by 6.10% in the fourth quarter, resulting in a figure of 6.6% for the year, which exceeded expectations of most economists. This performance was highlighted by the fact that the developed world appeared to be in crisis or at least in an economic slowdown. Prominent drivers of growth were remittances from overseas workers, jobs and revenues generated from call centers, outsourcing and processing centers, as well as the continuation of a strong performance by the real estate sector which generated continued growth in the construction sector further supporting the consumer market. In addition, the drive for increased tax collection, the increased level of infrastructure spending and growth, both domestic and international tourism, low interest rates resulted in record levels of liquidity which propelled the stock market to historic highs.

Our company benefitted from increased demand for our real estate projects and lower interest costs. Revenues of Php 740 million for 2012 exceeded 2011 figures by 53%. Net income stood at Php 69.5 million three times 2011 figures of Php 22 million. These figures are indicative of our dominant position in the Cagayan de Oro residential market. For the coming year, we will continue with our developments in the Cagayan de Oro area, Bukidnon, Misamis Oriental and fast track our first residential community project based around a golf course in Butuan.

The improved liquidity in the financial system supported our successful private placement which gave us the financial means necessary to implement our first venture into the power generation sector. Our previous successful venture into the energy sector was our investment in the transmission business through Monte Oro Grid which we sold in 2010. As of year end, we have entered into a joint venture with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource, Inc. (JNRI), subsidiary companies of the Ayala and Ng groups, respectively, to jointly undertake the construction of a 135 megawatt coal fired power plant in Concepcion, Iloilo.

We expect financial closure by mid 2013, construction to start by second quarter of 2013, and commissioning of the plant by 2015. While only 135 megawatts is on a firm basis, the plant site and support units are programmed for 2 units. We project preparations for the second unit to begin 2 to 3 years after commissioning of the first unit if the power market in the region continues to expand as projected.

Responding to the acute lack of power in Mindanao, the company will be incorporating a subsidiary early 2013 dedicated to help solve the problem by providing reliable baseload support until the coal fired units come on stream in the next 2 to 3 years and after that to serve as peaking power at competitive costs. On a longer term basis we expect approval of our Service Contract Application with the DOE for 26 megawatts of hydro based power in Surigao within 2013 and we continue to look for other projects similar to it.

We continue with our palm oil projects. The slump in both palm oil and coconut oil prices hand in hand with widespread importation from other Southeast Asian countries of processed material has adversely affected our palm oil projects. We are confident that when the refinery we are in the process of installing becomes operational by midyear 2013 we will regain profitability as it will allow us to market more directly to consumers at higher prices and better margins at the same time considerably expanding our market size.

We have maintained our investment in Monte Oro Resources which give us an indirect 3.51% interest in SC 72 in the Recto Bank plus shares in Monte Oro's 12% interest in Apex Mining and its mining projects in Myanmar, Mongolia and Sierra Leone.

We are optimistic that the earnings that will be generated by our projects will significantly exceed our current modest income levels. We thank you for your patience and your continued confidence in management, and will do our utmost to continue to deserve your support.

Walter W. Brown
Chairman of the Board

Robertino E. Pizarro
President

Financial Highlights

Amidst the global economic downturn, our country proved its resilience as an emerging market economy driven by the following positive factors, a strong inflow of overseas workers' remittance, a progressive business process outsourcing industry, the robust performance of the trade and real estate sector, and improvements in the manufacturing and construction business. As a result, the Philippines registered one of the highest GDP growth rates in the Asian region at 6.6% besting its neighboring ASEAN nations.

This growth is also evident in our Company's financial performance as the company registered a net income of Php 69.5 million, an increase of Php 47.5 million as compared to Php 22.02 million in 2011.

		2012		2011
Financial Performance				
Revenues	P	740,453,388	P	482,858,037
Net Income	P	69,503,452	P	22,021,299
Equity holders of the Parent Company		69,928,799		22,335,446
Noncontrolling Interest		(425,347)		314,147
Return on Assets[1]		1.36%		0.57%
Return on Equity[2]		2.48%		1.08%
Financial Position				
Total Current Assets		2,366,395,838		1,255,232,557
Total Assets		5,113,834,538		3,888,466,643
Total Current Liabilities		694,383,183		715,704,860
Total Long-term Debt		1,532,991,485		1,041,675,094
Total Debt		2,305,659,327		1,844,891,776
Total Equity		2,808,175,211		2,043,574,867
Equity holders of the Parent Company		2,805,222,681		2,039,784,490
Noncontrolling interest		2,952,530		3,790,377
No. of Shares Outstanding		1,386,293,229		1,136,293,229
Weighted Average No. of Outstanding Shares		1,177,146,587		1,136,293,229
Current Ratio[3]		3.41		1.75
Current Debt to Equity Ratio[4]		0.25		0.35
Total Debt to Equity Ratio[5]		0.82		0.90
Earnings Per Share Data[6]	P	0.0594	P	0.0197
Net Book Value Per Share[7]	P	2.02	P	1.795
Net Asset Value Per Share[8]	P	2.436	P	2.338

[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*

Operational Highlights

REAL ESTATE

ABCI is the established leader in residential real estate development in Northern Mindanao. The demand for Xavier Estates lots continue to be strong due to its location which is flood free, in addition, it has excellent infrastructure in terms of roads and its own water supply, the extent of greenery as well as security facilities and the largest best equipped club in Northern Mindanao. To date 2,735 lots have been developed in the various phases of Xavier Estates of which 2,591 have been sold. At the end of 2012- 62 houses have been built and 35 are under construction for our initial foray into housing initiatives - Phase 5A Ventura Residences.

While the initial phases are practically fully sold, continuous strong demand has resulted in further expansion. Your company has also expanded by means of other premiere projects in Teakwood Hills as well as Valencia Estates in Bukidnon, Coral Pebbles Resort & Residences in Misamis Oriental and West Highlands in Butuan.

Cagayan de Oro City

On the other hand, Phase 1 and 2 of Xavierville Homes is 100% complete as to roads and support facilities. Retouching of existing and completed units is being done for its housing component.

Located some 2.3 kilometers from the national highway going uphill, Teakwood Hills Subdivision is an idyllic enclave that has a breathtaking 180-degree scenic view of the mountains and Macalajar Bay in Cagayan de Oro City. Phase 1 consists of 10.56 hectares and is 100% complete. Phase 2 covers 11.55 hectares and is 95% complete. An additional 5.6 hectares is reserved for future expansion.

In 2013, we will venture into our initial commercial building development along the business strip of Xavier Estates.

Socialized Housing

The company has ventured into socialized housing. St. Therese Subdivision located in mid- Balulang, Cagayan de Oro is a 1.6720-hectare project that will provide 155 lots of which 91 lots are row houses and 38 units are single-attached.

Bukidnon

The horizontal works of Valencia Estates in Bukidnon is 100% done. The main gate, the multi-purpose hall and swimming pool were completed in 2012. The construction of the 2 model houses was also completed.

Misamis Oriental

Another residential venture is Coral Pebbles Resort & Residences (previously disclosed as Initao Seasides Estates), located in Initao, Misamis Oriental with a total land area of 10 hectares and consists of 207 lots. Phase 1 of the project will consist of 100 lots. Cluster A has 50 saleable lots with an area of 2.2 hectares. As of the end of the year, 63% has been completed.

Butuan

West Highlands is a golf and residential estate located in Brgy. Bonbon, Butuan City. The estate has a total land area of 60 hectares and is 289 feet above sea level which gives lot owners a panoramic view of historic Mt. Mayapay or the cityscape.The percentage completion of Phase 1 is 32.60%. The target saleable area for this initial phase is 2.21 hectares comprising of 102 lots out of a 4 hectare gross area.

Real estate sales recorded this year amounted to Php 446.16 million which is an increment of 43.9% from last year's Php 310.32 million. This increase in recorded sales is attributed to the 205 accounts booked this year as compared to last year's 162 accounts. The sales of aggregates in 2012 of Php 19.8 million (35,420 cubic meters) was almost four times the sales of Php 5.24 million (20,418 cubic meters) in 2011, a result of the increased building activity on the region.

PALM OIL

Palm oil is the most important tropical vegetable oil in the global oils and fats industry in terms of production and trade. The demand for palm oil is expected to increase by 25.7 million tons by 2020 from a base of 52.3 million tons in 2012.

For the year 2012, sales of crude palm oil increased by 16% or Php 11.32 million from sales of Php 71.32 million last year. Although the sales volume increased by 927 metric tons or 54.16% as compared to the 2,639 metric tons in 2012, the average selling price decreased by 25% from last year's Php 41,666 per metric ton. The world market experienced a price reduction in palm oil during the last quarter which reflected the same scenario in the Philippines due to the economic slowdown in Europe and widespread importation from other Southeast Asian countries.

Our agriculture based units also acquired 3,690 hectares (gross area) for development, of which almost 1,534 hectares were planted while about 1,178 hectares were prepared for planting.

A Brown Energy and Resources Development, Inc. (ABERDI) will soon introduce to the market Refined Bleached Deodorized (RBD) palm oil products. We started the ground works for the RBD refinery with a fractionation machine with a capacity of 50 metric tons per day. Assuming the palm oil mill operates at full capacity of 400 metric tons per month, the refinery will produce 380 metric tons of RBD oil. After fractionation, 266 metric tons of Palm Olein and 114 metric tons of Palm Stearin will be produced monthly. The Refinery is scheduled to be operational by June 2013.

The crude palm oil mill's water treatment facilities have also been constructed and the roofing of the mill's impounding box and boiler were replaced to maximize efficiency.

COAL-FIRED POWER

To tap the increasing demand for power with limited supply especially in the Visayas area, the Company incorporated Palm Thermal Consolidated Holdings Corp. (PTCHC) and Panay Consolidated Land Holdings Corporation (PCLHC).

In 2010, Palm Thermal Consolidated Holdings, Corp.(PTCHC) acquired one hundred percent (100%) of the outstanding capital stock of DMCI Concepcion Power Corporation (DCPC) and Panay Consolidated Land Holdings, Corp. (PCLHC) acquired 30 hectares of land from DMCI Power Corporation (DPC). DCPC was renamed to Palm Concepcion Power Corporation (PCPC) upon approval by the Securities and Exchange Commission on March 2011.

ABCI received a letter on 13 February 2012 from the Department of Energy which reclassified the 2x100 (now 2x135)- megawatt Concepcion coal-fired power plant project of Palm Concepcion Power Corporation from "Indicative" to "Committed" project.

PCPC signed an agreement to tap the services of SNC- Lavalin, Inc., a global leader in the field of Engineering, Construction and Operations, as its Owner's Engineer of the project in the early second quarter of 2012. As Owner's Engineer, SNC-Lavalin will be providing technical advisory from the engineering stage up to the completion of the power project. In early October 2012, PCPC signed a Connection Agreement with the National Grid Corporation of the Philippines (NGCP). This connection agreement paves the way to ensure dispatch of PCPC's generation output to its customers via the facilities of system operator NGCP.

Towards the fourth quarter of the year, ABCI, PTCHC, PCLHC and PCPC entered into various agreements with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource Inc. (JNRI) which decreased PTCHC shareholdings in PCPC from 100% to 30% and also allowed PTCHC to acquire a 30% shareholding in PCLHC with ACEHI at 40% and JNRI at 30% for both PCPC and PCLHC.

Last January 15, 2013, the ground breaking ceremony was held to officially launch the project. NLSC- the consortium of First Northeast Electric Power Engineering Corp. of China (NEPC), Liaoning Electric Power Survey & Design Institute and Shenyang Electric Power Design Institute Co., Ltd. - is the project's general engineering, procurement and construction contractor. Alstom Power of Europe, one of the world's foremost suppliers of steam turbines and power generation equipment, will provide the steam turbine and generator for this project. SNC-Lavalin will also be tapped as the Project Construction Manager.

The project is in its final stages of the pre-development. Efforts are now underway to complete all the requirements for the financial closing and prepare the host community for the construction phase of the project.

The plant is targeted to fill the anticipated tight power supply situation in Panay and the Visayas grids by 2016, as economic activity continues to expand in the area.

HYDRO POWER

Hydro Link Projects Corporation (HLPC) is currently pursuing the 26- megawatt Carac-an Hydroelectric Project (CHP) in Madrid, Surigao del Sur. This project is ABCI's first foray in the renewable energy field.

The Department of Energy (DOE) has recently completed the financial, technical and legal evaluation of the CHP Service Contract Application and the Hydropower Service Contract is currently being reviewed and we expect it to be signed within 2013.

CHP aims to augment the electricity supply in the franchise areas of Surigao del Sur I and II.

BUNKER-FIRED POWER

In 2013, Peakpower Energy, Inc. will be set up to implement 12 projects designed to generate an aggregate of 110 megawatts of peaking energy spread out across various A+/Green rated electric cooperatives in Mindanao. These are Build-Operate-Maintain and Transfer agreements for brand new Bunker-fired engines, which will last for 15 years.

The salient points of the projects are: short gestation, take or pay on the capital expenditure, direct connection to the grid and a significant contribution to address the lack of base load power in the Mindanao grid for the next 2 to 3 years and in the future to allow the cooperatives to meet the needs for peaking power.

A Power Purchase and Transfer Agreement with South Cotabato II Electric Cooperative was signed last March 20, 2013 for a 20.9 MW plant to be installed in the heart of General Santos City.

Corporate Social Responsibility

ABCI

In partnership with Habitat for Humanity Philippines, Inc. and People Management Association of the Philippines (PMAP) – Cagayan de Oro Chapter, ABCI participated in the build-a-home activity held at Xavier Ecoville in Brgy. Lumbia, Cagayan de Oro City last July 21, 2012. The project was conducted to provide permanent shelters for the survivors of the Typhoon Sendong. There were 23 ABCI employees enlisted for the said event. Other volunteers were welcomed to join the outreach program, from others willing to devote their time and efforts in helping build a new community for the victims.

