# F & J Prince Holdings Corporation

## Management Report
## 2012

## STOCK TRADING PRICE INFORMATION

The shares of the Registrant are listed with the Philippine Stock Exchange.

The high and low prices for each quarter within the last two (2) fiscal years and 1st quarter of 2013 are as follows:

| QUARTER; YEAR | CLASS "A" | | CLASS "B" | |
|---|---|---|---|---|
| | High | Low | High | Low |
| 1st Quarter, 2011 | 1.30 | 0.95 | 1.57 | 1.56 |
| 2nd Quarter, 2011 | 1.48 | 1.03 | 1.45 | 1.15 |
| 3rd Quarter, 2011 | 2.20 | 1.25 | 2.48 | 1.25 |
| 4th Quarter, 2011 | 1.99 | 1.36 | 2.46 | 1.27 |
| 1st Quarter, 2012 | 4.19 | 1.96 | 4.00 | 1.98 |
| 2nd Quarter, 2012 | 3.00 | 2.41 | 2.65 | 2.51 |
| 3rd Quarter, 2012 | 2.98 | 2.43 | 3.00 | 2.52 |
| 4th Quarter, 2012 | 3.50 | 2.35 | 3.88 | 2.60 |
| 1st Quarter, 2013 | 3.30 | 2.90 | 3.20 | 3.00 |

Note 1: Dividends amounting to ₱0.12 per share were declared and paid out in 2012. Dividends of ₱0.07 per share were declared and paid by the company in 2011.

Note 2: Class "A" shares may be owned only by Filipino citizens while Class "B" shares may be owned by Filipino citizens as well as foreigners.

Note 3: Latest market price traded was ₱3.30 per share for Class "A" shares transacted on May 15, 2013; and ₱3.00 per share for Class "B" shares transacted on April 25, 2013.

### Number of Shareholders

As of **May 15, 2013**, the Registrant had Four Hundred Ninety Six (496) stockholders of record, as follows: Class "A" shares – Four Hundred Forty Eight (448) shareholders; Class "B" shares – Forty (40) shareholders; and shareholders owning both Class "A" and "B" – Eight (8) shareholders.

### Dividends

Dividends amounting to ₱0.12 per share were declared and paid in 2012. Dividends of ₱0.07 per share were declared and paid in 2011.

Under the Registrant's By-laws, there are no restrictions in the declaration of dividends other than what is prescribed in the Corporation Code, namely that these shall be declared only from surplus profit and no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds of all stock outstanding and entitled to vote at a general or special meeting called for the purpose. The amount of unrestricted retained earnings available for distribution as of December 31, 2012 was ₱227,477,089.00.

# F & J Prince Holdings Corporation

## Management Report

### Annual Stockholders' Meeting

### July 24, 2013

## Contents

# REPORT OF THE CHAIRMAN AND PRESIDENT

The Registrant's consolidated total revenue increased by 29% in 2012 to ₱158.5 million from ₱122.8 million in 2011. This does not include the extraordinary income after tax of ₱610.3 million derived in 2011 from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Part of the increase in revenue was accounted for by the 35% increase in interest income from ₱51.4 million in 2011 to ₱69.3 million in 2012. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 24.5% to ₱77.7 million in 2012 from ₱62.4 million in 2011 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱6.7 million in 2012 from ₱3.4 million in 2011 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been setting record highs. Rental income also increased slightly to ₱3.5 million in 2012 from ₱3.2 million in 2011. Dividend income increased slightly to ₱1.0 million in 2012 from ₱0.9 million in 2011.

Total consolidated expenses of the Registrant was lower at ₱29.7 million in 2012 compared to ₱36.2 million in 2011. Unrealized foreign exchange losses of ₱5.8 million in 2012 was lower than the ₱11.6 million in 2011. In addition, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits also increased 2011 expenses. These two items account for the bulk in reduction of operating expenses in 2012. Labor expense increased due to MCHC absorbing the staff of MUDC in preparation for dissolution of MUDC.

As a result of the above, total consolidated income before tax from continuing operation in 2012 totalled ₱128.8 million, an improvement of 49% over the ₱86.6 million in 2011. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱118.9 million in 2012, a 50% improvement over the ₱78.9 million in 2011.

However, in 2011, the Registrant also had an extraordinary income of ₱610.3 million after tax from the sale of the BAID shares which increased net income after tax to ₱689.1 million for 2011.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱2.4 million in 2012 compared to ₱31.3 million in 2011.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2012, the Registrant's consolidated cash and cash equivalent totaled over ₱1.047 billion slightly higher than the level of ₱1.042 billion as of December 31, 2011. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱14.7 million compared to total equity of ₱1.8 billion as of the end of 2012.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2012 totalled ₱1,047 million compared to ₱1,042 million at the end of 2011 while total current assets totalled ₱1.2 billion at year-end 2012 compared to ₱1.17 billion at year-end 2011. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations

The following is a detailed discussion of the company direct and indirect subsidiaries and its affiliated associates:

## MAGELLAN CAPITAL HOLDINGS CORPORATION (MCHC)

Magellan Capital Holdings Corporation (MCHC), your Company's 95% owned subsidiary, is involved in the development of and investment in infrastructure and power generation projects. Established in 1990, MCHC has ₱689 million in paid-in capital and ₱1,658 million in consolidated shareholders' equity as of December 31, 2012. After the acquisition of the block of shares owned by PSEG Philippine Holdings LLC. in December 2006, your Company owns 94% of the outstanding shares of MCHC and effectively controls and manages MCHC.

MCHC was until December 2006, 28% owned by PSEG Philippine Holdings LLC, a unit of the Public Service Enterprise Group (PSEG), the largest energy holding company in New Jersey and one of the largest in the United States.

MCHC's total consolidated assets at year-end 2012 was ₱1,671.7 million compared to ₱1,601.7 million at end of 2011. The primary reason for the jump in assets was the ₱201.1 million in comprehensive income recorded in 2012 offset by the ₱130.2 million in cash dividends paid out in 2012. MCHC's consolidated revenues for the year 2012 totaled ₱84.8 million, an increase of 39% over 2011. The increase was due mainly to an increase in interest income from ₱49 million in 2011 to ₱64.9 million in 2012. The interest income derived from proceeds of the sale of the BAID shares accounted for the sharp increase. Dividend income also increased sharply from ₱7.4 million in 2011 to ₱12.3 million in 2012. Total consolidated operating expenses of MCHC decreased from ₱37.8 million in 2011 to ₱26.5 million in 2012 due to lower net foreign exchange losses, lack of fair value loss on financial assets at FVPL and lack of provision for legal obligation. As a result of the above, net income after tax from continuing operation of MCHC totaled ₱49.1 million in 2012 from ₱15.6 million in 2011. Including the gain from the sale of the BAID shares, MCHC's total net income in 2011 totaled ₱625.8 million. Other comprehensive income totaled ₱152.0 million in 2012 from ₱15.3 million I 2011 due mainly to increase in prices of bonds and listed stocks hold by MCHC. As a result of the above, stockholder's equity of MCHC at the end of 2012 totaled ₱1,658.5 million from ₱1,587.6 million at the end of 2011.

The Chairman of MCHC is Mr. Antonio H. Ozaeta, retired President of Philippine Trust Company and a former Chairman of the Manila Electric Company and former President of PCI Bank. The President and CEO of MCHC is Mr. Robert Y. Cokeng, who is also President of your Company.

MCHC owns 43% of Magellan Utilities Development Corporation (MUDC) which is discussed below. MCHC also owns the entire fifth floor of the Citibank Center Building in Makati. Almost half of the floor is used by your Company as well as MCHC and its subsidiaries as its corporate offices. One unit is leased to Cathay United Bank, one of the largest banks in Taiwan. Another unit is leased to Business Process Outsourcing International, a 35% owned affiliate of the Company. The other two units available for lease have also been rented out. MCHC also owns a 985 square meter lot in Fort Bonifacio that it intends to develop into an office building.

## MAGELLAN UTILITIES DEVELOPMENT CORPORATION (MUDC)

Magellan Utilities Development Corporation (MUDC) is an MCHC project company developing a 320 MW Power Project in Pinamucan, Batangas. MCHC directly owns 43% of MUDC. GPU Power Philippines, Inc., a unit of GPU Corporation (GPU), former U.S. parent company of the Manila Electric Company (MERALCO), owns 40% of MUDC. MERALCO was established by a predecessor company of GPU during the American colonial era and was a wholly owned subsidiary of GPU until 1962 when MERALCO was acquired by a Lopez - led investor group.

With the continued uncertainty over the project being developed by MUDC, MUDC at the urging of its outside auditors had in 2004 written-off all its project development expenditures. It had in 2003 already written-off all pre-operating expenses as dictated by new accounting standards that became effective in 2003. With these write-offs, MUDC now has negative equity of ₱257 million as of year-end 2012. In 2005, your Company decided not to continue development of the project. Your Company's exposure including those of MCHC and its subsidiary, Pinamucan Industrial Estates, Inc., in the project have been provided for and will not have any impact on the Company's financial position. MCHC, along with other shareholders of MUDC, will evaluate the future course of action for MUDC, including possible liquidation.

## BATANGAS AGRO-INDUSTRIAL DEVELOPMENT CORPORATION (BAID)

Until July 2011, MCHC owned 100% of the shares of Batangas Agro-Industrial Development Corporation (BAID) which on its own and through six subsidiaries owns 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas City, Batangas. The land is located about 5 kilometers from the Shell Refinery in Tabangao, Batangas and is beside the J.G. Summit Petro-Chemical Plant. In July 2011, MCHC sold all its shares in BAID to J.G. Summit Holdings, Inc.

## POINTWEST TECHNOLOGIES CORPORATION (PTC)

Established in 2003 with your Company as one of the founding shareholders, Pointwest Technologies Corporation (PTC) is a global service company offering outsourced IT services from the Philippines. It is led by an experienced management team that helped pioneer offshore outsourcing in the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the United States. Your Company owns 30% of PTC. PTC has been profitable since its inception and has grown to a staff of over 1,000 professionals and annual revenues in 2012 of over US$25 million. PTC had record revenue and profits in 2012.

## BUSINESS PROCESS OUTSOURCING INTERNATIONAL, INC. (BPOI)

Business Process Outsourcing International, Inc. (BPOI) is a provider of accounting and finance related services such as payroll services, internal audit, payables processing and others. It has a total staff of over 500 servicing many of the multinational and large corporations operating in the country. BPOI was spun off from the BPO Department of SGV & Co., the biggest auditing firm in the country.

Your Company now owns 35% of BPOI after it acquired another 8.75% in 2005. BPOI had record profits in 2012 as its annual revenue has expanded to over ₱340 million.