ABCI initiated a mass wedding ceremony which took place in December at the Our Lady of Guadalupe Chapel, Xavier Estates, Cagayan de Oro City. Out of the 55 couples, 49 belong to the manpower service and security providers of the Company while 6 couples came from A Brown's subsidiaries. The newlyweds expressed their gratitude for the opportunity to realize their long-time wish- to be one in the eyes of God. The mass wedding officiated by Monsignor Salvador was attended by relatives, co-workers and friends of the couples. After the ceremony, the couples enjoyed the sumptuous meal prepared specially for them.

Our annual bloodletting project was held at Xavier Sports and Country Club, participated in by 16 ABCI employees who were successful donors. This event was in support of the Philippine National Red Cross- Cagayan de Oro Chapter for their blood donation campaign.

ABERDI

Over the years, ABERDI has maintained its tradition of supporting the indigenous tribes and to provide community benefits in line with its Corporate Social Responsibility (CSR). Employment generation continues by hiring Higaonons for ABERDI's 1,500 hectare palm oil plantation. The total number of plantation workers in 2012 is almost 400, 75% of which belong to Higaonon tribe. The following CSR activities were also carried out, among others: donation of Higaonon Tribal uniforms, cash assistance for the improvement of the existing barangay water system as well as the transfer of Rizal monument from its original site to Municipal Park at Tingalan, Opol , donation of used computers to the rural school in Tignapoloan, Cagayan de Oro City and concreting of road sidewall in Opol.

PCPC

The Company makes every effort to connect with the communities where it operates in many ways. Our company values this collaboration with the local communities and endeavours to make its presence be felt in a positive way.

Seeing things through the eyes of others always provides new perspectives. At PCPC, we make the extra effort to be all-encompassing, to invite a diversity of opinions with the objective of achieving better business results. We take the time to build and maintain relationships with the communities where we operate, local officials, landowners and local groups. We believe that by listening to them and incorporating their input, we can develop comprehensive plans that are more likely to receive timely and necessary approvals from regulatory authorities.

Through the initiative of PCPC's CSR team, the people in the relocation site were organized into two groups – the Puntales Producer's Cooperative (PPC) and homeowners association also known as the Don Carmelo Village Association (DCVA). Training and mentoring programs were conducted for these two organizations in the relocation site to assist them in carrying out community development initiatives. We also introduced activities leading to a strong and independent livelihood development project. Initial plans of establishing a calamansi plantation and eventually, an inter-cropping project are now under exploration.

The company also continuously supports the host community's projects by helping fund local activities and programs and support traditional festivities and local athletic competitions. Nonetheless, PCPC's community support extends beyond financial donations as the company also assisted in facilitating arrangements for the transfer of ownership of the access road to the relocation site, from a private donor to the Barangay of Nipa. This was also the case of the portion of the provincial road going to the project site, which PCPC arranged so that the portion of this particular road owned by a private landowner will be donated to the Province.

We are also constantly working on the active information dissemination campaign through regular dialogue and consultation meetings with local officials.

Above all these, PCPC remains faithful in its commitment to do its part in preserving and protecting the environment. Through the corporation's CSR group, we collaborated with the local government units in the National Greening Program of the government and became part of the tree planting project of the Municipality of Concepcion.

For 2013, PCPC will be launching its own project called the Green Program for Active Reforestation and Conservation (Green P.A.R.C.). This project aims to contribute to the expansion of Mount Apitong forest, in order to restore the environmental and economic benefits that it provides to the community, maintain a nursery of seedlings to continuously populate the trees in the impacted areas of the Coal-Fired Power Plant project, contribute to the restoration and conservation of identified mangrove areas and for the program to serve as a vehicle to strengthen and unify the local community. The program will be launched by the second quarter of the year with initial planting activities in the 5-hectare site of Mount Apitong then followed by coastal clean-up and planting activities in the identified mangrove areas.

The concerns of communities, landowners and the environment are balanced with our responsibility to build and maintain an essential energy infrastructure that will soon support the power needs of the people living in the areas we will serve. The company believes that it's important to get to know the people and organizations with whom we will be working, since it's developing a presence in the local communities and they expect this presence to be lasting. PCPC believes that being there helps build stronger relationships.

Board of Directors 2012-2013

L to R (seated): Rosa Anna Duavit Santiago, Robertino E. Pizarro, Walter W. Brown, Annabelle P. Brown
(standing): Gerardo Domenico V. Lanuza, Elpidio M. Paras, Antonio S. Soriano, Thomas G. Aquino, Jason C. Nalupta, Roel Z. Castro

Board Committees

Executive Committee

Chair: Annabelle P. Brown
Members: Walter W. Brown
Robertino E. Pizarro

Audit & Risk Committee

Chair: Elpidio M. Paras
Members: Thomas G. Aquino
Gerardo Domenico V. Lanuza

Nomination Committee

Chair: Thomas G. Aquino
Members: Elpidio M. Paras
Walter W. Brown

Compensation Committee

Chair: Thomas G. Aquino
Members: Annabelle P. Brown
Elpidio M. Paras

Governance Committee

Chair: Elpidio M. Paras
Members: Thomas G. Aquino
Antonio S. Soriano

Corporate Culture and Values Formation Committee

Chair: Annabelle P. Brown
Members: Thomas G. Aquino
Elpidio M. Paras

Walter W. Brown

Executive Chairman

Dr. Brown is currently the Chairman of Palm Thermal Consolidated Holdings Corporation, ABERDI and PhiGold Ltd. , President of Atok-Big Wedge, Co.,Inc., and a Director of Forum Energy Plc., Monte Oro Resources and Energy, Inc. and ISM Communications Corporation. He has also held executive posts in various mining and oil companies, both local and international.

Robertino E. Pizarro

President

He is the President of ABCI's many subsidiaries: ABERDI, Brown Resources Corporation, Xavier Sports & Country Club, Andesite Corporation, Bonsai Agricultural Corporation. Presently, he is also the President of Philippine Palm Oil Development Council, Inc. (PPDCI).

Annabelle P. Brown

Director

She is concurrently the President and Director of PBJ Corporation, Treasurer of Brown Resources Corporation, Treasurer/ Director of Bendana-Brown Holdings Corporation and Pine Mountain Properties Corporation. She is also the Chairperson of Rosevale School in Cagayan de Oro City, Professional & Cultural Development of Women (PCDW) Foundation, Inc. and Development Advocacy of Women Volunteerism (DAWV) Foundation, Inc.; President and Founder of Alalay sa Pamilya at Bayan (APB) Foundation, Inc. She is also affiliated with Educhild Foundation, Inc.

Antonio S. Soriano

Director

Atty. Soriano is the Senior Managing Partner of Soriano, Saarenas & Associates Law Office. He is the Corporate Secretary of Rise Foundation and Kagayhaan-Davao Resources Management Corporation and the Chairman of Xavier Sports & Country Club, Roadside Shops, Inc., Cagayan de Oro Medical Center and Philippine National Red Cross- Misamis Oriental Chapter.

Gerardo Domenico V. Lanuza

Director

He sits as Vice President of Campos, Lanuza & Co., Inc. and Director and Vice-President-Special Projects of Philippine Realty and holdings Corporation

Elpidio M. Paras

Independent Director

He is the President and CEO of Parasat Cable TV, Inc., Arriba Telecontact, Inc., UC-1 Corporation, Inc. and Jade Cable TV Systems, 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.

Thomas G. Aquino

Independent Director

He is a Senior Fellow at the Center for Research and Communication of the University of Asia and the Pacific. He is the Chairman of Information Capital Technology Ventures Inc., an Independent Director of Alsons Consolidated Resources, Inc. and a Director of Philippine National Construction Corporation.

Roel Z. Castro

Director / Vice-President – Business Development

He joined the company as Vice-President for Business Development last May 2010. He is also the President and CEO of Palm Thermal Consolidated Holdings Corp., Panay Consolidated Land Holdings Corp. and Palm Concepcion Power Corporation. He finished his Bachelor of Science in Agricultural Business degree at the University of the Philippines – Los Baños. He also earned his Master in Management at Asian Institute of Management with commendation in 1997.

Rosa Anna Duavit Santiago

Director / Vice President and Chief Finance Officer / Treasurer

She is the Vice President and Chief Finance Officer since March 2011. She is currently the Treasurer of the company upon her appointment last July 2011. She took her undergraduate degree with double major in Economics and Accounting at De La Salle University in 1986 and passed the May 1987 CPA Board Examination. In 1993, she earned her Doctor of Jurisprudence at Ateneo de Manila University and subsequently, admitted to the law profession after passing the September 1993 Bar examination.

Atty. Jason C. Nalupta

Corporate Secretary

He is a Partner of Tan Venturanza Valdez specializing on corporate, securities and business laws. Atty. 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. Atty. Nalupta was admitted to the Philippine Bar in 1997.

Anna Francesca C. Respicio

Asst. Corporate Secretary

She is one of the Associates in Tan Venturanza Valdez. She finished her Bachelor of Arts-Major in Philosophy in 2007 and earned her Juris Doctor degree in 2011 at Ateneo de Manila University. Among her present business affiliations as Assistant Corporate Secretary are: Accessories & Suppliers Depot, Inc., Arquee Corporation, Cerwinasya Development Corporation and Raemulan Lands, Inc. She is also the Corporate Secretary of Luckyfortune Business Ventures, Inc.

AUDIT COMMITTEE REPORT

March 19, 2013

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 2012 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, 2012, 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. 61 (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 Board of Directors and the Board has approved the inclusion of the ABCI Group's audited financial statements as of and for the year ended December 31, 2012 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.

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

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

Thomas Aquino

THOMAS G. AQUINO
Member
TIN 111-621-372

Subscribed and Sworn to before me this APR 12 2013
Affiant exhibit to me his/her CTC No. ______
Issued on / at ______

Tomas F. Dulay Jr.

ATTY. TOMAS F. DULAY, JR.
NOTARY PUBLIC
Until Dec. 31, 2013
ADM. MATTER# MP-061 2013-2014
PTR# 7612451 - 01/07/13 Q.C.
IBP# 842680-01/02/13 Q.C.
Roll # 16583 - 03/13/1961
TIN# 410-225-916
MCLE# 000838
#92 Legaspi St., Proj. 4, Q.C.

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A BROWN COMPANY, INC.

March 19, 2013
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, 2012 and 2011, 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 submits the same to the stockholders.

Constantino Guadalquiver and Co., the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with the 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-SA
Chief Financial Officer

APR 10 2013

SUBSCRIBED AND SWORN to before me this ___ day of ___, affliants exhibiting to me their respective passports, as follows:

Names	Passport No.	Date of Issuance	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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Book No. 97
Series of 2013

ATTY. TOMAS F. DULAY, JR.
NOTARY PUBLIC
Until Dec. 31, 2013
ADM. MATTER# MP-061 2013-2014
PTR# 7612451 - 01/07/13 Q.C.
IBP# 842680-01/02/13 Q.C.

Constantino Guadalquiver & Co.
Certified Public Accountants

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

INDEPENDENT AUDITOR'S 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, 2012 and 2011, and the 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 the Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, 2012 and 2011, 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 GUADALQUIVER & CO.
Partner
CPA Certificate No. 13608
PTR No. 3693171, January 21, 2013, Makati City
TIN 123-305-015-000
BIR Accreditation No. (AN) 08-001-507-1-2012, valid until January 4, 2015
SEC AN (Partner) 0017-AR-2 (Group A), valid until September 21, 2014
SEC AN (Firm) 003-FR-2 (Group A), valid until September 21, 2014
PRC-BOA AN 0213, valid until December 31, 2013

March 19, 2013

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

(Amounts in Philippine Pesos)

	Note	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	6	₱ 995,259,528	₱ 149,709,918
Current portion of accounts receivable – net	7	274,436,737	236,222,883
Notes receivable	8	6,284,916	920,417
Real estate held for sale	9	863,768,785	702,986,307
Prepayments and other current assets	10	226,645,872	165,393,032
Total Current Assets		2,366,395,838	1,255,232,557
Noncurrent Assets			
Noncurrent portion of accounts receivable	7	302,916,253	267,795,047
Available-for-sale investments	11	707,002,512	727,189,676
Investment in associates	12	233,597,520	213,791,918
Investment properties – net	13	304,581,093	510,877,403
Property and equipment – net	14	316,984,996	292,311,079
Land and improvements	15	403,596,984	332,452,302
Biological assets	16	237,165,975	181,852,081
Investments and deposits	21	158,640,390	–
Leasehold rights	17	38,117,242	27,704,147
Pension asset	28	4,436,866	4,361,002
Deferred tax assets	30	40,383,349	51,961,969
Goodwill	2	–	22,921,942
Other noncurrent assets		15,520	15,520
Total Noncurrent Assets		2,747,438,700	2,633,234,086
		₱ 5,113,834,538	₱ 3,888,466,643
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	18	₱ 342,890,512	₱ 439,361,442
Short-term debt	20	170,000,000	100,000,000
Current portion of long-term debt	20	22,875,000	19,308,320
Deposit from customers	32, 33	41,646,355	40,166,673
Income tax payable		112	–
Dividends payable	35	2,420,541	2,240,877
Subscription payable	11, 32, 33	114,550,663	114,550,663
Due to related parties	21	–	76,885
Total Current Liabilities		694,383,183	715,704,860
Noncurrent Liabilities			
Long-term debt – net of current portion	20	1,532,991,485	1,041,675,094
Deferred tax liabilities	30	78,284,659	87,511,822
Total Noncurrent Liabilities		1,611,276,144	1,129,186,916
Total Liabilities		₱ 2,305,659,327	₱ 1,844,891,776
Equity	34		
Equity attributable to equity holders of Parent Company			
Share capital	22	1,386,293,229	1,309,924,887
Additional paid-in capital	22	586,198,947	155,948,570
Net unrealized gain on available-for-sale investments		146,894,874	167,082,038
Retained earnings		685,835,631	610,442,318
Treasury shares	41	–	(203,613,323)
		2,805,222,681	2,039,784,490
Non-controlling interests		2,952,530	3,790,377
Total Equity		2,808,175,211	2,043,574,867
		₱ 5,113,834,538	₱ 3,888,466,643