## CONCLUSION

Your Company generated a consolidated net income from continuing operations in 2012 of ₱118.9 million, an increase of 50% over the ₱78.9 million income from continuing operations in 2011. The Company's outsourcing affiliates continue to perform well and generate good earnings. However, total net income n 2010 also includes ₱610.3 million gain from discontinued operations, representing the gain from the sale of the BAID shares. However, your Company also had other comprehensive income of ₱17.4 million in 2012 due to increase in prices of listed stocks and bonds hold by the Company and its subsidiaries which increased total comprehensive income to ₱136.3 million. As a result, total stockholders equity increased to ₱1,760.3 million at the end of 2012 from ₱1,677.6 million at the end of 2011. In addition, the Company is looking to increase its investment in income producing property such as developing its lot in Fort Bonifacio into a building generating attractive lease income. It is also looking to acquire other income producing properties to increase the Company's income from continuing operations. The Company will be carefully and prudently evaluating other new projects that may be suitable to pursue in the current economic environment.

With the support of the Directors, Officers, Staff and Shareholders, we are confident of the Company's future prospects and continued success. We again reiterate our thanks to the Shareholders for their continued support.

**ROBERT Y. COKENG**
***Chairman & President***

# BUSINESS AND GENERAL INFORMATION

## A. BUSINESS DEVELOPMENT

The Registrant was incorporated and registered with the Securities and Exchange Commission (“SEC”) on 18 February 1971 to engage primarily in the business of mining, including mineral and oil exploration. Its shares were registered and listed with the SEC in 1979 and thereafter listed and traded at the Manila Stock Exchange. Presently, its shares are listed with the Philippine Stock Exchange (“PSE”) which was the result of the merger of the Manila and Makati Stock Exchanges.

On 28 July 1997, the Registrant’s primary purpose was changed to that of a holding company. At present, the Registrant holds a 94.34% majority interest in Magellan Capital Holdings Corporation (“MCHC”).

The Registrant owns 30% of Pointwest Technologies Corporation (“PTC”), a software servicing and development company. The Registrant also owns 35% of Business Process Outsourcing International, Inc. (“BPOI”) a provider of accounting-based business process outsourcing (“BPO”) services to a large number of clients.

From its incorporation to the present, the Registrant has not been subject to any bankruptcy, receivership or similar proceedings. There has been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets other than in the ordinary course of business and the sale of the BAID shares in 2011.

### Business Development of the Registrant’s Subsidiaries

Magellan Capital Holdings Corporation (“MCHC”), is a corporation which was incorporated and registered with the SEC on 06 November 1990. The Registrant owns a 94.34% majority interest in MCHC. Its primary purpose is to engage in the business of identifying, developing and implementing infrastructure and industrial projects. On December 7, 2006, the Registrant acquired the shares of MCHC owned by PSEG Philippines Holdings LLC which represented a 27.67% total equity stake in MCHC. As a result of this transaction, the Registrant increased its ownership stake in MCHC from 66.67% to 94.34%. Because the shares were acquired at a substantial discount to book value, the Registrant booked a gain of ₽201.3 million representing excess of fair value of net assets acquired over cost in 2006.

MCHC owns 100% of the shares of the following companies:

| NAME OF COMPANY | DATE OF INCORPORATION | PRIMARY PURPOSE |
|---|---|---|
| Pinamucan Industrial Estates, Inc. | 05 May 1993 | Real Estate Holding and Development |
| Malabrigo Corporation | 31 August 1993 | Mining |
| Magellan Capital Trading, Inc. | 04 January 1991 | Trading |
| Magellan Capital Realty Development Corporation | 14 November 1990 | Realty |

From its incorporation to the present, none of the Registrant’s above-named subsidiaries have been subject to any bankruptcy, receivership or similar proceedings. There has also been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of their assets other than in the ordinary course of business.

## Business of Registrant

***Description of Registrant***

The Registrant is a holding company. At present, its principal assets are its shares in its subsidiary, MCHC, which is currently invested in real estate assets and in bond and stock investments and in shares of its subsidiaries. Most of the Registrant's indirect operating subsidiaries, i.e. MCHC's subsidiaries, are in development of infrastructure projects, as well as landholding and development. The Registrant also owns 30% of Pointwest Technologies Corporation, a software servicing and development company and 35% of Business Process Outsourcing International, Inc. ("BPOI") which it acquired in 2004 and 2005.

### *Percentage of Consolidated Total Revenues*

Breakdown of Revenue for the year 2012

| | CONSOLIDATED TOTAL REVENUE | PERCENTAGE BREAKDOWN |
|---|---|---|
| Equity in Net Earnings of Associates | ₱ 77,663,475 | 49.0% |
| Interest Income | 69,540,176 | 43.9% |
| Fair Value Gains on Financial Assets at FVPL | 6,646,383 | 4.2% |
| Rent | 3,542,743 | 2.2% |
| Dividend Income | 1,009,024 | 0.6% |
| Gain on Disposal of Transport Equipment | 125,0003 | 0.1% |
| Others | 377 | 0% |
| **Total** | **₱ 158,527,178** | **100.00%** |

Breakdown of Revenue for the year 2011

| | CONSOLIDATED TOTAL REVENUE | PERCENTAGE BREAKDOWN |
|---|---|---|
| Equity in Net Earnings of Associates | ₱ 62,373,976 | 50.8% |
| Interest Income | 51,436,143 | 41.9% |
| Fair Value Gains on Financial Assets at FVPL | 3,446,692 | 2.8% |
| Rent | 3,232,389 | 2.6% |
| Dividend Income | 869,051 | 0.7% |
| Gain on Disposal of Transport Equipment | 311,961 | 0.3% |
| Others | 1,107,066 | 0.9% |
| **Total** | **₱ 122,777,548** | **100.00%** |

The Registrant's consolidated revenue in 2012 increased by 29.1% to ₱158.5 million from ₱122.8 million in 2011. Part of the increase can be attributed to higher interest income which increased by 35% to ₱69.5 million in 2012 from ₱51.4 million in 2011. This was due mainly to interest income from the proceeds of the sale of the shares of Batangas Agro-Industrial Development Corporation (BAID) to J.G. Summit Holdings, Inc. by Magellan Capital Holdings Corporation. Equity in net earnings of associates also increased by 24.5% from ₱62.5 million in 2011 to ₱77.7 million in 2012 as both Pointwest Technologies Corporation and Business Process Outsourcing International, Inc. the Registrant's outsourcing affiliates, continued to show strong growth in earnings. Fair value gains on financial assets at FVPL almost doubled from ₱3.4 million in 2011 to ₱6.7 million in 2012 as prices of listed stocks held by the Registrant and its subsidiaries increased sharply in 2012. Rental income increased slightly from ₱3.2 million in 2011 to ₱3.5 million in 2012. Dividend income also increased slightly in 2012 to ₱1.0 million from ₱0.9 million in 2011. Other income dropped to almost nil in 2012 from ₱1.1 million in 2011.

## B. PRINCIPAL PRODUCTS AND SERVICES OF MCHC

Currently, MCHC, the Registrant's subsidiary, has direct holdings in real estate and stock and bond investments. It also owns shares in subsidiaries and affiliates engaged in development of infrastructure projects and in real estate investment and development.

### *(a) Power Generation Project Companies*

As a result of the crippling power shortages in the 1980s, the Philippine government launched its program to encourage private sector participation in the power industry through the enactment of Executive Order No. 215 ("EO 215"). Under EO 215, independent power producers ("IPPs") may participate in bulk generation to serve the requirements of the National Power Corporation ("NPC"), electric cooperatives, private utilities and other customers. It was against this background that MCHC's power generation project companies, Magellan Utilities Development Corporation ("MUDC"), Magellan Cogeneration, Inc. ("MCI") and Mactan Power Corporation ("MPC") were organized, on the basis of BOO schemes under Republic Act No. 6957, as amended by Republic Act No. 7718. The MPC project was sold by MCHC in 1997 right before the onset of the Asian economic crisis. The MCI project was completed and sold in 1998.

MUDC, which was established to develop an approximately 320MW power plant in Pinamucan, Batangas is 43%-owned by MCHC. The other major shareholder in MUDC is GPU Power Philippines, Inc. ("GPU Power"), with a 40% equity interest. GPU Power is a subsidiary of GPU Corporation ("GPU"), the former parent company of Manila Electric Company ("MERALCO"). GPU was a U.S.-based energy holding company with about US$11 billion in assets that operates utilities and power plants in New Jersey and Pennsylvania, U.S.A. GPU has been acquired by First Energy Corporation of Ohio which has decided to withdraw from the project and has done so by liquidating GPU Power.

MUDC initially had a 25-year power sales contract with MERALCO, under which MUDC was to supply power to MERALCO from its 300 MW coal-fired power plant to be constructed in Pinamucan, Batangas. Under a Memorandum of Agreement executed in December 1998, the parties agreed to execute a power purchase agreement whereby MERALCO would purchase the power generated from MUDC's 320 MW power plant, which was to be fuelled primarily by natural gas. The said power purchase agreement has not yet been finalized.

As a result of the project's uncertain prospects, the Registrant's auditor recommended and management had agreed that provision be made for all project development expenditures and pre-operating expenses by MUDC in line with current accounting standards. MUDC has decided not to proceed with its power project due to MERALCO's unwillingness to enter into a revised Power Purchase Agreement and due to the withdrawal of its foreign partner, GPU. In addition, MCHC has fully provided for its receivables due from MUDC. In 2008, in the Registrant's Consolidated Financial Statements, receivables due to MCHC's subsidiary, Pinamucan Industrial Estates, Inc., were also fully provisioned. Thus, the Registrant's remaining exposure to the MUDC project is almost nil at the end of 2012.

### *(b) Real Estate Holding and Development Companies*

Until July 2011, MCHC owned 100% interest in Batangas Agro-Industrial Development Corporation ("BAID").

BAID has the following wholly-owned subsidiaries which together with BAID own 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas:

(1) Fruit of the East, Inc.;
(2) United Philippines Oil Trading, Inc.;
(3) Hometel Integrated Management Corporation;
(4) King Leader Philippines, Inc.;
(5) Samar Commodities & Industrial Corporation; and
(6) Tropical Aqua Resources, Inc.

In July 2011, MCHC sold all its shares in BAID to J.G. Summit Holdings, Inc. for a total consideration of ₱1.04 billion.