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(Amounts in Philippine Pesos)

	Note	2012	2011	2010
REVENUES				
Sales	23	₱ 556,574,324	₱ 410,201,118	₱ 206,573,635
Discount on loans payable	20	52,968,915	–	–
Financial income	24	33,481,433	28,380,996	65,402,034
Sale of aggregates		19,804,262	5,241,459	–
Rental income	21, 29	6,604,501	7,210,538	8,958,302
Gain on sale of property and equipment		294,077	8,929	8,165,826
Dividend income	11	–	2,450	384,948,285
Gain on sale of available-for-sale investments	11	–	–	167,682,810
Others	25	70,725,876	31,812,547	14,605,798
		740,453,388	482,858,037	856,336,690
COST AND EXPENSES				
Cost of sales and services	26	348,732,330	213,049,770	115,613,373
General and administrative	27	193,564,699	156,885,299	135,407,225
Finance costs	19, 20	54,693,886	40,898,953	97,894,898
Marketing		41,329,446	30,029,784	18,829,476
Provision for impairment loss	13	1,528,600	1,528,600	1,528,600
Discount on loan receivable	8	1,017,949	–	–
Loss on investment in Texas oil-prospects	40	–	–	16,911,988
		640,866,910	442,392,406	386,185,560
INCOME BEFORE INCOME TAX		99,586,478	40,465,631	470,151,130
INCOME TAX EXPENSE (BENEFIT)	30			
Current		29,965,224	453,101	3,713,120
Deferred		117,802	17,991,231	(19,051,836)
		30,083,026	18,444,332	(15,338,716)
NET INCOME		₱ 69,503,452	₱ 22,021,299	₱ 485,489,846
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Parent Company		₱ 69,928,799	₱ 22,335,446	₱ 485,471,608
Non-controlling interests		(425,347)	(314,147)	18,238
		₱ 69,503,452	₱ 22,021,299	₱ 485,489,846
BASIC AND DILUTED EARNINGS PER SHARE	31			
Attributable to:				
Equity holders of the Parent Company		₱ 0.05941	₱ 0.01966	₱ 0.41992

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(Amounts in Philippine Pesos)

	Note	2012	2011	2010
NET INCOME		₱ 69,503,452	₱ 22,021,299	₱ 485,489,846
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized loss on available-for-sale investments	11	(20,187,164)	(60,746,009)	(1,501,225)
COMPREHENSIVE NET INCOME (LOSS)		49,316,288	(₱ 38,724,710)	₱ 483,988,621
Attributable to:				
Equity holders of the Parent Company		49,741,635	(₱ 38,410,563)	₱ 483,970,383
Non-controlling interests		(425,347)	(314,147)	18,238
		₱ 49,316,288	(₱ 38,724,710)	₱ 483,988,621

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(Amounts in Philippine Pesos)

	Note	2012	2011	2010
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY				
SHARE CAPITAL - ₱1 par value				
Authorized – 1,620,000,000 shares in 2012, 1,320,000,000 shares in 2011 and 2010				
Subscribed – 1,386,293,229 shares in 2012 and 1,309,926,933 shares in 2011 and 2010 (net of subscriptions receivable of ₱2,046 in 2011 and 2010)	22			
Balance at beginning of year		₱ 1,309,924,887	₱ 1,309,924,887	₱ 1,308,630,618
Issuance during the year		76,366,296	–	–
Collection of subscription receivable		2,046	–	1,294,269
Balance at end of year		1,386,293,229	1,309,924,887	1,309,924,887
ADDITIONAL PAID-IN CAPITAL	22			
Balance at beginning of year		155,948,570	155,948,570	35,074,804
Additions during the year	41	430,250,377	–	120,873,766
Balance at end of year		586,198,947	155,948,570	155,948,570
DEPOSITS FOR FUTURE STOCKS SUBSCRIPTIONS	37			
Balance at beginning of year		–	–	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		–	–	–
NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE INVESTMENTS				
Balance at beginning of year		167,082,038	227,828,047	229,329,272
Net unrealized loss during the year	11	(20,187,164)	(60,746,009)	(1,501,225)
Balance at end of year		146,894,874	167,082,038	227,828,047
RETAINED EARNINGS				
Balance at beginning of year		610,442,318	588,106,872	379,609,123
Net income during the year		69,928,799	22,335,446	485,471,608
Increase in retained earnings due to deconsolidated subsidiaries		5,464,514	–	–
Dividends declared	35	–	–	(276,973,859)
Balance at end of year		685,835,631	610,442,318	588,106,872
TREASURY SHARES, AT COST	35, 41			
Balance at beginning of year		(203,613,323)	(203,613,323)	(335,212,810)
Reissuance of treasury shares (173,633,704 shares in 2012 and 126,366,296 shares in 2010)		203,613,323	–	131,599,487
Balance at end of year		–	(203,613,323)	(203,613,323)
Total Equity Attributable to Equity Holders of Parent Company		₱ 2,805,222,681	₱ 2,039,784,490	₱ 2,078,195,053
NON-CONTROLLING INTERESTS				
Balance at beginning of year		3,790,377	3,854,524	3,673,786
Increase (decrease) in noncontrolling interests		(287,500)	250,000	162,500
Net income (loss) during the year		(425,347)	(314,147)	18,238
Decrease in noncontrolling interests due to deconsolidated subsidiaries		(125,000)	–	–
Balance at end of year		2,952,530	3,790,377	3,854,524
		₱ 2,808,175,211	₱ 2,043,574,867	₱ 2,082,049,577

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(Amounts in Philippine Pesos)

	Note	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax and non-controlling interest		₱ 99,586,478	₱ 40,465,631	₱ 470,151,130
Adjustments for:				
Finance costs	19, 20	54,693,886	40,898,953	97,894,898
Discount on:				
Long-term debt	20	(52,968,915)	–	–
Notes receivable	8	1,017,949	–	–
Depreciation and amortization	13, 14	45,202,159	39,265,107	26,802,917
Financial income	24	(33,481,433)	(28,380,996)	(65,402,034)
Equity in net loss of associate	12	9,348,773	1,107,337	–
Decrease in fair value of biological assets	16	5,678,862	2,494,221	–
Provisions for:				
Retirement	28	3,148,902	2,921,470	1,767,467
Impairment losses	13	1,528,600	1,528,600	1,528,600
Doubtful accounts	7, 27	143,384	–	4,339,886
Amortization of leasehold rights	17	1,213,520	929,088	435,795
Gain on sale of:				
Property and equipment	14	(294,077)	(8,929)	(8,165,826)
Available-for-sale investments	11	–	–	(167,682,810)
Unrealized foreign exchange loss (gain)		12,755	(15,500)	46,595
Accounts receivable written-off		–	398,882	–
Dividend income	11	–	(2,450)	(384,948,285)
Loss on investment account	40	–	–	16,911,988
Operating income (loss) before working capital changes		134,830,843	101,601,414	(6,319,679)
Decrease (increase) in:				
Accounts receivable	7	(77,876,257)	(80,689,352)	162,239,066
Real estate held for sale	9	(76,848,675)	(11,828,938)	(29,302,786)
Prepayments and other current assets	10	(76,840,063)	(90,415,433)	105,474,079
Other noncurrent assets		–	–	12,231,081
Increase (decrease) in:				
Accounts payable and accrued expenses	18	(94,255,235)	(63,773,769)	(8,457,183)
Deposit from customers	32, 33	1,479,682	(1,940,573)	4,115,843
Cash provided by (used in) operations		(189,509,705)	(147,046,651)	239,980,421
Interest received		33,067,949	28,389,200	109,746,056
Income tax paid		(20,608,751)	(1,230,872)	(5,076,701)
Contributions to plan assets	28	(3,224,766)	(3,459,814)	(3,846,570)
Net cash provided by (used in) operating activities		(180,275,273)	(123,348,137)	340,803,206
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Property and equipment	14	(₱ 116,033,932)	(₱ 153,688,999)	(₱ 98,652,055)
Land and improvements	15	(19,242,431)	(23,096,829)	(46,467,172)
Leasehold rights	17	(11,626,615)	(12,093,232)	(11,791,787)
Investment properties	13	(619,726)	(5,391,831)	(66,985,246)
Available-for-sale investments	11	–	–	(44,999,881)
Investments and deposits	21	(110,800,390)	–	–
Return of investments and deposits	21	77,647,260	–	–

(Forward)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(Amounts in Philippine Pesos)

(Carryforward)	Note	2012	2011	2010
Decrease (increase) in:				
Biological assets	16	(60,992,756)	(63,471,694)	(42,644,664)
Goodwill	2	250,000	–	–
Loans receivable		–	–	24,002,191
Decrease in cash due to deconsolidation of subsidiaries		(8,233,696)	–	–
Loans granted	8	(7,000,000)	–	–
Collection of notes receivable from a related party	8	920,417	329,583	1,250,000
Proceeds from disposal of:				
Property and equipment	14	881,752	36,233,129	10,217,001
Investment properties	13	–	9,320,018	–
Available-for-sale investments	11	–	–	347,832,810
Investment in an associate	12	(600,000)	(85,619,255)	–
Goodwill on the acquisition of new subsidiaries	2	–	(1,449,375)	(21,472,567)
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		–	–	(139,722,624)
Loss on investment in Texas oil-prospects	40	–	–	(16,911,988)
Notes receivable to a related party	8	–	–	(2,500,000)
Net cash provided by (used in) investing activities		(255,450,117)	(298,926,035)	2,506,268,357
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Long-term debt	20	568,280,000	950,000,000	535,534,204
Sale of treasury shares	41	493,019,611	–	192,235,772
Issuance of share capital	22	217,210,385	–	–
Short-term debt	20	70,000,000	–	–
Payments of:				
Finance cost	19,20	(53,796,332)	(38,251,831)	(136,097,278)
Long-term debt	20	(21,325,568)	(398,602,465)	(671,606,400)
Cash dividends	35	–	(58,589)	(199,873,558)
Loans payable	19	–	–	(1,921,938,216)
Increase (decrease) in:				
Due to related parties – net	21	₱ 8,185,113	(₱ 5,817,997)	(₱ 94,751,937)
Noncontrolling interests of subsidiaries		(287,500)	250,000	162,500
Collections of stock subscription receivables	22	2,046	–	1,294,269
Reacquisition of treasury shares	41	–	–	(335,212,810)
Return of deposits for future stock subscriptions	37	–	–	(191,597,114)
Deposits received for future stock subscriptions	37	–	–	3,767,575
Net cash provided by (used in) financing activities		1,281,287,755	507,519,118	(2,818,082,993)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	6	(12,755)	15,500	(46,595)
NET INCREASE IN CASH AND CASH EQUIVALENTS		845,549,610	85,260,446	28,941,975
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		149,709,918	64,449,472	35,507,497
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	₱ 995,259,528	₱ 149,709,918	₱ 64,449,472
SUPPLEMENTAL DISCLOSURE ON NONCASH FINANCING ACTIVITY				
Reissuance of treasury shares as property dividends	35	₱ –	₱ –	₱ 60,237,481

See accompanying Notes to Consolidated Financial Statements.

(Amounts in Philippine Pesos)

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 19, 2013, the Company has not yet started commercial operations.
Palm Thermal Consolidated Holdings, Corp. (PTCHC)	Holding of properties of every kind and description.
Hydro Link Projects Corp. (HLPC)	Developing, constructing and operating hydro electrical plants.

On June 13, 2012, the SEC approved the amendment of the Company's By-Laws to amend and define the functions of its Executive Chairman and President, remove the requirement that the Company's vice presidents must be a member of the Board, and to impose certain requirements on granting of bonuses to its BOD, officers and employees.

On October 5, 2012, the Parent Company's Board of Directors (BOD) approved during their meeting the private placement of 250.0 million of its listed common shares consisting of 173.6 million treasury common shares and 76.4 million common shares owned by a shareholder. The Placement Shares, with a par value of ₱1 per share was sold at a price of ₱2.89 per share and crossed in the Exchange on October 8, 2012. The BOD likewise approved the issuance of an equal number of shares of the Parent Company at an issue price equal to the net proceeds per share in favor of the lending shareholder. The shares will be issued out of the increase in the Parent Company's authorized capital stock from ₱1.32 billion divided into 1.32 billion shares with a par value of ₱1 to ₱1.62 billion divided into 1.62 billion shares with par value of ₱1. On December 28, 2012, the SEC approved the Company's application for increase in authorized capital stock. Subsequently, the 76.4 million common shares were issued.

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, 2012, 2011 and 2010 were authorized for issue by the Board of Directors on March 19, 2013.

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.

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	2012	2011
ABERDI	Manufacturing and trading/Service/ Agriculture	100	100
AC	Agriculture	100	100
BAC	Agriculture	100	100
NC	Agriculture	100	100
BRC	Real estate holding/Hotel operations	100	100
MCPI	Power plant operation	49	49
PTCHC	Holdings	100	95
HLPC	Power plant operation	100	100

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, 2012 and 2011.

On August 30, 2012, the SEC approved the ABERDI's and NC's Articles and Plan of Merger which was approved by their Board of Directors (BOD), in their meeting on March 6, 2012. As of March 19, 2013, the ABERDI and NC have not implemented the merger until the amendments to the Articles and Plan of Merger, in which the documents required for application are being completed, have been approved by the SEC.

In 2007, the Parent Company invested ₱4.9 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, 2012, 2011 and 2010 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 companies 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 ₱21,472,567 is recognized in the 2010 consolidated statements of financial position. In 2011, additional acquisition cost amounting to ₱1,199,375 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 (₱100) per share. Out of the 150,000 increase in authorized shares of HLPC, the Parent Company has subscribed 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 ₱250,000 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.