## C. PRINCIPAL PRODUCTS AND SERVICES OF POINTWEST TECHNOLOGIES CORPORATION ("PTC")

PTC is a global service company offering outsourced IT services from the Philippines. It is led by an experienced management team that helped pioneer offshore outsourcing in the Philippines. The Registrant is a founding shareholder of PTC and owns 30% of its equity. Among others, PTC offers software servicing, maintenance, testing, and development to various clients mostly in the United States. It started operations in 2003 and has now built up to a staffing level of over One Thousand (1,000) IT Professionals and Support Staff. PTC's consolidated revenue in 2012 reached over Twenty Five Million U.S. Dollars (US$25 Million).

## D. PRINCIPAL PRODUCTS AND SERVICES OF BUSINESS PROCESS OUTSOURCING INTERNATIONAL, INC. ("BPOI")

BPOI is a provider of finance and accounting services such as payroll services, internal audit, payables processing and other accounting based services. It has a total of over 600 employees servicing many of the large multinationals operating in the country. BPOI was spun off from the BPO department of SGV & Co, the biggest auditing firm in the country. The Registrant is the biggest shareholder of BPOI with a 35% ownership stake. BPOI's revenues in 2012 has exceeded ₱340 million and its staffing level as exceed Six Hundred (600) at the end of 2012.

### Competition

Pointwest Technologies Corporation and BPOI face competition from other providers of software and business process outsourcing services both in the country and abroad. Outsourcing is a competitive industry and being competitive requires ability to provide quality and reliable service and ability to control costs so that operating margins are maintained at viable levels.

### Transactions with and/or Dependence on Related Parties

The Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC), and certain of MCHC's subsidiaries and affiliates as well as Registrant's affiliate, Business Process Outsourcing International, Inc. have transactions with each other such as rental contracts and intercompany loans. These transactions are on arms-length basis and, in the case of partially owned affiliates, are subject to approval of unrelated shareholders of these affiliates. In the case of rental contracts, the rental rates charged are similar to those charged to outside parties leasing similar properties.

## <u>Patents, Trademarks, Copyrights, Etc.</u>

As previously stated, other than for MUDC's power supply agreement with MERALCO and Memorandum of Understanding with SPEX, there are no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts and the like, owned by or pertaining to the Registrant and its subsidiary, MCHC.

## <u>Costs and Effects of Compliance with Environmental Laws.</u>

Since MUDC has decided not to pursue its power project, there is no anticipated need to comply with any environmental regulations. The other affiliates which are involved in the outsourcing industry which mainly involve the use of computer and other office equipment are expected to have negligible environmental impact.

## <u>Employees</u>

The Registrant has three (3) full time employees, one (1) each for accounting, clerical, and administrative and one (1) consultant, not including the employees and consultants retained by the Registrant's subsidiary and affiliates. The Registrant's employees are not subject to any Collective Bargaining Agreements (CBA), nor are they involved in or have threatened to strike for the past three (3) years. Aside from the mandatory 13$^{th}$ month pay and service incentive leaves (vacation and sick) benefits, there are no other benefits that are granted by the Registrant to its employees. The Registrant does not anticipate the need to hire additional employees within the ensuing twelve (12) months.

## <u>Risk of the Business of the Registrant and Subsidiaries</u>

### *1. Pointwest Technologies Corporation (PTC)*

PTC would face the normal risks faced by an IT services company serving mostly foreign clients. These risks include: 1) the risk that PTC may not find or retain clients; 2) some contracts are on non-recurring basis and may not be renewed; 3) risk of contract dispute in case of customer dissatisfaction with the services provided; 4) risk of non-collection of receivables due to contract dispute or to financial problems of customers; 5) high staff turnover which may affect service quality; 6) ability to recruit and retain qualified IT professionals; (7) change in foreign exchange rates that may affect the operating margin of its businesses.

### *2. Business Process Outsourcing International, Inc. ("BPOI")*

BPO would face the normal risks faced by a BPO company which are very similar to the risks faced by an IT services outsourcing company such as PTC. BPOI currently services only domestic clients but intends to develop its foreign business. The risks BPOI faces include: 1) the risk that BPOI may not find or retain clients; 2) some contracts are on non-recurring basis and may not be renewed; 3) risk of contract dispute in case of customer dissatisfaction with the services provided; 4) risk of non-collection of receivables due to contract dispute or to financial problems of customers; 5) high staff turnover which may affect service quality; 6) ability to recruit and retain qualified accounting and finance professionals.

### *3. Portfolio Investments*

The Registrant and its subsidiaries and affiliates also invest its excess cash in bonds, stocks and short-term placements. These involve government securities as well as corporate bond and stock investments which face the normal commercial risks such as price declines, payment defaults and foreign exchange risks in the case of foreign exchange denominated investments.

## Other Interests

MCHC also has a 100% interest in a mining company, Malabrigo Corporation ("Malabrigo"). Malabrigo has a paid-up capital of ₱10,000.000.00 and limestone mining claims in Batangas, which are not considered significant in potential. It has also invested as a partner in a shopping center project in the United States.

MCHC and MUDC (through Pinamucan Power Corporation) jointly own Magellan Power Partnership ("MPP"), at 25%-75% respectively. MPP has a capital of ₱100,000.00 and is presently registered with the Board of Investments. With the decision not to proceed with the MUDC project, this partnership will probably be liquidated.

Other than MUDC's power supply agreement with MERALCO and Memorandum of Understanding with SPEX, there are no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts and the like owned by or pertaining to the Registrant and its subsidiary, MCHC. Also, no substantial expenditures have been made for research and development activities for the past three (3) years.

## PROPERTIES

**Equity Interests.** The Registrant's principal asset is its investment in MCHC, consisting of shares of common stock with aggregate issued value representing approximately 94.34% of the outstanding shares of MCHC.

MCHC owns 70,458 shares of common stock, representing approximately 43% of the outstanding capital stock of MUDC. MUDC is developing a 320 MW power plant project in Pinamucan, Batangas which has now been aborted. MCHC's exposure to MUDC has been fully provided for in the Consolidated Financial Statements.

MCHC has equity interests also in Pinamucan Industrial Estates, Inc. (100%-owned), Malabrigo (100%-owned) and Magellan Power Partnership (25%-owned). MCHC also owns 100% of Magellan Capital Trading Corporation and Magellan Capital Realty Development Corporation, two inactive shell companies.

The Registrant owns common shares in Pointwest Technologies Corporation which represents a 30% ownership interest in the company. The Registrant also owns shares of BPOI equivalent to 35% ownership interest in BPOI.

**Real Estate.** The Registrant has no real estate holdings except through its subsidiary, MCHC.

***(a) Condominium Units***

MCHC owns five (5) office condominium units which comprise the entire 5th Floor of the Citibank Center building, located at 8741 Paseo de Roxas, Makati City, including five (5) appurtenant parking units, *per* a Deed of Sale executed on 26 April 2000.

***(b) Office Properties***

MCHC, the Registrant's wholly-owned subsidiary, has relocated its corporate offices to its Citicenter Property which consists of the entire 5th Floor of the Citibank Center Building in Makati. The Registrant, as principal shareholder of MCHC, has been allocated office space by MCHC. MCHC has also leased out the four (4) remaining units. One of the units has been leased by Business

Process Outsourcing International (BPOI) since February 16, 2009. Three other units are leased to Cathay United Bank, one of the largest banks in Taiwan and to two other lessees.

***(c) Land/Property Ownership***

MCHC has acquired a 985 m2 lot in Fort Bonifacio which it may develop into an office and/or residential building. As of 31 December 2012, the above land and properties are not subject to any mortgages, liens or encumbrances.

The Registrant or its subsidiary may acquire additional property in the next twelve (12 months) as it is actively looking to acquire income producing properties.

## LEGAL PROCEEDINGS

There are no proceedings involving, and to the best of knowledge threatened against the Registrant. As of **May 15, 2013**, none of the current directors, or nominees for election as director, executive officer, underwriter or control person of the Registrant has been involved in or in the subject of any bankruptcy petition, conviction by final judgment, or is the subject of any order judgment or decree, or involved in any violation of a securities of commodities law.

However, with respect to its subsidiaries, following is a summary of pending litigation involving them:

***(a)*** ***"Rolando M. Zosa v. Magellan Capital Holdings Corporation and Magellan Capital Management Corporation"***, Civil Case No. CEB-18619, Regional Trial Court of Cebu City, Branch 58; *Magellan Capital Management Corporation and Magellan Capital Holdings Corporation v. Rolando M. Zosa, et al."* G.R. No. 129916, Supreme Court; *Ad Hoc Arbitration with an Arbitral Tribunal composed of Justice Florentino P. Feliciano, as Chairman and Attys. Ramon R. Torralba and Enrique I. Quiason as members; Regional Trial Court, Branch 139, SP Proc. No. M-6259 and SP Proc. No. 6264.*

This is a case for damages instituted in May 1996, wherein complainant Zosa seeks to enforce his purported rights under his Employment Agreement with defendants and claims entitlement to the following reliefs, to wit:

(1) actual damages in the amount of ₱10,000,000;
(2) attorney's fees in the amount of ₱300,000; and
(3) expenses of litigation in the amount of ₱150,000.

Defendants sought a dismissal of the case, invoking the provision of arbitration in the Employment Contract. In a Decision dated 18 July 1997, the trial court declared invalid the arbitration clause providing for the manner by which the arbitrators will be chosen and substituted the provisions of the Arbitration Law therefor. The Supreme Court, on 26 March 2001 affirmed the trial court's decision which became final and executory. Arbitrators have now been appointed one by Zosa, on the one hand, and the other jointly appointed by MCHC and MCMC.

Sometime in November 2004, the Arbitral Tribunal was finally constituted composed of Justice Florentino P. Feliciano as Chairman and Attys. Ramon R. Torralba and Enrique I. Quiason as members.

On March 14 2005, the parties submitted to the Tribunal their Confirmation of Agreement to Submit to Arbitration. The Complainant has submitted its Statement of Claims & Memorials. The respondents have submitted their Statement of Defenses and are scheduled to submit their Counter-Memorials on 02 May 2004.

On 02 August 2005, the Memoranda of the parties were submitted and the case was submitted for resolution.

On 06 March 2005, the Tribunal rendered its decision awarding Zosa's claim for severance pay but disallowed his claims for attorney's fees and moral and exemplary damages and costs of suit.

On 12 April 2006, MCHC filed with the Regional Trial Court of Makati City, a verified petition with prayer for the issuance of an Order to Vacate the Arbitral Award, dated 6 March 2006, pursuant to Sections 22 to 29 of Republic Act No. 876 ("The Arbitration Law") and the relevant provisions of Republic Act No. 9825 (the "Alternative Dispute Resolution Act of 2004). Likewise, Zosa filed his Application for Confirmation of Award on 12 April 2006. The two cases were consolidated and are presently pending with Branch 139 of the Regional Trial Court of Makati as Sp. Proc. No. M-6259 and M-6264. The parties are presently awaiting the Court's resolution on the issue of whether the Application for Confirmation of Award was seasonably filed considering the non-payment of docket fees at the time of filing. On 17 March 2009, a hearing was held whereby the Court directed all the parties to submit their respective Memoranda. In compliance with the aforesaid order, MCHC submitted its Memoranda on 17 May 2009. The case has been submitted for resolution as of 29 January 2013.