In September 2012, the Parent Company, together with its subsidiaries, PPTCHC, Palm Concepcion Power Corporation (PCPC) and Panay Consolidated Land Holdings Corporation (PCLHC), has signed a Shareholders' Agreement with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource, Inc. (JNRI) to implement the Memorandum of Agreement between the parties to build power generation plant in the Province of Iloilo.

In relation to the above agreements, the Parent Company transferred all of its equity interest in PCLHC to PTCHC. Likewise, PTCHC, ACEHI and JNRI subscribed on the remaining unissued authorized share capital of PCLHC and PCPC. The subscription of ACEHI and JNRI to PCLHC and PCPC reduced the Parent Company's holdings, through PTCHC, to 30%.

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 Philippine Interpretations of the IFRIC which became effective in 2012:

- Amendment to PFRS 1, *First-Time Adoption of PFRS – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
  The amendment to PFRS 1 is effective for annual periods beginning on or after July 1, 2011. When an entity's date of transition to PFRS is on or after the functional normalization date, the entity may elect to measure all assets and liabilities held before the currency normalization date, at fair value on the date of transition to PFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening PFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation.

  This is not applicable to the Group since the Group is not a First-time adopter of PFRS dealing in an economic environment under severe hyperinflation.

- 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 with no comparative requirements. The disclosures relate to assets transferred as defined under PAS 39. If the assets transferred are not derecognized entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognized and their associated liabilities. If those assets are derecognized entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

  The Group has no transactions during the year that would require such disclosures.

- 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 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, PAS 12 will require that deferred tax arising from a non-depreciable asset measured using revaluation model in PAS 16 should always reflect that tax consequences of recovering the carrying amount of the underlying assets though sale.

  This is not applicable to the Group as the Group has no investment properties carried at fair value.

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 2013
- Amendment to PFRS 1, *Government Loans*
  The amendment to PFRS 1 is effective for annual periods beginning on or after January 1, 2013. Current PFRS requires entities to measure government loans with below-market interest rates at fair value, with the benefit accounted for as a government grant. Amendment to PFRS 1 requires a first-time adopter to apply this requirement prospectively to government loans existing at the date of transition to PFRS. A first-time adopter may choose to apply these requirements retrospectively to any government loan, if the information needed had been obtained at the time of initially accounting for the loan.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

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

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

  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements* and PAS 27, *Separate Financial Statements*
  PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes 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.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- PFRS 11, *Joint Arrangements* and PAS 28, *Investments in Associates and Joint Ventures*
  PFRS 11 replaces PAS 31, *Interest in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*

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

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- PFRS 12, *Disclosure of Interest in Other Entities*
  PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all 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.

The standard is to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement*
  PFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. PFRS 13 does not change when and 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.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income or OCI*
  The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012. The amendments will be applied retrospectively and will result to the modification of the presentation of items in OCI.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- PAS 19, *Employee Benefits*
  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.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- PAS 27, *Separate Financial Statements* (as revised in 2011)
  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.

  The Group is currently assessing the impact of the Amendment on the consolidated 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.

  The Group is currently assessing the impact of the Amendment on the consolidated financial statements.

- Annual Improvements to PFRSs (2009-2011 Cycle)
  The Annual Improvements to PFRSs (2009-2011 cycles) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

  - PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*
    The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs.* The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

  - PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
    The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*
  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The Group expects that this amendment will not have any impact on its financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

This has no significant impact to the Group.

Effective 2014
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance.

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.

The Group is currently assessing the relevance and impact of the above new and amendments to standards, Philippine Interpretations and improvements to existing accounting standards. The revised disclosures on the consolidated financial statements required by the above new and amendments to standards, Philippine Interpretations and improvements to existing accounting standards will be included in the Group's consolidated financial statements when these are adopted.

<u>Standards issued but not yet Effective</u>
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.

The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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 aggregates, 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.

- *Dividend income.* Dividend income is recognized when the shareholders' right to receive payment is established.

- *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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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 excluding statutory regulated 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 ₱16,911,988 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.

<u>Property and Equipment</u>
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 and crushing equipment, which is depreciated using units of production method based on estimated recoverable reserves:

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 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.

<u>Intangibles</u>
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 consolidated statements of financial position consistent with the function of the intangible assets.

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 is 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 straight-line basis over the lease term. Associated costs such as repairs and maintenance and business taxes are expensed 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 financial expense.

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.

Non-controlling Interests
Non-controlling 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, 2012 and 2011 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 ₱0.6 million and ₱0.5 million as of December 31, 2012 and 2011, respectively (see Note 7). The carrying values of accounts receivables, notes receivable and amounts due from related parties as of December 31, 2012 and 2011 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 and refundable deposits 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 2012, 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 ₱304.6 million, ₱317.0 million and ₱38.1 million, respectively as of December 31, 2012, and ₱510.9 million, ₱292.3 million and ₱27.7 million, respectively as of December 31, 2011 (see Notes 13, 14 and 17).

  As of December 31, 2012 and 2011, 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 over estimating the value of its real estate held-for-sale inventories, agricultural produce and other inventories.

- *Impairment of Non-financial Assets*
  The Group reviews inventories, 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 ₱13.8 million and ₱12.2 million as of December 31, 2012 and 2011, respectively (see Note 13). Provision for impairment loss recognized in the consolidated statements of income amounted to ₱1.5 million in 2012, 2011 and 2010.

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 ₱3.1 million in 2012, ₱2.9 million in 2011 and ₱1.8 million in 2010. Pension assets amounted to ₱4.4 million as of December 31, 2012 and 2011 (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 ₱40.4 million and ₱52.0 million as of December 31, 2012 and 2011, respectively (see Note 30). The Group's deferred tax liabilities amounted to ₱78.3 million and ₱87.5 million as of December 31, 2012 and 2011, 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 2012, 2011 and 2010.

- *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, 2012 and 2011, the Group's biological assets have a fair value of ₱237.2 million and ₱181.9 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 2012, 2011 and 2010 are shown in Notes 27 and 29, respectively.

6. Cash and Cash Equivalents

This account consists of:

	2012	2011
Cash on hand	₱ 1,474,292	₱ 698,744
Cash in banks	195,043,638	142,011,174
Cash equivalents	798,741,598	7,000,000
	₱ 995,259,528	₱ 149,709,918

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 2012 and 2011.

The Group's cash in banks include dollar denominated accounts with Peso equivalent amounting to ₱812,383 and ₱1,860,133 as of December 31, 2012 and 2011, respectively. The Group's foreign currency denominated cash account is translated to Peso equivalents using an exchange rate of ₱41.192/$1.00 and ₱43.928/$1.00 as of December 31, 2012 and 2011, 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 ₱11.4 million in 2012, ₱8.2 million in 2011 and ₱2.2 million in 2010 (see Note 24).

7. Accounts Receivable

This account consists of:

	2012	2011
Contract receivables on sale of real estate	₱ 453,835,184	₱ 388,679,595
Trade receivables	37,722,302	3,071,336
Receivables from affiliated companies (Note 21)	–	2,892,019
Advances to officers and employees	5,348,325	1,813,702
Accrued interest receivable (Note 8)	111,941	1,322
Others	80,931,847	108,013,181
Total receivables	577,949,599	504,471,155
Allowance for doubtful accounts	(596,609)	(453,225)
	577,352,990	504,017,930
Noncurrent portion of contract receivables on sale of real estates	(302,916,253)	(267,795,047)
	₱ 274,436,737	₱ 236,222,883

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 6% to 18% in 2012 and less than 1% to 18% in 2011 . 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 ₱21.8 million in 2012, ₱20.1 million in 2011 and ₱28.7 million in 2010.

No contract receivables on sale of real estate is collateralized as of December 31, 2012 and 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.

(Amounts in Philippine Pesos)

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

Other receivables amounting to ₱0.6 million and ₱0.5 million as of December 31, 2012 and 2011, respectively, were impaired and fully provided for (see Note 33). Movements in the allowance for doubtful accounts are shown below:

		2012		2011
Balance at January 1	₱	453,225	₱	13,357,942
Collection of receivables previously provided with allowance		–		(12,904,717)
Provisions (Note 27)		143,384		–
Balance at December 31	₱	596,609	₱	453,225

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 ₱1.5 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 July 30, 2010 amounting to ₱1.0 million and bears an interest of 10% per annum and collectible within one (1) year for twelve monthly equal installments. The loan was extended for one year until July 30, 2012 and was fully paid on the same year.

Total collections made from loans to XSCCI amounted to ₱920,417, ₱329,583 and ₱1,250,000 in 2012, 2011 and 2010, respectively.

Interest income on the notes receivable amounted to ₱15,050 in 2012 and ₱66,698 in 2011.

On February 2, 2012, the Group granted a noninterest-bearing loan to a third party debtor amounting to ₱7 million payable on or before December 31, 2014. The debtor has the option to prepay in partial or full after the first year of the loan without a pre-termination penalty.

The loan was discounted at the prevailing interest rate applicable to the Group. The carrying value of this loan is presented below:

Principal	₱	7,000,000
Discount on loans receivable		1,017,949
Less amortization of discount during the year		302,865
		715,084
	₱	6,284,916

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 Butuan detailed as follows:

		2012		2011
Land	₱	306,843,672	₱	225,345,668
Development Cost		556,925,113		477,640,639
	₱	863,768,785	₱	702,986,307

Real estate held for sale with carrying value of ₱677.6 million and ₱568.7 million as of December 31, 2012 and 2011, respectively, are collateralized to the loans obtained from UCPB, BPI, BPIF, CBC and UBP (see Note 20).

The Group reclassified land cost of ₱107.1 million in 2012 into real estate held for sale previously accounted for as land and improvements and investment properties (see Notes 13 and 15).
In 2012, the Group also reclassified real estate held for sale with a total cost of ₱23.1 million into land and improvements (see Note 15).

10. Prepayments and Other Current Assets

This account consists of:

		2012		2011
Inventories	₱	13,135,869	₱	19,806,315
Deposit for land acquisition		76,400,419		35,921,937
Refundable deposits		55,373,170		24,181,212
Creditable withholding taxes		42,999,352		52,355,825
Prepaid expenses		30,527,195		23,701,338
Value-added input taxes		7,647,253		8,798,063
Others		562,614		628,342
	₱	226,645,872	₱	165,393,032

In 2011, the Group entered into several contracts to sell with several sellers 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 Group.

Also in 2012 and 2011, the Group paid for refundable deposits totaling to ₱45,737,248 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 2013, 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:

2012		Golf, Sports and Country Clubs		Non-listed Companies		Listed Companies		Total
Carrying value:								
Balance at beginning of year	₱	279,780,001	₱	296,094,152	₱	151,315,523	₱	727,189,676
Unrealized loss		–		–		(20,187,164)		(20,187,164)
Balance at end of year	₱	279,780,001	₱	296,094,152	₱	131,128,359	₱	707,002,512

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

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 ₱114.6 million as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, the Group had investments in MOREI of ₱295.1 million, representing 11.70% 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 ₱335.2 million.

The Group's realized gain on sale of AFS amounted to ₱167.7 million in 2010.
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 ₱308.2 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 ₱384.9 million which was recognized in the consolidated statements of income.

(Amounts in Philippine Pesos)

12. Investment in Associates

Workforward analysis of this account follows:

		2012		2011
Carrying value at beginning of year	₱	**213,791,918**	₱	–
Acquisition cost		**1,100,000**		214,899,255
Equity in net loss for the year		**(9,348,773)**		(1,107,337)
Increase due to deconsolidated subsidiaries		**28,054,375**		–
Carrying value at end of year	₱	**233,597,520**	₱	213,791,918

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.

As discussed in Note 2, the Parent Company, together with its subsidiaries, PTCHC, Palm Concepcion Power Corporation (PCPC) and Panay Consolidated Land Holdings Corporation (PCLHC), has signed a Shareholders' Agreement with AC Energy Holdings, Inc. (ACEHI) and Jin Navitas Resource, Inc. (JNRI) to implement the Memorandum of Agreement between the parties to build power generation plant in the Province of Iloilo.

In relation to the above agreements, the Parent Company transferred all of its equity interest in PCLHC to PTCHC. Likewise, PTCHC, ACEHI and JNRI subscribed on the remaining unissued authorized share capital of PCLHC and PCPC. The subscription of ACEHI and JNRI to PCLHC and PCPC reduced the Parent Company's holdings, through PTCHC, to 30%.

Summarized financial information of the Phigold follows:

		2012		2011
Total assets				
Current assets	$	**6,800,277**	$	6,970,302
Total liabilities				
Current liabilities		**956,216**		739,014
Non-current liabilities		**851,247**		739,139
		1,807,463		1,478,153
Equity		**4,992,814**		5,492,149
Gross revenue for the year		**394,655**		275,779
Net loss for the year		**(499,335)**		(1,341,454)

Summarized below is the aggregated financial information of the PCLHC and PCPC as of December 31, 2012:

Total assets	
Current assets	₱154,627,361
Noncurrent assets	247,482,266
	402,109,627
Total liabilities	
Current liabilities	3,645,442
Equity	398,464,185
Gross revenue for the year	376,330
Net loss for the year	(19,148,587)

13. Investment Properties

This account consists of:

		2012		2011
Properties held for capital appreciation – net	₱	**233,014,355**	₱	431,910,263
Properties held under lease		**71,566,738**		78,967,140
	₱	**304,581,093**	₱	510,877,403

Investment properties are stated at cost less any impairment. Investment properties have a fair market value of about ₱636.8 million and ₱732.9 million as of December 31, 2012 and 2011, 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, 2012 and 2011 follows:

	2012		
	Land and improvements	Building	Total
Cost:			
Balance at beginning of year	₱ 413,606,258	₱ 30,532,806	₱ 444,139,064
Additions	619,726	–	619,726
Reclassifications	(136,106,054)	–	(136,106,054)
Adjustment (Note 3)	(61,880,980)	–	(61,880,980)
Balance at end of year	216,238,950	30,532,806	246,771,756
Allowance for impairment loss:			
Balance at beginning of year	–	12,228,801	12,228,801
Additions	–	1,528,600	1,528,600
Balance at end of year	–	13,757,401	13,757,401
Net book value	₱ 216,238,950	₱ 16,775,405	₱ 233,014,355

Land and improvements amounting to ₱61.9 million from a former subsidiary was deconsolidated in 2012.

	2011		
	Land and improvements	Building	Total
Cost:			
Balance at beginning of year	₱ 417,659,445	₱ 30,532,806	₱ 448,192,251
Additions	5,266,831	–	5,266,831
Disposals	(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	₱ 413,606,258	₱ 18,304,005	₱ 431,910,263

In 2012, the Group reclassified investment properties amounting to ₱109.0 million, ₱26.8 million and ₱0.3 million into land and improvements, real estate held for sale and property and equipment, respectively (see Notes 9, 14 and 15)

The provision for impairment loss of ₱1.5 million in 2012, 2011 and 2010, represents the write-down of an unfinished building to its estimated net recoverable amount.

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

	2012	2011	2010
Security	**₱ 1,370,246**	₱ 2,126,090	₱ 6,865,073
Taxes and licenses	**1,439,390**	1,389,900	1,033,610
Repairs and maintenance	**435,259**	356,199	2,615,362
Utilities	**22,148**	143,159	209,124
Transportation	**21,247**	44,480	–
Insurance	**64,981**	657	81,097
Others	**1,033,763**	61,401	–
	₱ 4,387,034	₱ 4,121,886	₱ 10,804,266

The details of the properties held under lease follows:

	2012		
	Land	Building and improvements	Total
Cost:			
Balance at beginning and end of year	₱ 25,538,133	₱ 134,673,524	₱ 160,211,657
Accumulated depreciation:			
Balance at beginning of year	–	81,244,517	81,244,517
Additions	–	7,400,402	7,400,402
Balance at end of year	–	88,644,919	88,644,919
Net book value	₱ 25,538,133	₱ 46,028,605	₱ 71,566,738

(Amounts in Philippine Pesos)

	2011		
	Land	Building and improvements	Total
Cost:			
Balance at beginning of year	₱ 17,579,024	₱ 134,881,724	₱ 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	₱ 25,538,133	₱ 53,429,007	₱ 78,967,140

In 2011, the Group reclassed land cost amounting to ₱8.0 million into investment properties previously accounted as property and equipment (see Note 14).

Rental income generated from investment properties held under lease amounted to ₱6.6 million in 2012, ₱7.2 million in 2011 and ₱9.0 million in 2010 (see Note 29).

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

	2012	2011	2010
Depreciation (Notes 26 and 27):			
General and administrative expense	₱ 5,826,436	₱ 5,802,144	₱ 6,403,746
Cost of services - other direct cost	1,573,966	1,573,966	1,573,966
	7,400,402	7,376,110	7,977,712
Utilities	86,940	119,712	245,231
Insurance	50,783	23,996	116,298
Taxes and licenses	110,567	–	1,080,969
Others	33,925	–	–
	₱ 7,682,617	₱ 7,519,818	₱ 9,420,210

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, 2012.

14. Property and Equipment

The net carrying value of this account is as follows:

	2012	2011
Land	₱ 16,398,819	₱ 16,098,819
Land improvements	2,181,150	2,805,154
Building and improvements	27,348,103	31,353,204
Leasehold improvements	947,367	461,520
Machinery and equipment	172,348,077	154,134,390
Furniture, fixtures and equipment	3,032,950	3,723,581
Transportation equipment	20,410,149	19,569,853
Tools and other equipment	315,229	352,461
Other assets	7,700,154	7,385,713
Construction in progress	66,302,998	56,426,384
	₱ 316,984,996	₱ 292,311,079

Rollforward analysis of this account is shown below:

	2012				
	Balance at beginning of year	Additions/ Depreciations	Reclassification/ Disposals	Adjustments	Balance at end of year
Cost:					
Land	₱ 16,098,819	₱ 30,000	₱ 270,000	₱ –	₱ 16,398,819
Land improvements	3,555,601	19,500	(3,072)	–	3,572,029
Building and improvements	75,032,170	695,346	(15,362)	–	75,712,154
Leasehold improvements	1,632,790	799,646	–	–	2,432,436
Machinery and equipment	235,109,585	37,933,812	(1,892,771)	–	271,150,626
Furniture, fixtures and equipment	21,289,576	2,138,326	(220,095)	(550,855)	22,656,952
Transportation equipment	48,251,686	8,656,272	644,500	(1,168,750)	56,383,708
Tools and other equipment	2,204,483	239,154	12,089	–	2,455,726
Other assets	17,836,601	3,409,403	346,579	(19,632)	21,572,951
Construction in progress	56,426,384	62,112,473	(454,627)	(51,781,232)	66,302,998
	₱ 477,437,695	116,033,932	(1,312,759)	(53,520,469)	₱ 538,638,399
Accumulated depreciation and amortization:					
Land improvements	750,447	640,432	–	–	1,390,879
Building and improvements	43,678,966	4,685,085	–	–	48,364,051
Leasehold improvements	1,171,270	313,799	–	–	1,485,069
Machinery and equipment	80,975,195	17,909,499	(82,145)	–	98,802,549
Furniture, fixtures and equipment	17,565,995	2,408,342	(207,656)	(142,679)	19,624,002
Transportation equipment	28,681,833	8,065,558	(540,082)	(233,750)	35,973,559
Tools and other equipment	1,852,022	290,627	(2,152)	–	2,140,497
Other assets	10,450,888	3,488,415	(64,067)	(2,439)	13,872,797
	185,126,616	37,801,757	(896,102)	(378,868)	221,653,403
Net Book Value	₱292,311,079	₱ 78,232,175	(₱ 416,657)	(₱ 53,141,601)	₱ 316,984,996

	2011			
	Balance at beginning of year	Additions/ Depreciations	Reclassification/ Disposals	Balance at end of year
Cost:				
Land	₱ 24,057,928	₱ –	(₱ 7,959,109)	₱ 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 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 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	₱ 214,694,386	₱ 121,800,002	(₱ 44,183,309)	₱ 292,311,079

In 2012, the Group reclassified land cost previously accounted as investment property amounting to ₱270,000 into property and equipment (see Note 13).

In 2011, the Group reclassified land cost previously accounted as property and equipment amounting to ₱8.0 million into investment properties (see Note 13).

The Group's management had reviewed the carrying values of the property and equipment as of December 31, 2012 and 2011 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.

(Amounts in Philippine Pesos)

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

	2012	2011	2010
General and administrative expenses (Note 27)	₱ 18,406,447	₱ 11,626,656	₱ 15,165,395
Cost of sales and services (Note 26)	8,509,184	11,114,029	1,951,382
Real estate held for sale	10,886,126	9,148,312	1,708,428
	₱ 37,801,757	₱ 31,888,997	₱ 18,825,205

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.

The rollforward analysis of this account is shown below:

	2012		
	Land	Improvements	Total
December 31, 2011	₱ 293,105,918	₱ 39,346,384	₱ 332,452,302
Additions	747,957	18,494,474	19,242,431
Reclassifications	54,355,180	(2,452,929)	51,902,251
December 31, 2012	₱ 348,209,055	₱ 55,387,929	₱ 403,596,984

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

In 2012, the Group reclassified land and improvements with a total cost of ₱80.3 million into real estate held for sale (see Notes 9).

The Group also reclassified in 2012 investment property and real estate held for sale with a total cost of ₱109.0 million and ₱23.1 million, respectively, into land and improvements (see Notes 9 and 13).

In 2011, the Group reclassified land improvements amounting to ₱5.7 million into accounts receivable – others.

16. Biological Assets

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

	2012	2011
Balance at beginning of year	₱ 181,852,081	₱ 120,874,608
Additions during the year		
Existing trees	51,528,289	36,078,815
Additional trees	9,464,467	27,392,879
	60,992,756	63,471,694
	242,844,837	184,346,302
Decrease in valuation of biological assets	(5,678,862)	(2,494,221)
Balance at end of year	₱ 237,165,975	₱ 181,852,081

The decrease in valuation of biological assets was charged to cost of sales and services.

17. Leasehold Rights

This account pertains to amounts paid by the Company during the year for the rights to use parcels of land in Salawaga Tingalan, Opol, Misamis Oriental and Tignapoloan, Cagayan de Oro City and to develop them as oil palm commercial plantations (see Note 38).

Rollforward analysis of this account is shown below:

		2012		2011
Balance at beginning of year	₱	29,953,746	₱	17,860,514
Additions during the year		11,626,615		12,093,232
		41,580,361		29,953,746
Accumulated amortization		(3,463,119)		(2,249,599)
Balance at end of year	₱	38,117,242	₱	27,704,147

Rollforward analysis of the accumulated amortization as of December 31, 2012 and 2011 is shown below:

		2012		2011
Balance at beginning of year	₱	2,249,599	₱	1,320,511
Amortization during the year		1,213,520		929,088
Balance at end of year	₱	3,463,119	₱	2,249,599

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

18. Accounts Payable and Accrued Expenses

This account consists of:

		2012		2011
Accounts payable	₱	278,535,009	₱	251,274,221
Accrued expenses		25,646,318		17,562,706
Contracts payable		5,993,714		8,153,892
Accrued interest payable		9,758,800		6,260,886
Retention payable		2,845,837		4,006,329
Others		20,110,834		152,103,408
	₱	342,890,512	₱	439,361,442

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:

		2012		2011
Output VAT payable	₱	1,872,999	₱	13,229,262
Withholding tax payable		3,973,070		2,137,840
Deposit from subscribers		1,300,659		1,300,659
SSS, HDMF, PHIC premium payable		468,801		425,725
Others		12,495,305		135,009,922
	₱	20,110,834	₱	152,103,408

Others include the amount paid by Strait Fire Limited, a company with a common stockholder as the Group, amounting to ₱129,280,000 pertaining to the Group's investment in Phigold Limited (see Note 12). The loan was fully settled in October 2012. It also includes the Group's statutory liabilities as of December 31, 2012 and 2011.

19. Loans Payable

On January 7, 2009, Banco De Oro (BDO) granted the Parent Company ₱2 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 ₱34.2 million in 2010, 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:

		2012		2011
Financial Institutions:				
Union Bank of the Philippines (UBP)	₱	100,000,000	₱	100,000,000
China Banking Corp. (CBC)		70,000,000		–
	₱	170,000,000	₱	100,000,000

The loan from UBP pertains to the term loan availed by the Group amounting to ₱100 million in January 2012 and October 2011. The loan bears annual interest rate of 5.5% and will mature one (1) year from the date of availment. The loan balance in 2011 was secured by real estate held for sale with carrying value of ₱56.6 million as of December 31, 2011. The loan balance as of December 31, 2012 and 2011 is unsecured (see Note 9).

The loan from CBC pertains to a clean term loan availed by the Group amounting to ₱70 million in September 2012 with an interest rate of 6.0%. The loan will mature on July 2013.

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

		2012		2011
Financial Institutions:				
United Coconut Planters Bank (UCPB)	₱	380,047,720	₱	400,000,000
Bank of the Philippine Islands (BPI)		224,000,000		135,000,000
BPI Family Savings Bank (BPIF)		274,610,126		225,983,414
China Banking Corp. (CBC)		300,000,000		300,000,000
Union Bank of the Philippines (UBP)		300,000,000		–
		1,478,657,846		1,060,983,414
Shareholders		77,208,639		–
		1,555,866,485		1,060,983,414
Less current portion		(22,875,000)		(19,308,320)
	₱	1,532,991,485	₱	1,041,675,094

In August and December of 2011, the Group obtained ₱400 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 ₱234.6 million and ₱252.1 million as of December 31, 2012 and 2011, respectively (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. These are collateralized by real estate mortgages over the real estate held for sale of the Group with a total carrying value of ₱89.5 million and ₱95.4 million as of December 31, 2012 and 2011, respectively.

The loans from BPIF were obtained on various dates within 2004 to 2012 and will mature ten (10) years after loan release dates, the last of which will be in 2022. 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 ₱175.3 million and ₱164.7 million as of December 31, 2012 and 2011 respectively (see Note 9).

The loan from CBC represents a 10-year loan approved on November 5, 2007 which 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 ₱17.1 million as of December 31, 2010. As of December 31, 2011 this loan has been paid in full. The Group again availed several clean loans from CBC on various dates within February to July 2011 and 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.

The loan from UBP pertains to a 7-year loan availed by the Parent Company in 2012, with 3 years grace period on principal. Principal payments of 48 equal monthly amortization will be made starting on the end of the grace period which will start in 2015. Quarterly interest payment in arrears is made for the first 3 years, then monthly payments for the rest of the term. The loan bears interest of 5.56% and is collateralized by the Parent Company's real estate held for sale assets with carrying amount of ₱178.2 million as of December 31, 2012.

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 ₱79.7 million as of December 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. As of December 31, 2011, this loan has been paid in full.

The loans from shareholders represent a 10-year noninterest-bearing loan with a total principal amount of ₱129.28 million availed on various dates from October to November 2012.The loan is repayable in lump sum on or before maturity. The Group recognized discount on loans payable amounting to ₱52.97 million in the Statements of comprehensive income. Amortization of discount on loans recognized amounted to ₱0.90 million.

The following table presents the contractual maturity of short-term and long-term debt as of December 31, 2012 and 2011:

		2012		2011
Due within 1 year	₱	192,875,000	₱	119,308,320
Due beyond 1 year, not later than 5 years		1,037,002,797		697,926,900
Due beyond 5 years		495,988,688		343,748,194
	₱	1,725,866,485	₱	1,160,983,414

The Group's short-term and long-term debts as of December 31, 2012 and 2011 do not include any significant warranties and covenants.