***(b)*** ***"People of the Philippines vs. Ariel Balatbat",*** Criminal Case No. 115515, Regional Trial Court of Pasig City, Branch 155. MCHC filed a complaint, through its authorized officer, against Ariel Balatbat for qualified theft relating to several unauthorized withdrawals of, and anomalous transactions involving, company funds in the total amount ₱41,021.50 (converted to US$1,000.00). On 29 October 2004, the Court rendered its decision finding the accused guilty beyond reasonable doubt of the crime of qualified theft under Article 310 of the Revised Penal Code and imposed the corresponding penalty of imprisonment of 10 years minimum to a maximum of 14 years. The case is pending appeal as of this writing.

***"People of the Philippines vs. Ariel Balatbat"***, Criminal Case No. 114955, Regional Trial Court of Pasig City, Branch 151. MUDC, through its authorized officer, has also filed a complaint against Ariel Balatbat for qualified theft relating to several unauthorized withdrawals of, and anomalous transactions involving, company funds in the total amount of ₱121,500.00 (equivalent to US$3,000.00), US$4,000.00, and US$1,020.00. Said amounts were never recovered or accounted for. The case is currently pending before the Regional Trial Court, which also issued a warrant of arrest for the same. The bail was set for ₱40,000.00. The accused was arrested and subsequently arraigned. Three (3) witnesses have been presented - two (2) from the bank and one (1) from MUDC.

On 28 February 2005, the Prosecution filed its "Formal Offer of Evidence". Defense rested its case on 4 December 2006. On 22 January 2007, the Prosecution presented its rebuttal evidence. The Memorandum for the Prosecution having been filed, the case was submitted for decision. As of this writing or on April 29, 2013 the Court rendered its decision finding the accused guilty of the crime of qualified theft and sentenced the accused to *reclusion perpetua*. It also ordered the restitution to MUDC of the amount of $4,000.00 or its peso equivalent ₱105,720.00 Pesos. The Court found no liability for the amount of $3,000.00 withdrawn it appearing that same was credited to private complainant.

# FINANCIAL AND OTHER INFORMATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Registrant's consolidated total revenue increased by 29% in 2012 to ₱158.5 million from ₱122.8 million in 2011. This does not include the extraordinary income after tax of ₱610.3 million derived in 2011 from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Part of the increase in revenue was accounted for by the 35% increase in interest income from ₱51.4 million in 2011 to ₱69.3 million in 2012. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 24.5% to ₱77.7 million in 2012 from ₱62.4 million in 2011 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱6.7 million in 2012 from ₱3.4 million in 2011 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been setting record highs. Rental income also increased slightly to ₱3.5 million in 2012 from ₱3.2 million in 2011. Dividend income increased slightly to ₱1.0 million in 2012 from ₱0.9 million in 2011.

Total consolidated expenses of the Registrant was lower at ₱29.7 million in 2012 compared to ₱36.2 million in 2011. Unrealized foreign exchange losses of ₱5.8 million in 2012 was lower than the ₱11.6 million in 2011. In addition, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits also increased 2011 expenses. These two items account for the bulk in reduction of operating expenses in 2012. Labor expense increased due to MCHC absorbing the staff of MUDC in preparation for dissolution of MUDC.

As a result of the above, total consolidated income before tax from continuing operation in 2012 totalled ₱128.8 million, an improvement of 49% over the ₱86.6 million in 2011. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱118.9 million in 2012, a 50% improvement over the ₱78.9 million in 2011.

However, in 2011, the Registrant also had an extraordinary income of ₱610.3 million after tax from the sale of the BAID shares which increased net income after tax to ₱689.1 million for 2011.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱2.4 million in 2012 compared to ₱31.3 million in 2011.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2012, the Registrant's consolidated cash and cash equivalent totaled over ₱1.047 billion slightly higher than the level of ₱1.042 billion as of December 31, 2011. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱14.7 million compared to total equity of ₱1.8 billion as of the end of 2012.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2012 totalled ₱1,047 million compared to ₱1,042 million at the end of 2011 while total current assets totalled ₱1.2 billion at year-end 2012 compared to ₱1.17 billion at year-end 2011. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

***Top Five (5) Key Performance Indicators***

The top five (5) performance indicators for the Registrant are as follows:

(1) Revenue Generation
(2) Change in net income
(3) Earnings per share
(4) Current ratio
(5) Book value per share

**Revenue Generation.** Revenue in the last three fiscal years are summarized below along with vertical percentage analysis:

| (₱000) | YEAR 2012 | PERCENTAGE | YEAR 2011 | PERCENTAGE | YEAR 2010 | PERCENTAGE |
|---|---|---|---|---|---|---|
| Equity in net earnings of associates | ₱ 77,663 | 49.0% | ₱ 62,374 | 50.8% | ₱ 56,305 | 60.1% |
| Interest Income | 69,540 | 43.9% | 51,436 | 41.9% | 29,490 | 31.5% |
| Fair value gains of Financial Assets at FVPL | 6,646 | 4.2% | 3,447 | 2.8% | 2,841 | 3.0% |
| Rent | 3,542 | 2.2% | 3,232 | 2.6% | 2,564 | 2.7% |
| Dividend Income | 1,009 | 0.6% | 869 | 0.7% | 772 | 0.8% |
| Gain on Disposal of Transport Equipment | 125 | 0.1% | 312 | 0.3% | 246 | 0.3% |
| Gain on Disposal of AFS and HTM Investments | - | - | - | - | 1,171 | 1.3% |
| Others | 377 | - | 1,107 | 0.9% | 277 | 0.3% |
| **Total from continuing operation** | **₱ 158,327** | **100.0%** | **₱ 122,777** | **100%** | **₱ 93,666** | **100.0%** |

Because it is a holding company, the Registrant derives a large part of its revenue from its equity in net earnings of associates which in 2012 accounted for almost half of consolidated total revenues from continuing operations. The Registrant's outsourcing affiliates have been increasing their earnings in the last few years. As a result, the Registrant's share in their net earnings has grown from ₱56.3 million in 2010 and ₱62.4 million in 2011 and ₱77.7 million in 2012. Interest income also increased in 2012 to ₱69.5 million from ₱51.4 million in 2011 and ₱29.5 million in 2010. The big jump in 2011 was due to interest earnings on the proceeds of the sale of the BAID shares. Interest income further improved in 2012 since it benefited from the full year of interest earnings from the proceeds of the BAID sale. Interest income was the second largest contributor to total consolidated revenue at over 40%. As the above shows, consolidated total revenue from continuing operations has been steadily increasing year on year since 2010. In 2012, total consolidated revenue increased by 29% over 2011 while in 2011 it increased by 31% over 2010. Increasing equity in net earnings of associates and interest income accounted for most of the increase. In the future, we would expect rental income to gradually increase as the Registrant and its subsidiary increases its portfolio of income producing properties by developing its land in Fort Bonifacio into an income producing building and by acquiring additional income producing properties.

***Change in net income***. The summary income statement for the last three fiscal years are shown below with vertical percentage analysis.

| (000) | YEARS ENDED DECEMBER 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | PERCENTAGE | 2011 | PERCENTAGE | 2010 | PERCENTAGE |
| From continuing operations | | | | | | |
| Revenue | ₱ 158,527 | 100.0% | ₱ 122,777 | 100.0% | ₱ 93,667 | 100.0% |
| Expenses | 29,730 | 18.8% | 36,168 | 29.5% | 36,143 | 38.6% |
| Net Income Before Tax | 128,797 | 81.2% | 86,609 | 70.5% | 57,524 | 61.4% |
| Tax | 9,931 | 6.3% | (7,755) | (6.3%) | (1,602) | (1.7%) |
| Net Income After Tax from continuing operation | 118,868 | 74.9% | 78,854 | 64.2% | 55,921 | 59.7% |
| Net Income from discontinued operations | - | - | 610,276 | 64.20% | (605) | (0.6%) |
| **Total Net Income** | **₱ 118,866** | **74.9%** | **₱ 689,130** | **561.2%** | **₱ 55,316** | **59.1** |
| Attributable to Stockholders of Registrant | 116,513 | 73.5% | 657,838 | 535.8% | 55,033 | 58.8% |
| Non-Controlling Interest | 2,352 | 1.4% | 31,292 | 25.5% | 283 | 0.3% |

As the above shows, net income from continuing operation has increased sharply and steadily from ₱55.9 million in 2010 to ₱78.9 million in 2011 and to ₱118.9 million in 2012, or increases of 41% in 2011 and 51% in 2012. In addition, in 2011, there was an extraordinary income from the sale of BAID shares of ₱610.3 million after tax which increased the total net income for 2011 to ₱689.1 million or an increase of 1246% over 2010. The net income in 2012 attributable to stockholders of the Registrant was ₱116.5 million while ₱2.4 million was attributable to non-controlling interests, namely minority shareholders of Magellan Capital Holdings Corporation. The net income attributable to stockholders of the Registrant in 2011 was ₱657.8 million while ₱31.3 million was attributable to non-controlling interests due to the gain on the sale of the BAID shares.

***Earnings per share.*** The earnings per share in 2012 amounted to ₱0.302 per share from continuing operation compared to earnings per share from continuing operations of ₱0.203 in 2011 and ₱0.144 in 2010. In 2011, there was additional earnings per share of ₱1.505 per share derived from the sale of the BAID shares. The earnings per share are adjusted to reflect the shares held by the Registrant's subsidiaries which are classified as treasury shares in the Consolidated Financial Statements.

**Current-Ratio.** Current Ratio (current assets divided by current liabilities) which measures the liquidity position of the Registrant was 121 x at December 31, 2012 compared to 105 x at the end of 2011. The Registrant's liquidity position is very strong and gives it substantial resources to pursue its projects.

**Book value per share.** The Registrant's book value per share (excluding treasury shares owned by subsidiaries of the Registrant) was ₱4.38 per share at the end of 2012 from ₱4.15 at year-end 2011 and ₱2.58 at year-end 2010 due to the substantial net income in 2011 and 2012.

## OPERATIONS AND FINANCIAL CONDITION FOR THE LAST THREE (3) FISCAL YEARS

The following is a detailed discussion of the Registrant's operations and financial condition for the past three (3) fiscal years.

The audited consolidated balance sheet as of December 31, 2012 and December 31, 2011 and audited consolidated income statements for the years 2012, 2011 and 2010 are attached to this report. The accounts are discussed below in more detail.

## OPERATING RESULTS

***Revenues.*** In the year ended 31 December 2012, total consolidated revenues from continuing operations totalled ₱158.5 million compared to ₱122.8 million in 2011 and ₱93.7 million in 2010. The reasons for the change have been discussed in the revenue generation section earlier in this Report.

***Expenses.*** Total consolidated operating expenses decreased to ₱29.7 million in 2012 from the ₱36.2 million in 2011 and ₱36.1 in 2010 due to the reasons discussed earlier in this report.

***Net Income Before Tax.*** As a result of the movement in revenues and expenses discussed in the preceding sections, net income before tax from continuing operations totalled ₱128.8 million in 2012 compared to ₱86.6 million in 2011 and ₱57.5 million in 2010.

***Provision For Income Tax.*** In 2012, there was a provision for income tax of ₱9.9 million compared to ₱7.8 million in 2011 and ₱1.6 million in 2010 respectively.

***Net Income After Tax.*** As a result of the provision for income tax discussed above, the Registrant had a consolidated net income after tax from continuing operations of ₱118.9 million in 2012 compared to ₱78.9 million in 2011 and ₱55.9 million in 2010. In 2011, there was an additional net income of ₱610.3 million from the sale of discontinued operation (sale of the BAID shares) ₱.6 million loss in 2010 which increased net income for 2011 to ₱689.1 million.

## BALANCE SHEET ACCOUNTS

The following comparative financial analysis is based on audited consolidated balance sheets as of December 31, 2012 and December 31, 2011 and December 31, 2010, which are part of the Audited Consolidated Financial Statements attached to this report.

## ASSETS

***Current Assets.*** Total current assets at year-end 2012 totalled ₱1,200 million compared to ₱1,170 million at year-end 2011 and ₱135 million at year-end 2010. The proceeds from the sale of the BAID shares represents the bulk of the cash and cash equivalents. Financial assets at Fair Value through Profit or Loss (FVPL) totalled ₱59.2 million at year-end 2012 from ₱52.4 million at year-end 2011 and ₱44.6 million at year end 2010 as the prices of listed stock investments owned by the Registrant and its subsidiary further improved in 2012. Receivables also increased to ₱64.2 million at year-end 2012 from ₱58.3 million at year-end 2011 and ₱46 million at year end 2010 due mainly to higher dividend receivables from Pointwest Technologies Corporation and Business Process Outsourcing International, Inc. AFS Investments under current assets which are bonds which mature in less than one year from balance sheet date increased to ₱23.4 million at year-end 2012 from ₱12.3 at year end 2011 and nil at year end 2010. Prepayments and other assets increased slightly to ₱5.6 million at year-end 2012 from ₱5.3 million at year-end 2011 and ₱5.2 million at year end 2010.

***Non-Current Assets.*** Total non-current assets at year-end 2012 totalled ₱575.1 million and ₱522.3 million at year-end 2011 and ₱937 million at year-end 2010. The change was due to increase in AFS Financial Assets which increased from ₱284 million at year end 2012 to ₱321.2 million at year end 2011 due to improvement in bond prices and disposal of BAID shares in 2011.

***Total Assets.*** As a result of the movement in the accounts described above, total consolidated assets of the Registrant at year-end 2012 totalled ₱1,775.0 million compared to ₱1,692.8 million at year-end 2011 and ₱1,072.4 million at year-end 2010 respectively.

**LIABILITIES AND EQUITY**

***Current Liabilities***. Current liabilities decreased to ₱9.9 million at year-end 2012 from ₱11.2 million at year-end 2011 and ₱3.9 million at year end 2010 mainly due to change in income tax payable to ₱0.9 million at year end 2012 from ₱2.9 million at year end 2011 and ₱.9 million at year-end 2010.

***Non-Current Liabilities***. Non-current liabilities increased to ₱4.8 million at year-end 2012 from ₱4.0 million at year-end 2011 and ₱3.4 million at year end 2010 due mainly to increase in retirement benefit obligation.

***Stockholder's Equity***. Total Stockholder's Equity Attributable to Equity Holders of the Registrant increased to ₱1,685.8 million at year-end 2012 from ₱1,599.5 million at year end 2011 and ₱996.8 at year end 2010. This was due mainly to the net incomes of ₱116.5 million in 2012, ₱658 million in 2011 and ₱55 million in 2010. Equity attributable to minority shareholders of MCHC totalled ₱74.5 million at year end 2012 compared to ₱78.2 million at year-end 2011 and ₱47 million at year 2010 due to payment of dividends by Magellan Capital Holdings Corporation. As a result, total stockholders equity at year-end 2012 stood at ₱1,760.3 million compared to ₱1,677.6 million at year-end 2011 and ₱1,044.8 million at year end 2010.

**(i) Any known trends or any known demands, commitments, events or uncertainties**

The Registrant and its subsidiary and affiliates are now substantially debt-free, except for MUDC, which has loans and advances from its principal shareholders. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements during the next twelve (12) months. Consolidated cash and cash equivalents totalled ₱1,048 million at year end 2012 compared to ₱1,042 million at year end 2011 and ₱32.7 million at year-end 2010. Other than the normal fluctuations of the Philippine Peso to the U.S. Dollar, the Registrant is unaware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

**(ii) Any events that will trigger direct or contingent financial obligation**

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

**(iii) All material off-balance sheet transactions, arrangements, obligations**

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

## INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

**(1) External Audit Fees and Services**

a) *Audit and Audit- Related Fees for the Last Three Fiscal Years*

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| Registrant | ₱ 195,000 | ₱ 195,000 | ₱ 204,750 |
| MCHC | 301,000 | 301,000 | 316,050 |
| Subsidiaries of MCHC | 96,117 | 37,739 | 40,021 |
| MUDC | 20,420 | 21,442 | 23,157 |

Note: Fees for the subsidiaries of MCHC fell in 2011 due to the sale of BAID and its subsidiaries in July 2011.

b) *Tax Fees*: None
c) *All Other Fees*: None
d) *Upon the recommendation of the Audit Committee, the Board approved the audit fees and nomination of SGV & Co as external auditor for the year 2013.*

**<u>Financial Statements</u>**

The Statement of Management's Responsibility along with Audited Consolidated Financial Statements as of December 31, 2012 are shown in this report.

**<u>Attendance of Accountants in the meeting</u>**

Representatives of the Corporation's External Auditor, SGV & Co., are expected to be present at the Annual Stockholders' Meeting on July 24, 2013. Said accountants will be given the opportunity to make a statement if they desire to do so and will be available to respond to relevant questions on the financial statements.

**<u>Dividends</u>**

Dividends of ₱0.12 per share were declared and paid in 2012. Dividends of ₱0.07 per share were paid in 2011.

Under the Registrant's By-laws, there are no restrictions in the declaration of dividends other than what is prescribed in the Corporation Code, namely that these shall be declared only from surplus profit and no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds of all stock outstanding and entitled to vote at a general or special meeting called for the purpose. The amount of unrestricted retained earnings available for distribution as of December 31, 2012 was ₱227,477,089.00.

# TOP 20 STOCKHOLDERS OF THE REGISTRANT

The top twenty (20) stockholders of each class of the common equity of the Registrant as of **May 15, 2013** are as follows:

**CLASS "A"**

| | NAME OF STOCKHOLDER | NUMBER OF SHARES | PERCENTAGE[1] |
|---|---|---|---|
| 1 | PCD Nominee Corporation | 72,352,046 | 24.73% |
| 2 | Magellan Capital Holdings Corporation | 47,548,022 | 16.25% |
| 3 | Consolidated Tobacco Industries of the Phils., Inc. | 43,052,023 | 14.71% |
| 4 | Vructi Holdings Corporation | 34,240,628 | 11.70% |
| 5 | Center Industrial and Investment, Inc. | 23,991,000 | 8.20% |
| 6 | Robert Y. Cokeng | 15,501,072 | 5.30% |
| 7 | Johnson Tan Gui Yee | 15,371,747 | 5.25% |
| 8 | Victorian Development Corporation | 12,085,427 | 4.13% |
| 9 | Pinamucan Industrial Estates, Inc. | 11,359,426 | 3.88% |
| 10 | Brixton Investment Corporation | 2,815,000 | 0.96% |
| 11 | Francisco Y. Cokeng, Jr. | 2,160,000 | 0.74% |
| 12 | Antonio H. Ozaeta | 1,374,751 | 0.47% |
| 13 | Betty C. Dy | 1,100,000 | 0.38% |
| 14 | Johnson U. Co | 1,100,000 | 0.38% |
| 15 | Rosalinda C. Tang | 1,080,000 | 0.37% |
| 16 | Homer U. Cokeng, Jr. | 1,020,000 | 0.35% |
| 17 | Olivia Chua Ng | 950,000 | 0.32% |
| 18 | Metro Agro Industrial Supplies | 523,833 | 0.18% |
| 19 | Criscini A. Reyes | 400,000 | 0.14% |
| 20 | Emeterio Barcelon, SJ | 304,952 | 0.10% |

[1] Percentage based on the Total Issued and Outstanding Class "A" Shares of 292,610,118.

**CLASS "B"**

| | NAME OF STOCKHOLDER | NUMBER OF SHARES | PERCENTAGE[2] |
|---|---|---|---|
| 1 | Essential Holdings Limited | 139,778,670 | 73.87% |
| 2 | Pinamucan Industrial Estates, Inc. | 37,726,379 | 19.94% |
| 3 | PCD Nominee Corporation (F) | 10,816,581 | 5.72% |
| 4 | Metro Agro Industrial Supplies | 270,144 | 0.14% |
| 5 | PCD Nominee Corporation (NF) | 132,000 | 0.07% |
| 6 | Victoria U. Co Low | 80,000 | 0.04% |
| 7 | Homer U. Cokeng, Jr. | 80,000 | 0.04% |
| 8 | Robert Y. Ynson | 74,289 | 0.04% |
| 9 | John Gates | 50,400 | 0.03% |
| 10 | J.M. Barcelon & Co., Inc. | 50,000 | 0.03% |
| 11 | Lourdes B. Pablo | 50,000 | 0.03% |
| 12 | Rufino B. Tiangco | 30,392 | 0.02% |
| 13 | Chua Siu Le | 30,000 | 0.02% |
| 14 | Librado Calilung | 20,000 | 0.01% |
| 15 | Rogelio dela Cruz | 20,000 | 0.01% |
| 16 | Natividad Chua | 20,000 | 0.01% |
| 17 | Antonio Chua | 20,000 | 0.01% |
| 18 | Tim Go | 20,000 | 0.01% |
| 19 | Nelson A. Guevarra | 14,000 | 0.01% |
| 20 | Johnny Lee | 12,985 | 0.01% |

[2] Percentage based on the Total Issued and Outstanding Class "B" Shares of 189,217,535.

## Recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction

The Registrant has not sold any securities within the past three (3) years, which were not registered under the Securities Regulation Code, including sales of reacquired, as well as new issues, securities issued in exchange for property, services, or other securities and new securities resulting from the modification of outstanding securities.

## Warrants

There are no warrants or options outstanding as of the end of December, 2012 and up to the present.

# DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

In Compliance with SEC Memorandum Circular No. 2, dated April 05, 2002, the Company submitted its Manual on Corporate Governance on August 29, 2002 as approved by its Board of Directors in a meeting held on August 14, 2002, which basically adopted the SEC's Model Manual. Since the Manual's effectivity on January 01, 2003, the Company's Board of Directors and Management has been complying with the principles laid down by the Code of Corporate Governance through the mechanisms which have been institutionalized in the Manual and so far as may be relevant and appropriate to the Company's business as a holding company.

The Company continues to adopt measures to ensure compliance with the leading practices on good corporate governance through, among others, the nomination and election of two independent directors, the constitution of the different committees required by the Code such as the Nominations Committee, the Audit Committee, the Compensation and Remuneration Committee, all of which have been performing their functions as laid down in the Manual.

During a meeting held on March 29, 2004 the company's Board of Directors approved the adoption as part of the Manual, Sec. 4.2 of the PSE's Revised Disclosure Rules, which is in consonance with Chapter VII of the Securities Regulation Code.

Since its effective date, there has been no deviation from the Company's Manual of Corporate Governance. No member of the Company's Board of Directors or its officers and personnel has done or caused to be done any act in violation of the principles laid down in the said Manual.

The Company continues to adhere to the principles and policies of its Manual with the view to continually improve the company's corporate governance.

On February 11, 2008, the Board of Directors of the Company attended and completed the Seminar on Corporate Governance given by the UP Law Center, as required by the Rules. The company continues to comply with the appropriate performance self-rating assessment and performance evaluation system in compliance with pertinent SEC regulations.

On February 22, 2011, the Company submitted its Revised Manual on Corporate Governance pursuant to SEC Memorandum Circular No. 6, Series of 2009.

In compliance with pertinent Rules, the Corporate Secretary of the Company attended various seminars on the Corporate Governance – the Asean Scorecard Information Briefing held on various dates, the last one being held last March 26, 2013 at the Institute of Corporate Directors.

**Evaluation System**

The Company continues to adhere to the principles and policies of its Manual with the view to continually improve the company's corporate governance. It has adopted as a guideline the SEC's Corporate Governance Self-Rating Form (CG-SRF) in order to determine the Company's compliance with the leading practices on Corporate Governance.

**Plan to Improve**

The Company continues to take efforts to be abreast with development and trends on Corporate Governance as the same may emerge.

As of this writing, the Company is currently finalizing its Annual Corporate Governance Report (ACGR) pursuant to SEC Circular No. 5, Series of 2013.

# BOARD OF DIRECTORS AND MANAGEMENT

## DIRECTORS

**Robert Y. Cokeng**
**Chairman**

**Francisco Y. Cokeng, Jr.**
**Vice-Chairman**

**Emeterio L. Barcelon, S.J.**

**Francis L. Chua**

**Johnson U. Co**

**Johnny O. Cobankiat**

**Mark Ryan K. Cokeng**

**Mary K. Cokeng**

**Johnson Tan Gui Yee**

**Rufino B. Tiangco**

**Robert Y. Ynson**

## MANAGEMENT

**Robert Y. Cokeng**
**Chairman of the Board**

**Robert Y. Cokeng**
**President**

**Emeterio L. Barcelon, S.J.**
**Senior Vice-President**

**Johnson U. Co**
**Vice-President &Treasurer**

**Mark Ryan K. Cokeng**
**Assistant Treasurer**

**Fina C. Tantuico**
**Corporate Secretary**

# DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

## DIRECTORS AND EXECUTIVE OFFICERS

The following are the directors and executive officers of the Registrant, with the past and present positions held by them in the Registrant's subsidiaries and other companies for the past five (5) years:

**ROBERT Y. COKENG**, 61 years old, Filipino citizen.
***Chairman, President & Chief Executive Officer***

Re-elected on 17 July 2012 for a one-year term. Director and Officer since 1996.

*President & Chief Executive Officer*, Magellan Capital Holdings Corporation, Magellan Utilities Development Corporation, Pinamucan Power Corporation, Malabrigo Corporation, Consolidated Tobacco Industries of the Philippines, Inc. and Center Industrial and Investment, Inc.; *Director*, Alcorn Gold Resources Corporation (PSE listed company); Chairman, Pinamucan Industrial Estates, Inc.; *Managing Director*, Essential Holdings Ltd.; *Chairman*, Pointwest Technologies Corporation and Pointwest Innovations Corporation*; Director and Chairman of the Executive Committee*, Business Process Outsourcing International, Inc.

**FRANCISCO Y. COKENG, JR.**, 59 years old, Filipino citizen.
***Vice-Chairman and Director***

Re-elected on 17 July 2012 for a one-year term. Director since 1996.
Also director from 1980-1991.

*Director*, Consolidated Tobacco Industries of the Philippines, Inc.; *Chairman*, Sunflare Horizon International, Inc.

**EMETERIO L. BARCELON, S.J.**, 85 years old, Filipino citizen.
***Senior Vice-President and Director***

Re-elected on 17 July 2012 for a one-year term. Director since 1980.

*Former Director*, Oriental Petroleum and Minerals Corporation; *Former President,* Ateneo de Davao; *Vice-President*, Xavier University; *Former Professor*, Asian Institute of Management; *Columnist*, Manila Bulletin.

**JOHNSON U. CO**, 60 years old, Filipino citizen.
***Vice-President, Treasurer & Chief Financial Officer***

Re-elected on 17 July 2012 for a one-year term. Director and Treasurer since 1996.

*President*, Pinamucan Industrial Estates, Inc., Sunflare Horizon International, Inc.; *Treasurer & Chief Financial Officer and Director*, Magellan Capital Holdings Corporation, Magellan Utilities Development Corporation, Malabrigo Corporation and Pinamucan Power Corporation; *Vice Chairman*, Consolidated Tobacco Industries of the Philippines, Inc.; *Director*, Pointwest Technologies Corporation; *Director and Treasurer*, Business Process Outsourcing International, Inc.

**MARK RYAN K. COKENG**, 27 years old, Filipino citizen.
***Assistant Treasurer and Director***

Elected on 17 July 2012 for a one-year term.

*Assistant Treasurer and Director*, Magellan Capital Holdings Corporation; *Director and Treasurer*, Magellan Capital Corporation; *Director*, IPADS Developers, Inc.; Bachelor of Arts in Economics and Statistics, Boston University.

**MARY K. COKENG**, 60 years old, Filipino citizen.
***Director***

Re-elected on 17 July 2012 for a one-year term. Director since 2008.

*Director*, Essential Holdings, Limited, *Director*, Magellan Capital Holdings Corporation.

**JOHNNY O. COBANKIAT**, 61 years old, Filipino citizen.
***Director***

Re-elected on 17 July 2012 for a one-year term. Director since 2008.

*President*, Ace Hardware Phils., Cobankiat Hardware, Inc. and Milwaukee Builders Center, Inc.; *Executive Vice President*, Hardware Workshop; *Vice Chairman*, R. Nubla Securities; *Director*, Shang Properties, Inc.

**FRANCIS LEE CHUA**, 61 years old, Filipino citizen.
***Director***

Re-elected on 17 July on 2012 for a one-year term. Director since 2001.

*General Manager*, Sunny Multi Products and Land Management Inc., Rocky's Construction Supplies and Marketing, Inc.; *Corporate Secretary*, Sunflare Horizon International, Inc.

**JOHNSON TAN GUI YEE**, 66 years old, Filipino citizen.
***Director***

Re-elected on 17 July 2012 for a one-year term. Director since 1997.

*Chairman*, Armak Tape Corporation; *President & Chief Executive Officer*, Armak Holdings and Development, Inc.; *President*, Yarnton Traders Corporation; *Director*, Magellan Capital Holdings Corporation and Magellan Utilities Development Corporation.

**RUFINO B. TIANGCO**, 63 years old, Filipino citizen.
***Director***

Re-elected on 17 July 2012 for a one-year term. Director since 1997.

*Chairman of the Board*, R.A.V. Fishing Corporation; *President*, Vructi Holdings Corporation; Trufsons Holdings Corporation, Ruvict Holdings Corporation; *Director*, Magellan Capital Holdings Corporation and Magellan Utilities Development Corporation.

**ROBERT Y. YNSON**, 65 years old, Filipino citizen.
***Director***

Re-elected on 17 July 2012 for a one-year term. Director since 1997.

*President*, Phesco, Incorporated, Benter Management & Construction Corporation, Pearl of the Orient Realty & Development Corporation; INAVEIT Systems Technologies, Inc., Pumps Internationale Corporation; *Director*, Super Industrial Corporation.

**FINA C. TANTUICO**, 51 years old, Filipino citizen.
***Corporate Secretary***

Elected on 17 July 2012 for a one-year term.

*Legal Counsel and Corporate Secretary,* F & J Prince Holdings Corporation and its subsidiaries and affiliates (2002 up to the present); Magellan Capital Holdings Corporation and its subsidiaries, Magellan Utilities Development Corporation, Pointwest Technologies Corporation, Pointwest Innovations Corporation, Pinamucan Industrial Estates Inc; *Corporate Secretary*, Philippine Telegraph & Telephone Co. (PT&T), Capitol Wireless Inc. (Capwire), Philippine Wireless Inc. (Pocketbell), Republic Telecommunications Company (Retelcom), U.P. Law Alumni Foundation Inc. (UPLAF), *Former Assistant Vice-President and Corporate Secretary,* United Overseas Bank Philippines (2000-2001).

***Term of Office.*** The directors of the Registrant were elected during the annual stockholders' meeting held on 17 July 2012. The directors have a one (1) year term of office.

***The Independent Directors***. The independent directors of the Registrant are Robert Y. Ynson and Francis L. Chua.

## SIGNIFICANT EMPLOYEES

There are no other persons other than the Registrant's executive officers who are expected to make a significant contribution to its business.

## FAMILY RELATIONSHIPS

Messrs. Robert Y. Cokeng and Francisco Y. Cokeng, Jr. are brothers. They are first cousins of Johnson U. Co. Mary K. Cokeng is the spouse of Robert Y. Cokeng. Mark Ryan K. Cokeng is the son of Robert and Mary Cokeng.