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

		2012		2011		2010
Finance costs (Notes 19 and 20)	₱	54,693,886	₱	40,898,953	₱	63,657,833
Construction in progress		24,546,069		18,796,200		1,849,315
Biological assets (Note 16)		–		–		7,722,292
	₱	79,239,955	₱	59,695,153	₱	73,229,440

21. Related Party Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party making financial and operating decisions. Such relationship also exists between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting entities and key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of relationship and not merely the legal form. For financial statements disclosure purposes, an affiliate is an entity under common control of the Parent Company's stockholders.

The Parent Company enters into transactions with related parties. Outstanding balances at year-end are unsecured and noninterest-bearing and are settled based on agreed upon terms. The following are the related party transactions.

a. Investments and deposits

The Group made deposits for future subscription to its affiliates which amounted to ₱158,640,390 as of December 31, 2012.

b. Lease of Parent Company's office space from an affiliate

		2012		2011
Amount of rent expense	₱	381,795	₱	1,771,873
Outstanding balances		–		–

c. Noninterest-bearing loans received from shareholders

The loans from the shareholders represent a 10-year noninterest-bearing loan with a total principal amount of ₱129.28 million availed on various dates from October to November 2012. The loan is repayable in lump sum on or before maturity (see Note 20).

(Amounts in Philippine Pesos)

d. 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.

The summary of the above related party transactions follows

	2012			
Category	Amount/Volume	Outstanding balance	Terms and Condition	Guaranty/Settlement/ Provision
Shareholders				
1. Loans received from shareholders	₱ 129,280,000	₱ 77,208,639	Noninterest-bearing and repayable in lump sum on or before maturity after 10 years from 2012	Unsecured; no significant covenants
Affiliates				
2. Investments and deposits	Deposits: ₱ 110,800,390 Return of deposits: ₱ 19,340,960 Increase due to deconsolidated subsidiaries: ₱ 67,680,960 Applied to additional subscription: ₱ 500,000	₱ 158,640,390	To be applied in equity call	
3. Lease of office space from an affiliate	₱ 1,667,519	₱ –	One year subject to annual review and renewable upon mutual agreement of parties; payable in cash every 15th of the month without necessity of demand	No guarantees
4. Collection of notes receivable from an affiliate	₱ 920,417	₱ –	One year and to be collected in twelve monthly installments at 10% per annum.	No guarantees

	2011			
Category	Amount/Volume	Outstanding balance	Terms and Condition	Guaranty/Settlement/ Provision
Affiliates				
1. Lease of office space from an affiliate	₱ 1,771,873	₱ –	One year subject to annual review and renewable upon mutual agreement of parties; payable in cash every 15th of the month without necessity of demand	No guarantees
2. Collection of notes receivable from an affiliate	₱ 329,583	₱ 920,417	One year and to be collected in twelve monthly installments at 10% per annum.	No guarantees

Below are the account balances as of December 31, 2012 and 2011 on the separate financial statements of the companies within the Group which were eliminated upon consolidation:

- Receivables/Payables

	2012		
	Payable		
Receivable	ABCI-Parent Company	Andesite	Total
ABERDI	₱ 130,000,000	₱ 684,511	130,684,511

	2011					
	Payable					
Receivable	ABCI-Parent Company	Andesite	Palm Thermal	Palm Concepcion	Nakeen	Total
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	130,000,000	702,768	–	–	–	130,702,768
Bonsai Agri	–	–	–	–	281	281
	₱ 135,207,919	₱ 702,768	₱ 880,570	₱ 388,422	₱ 281	₱ 137,179,960

- Deposits for future stock subscription

	2012					
	Deposits from					
Deposits to	ABERDI	BRC	Palm Thermal	Nakeen	Hydro Link	Total
ABCI-Parent Company	₱ 43,399,253	₱ 14,569,000	₱ 183,400,000	₱ –	₱ 19,809,461	₱ 261,177,714
ABERDI	–	–	–	261,018,437	–	261,018,437
	₱ 43,399,253	₱ 14,569,000	₱ 183,400,000	₱ 261,018,437	₱ 19,809,461	₱ 522,196,151

	2011								
	Deposits from								
Deposits to	ABERDI	Bonsai Agri	BRC	Panay Land	Palm Thermal	Palm Concepcion	Nakeen	Hydro Link	Total
ABCI-Parent Company	₱ 146,042,030	₱ –	₱ 13,740,856	₱ 58,306,300	₱ 103,163,600	₱ –	₱ –	₱ 3,604,761	₱ 324,857,547
ABERDI	–	2,044,395	–	–	–	–	250,787,201	–	252,831,596
Palm Thermal	–		–	–	–	67,680,960	–	–	67,680,960
	₱ 146,042,030	₱ 2,044,395	₱ 13,740,856	₱ 58,306,300	₱ 103,163,600	₱ 67,680,960	₱ 250,787,201	₱ 3,604,761	₱ 645,370,103

Compensation of key management personnel by benefit type follows:

	2012	2011	2010
Salaries and wages	₱ 28,296,226	₱ 22,326,780	₱ 8,749,344
Short-term employee benefits	12,557,963	3,287,441	8,685,519
Post-employment benefits	4,474,872	2,941,908	2,210,903
	₱ 45,329,061	₱ 28,556,129	₱ 19,645,766

The Group has no transactions with its retirement fund involving loans (neither as creditor nor debtor), investments (neither as investor nor investee), lease on services and guarantee or surety made or received. The information on carrying value and fair value of fund, amount of contributions to the fund, description of the fund and trustee of the fund is shown in Note 28.

22. Share Capital

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

	2012	2011
Authorized (Note 1)	1,620,000,000	1,320,000,000
Subscribed:		
Subscribed and issued (Note 1)	1,386,293,229	1,309,916,933
Subscribed but not issued	–	10,000
	1,386,293,229	1,309,926,933
Treasury shares (Notes 1 and 41)	–	(173,633,704)
Subscribed and outstanding	1,386,293,229	1,136,293,229

(Amounts in Philippine Pesos)

Movements of the amount of subscribed capital stock and additional paid in capital (APIC) during the years 2012 and 2011 follow:

	2012			
	Share Capital			
	Subscribed and issued	Subscribed but not issued	Total	Additional paid-in capital
Balance as at December 31, 2011	₱ 1,309,916,933	₱ 7,954	₱ 1,309,924,887	₱ 155,948,570
Issuance for the year	76,366,296	–	76,366,296	140,844,089
Collections of unpaid subscriptions	–	2,046	2,046	–
Transfer of paid-up shares	10,000	(10,000)	–	–
Reissuance of treasury shares (Note 41)	–	–	–	289,406,288
	₱ 1,386,293,229	₱ –	₱ 1,386,293,229	₱ 586,198,947

	2011			
	Share Capital			
	Subscribed and issued	Subscribed but not issued	Total	APIC
Balance as at December 31, 2011 and 2010	₱ 1,309,916,933	₱ 7,954	₱ 1,309,924,887	₱ 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 ₱200,000,000; SEC-BED Order No. 847 issued on August 15, 1994 amounting to ₱230,000,000 and SEC-CFD Order No. 64 issued on March 12, 1996 totaling ₱530,000,000. Common shares are the only equity securities registered and issued by the Group. As of December 31, 2012 and 2011, there are 2,139 and 2,177 stockholders in the records of the transfer agent, Fidelity Stock Transfers, Inc. (FSTI), respectively.

The share price closed at ₱3.01 on December 28, 2012 and ₱2.70 on December 29, 2011.

23. Sales

This account consists of:

	2012	2011	2010
Real estate	₱ 446,164,956	₱ 310,117,058	₱ 152,264,626
Crude palm oil	82,643,118	71,318,039	34,289,633
Water service	11,554,742	9,246,993	8,080,397
Hotel operations (Note 13)	9,187,557	10,766,361	8,272,279
Crop	5,547,443	7,201,494	–
Palm seedlings and kernel nuts	971,438	1,386,893	923,050
Fertilizer	505,070	164,280	2,743,650
	₱ 556,574,324	₱ 410,201,118	₱ 206,573,635

24. Financial Income

This account consists of:

	2012	2011	2010
Interest from:			
Sales of real estate (Note 7)	₱ 21,786,104	₱ 20,108,810	₱ 28,676,587
Cash in banks and cash equivalents (Note 6)	11,372,428	8,202,082	2,211,980
Notes and loans receivable (Notes 8, 19 and 21)	322,901	70,104	34,496,743
Others	–	–	16,724
	₱ 33,481,433	₱ 28,380,996	₱ 65,402,034

25. Other Income

This account consists of:

		2012		2011		2010
Income from forfeited accounts	₱	10,291,505	₱	7,698,999	₱	5,531,832
Surcharge income		5,569,052		5,423,408		2,720,686
Others		54,865,319		18,690,140		6,353,280
	₱	70,725,876	₱	31,812,547	₱	14,605,798

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:

		2012		2011		2010
Real estate	₱	227,964,807	₱	122,631,632	₱	79,602,119
Crude palm oil		80,040,467		59,654,531		22,993,689
Aggregates		13,252,613		2,676,982		–
Hotel operations		12,621,324		12,324,216		7,746,846
Crop		7,327,634		10,546,110		1,690,598
Water services		4,691,116		4,296,596		3,170,457
Palm kernel nuts and fertilizers		2,834,369		919,703		409,664
	₱	348,732,330	₱	213,049,770	₱	115,613,373

Cost of sales and services 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 which were charges as part of cost of real estate and hotel operations

27. General and Administrative Expenses

This account consists of:

		2012		2011		2010
Personnel cost (Notes 21 and 28)	₱	68,945,622	₱	50,171,005	₱	26,375,161
Taxes and licenses		26,066,654		23,454,478		32,888,832
Depreciation and amortization (Notes 13 and 14)		24,232,883		17,428,800		21,569,141
Equity in net loss of associate (Note 12)		9,348,773		1,107,337		–
Repairs and maintenance		8,786,605		8,550,582		9,805,955
Utilities and supplies		6,062,507		6,856,919		5,298,679
Entertainment, amusement and recreation		5,363,135		2,583,193		909,340
Rental (Notes 21 and 29)		706,408		3,613,892		1,970,778
Provision for doubtful accounts (Note 7)		143,384		–		4,339,886
Accounts receivable written-off		–		398,882		–
Others		43,908,728		42,720,211		32,249,453
	₱	193,564,699	₱	156,885,299	₱	135,407,225

Significant components of other operating expenses follow:

		2012		2011		2010
Security services	₱	11,907,853	₱	9,388,789	₱	7,335,210
Professional fees		9,518,061		11,006,212		6,485,288
Transportation and travel		8,701,158		10,065,944		7,926,581
Director fees		2,920,215		–		–
Board meetings		927,643		1,204,859		1,528,544
Insurance		607,363		622,403		563,961
Subscription and dues		398,287		293,271		215,645
Trainings and seminars		353,323		511,513		394,693
Litigation fees		283,548		141,661		3,668,908
Bank charges		24,612		208,422		80,711
Unrealized foreign exchange loss		12,755		–		46,595
Miscellaneous		8,253,910		9,277,137		4,003,317
	₱	43,908,728	₱	42,720,211	₱	32,249,453

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

(Amounts in Philippine Pesos)

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:

	2012	2011
Discount rate, beginning of year	6.71%	8.17%
Discount rate, end of year	5.65%	6.71%
Expected rate of return on plan assets, beginning of year	5.00%	3.25%
Salary increase rate , beginning of year	5.00%	5.00%
Salary increase rate, end of year	5.00%	5.00%

The amounts recognized in the consolidated statements of financial position as of December 31, 2012 and 2011 were determined as follows:

	2012	2011
Present value of funded retirement benefit obligations	₱ 32,978,080	₱ 19,525,249
Less fair value of plan assets	15,109,358	15,004,547
Underfunded obligation	17,868,722	4,520,702
Adjustments for:		
Unrecognized transitional obligation	–	(38,207)
Unrecognized actuarial gain	(22,305,588)	(8,843,497)
Pension asset recognized in consolidated statements of financial position	(₱ 4,436,866)	(₱ 4,361,002)

The Group's plan assets are maintained by a trustee bank. The plan assets include cash, loan receivables, investment in stocks, government securities, bonds and other debt instruments. The carrying amount of the plan asset approximates the fair value of plan assets.

The rollforward of present value of defined benefit obligation follows:

	2012	2011
Balance at beginning of year	₱ 19,525,249	₱ 11,658,526
Actuarial loss on obligation	13,648,029	4,785,228
Current service cost	2,002,062	2,128,685
Interest cost	1,309,553	952,810
Benefits paid	(3,506,813)	–
Balance at end of year	₱ 32,978,080	₱ 19,525,249

The rollforward of fair value of plan assets follows:

	2012	2011
Balance at beginning of year	₱ 15,004,547	₱ 11,068,331
Contributions	3,224,766	3,459,814
Expected return on plan assets	486,973	359,720
Benefits paid	(3,506,813)	–
Actuarial gain on plan assets	(100,115)	116,682
Balance at end of year	₱ 15,109,358	₱ 15,004,547

The overall expected rate of return on plan assets is determined based on 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 ₱276,912 in 2012 and ₱495,497 in 2011.

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

	2012	2011	2010
Current service cost	₱ 2,002,062	₱ 2,128,685	₱ 1,161,908
Interest cost	1,309,553	952,810	715,058
Amortization of:			
Actual loss	444,111	161,489	78,508
Transition obligation	(119,851)	38,206	38,206
Expected return on plan assets	(486,973)	(359,720)	(226,213)
Amount recognized in the consolidated statements of income (Note 27)	₱ 3,148,902	₱ 2,921,470	₱ 1,767,467

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

		2012		2011
Net pension asset at beginning of year	₱	4,361,002	₱	3,822,658
Expense recognized in the consolidated statements of income		(3,148,902)		(2,921,470)
Actual contributions		3,224,766		3,459,814
Net pension asset at end of year	₱	4,436,866	₱	4,361,002

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 and other utilities expense.