**EXHIBIT "1"**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **F& J Prince Holdings Corporation 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 or Trustees reviews and approves the financial statements and submits the same to the stockholders or members.

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

Signed under oath by the following:

**Robert Y. Cokeng**
President/ CEO/ Chairman

**Johnson U. Co**
Treasurer/Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 1 5 2013 day of ________,2013, affiants exhibiting to me their Community Tax Certificates, as follows:

| Names | Community Tax Cert. No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Robert Y. Cokeng | 10750110 | 10 April, 2013 | Makati City |
| Johnson U. Co | 03230724 | 04 April, 2013 | Quezon City |

NOTARY PUBLIC
ATTY. SOCRATES G. MARANAN
NOTARY PUBLIC
UNTIL DECEMBER 31, 2013
IBP No. 840842/10-21-11
PTR No. 1414392/01-02-13
MC. No. 2012-009/ROA No. 31923

Doc.No. 421;
Page No. 85;
Book No. 32;
Series of 2013

*F & J Prince Holdings Corporation*

# Audited
# Financial Statements
# as of
# December 31, 2012

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
F & J Prince Holdings Corporation
5th Floor, Citibank Center Building
8741 Paseo de Roxas corner Villar Street
Salcedo Village, Makati City

We have audited the accompanying consolidated financial statements of F & J Prince Holdings Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

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

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

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

SGV & Co
ERNST & YOUNG



***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of F & J Prince Holdings Corporation and its subsidiaries as at December 31, 2012 and 2011, and their financial performance and cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-A (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2012,
January 11, 2012, valid until January 10, 2015
PTR No. 3670038, January 2, 2013, Makati City

April 12, 2013

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2012** | 2011 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **₱1,047,543,993** | ₱1,042,203,697 |
| Financial assets at fair value through profit or loss (FVPL) (Note 6) | **59,176,111** | 52,372,641 |
| Receivables (Note 7) | **64,244,523** | 58,321,799 |
| Current portion of available-for-sale (AFS) financial assets (Note 9) | **23,390,100** | 12,275,200 |
| Prepayments and other current assets | **5,575,296** | 5,326,761 |
| **Total Current Assets** | **1,199,930,023** | 1,170,500,098 |
| **Noncurrent Assets** | | |
| Receivables from related parties (Note 17) | **3,860,514** | 3,904,790 |
| Investments in associates (Note 8) | **163,467,780** | 141,220,305 |
| AFS financial assets - net of current portion (Note 9) | **321,183,236** | 284,322,349 |
| Property and equipment (Note 10) | **28,653,201** | 31,430,909 |
| Investment property (Note 11) | **46,319,625** | 46,319,625 |
| Other noncurrent assets (Note 12) | **11,567,925** | 15,052,307 |
| **Total Noncurrent Assets** | **575,052,281** | 522,250,285 |
| **TOTAL ASSETS** | **₱1,774,982,304** | ₱1,692,750,383 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued expenses (Note 13) | **₱3,248,190** | ₱2,960,440 |
| Dividends payable (Note 16) | **679,970** | 299,484 |
| Income tax payable | **968,515** | 2,890,224 |
| Provision for legal obligation (Note 20) | **5,000,000** | 5,000,000 |
| **Total Current Liabilities** | **9,896,675** | 11,150,148 |
| **Noncurrent Liability** | | |
| Retirement benefit obligation (Note 14) | **4,798,779** | 3,990,168 |
| **Total Liabilities** | **14,695,454** | 15,140,316 |
| **Equity** (Note 16) | | |
| Common stock | **481,827,653** | 481,827,653 |
| Additional paid-in capital | **144,759,977** | 144,759,977 |
| Treasury shares | **(96,400,447)** | (96,336,907) |
| Net unrealized valuation losses on AFS financial assets (Note 9) | **(913,522)** | (17,625,131) |
| Retained earnings | **1,156,535,490** | 1,086,839,081 |
| **Equity Attributable to Equity Holders of the Parent** | **1,685,809,151** | 1,599,464,673 |
| **Non-controlling Interests** | **74,477,699** | 78,145,394 |
| **Total Equity** | **1,760,286,850** | 1,677,610,067 |
| **TOTAL LIABILITIES AND EQUITY** | **₱1,774,982,304** | ₱1,692,750,383 |

*See accompanying Notes to Consolidated Financial Statements.*

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **INCOME** | | | |
| Equity in net earnings of associates (Note 8) | **₱77,663,475** | ₱62,373,976 | ₱56,304,636 |
| Interest income (Notes 5, 7, 9 and 12) | **69,540,176** | 51,436,413 | 29,490,392 |
| Fair value gains on financial assets at FVPL (Note 6) | **6,646,383** | 3,446,692 | 2,841,147 |
| Rent (Note 20) | **3,542,743** | 3,232,389 | 2,564,251 |
| Dividend income (Notes 6 and 9) | **1,009,024** | 869,051 | 772,395 |
| Gain on disposal of transportation equipment (Note 10) | **125,000** | 311,961 | 245,666 |
| Gain on disposal of AFS and Held-to-Maturity (HTM) financial assets (Notes 3 and 9) | **–** | – | 1,171,222 |
| Others | **377** | 1,107,066 | 277,067 |
| | **158,527,178** | 122,777,548 | 93,666,776 |
| **EXPENSES** | | | |
| Personnel expenses: | | | |
| Salaries and wages | **8,784,003** | 6,952,069 | 6,986,229 |
| Retirement benefits (Note 14) | **808,611** | 582,765 | 651,707 |
| Other employee benefits | **1,583,049** | 684,237 | 682,552 |
| Net foreign exchange loss (Note 21) | **5,759,957** | 11,585,920 | 15,956,733 |
| Taxes and licenses | **2,943,245** | 751,328 | 704,203 |
| Depreciation (Note 10) | **2,903,072** | 2,592,854 | 3,393,396 |
| Professional fees | **2,741,558** | 2,706,316 | 2,570,867 |
| Condominium dues | **1,943,374** | 1,987,084 | 1,944,247 |
| Entertainment, amusement and recreation | **499,091** | 507,229 | 446,209 |
| Utilities | **359,100** | 395,227 | 393,126 |
| Bank charges | **215,478** | 235,907 | 186,100 |
| Loss on disposal of AFS financial assets (Note 9) | **173,022** | 332,013 | – |
| Provision for legal obligation (Note 20) | **–** | 5,000,000 | – |
| Provision for impairment losses on receivables and AFS financial assets (Note 9) | **–** | 60,000 | 20,000 |
| Amortization of unrealized losses on changes in fair value of AFS financial assets previously classified to HTM (Note 9) | **–** | – | 646,887 |
| Others | **1,016,578** | 1,795,116 | 1,560,496 |
| | **29,730,138** | 36,168,065 | 36,142,752 |
| **INCOME BEFORE INCOME TAX** | **128,797,040** | 86,609,483 | 57,524,024 |
| **PROVISION FOR INCOME TAX** (Note 15) | | | |
| Current | **9,931,283** | 8,068,505 | 1,602,602 |
| Deferred | **–** | (313,103) | – |
| | **9,931,283** | 7,755,402 | 1,602,602 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **INCOME FROM CONTINUING OPERATIONS** | **₱118,865,757** | ₱78,854,081 | ₱55,921,422 |
| **INCOME (LOSS) FROM DISCONTINUED OPERATIONS - NET OF TAX** (Note 2) | – | 610,275,517 | (605,335) |
| **NET INCOME** | **₱118,865,757** | ₱689,129,598 | ₱55,316,087 |
| **NET INCOME (LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Continuing operations | **₱116,513,380** | ₱78,075,977 | ₱55,607,836 |
| Discontinued operations | – | 579,761,741 | (575,069) |
| | **116,513,380** | 657,837,718 | 55,032,767 |
| **NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS** | **2,352,377** | 31,291,880 | 283,320 |
| | **₱118,865,757** | ₱689,129,598 | ₱55,316,087 |
| **EARNINGS PER SHARE** (Note 18) | | | |
| **Basic Earnings (Loss) per Share, Attributable to Equity Holders of the Parent** | | | |
| Continuing operations | ₱0.302 | ₱0.203 | ₱0.144 |
| Discontinued operations | – | 1.505 | (0.001) |
| **Diluted Earnings (Loss) per Share, Attributable to Equity Holders of the Parent** | | | |
| Continuing operations | ₱0.302 | ₱0.203 | ₱0.144 |
| Discontinued operations | – | 1.505 | (0.001) |

*See accompanying Notes to Consolidated Financial Statements.*

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **NET INCOME** | **₱118,865,757** | ₱689,129,598 | ₱55,316,087 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Changes in net unrealized valuation gains (losses) on AFS financial assets (Note 9): | | | |
| Changes in fair value of AFS financial assets | **17,269,643** | (28,836,746) | 7,906,023 |
| Disposal of AFS financial assets | **173,022** | 113,388 | (924,938) |
| Reclassification of HTM to AFS financial assets | – | – | 4,923,586 |
| Amortization of unrealized losses on changes in fair value of AFS financial assets previously classified to HTM | – | – | 646,887 |
| | **17,442,665** | (28,723,358) | 12,551,558 |
| **TOTAL COMPREHENSIVE INCOME** | **₱136,308,422** | ₱660,406,240 | ₱67,867,645 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT FROM:** | | | |
| Continuing operations | **₱133,224,989** | ₱50,800,737 | ₱66,929,367 |
| Discontinued operations | – | 579,761,741 | – |
| | **133,224,989** | 630,562,478 | 66,929,367 |
| Non-controlling interests | **3,083,433** | 29,843,762 | 938,278 |
| | **₱136,308,422** | ₱660,406,240 | ₱67,867,645 |