Estimated future minimum rental receipts follow:

		2012		2011
Due within one year	₱	6,485,567	₱	6,505,129
Due beyond one year, not later than five years		6,548,583		1,226,257
	₱	13,034,150	₱	7,731,386

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

		2012		2011		2010
Nonrelated parties	₱	6,604,501	₱	7,210,538	₱	8,794,666
Related parties (Note 21)		–		–		163,636
	₱	6,604,501	₱	7,210,538	₱	8,958,302

Group as a Lessee

The Group entered into operating lease agreements with related and non-related 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 2013 amounted to ₱866,093.

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

		2012		2011		2010
Related party (Note 21)	₱	381,795	₱	1,771,873	₱	888,654
Nonrelated party		324,613		1,842,019		1,082,124
	₱	706,408	₱	3,613,892	₱	1,970,778

There are no other significant restrictions imposed by lease agreements such as those concerning dividends, additional debt and further leasing.

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:

		2012		2011		2010
Regular corporate income tax	₱	29,731,334	₱	205,660	₱	130,180
MCIT		233,890		247,441		3,582,940
	₱	29,965,224	₱	453,101	₱	3,713,120

(Amounts in Philippine Pesos)

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

		2012		2011
Deferred tax assets				
Tax effects of:				
NOLCO	₱	23,314,707	₱	26,718,443
Allowance for impairment losses on investment properties		4,127,220		3,668,640
Unamortized past service cost		1,848,404		1,698,031
Allowance for doubtful accounts		135,968		135,968
Accrued retirement liability		62,412		13,776
Others		10,048,551		10,045,835
MCIT		846,087		9,681,276
	₱	40,383,349	₱	51,961,969

		2012		2011
Deferred tax liabilities				
Tax effects of:				
Deferred income on sale of real estate	₱	78,146,932	₱	87,412,166
Deferred rental income		137,727		88,566
Unrealized foreign exchange gain		–		11,090
	₱	78,284,659	₱	87,511,822

The Group did not recognize the deferred income tax asset on NOLCO amounting to ₱447,274 as of December 31, 2012 since management believes that this could not be utilized prior to its expiration. NOLCO amounting to ₱78.2 million as of December 31, 2012, 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	Adjustment	Balance	Expiry Date
December 31, 2009	₱ 22,289,212	(₱ 22,289,212)	₱ –	₱ –	December 31, 2012
December 31, 2010	33,205,727	(30,429,036)	(82,552)	2,694,139	December 31, 2013
December 31, 2011	34,022,032	–	(7,362,968)	26,659,064	December 31, 2014
December 31, 2012	48,809,755	–	–	48,809,755	December 31, 2015
	₱ 138,326,726	(₱ 52,718,248)	(₱ 7,445,520)	₱ 78,162,958	

Adjustment in 2012 amounting to ₱7.4 million pertains to NOLCO of deconsolidated subsidiaries as of December 31, 2011 (see Note 3).

The carry forward benefits of MCIT totaling ₱0.8 million as of December 31, 2012, 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, 2009	₱ 5,851,025	(₱ 5,851,025)	₱ –	December 31, 2012
December 31, 2010	3,582,940	(3,218,072)	364,868	December 31, 2013
December 31, 2011	247,441	–	247,441	December 31, 2014
December 31, 2012	233,890	–	233,890	December 31, 2015
	₱ 9,915,296	(₱ 9,069,097)	₱ 846,199	

The Group did not recognize the carry forward benefits of MCIT amounting to ₱112 since management believes that this could not be utilized prior to its expiration.

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:

	2012	2011	2010
Income tax expense computed at statutory tax rate	₱ 31,231,529	₱ 12,139,464	₱ 141,045,340
Income tax effects of:			
Discount on loans payable	(15,890,675)	–	–
Write-off of expired NOLCO and other deferred tax assets	2,033,729	2,213,263	872,476
Interest income subjected to final tax	(1,898,678)	(262,036)	(567,902)
Equity in net loss of associate	1,446,547	332,201	–
Non-deductible representation and entertainment expense	1,343,737	–	251,123
Non-deductible taxes and other expenses	1,264,608	1,634,862	–
Non-deductible interest expense	735,083	98,836	–
Amortization of discount on loans	269,267		
Capital gains tax paid	242,549	324,320	4,895,784
Discount on notes receivable	214,526	–	–
Excess of contribution over provision on plan asset	(₱ 69,468)	₱ –	(₱ 16,199)
Unrecognized NOLCO	44,691	55,276	34,269
Losses subjected to income tax holiday	–	1,415,904	–
Accounts written – off	–	119,664	3,252,920
Excess of provision over contribution on plan asset	–	85,139	–
Dividend income	–	(735)	(115,484,485)
Gain on sale of asset already subjected to capital gains tax	–	–	(50,304,843)
Others	46,483	–	514,289
Applied and Expired MCIT	9,069,098	288,174	168,512
	₱ 30,083,026	₱ 18,444,332	(₱ 15,338,716)

d. The Group opted for the itemized deduction scheme for its income tax reporting in 2012, 2011 and 2010.

31. Earnings per Share (EPS)

Basic EPS is computed as follows:

	2012	2011	2010
Net income attributable to equity holders of Parent Company	₱ 69,928,799	₱ 22,335,446	₱ 485,471,608
Divided by weighted average number of shares outstanding	1,177,146,587	1,136,296,109	1,156,101,982
Basic earnings per share	₱ 0.05941	₱ 0.01966	₱ 0.41992

The Group has no dilutive potential shares as of December 31, 2012, 2011 and 2010 (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, 2012 and 2011:

	2012	
	Carrying value	Fair value
Financial assets:		
Cash and cash equivalents	₱ 995,259,528	₱ 995,259,528
Accounts receivable	577,352,990	577,352,990
Notes receivable	6,284,916	6,284,916
Refundable deposits	55,373,170	55,373,170
AFS investments	707,002,512	707,002,512
	₱ 2,341,273,116	₱ 2,341,273,116
Financial liabilities:		
Short-term debt	₱ 170,000,000	₱ 170,000,000
Long-term debt	1,555,866,485	1,555,866,485
Accounts payable and accrued expenses*	336,477,377	336,477,377
Deposit from customers	41,646,355	41,646,355
Dividends payable	2,420,541	2,420,541
Subscription payable	114,550,663	114,550,663
	₱ 2,220,961,421	₱ 2,220,961,421

(Amounts in Philippine Pesos)

	2011	
	Carrying value	Fair value
Financial assets:		
Cash and cash equivalents	₱ 149,709,918	₱ 149,709,918
Accounts receivable	504,017,930	504,017,930
Notes receivable	920,417	920,417
Refundable deposits	24,181,212	24,181,212
AFS investments	727,189,676	727,189,676
	₱ 1,406,019,153	₱ 1,406,019,153
Financial liabilities:		
Short-term debt	₱ 100,000,000	₱ 100,000,000
Long-term debt	1,060,983,414	1,060,983,414
Accounts payable and accrued expenses*	423,568,615	423,568,615
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
	₱ 1,741,587,127	₱ 1,741,587,127

*Accounts payable and accrued expenses excludes statutory payables as of December 31, 2012 and 2011.

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, deposit 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.

Long-term interest bearing loans are carried at the outstanding principal amounts of the loan. Long-term non-interest bearing loans are carried at their present value which approximates their fair values.

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 ₱131.1 million and ₱151.3 million as of December 31, 2012 and 2011, 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.

The Group has no financial assets that fall under level 2 and 3 as of December 31, 2012 and 2011.

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 principle.

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:

		2012		2011
Cash and cash equivalents	₱	995,259,528	₱	149,709,918
Accounts receivable		577,352,990		504,017,930
Notes receivable		6,284,916		920,417
Refundable deposits		55,373,170		24,181,212
Available-for-sale investments		707,002,512		727,189,676
	₱	2,341,273,116	₱	1,406,019,153

  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.

  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.

  Below is the quality per class of financial assets:

	2012							
		Neither past due nor impaired		Past due but not impaired		Impaired		Total
Cash and cash equivalents	₱	995,259,528	₱	–	₱	–	₱	995,259,528
Accounts receivable		537,971,554		39,381,436		596,609		577,949,599
Loans receivable		6,284,916		–		–		6,284,916
Refundable deposits		55,373,170		–		–		55,373,170
AFS investments		707,002,512		–		–		707,002,512
	₱	2,301,891,680	₱	39,381,436	₱	596,609	₱	2,341,869,725

	2011							
		Neither past due nor impaired		Past due but not impaired		Impaired		Total
Cash and cash equivalents	₱	149,709,918	₱	–	₱	–	₱	149,709,918
Accounts receivable		474,117,965		29,899,965		453,225		504,471,155
Notes receivable		920,417		–		–		920,417
Refundable deposits		24,181,212		–		–		24,181,212
AFS investments		727,189,676		–		–		727,189,676
	₱	1,376,119,188	₱	29,899,965	₱	453,225	₱	1,406,472,378

(Amounts in Philippine Pesos)

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

	2012			
	Less than 30 days	30 to 60 days	More than 60 days	Total
Accounts receivable	₱ 16,074,940	₱ 5,366,782	₱ 17,939,714	₱ 39,381,436

	2011			
	Less than 30 days	30 to 60 days	More than 60 days	Total
Accounts receivable	₱ 9,720,591	₱ 2,709,806	₱ 17,469,568	₱ 29,899,965

As of December 31, 2012 and 2011, accounts receivable with nominal value of ₱0.6 million and ₱0.5 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, 2012 and 2011, gross of allowance for impairment losses.

	2012					
	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	₱ 995,259,528	₱ –	₱ –	₱ –	₱ –	₱ 995,259,528
Accounts receivable (Note 7)	432,368,001	83,479,748	22,123,805	39,381,436	596,609	577,949,599
Loans receivable	6,284,916	–	–	–	–	6,284,916
Refundable deposits	55,373,170	–	–	–	–	55,373,170
Total loans and receivables	1,489,285,615	83,479,748	22,123,805	39,381,436	596,609	1,634,867,213
AFS investments (Note 11)						
Equity securities	707,002,512					707,002,512
	₱ 2,196,288,127	₱ 83,479,748	₱ 22,123,805	₱ 39,381,436	₱ 596,609	₱ 2,341,869,725

	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	₱ 149,709,918	₱ –	₱ –	₱ –	₱ –	₱ 149,709,918
Accounts receivable (Note 7)	311,215,146	99,650,075	63,252,744	29,899,965	453,225	504,471,155
Notes receivable	920,417	–	–	–	–	920,417
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
	₱ 1,213,216,369	₱ 99,650,075	₱ 63,252,744	₱ 29,899,965	₱ 453,225	₱ 1,406,472,378

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, 2012 and 2011, the available credit lines with banks and outstanding balances are as follows:

	2012		
	Available credit line	Drawable line	Unpaid
UCPB	₱ 400,047,720	₱ 20,000,000	₱ 380,047,720
CBC	370,000,000	–	370,000,000
BPIF	274,610,126	–	274,610,126
BPI	135,000,000	–	135,000,000
UBP	400,000,000	–	400,000,000
	₱ 1,579,657,846	₱ 20,000,000	₱ 1,559,657,846

	2011		
	Available credit line	Drawable line	Unpaid
UCPB	₱ 400,000,000	₱ –	₱ 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
	₱ 1,190,983,414	₱ 30,000,000	₱ 1,160,983,414

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.

The following table presents the Group's non-derivative financial assets and liabilities by contractual maturity and settlement dates as of December 31, 2012 and 2011. 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.

	2012		
	Due within one year	Due beyond one year	Total
Financial assets:			
Cash and cash equivalents	₱ 995,259,528	₱ –	₱ 995,259,528
Accounts receivable	274,436,737	302,916,253	577,352,990
Notes receivable	6,284,916	–	6,284,916
Refundable deposits	55,373,170	–	55,373,170
AFS investments	–	707,002,512	707,002,512
	₱ 1,331,354,351	₱ 1,009,918,765	₱ 2,341,273,116

	2012		
	Due within one year	Due beyond one year	Total
Financial liabilities:			
Short-term debt	₱ 170,000,000	₱ –	₱ 170,000,000
Long-term debt	22,875,000	1,585,062,846	1,607,937,846
Accounts payable and accrued expenses*	336,477,377	–	336,477,377
Deposit from customers	41,646,355	–	41,646,355
Dividends payable	2,420,541	–	2,420,541
Subscription payable	114,550,663	–	114,550,663
	₱ 687,969,936	₱ 1,585,062,846	₱ 2,273,032,782

	2011		
	Due within one year	Due beyond one year	Total
Financial assets:			
Cash and cash equivalents	₱ 149,709,918	₱ –	₱ 149,709,918
Accounts receivable	236,222,883	267,795,047	504,017,930
Notes receivable	920,417	–	920,417
Refundable deposits	24,181,212	–	24,181,212
AFS investments	–	727,189,676	727,189,676
	₱ 411,034,430	₱ 994,984,723	₱ 1,406,019,153
Financial liabilities:			
Short-term debt	₱ 100,000,000	₱ –	₱ 100,000,000
Long-term debt	19,308,320	1,041,675,094	1,060,983,414
Accounts payable and accrued expenses*	423,568,615	–	423,568,615
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
	₱ 699,912,033	₱ 1,041,675,094	₱ 1,741,587,127

*Accounts payable and accrued expenses excludes statutory payables as of December 31, 2012 and 2011.

- *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 2012 and 2011 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 2012 and 2011, 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 4.75% to 12.0% in 2012 and 2011.

- *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 ₱56.6 million as of December 31, 2012, 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, 2012.

Reasonably Possible Changes in US Dollar – Philippine Peso Exchange Rate	Effect on Income before tax	Effect on Equity
1%	₱ 8,124	₱ 5,687
(1%)	(8,124)	(5,687)

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:

	2012	2011
Share capital	₱ 1,386,293,229	₱ 1,309,924,887
Additional paid-in capital	586,198,947	155,948,570
Retained earnings	685,835,631	610,442,318
Treasury shares	–	(203,613,323)
	₱ 2,658,327,807	₱ 1,872,702,452

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, 2012 and 2011 follow:

	2012	2011
Total debt	₱ 2,305,659,327	₱ 1,844,891,776
Total equity	2,808,175,211	2,043,574,867
Debt-to-equity ratio	0.82:1.00	0.90:1.00

The Group had not been subjected to externally imposed capital requirements in 2012 and 2011. No changes were made in the objectives, policies, and processes during the years ended December 31, 2012 and 2011.

35. Dividend Declaration

On December 27, 2006, the BOD declared cash dividends equal to ₱0.05 per share or a total of ₱49,439,315 to shareholders of record as of January 15, 2007 payable on February 8, 2007. Relative to this, dividend payable of ₱45,852,178 (net of withholding tax) was recognized in the December 31, 2006 Parent Company statements of financial position. As of December 31, 2012 and 2011, dividends payable amounted to ₱2,420,541 and ₱2,240,877, respectively.

On July 9, 2010, the Parent Company's Board of Directors, upon the recommendation of Management, declared a cash dividend of Twenty Centavos (₱0.20) per share. Conformably with the rules of the Philippine Stock Exchange, 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 ₱3.20 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.

On December 2010, the Parent Company distributed 62,500,591 shares which is net of 4,609,685 shares representing the final tax due on the treasury shares.

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
Quarry and Mining	Quarrying and mining of basalt rocks for production of construction aggregates or sand and gravel
Service/	Providing water supply and servicing
Manufacturing	Manufacturing of crude palm oil
/Trading	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 2012 and 2011.
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, 2012 (in thousands).

(Amounts in Philippine Pesos)

2012

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

	Real estate	Quarry and Mining	Service/ Manufacturing/ Trading	Hotel	Agriculture	Power Operations	Holding	Total	Adjustments and eliminations	Consolidated
Revenues										
External revenues	₱ 464,367	₱ 19,761	₱ 88,823	₱ 9,187	₱ 849	₱ –	₱ –	₱ 582,987	₱ –	₱ 582,987
Inter-segment revenues	1,185	44	–	2,234	11,509	–	–	14,972	(14,972)	–
Total revenues	465,552	19,805	88,823	11,421	12,358	–	–	597,959	(14,972)	582,987
Operating expenses	408,697	15,285	113,615	18,736	33,954	376	4,837	595,500	(10,444)	585,056
Operating profit (loss)	56,855	4,520	(24,792)	(7,315)	(21,596)	(376)	(4,837)	2,459	(4,528)	(2,069)
Financial income	82,239	–	55	8,534	4	327	321	91,480	(5,030)	86,450
Financial expenses	(54,581)	–	(5,029)	(113)	–	(1,018)	–	(60,741)	5,030	(55,711)
Other income	64,839	–	5,741	336	–	–	–	70,916	–	70,916
Income tax expense (benefit)	(42,469)	–	4,831	2,050	5,324	73	108	(30,083)	–	(30,083)
Net income	₱ 106,883	₱ 4,520	(₱ 19,194)	₱ 3,492	(₱ 16,268)	(₱ 994)	(₱ 4,408)	₱ 74,031	(₱ 4,528)	₱ 69,503
Net income attributable to:										
Equity holders of Parent Company										69,928
Noncontrolling interest										(425)
										69,503
Other information										
Segment assets	₱ 5,055,464	₱ 17,122	₱ 684,849	₱ 109,178	₱ 271,199	₱ 41,930	₱ 190,508	₱ 6,370,250	(₱ 1,296,799)	₱ 5,073,451
Deferred tax assets	15,992	–	8,595	3,197	12,278	85	236	40,383	–	40,383
Total assets	5,071,456	17,122	693,444	112,375	283,477	42,015	190,744	6,410,633	(1,296,799)	5,113,834
Segment liabilities	2,088,191	10,122	296,792	55,919	272,677	19,846	183,454	2,927,001	(699,627)	2,227,374
Deferred tax liabilities	78,285	–	–	–	–	–	–	78,285	–	78,285
Total liabilities	2,166,476	10,122	296,792	55,919	272,677	19,846	183,454	3,005,286	(699,627)	2,305,659
Segment additions to property and equipment and investment properties	34,966	2,334	72,225	3,725	3,404	–	–	116,654	–	116,654
Depreciation and amortization	(14,091)	(102)	(3,808)	(2,234)	(3,991)	(4)	(3)	(24,233)	–	(24,233)
Impairment loss	(1,529)	–	–	–	–	–	–	(1,529)	–	(1,529)

2011

FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS

	Real estate	Quarry and Mining	Service/ Manufacturing/ Trading	Hotel	Agriculture	Power Operations	Holding	Total	Adjustments and eliminations	Consolidated
Revenues										
External revenues	₱ 317,218	₱ 5,228	₱ 75,589	₱ 10,889	₱ 7,201	₱ –	₱ –	₱ 416,125	₱ –	₱ 416,125
Inter-segment revenues	154	13		3,025	4,167	–	–	7,359	(7,359)	–
Total revenues	317,372	5,241	75,589	13,914	11,368	–	–	423,484	(7,359)	416,125
Operating expenses	272,075	2,761	79,816	17,808	28,341	7,591	466	408,858	(7,359)	401,499
Operating profit (loss)	45,297	2,480	(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	(8,568)	28,381
Financial expenses	(39,964)	–	(9,481)	–	–	–	–	(49,445)	8,568	(40,877)
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	₱ 51,780	₱ 2,480	(₱ 9,774)	(₱ 2,586)	(₱ 14,181)	(₱ 5,374)	(₱ 323)	₱ 22,000	₱ –	₱ 22,022
Net income attributable to:										
Equity holders of Parent Company										22,336
Noncontrolling interest										(314)
										22,022
Other information										
Segment assets	₱ 3,874,379	₱ 18,866	₱ 503,043	₱ 70,109	₱ 231,011	₱ 82,730	₱ 167,972	₱ 4,948,110	(₱ 1,111,606)	₱ 3,836,504
Deferred tax assets	37,956	–	3,530	1,148	6,954	2,177	197	51,962	–	51,962
Total assets	3,912,335	18,866	506,573	71,257	237,965	84,907	168,169	5,000,072	(1,111,606)	3,888,466
Segment liabilities	1,716,772	16,386	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	1,804,284	16,386	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	7,062	26,620	52,084	9,928	11,034	50,871	1,482	159,081	–	159,081
Depreciation and amortization	(10,993)	(19)	(2,653)	(2,234)	(2,722)	(379)	(2)	(19,002)	–	(19,002)
Impairment loss	(1,529)	–	–	–	–	–	–	(1,529)	–	(1,529)

	2010								
	FINANCIAL INFORMATION ABOUT BUSINESS SEGMENTS								
	Real estate	Service/ Manufacturing/ Trading	Hotel	Agriculture	Power Operations	Holding	Total	Adjustments and eliminations	Consolidated
Revenues									
External revenues	₱ 159,750	₱ 46,037	₱ 9,745	₱ –	₱ –	–	₱ 215,532	₱ –	₱ 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	₱ 486,605	₱ 1,845	₱ 297	(₱ 3,134)	₱ 23	(₱ 146)	₱ 485,490	₱ –	₱ 485,490
Net income attributable to:									
Equity holders of Parent Company									₱ 485,472
Noncontrolling interest									18
									₱ 485,490
Other information									
Segment assets	₱ 3,273,638	₱ 271,414	₱ 70,570	₱ 151,359	₱ 12,550	₱ 85,976	₱ 3,865,507	(₱ 616,509)	₱ 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)

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

	2012	2011	2010
Real estate:			
Sale of lot – real estate held for sale	₱ 465,969,218	₱ 315,358,517	₱ 152,264,626
Rental – investment properties	6,604,501	7,087,811	7,485,136
	472,573,719	322,446,328	159,749,762
Service/Manufacturing and trading:			
Crude palm oil	82,643,118	71,318,039	34,289,632
Water service	11,554,742	2,719,651	8,080,397
Palm seedlings and kernel nuts	5,674,997	1,386,893	923,050
Crop	849,467	7,201,494	–
Fertilizer	505,070	164,280	2,743,650
	101,227,394	82,790,357	46,036,729
Hotel operations:			
Hotel operations	9,187,558	10,766,361	8,272,279
Rental	–	122,727	1,473,166
	9,187,558	10,889,088	9,745,445
	₱ 582,988,671	₱ 416,125,773	₱ 215,531,936

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

In a Board of Directors meeting held on May 2, 2012 and the annual stockholders meeting on June 1, 2012, the Board of Directors and the shareholders representing 2/3 of the outstanding capital stock approved the following amendments in the Articles of Incorporation:

a. Amendment to paragraph 4: "That the term for which the Corporation is to exist is extended for another fifty (50) years from and after the date of the expiration of the original corporate term on 20 December 2016".

b. Amendment to paragraph 6: "That the number of directors of this Corporation shall be Nine (9)……"

c. Amendment to paragraph 7: "That the amount of the capital stock of this Corporation is One Billion Six Hundred Twenty Million Pesos (₱1,620,000,000.00), Philippine Currency, and the said capital stock is divided into One Billion Six Hundred Twenty Million (1,620,000,000) shares with a par value of One Peso (₱1.00) each, provided that, stockholders shall have no preemptive right to subscribe to unissued shares unless otherwise approved by the Board of Directors".

   In 2011 and 2010, the Parent Company's authorized capital stock is ₱1,320,000,000 divided in 1,320,000,000 with par value of ₱1 each share.

The SEC approved the said amendments on December 28, 2012.

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 ₱15,320,000,000 and the said capital stock is divided into 15,320,000,000 shares with the par value of ₱1.00 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 ₱187.8 million as of December 31, 2009, as deposits for future stock subscription. Additional deposits were received by the Parent Company in 2010 amounting to ₱3.8 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.

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.

On May 2, 2012, the BOD approved the cancellation of this amendment.

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38. Other Matter

<u>Impasug-Ong and Kalabugao Plantations</u>

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 National Resources (DENR) on December 22, 2000 covering an area of

2,510.80 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 the CBFMA area.

The project's objectives are to establish approximately 894 hectares into a commercial palm plantation within 5 years (2006-2011). However, ABERDI may intercrop suitable agricultural crops in the plantation and raise livestock, the harvest and produce of which shall belong to ABERDI.

The responsibilities of KASAMAKA with regards to the project follow:

- To provide the land area of 894 hectares within CBFMA area for oil palm plantation.
- To provide manpower needs of the Company 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.

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

Opol Plantation
Nakeen entered into a Development Contract for the establishment of Palm Oil Plantation in Tingalan, Opol, Misamis Oriental with Kahugpongan sa mga Mag-Uuma sa Barangay Tingalan (KMBT).

KMBT has been granted CBFMA No. 56297 by DENR on December 31, 2000 covering a total area of 1,000 hectares of forest lands located in Tingalan, Opol, Misamis Oriental to develop, manage and protect the allocated Community Forest Project Area.

The roles and responsibilities of KMBT under the Development Contract are as follows:

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

On the other hand, the responsibility of Nakeen in regard to the project is to provide technical and financial resources to develop the covered area into palm oil plantation for a period of 25 years.

39. Litigation

Yulo Case
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 ₱34.4 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 ₱22.4 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. In May 2010, the amount recorded by the Parent Company as withholding tax on compensation was released to the Court of Appeals until the decision is final.

The presiding judge who handled the case was eventually replaced.

In an Order dated April 15, 2010, the new presiding judge, reversed the order of the former presiding judge, declaring that the judgment award is not subject to income tax and, at the same time, eliminating the threshold date of 15 July 2009 set by the former presiding judge in the computation of the total amount payable to the claimant

The new presiding judge ruled that the company was "still obligated to pay the amount of ₱14, 075,521.24 as of April 15, 2010, subject to daily interest at the rate of ₱4, 305.73 until judgment is fully satisfied."

The Parent Company moved for reconsideration of the said order but, to no avail. The matter is elevated to the Court of Appeals where it is now currently pending.

Lustre Case
The Parent Company filed with the trial court a case for recission with damages against defendants Home Industries Development Corporation ("HIDC") and/or Mr. Antonio Lustre. The instant case was brought about by the defendants non delivery of lots subject of a contract to sell. The amount involved in the instant case

is Six Million Four Hundred Sixty-Four Thousand Four Hundred Twenty-Five Pesos (₱6,464,425.00) [(cash actually paid by the Parent Company) ₱794,425.00 + (present value of shares of stock) ₱5,400,000.00 + (difference between value of the shares of stock at the date of the execution of the Contract to Sell and the present value of the shares of stock) ₱270,000.00]. The trial court ruled in favour of the Parent Company.

The Parent Company learned that the shares of stock forming part of the trial court's judgment award had been disposed and were no longer in the name of Defendants Home Industries Development Corporation ("HIDC") and/or Mr. Antonio Lustre. As such, the Parent Company filed an Omnibus Motion dated 18 April 2011 praying, among others, that Defendant HIDC pay the value of the shares of stock, in lieu of the actual return of the same, which regrettably was denied by the trial court.

Considering the trial court's denial of the above-mentioned Omnibus Motion, the Parent Company filed with the Court of Appeals a Motion for Amendment and/or Clarification of Judgment Based on Supervening Events ("Motion") dated 22 February 2012. This Motion was subsequently denied in a Resolution dated 27 December 2012. Consequently, the Parent Company filed a Motion for Reconsideration (Of the Resolution dated 27 December 2012).

At present, the Motion is still pending with the Court of Appeals.

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 ₱16,911,988.

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 full 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 ₱335,212,810, or about ₱1.12 per share.

On October 12, 2010, the Parent Company sold 63,865,705 common shares held in treasury at ₱3.01 per share resulting to additional paid-in capital amounting to ₱120,873,766.

As discussed in Note 1, the Parent Company's Board of Directors (BOD) approved, during their meeting on October 5, 2012, the private placement of 250.0 million of its listed common shares consisting of 173.6 million treasury common shares and 76.4 million common shares owned by a shareholder. The Placement Shares, with a par value of ₱1 per share was sold at a price of ₱2.89 per share and crossed in the Exchange on October 8, 2012.

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