*See accompanying Notes to Consolidated Financial Statements.*

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

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

| | Attributable to Equity Holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock (Note 16) | Additional Paid-in Capital | Treasury Shares (Note 16) | Net Unrealized Valuation Gains (Losses) on AFS Financial Assets (Notes 9 and 16) | Retained Earnings (Note 16) | Total | Non-controlling Interests | Total Equity |
| Balances at December 31, 2009 | ₱481,827,653 | ₱144,759,977 | (₱95,791,606) | (₱2,246,491) | ₱420,812,366 | 949,361,899 | ₱46,785,695 | 996,147,594 |
| Dividends declared - ₱0.05 per share | – | – | – | – | (19,528,019) | (19,528,019) | 240,177 | (19,287,842) |
| Net income | – | – | – | – | 55,032,767 | 55,032,767 | 283,320 | 55,316,087 |
| Other comprehensive income | – | – | – | 11,896,600 | – | 11,896,600 | 654,958 | 12,551,558 |
| Total comprehensive income | – | – | – | 11,896,600 | 55,032,767 | 66,929,367 | 938,278 | 67,867,645 |
| Balances at December 31, 2010 | ₱481,827,653 | ₱144,759,977 | (₱95,791,606) | ₱9,650,109 | ₱456,317,114 | ₱996,763,247 | ₱47,964,150 | ₱1,044,727,397 |
| | | | | | | | | |
| Balances at December 31, 2010 | ₱481,827,653 | ₱144,759,977 | (₱95,791,606) | ₱9,650,109 | ₱456,317,114 | ₱996,763,247 | ₱47,964,150 | ₱1,044,727,397 |
| Dividends declared - ₱0.07 per share | – | – | – | – | (27,315,751) | (27,315,751) | 337,482 | (26,978,269) |
| Additional treasury shares | – | – | (545,301) | – | – | (545,301) | – | (545,301) |
| Net income | – | – | – | – | 657,837,718 | 657,837,718 | 31,291,880 | 689,129,598 |
| Other comprehensive income | – | – | – | (27,275,240) | – | (27,275,240) | (1,448,118) | (28,723,358) |
| Total comprehensive income | – | – | – | (27,275,240) | 657,837,718 | 630,562,478 | 29,843,762 | 660,406,240 |
| Balances at December 31, 2011 | ₱481,827,653 | ₱144,759,977 | (₱96,336,907) | (₱17,625,131) | ₱1,086,839,081 | ₱1,599,464,673 | ₱78,145,394 | ₱1,677,610,067 |

(Forward)

| | Attributable to Equity Holders of the Parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock (Note 16) | Additional Paid-in Capital | Treasury Shares (Note 16) | Net Unrealized Valuation Gains (Losses) on AFS Financial Assets (Notes 9 and 16) | Retained Earnings (Note 16) | Total | Non-controlling Interests | Total Equity |
| Balances at December 31, 2011 | ₱481,827,653 | ₱144,759,977 | (₱96,336,907) | (₱17,625,131) | ₱1,086,839,081 | ₱1,599,464,673 | ₱78,145,394 | ₱1,677,610,067 |
| Dividends declared - ₱0.12 per share | – | – | – | – | (46,816,971) | (46,816,971) | 579,072 | (46,237,899) |
| Additional treasury shares | – | – | (63,540) | – | – | (63,540) | – | (63,540) |
| Dividends declared by the subsidiary to non-controlling interests | – | – | – | – | – | – | (7,330,200) | (7,330,200) |
| Net income | – | – | – | – | 116,513,380 | 116,513,380 | 2,352,377 | 118,865,757 |
| Other comprehensive loss | – | – | – | 16,711,609 | – | 16,711,609 | 731,056 | 17,442,665 |
| Total comprehensive income | – | – | – | 16,711,609 | 116,513,380 | 133,224,989 | 3,083,433 | 136,308,422 |
| **Balances at December 31, 2012** | **₱481,827,653** | **₱144,759,977** | **(₱96,400,447)** | **(₱913,522)** | **₱1,156,535,490** | **₱1,685,809,151** | **₱74,477,699** | **₱1,760,286,850** |

*See accompanying Notes to Consolidated Financial Statements.*

# F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax from continuing operations | **₱128,797,040** | ₱86,609,483 | ₱57,524,024 |
| Income (loss) from discontinued operations (Note 2) | – | 610,275,517 | (605,335) |
| | **128,797,040** | 696,885,000 | 56,918,689 |
| Adjustments for: | | | |
| Depreciation (Note 10) | **2,903,072** | 2,592,854 | 3,393,396 |
| Net unrealized foreign exchange loss | **2,002,275** | 8,418,520 | 14,138,604 |
| Retirement benefits expense (Note 14) | **808,611** | 582,765 | 651,707 |
| Loss (gain) on disposal of: | | | |
| AFS and HTM investments (Note 9) | **179,350** | 332,013 | (1,171,222) |
| Property and equipment (Note 10) | **(125,000)** | (311,961) | (245,666) |
| Provision for legal obligation (Note 20) | – | 5,000,000 | – |
| Provision for impairment losses on AFS financial assets (Note 9) | – | 60,000 | 20,000 |
| Amortization of unrealized loss on changes in fair value of AFS financial assets (Note 9) | – | – | 646,887 |
| Gain on disposal of investment in subsidiary (Note 2) | – | (703,174,875) | – |
| Dividend income (Notes 6 and 9) | **(1,009,024)** | (869,051) | (772,395) |
| Fair value gains on financial assets at FVPL (Note 6) | **(6,646,383)** | (3,446,692) | (2,841,147) |
| Interest income (Notes 5 and 9) | **(69,540,176)** | (51,436,413) | (29,490,392) |
| Equity in net earnings of associates (Note 8) | **(77,663,475)** | (62,373,976) | (56,304,636) |
| Operating loss before working capital changes | **(20,293,710)** | (107,741,816) | (15,056,175) |
| Decrease (increase) in: | | | |
| Receivables | **(79,237)** | 118,279 | 816,692 |
| Prepayments and other current assets | **(248,535)** | (248,368) | (619,642) |
| Increase in accounts payable and accrued expenses | **287,750** | 27,934 | 159,252 |
| Net cash flows used in operations | **(20,333,732)** | (107,843,971) | (14,699,873) |
| Interest received | **69,612,753** | 51,085,679 | 27,572,780 |
| Dividends received | **50,423,637** | 38,369,137 | 34,384,481 |
| Income taxes paid | **(11,852,992)** | (5,393,553) | – |
| Net cash flows from (used in) operating activities | **87,849,666** | (23,782,708) | 47,257,388 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2012** | 2011 | 2010 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from disposal of: | | | |
| AFS financial assets | **₱7,577,883** | ₱96,571,259 | ₱80,876,113 |
| Property and equipment | **125,000** | 311,961 | 357,143 |
| Investment in subsidiary | **–** | 1,050,000,000 | – |
| Short-term investments | **–** | 6,812,561 | 7,926,852 |
| HTM investments | **–** | – | 11,463,382 |
| Fixed income deposits | **–** | – | 4,637,376 |
| Decrease (increase) in: | | | |
| Other noncurrent assets | **3,484,382** | 38,836 | – |
| Receivables from related parties | **44,276** | (1,178,895) | (1,228,184) |
| Return of deposit from associate (Note 8) | **–** | 26,600,000 | – |
| Additions to: | | | |
| Short-term investments | **–** | – | (500,000) |
| Investments in associate (Note 8) | **–** | (17,500,000) | – |
| Financial assets at FVPL (Note 6) | **(71,764)** | (4,346,051) | (8,130,902) |
| Property and equipment (Note 10) | **(125,364)** | (1,687,230) | (42,321) |
| AFS financial assets (Note 9) | **(40,113,005)** | (95,021,106) | (126,052,760) |
| Net cash flows from (used in) investing activities | **(29,078,592)** | 1,060,601,335 | (30,693,301) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Purchases of treasury shares (Note 16) | **(63,540)** | (545,301) | – |
| Dividends to non-controlling interest | **(7,330,200)** | – | – |
| Dividends paid (Note 16) | **(45,857,413)** | (26,782,308) | (19,424,496) |
| Net cash flows used in financing activities | **(53,251,153)** | (27,327,609) | (19,424,496) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **5,519,921** | 1,009,491,018 | (2,860,409) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(179,625)** | 54,534 | (1,008,904) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,042,203,697** | 32,658,145 | 36,527,458 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱1,047,543,993** | ₱1,042,203,697 | ₱32,658,145 |

*See accompanying Notes to Consolidated Financial Statements.*

# F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate Information

Organization

F & J Prince Holdings Corporation (the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 18, 1971. Its primary purpose is to purchase, subscribe for 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, but not limited to, land, building, condominium units, shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts or obligations of any corporation and associations, domestic or foreign. The Parent Company's shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). The principal activities of its subsidiaries are described in Note 2.

The registered office address of the Parent Company is 5th Floor, Citibank Center Building, 8741 Paseo de Roxas corner Villar Street, Salcedo Village, Makati City.

Authorization for Issuance

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the Board of Directors (BOD) on April 12, 2013.

## 2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value (see Notes 4 and 9). The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional currency.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippine SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS which were adopted as of January 1, 2012. Except as otherwise indicated, adoption of these changes in PFRS did not have any significant effect to the Group.

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets

Philippine Accounting Standards (PAS) 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires 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 ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

<u>Standards issued but not yet effective</u>
The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS to have significant impact on its financial statements.

*Effective 2013*
PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the consolidated statement of financial position;
c) The net amounts presented in the consolidated 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 and are effective for annual periods beginning on or after January 1, 2013.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (Amendments)
The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. 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 of other comprehensive income.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching

strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The effects are detailed below:

| | As at December 31, 2012 | As at January 1, 2012 |
|---|---:|---:|
| Increase (decrease) in: | | |
| Consolidated statements of financial position | | |
| Retirement benefit obligation | (₱7,592) | ₱99,124 |
| Deferred tax asset* | 516,845 | 283,929 |
| Other comprehensive income | (1,211,285) | (593,114) |
| Retained earnings | 1,735,722 | 777,919 |

| | For the year ended December 31, 2012 | For the year ended December 31, 2011 |
|---|---:|---:|
| Consolidated statement of income | | |
| Retirement benefit cost | (₱240,907) | (₱1,368,290) |
| Provision for income tax | 72,272 | 410,487 |
| Net income for the year | | |
| Attributable to the owners of the Parent Company | (275,865) | (909,913) |
| Attributable to non-controlling interests | (14,519) | (47,890) |
| Other comprehensive income, net of deferred income tax | | |
| Attributable to the owners of the Parent Company | 587,262 | 125,518 |
| Attributable to non-controlling interests | 30,909 | 6,606 |

**As of December 31, 2012, the Group did not recognize deferred tax asset on temporary difference arising from retirement benefits.*

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, Investments in Associates, 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 amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

*Effective 2014*

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

*Effective 2015*

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in 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. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2012 do not reflect the impact of the said standard. The Group, at present, decided not to early adopt the amendments to PFRS 9 in its 2013 financial reporting.

The Group's AFS financial assets may be affected by the adoption of this standard in 2015.

*Effective date to be determined*

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

*Annual Improvements to PFRS (2009-2011 cycle)*
The *Annual Improvements to PFRS* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. 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 consolidated 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 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.

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-group balances and transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained

- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2012 and 2011, the Group has 94.37% interest in the unquoted equity stocks of MCHC, a holding company involved in investing real and personal properties of every kind, including, but not limited to, land, buildings, condominium units, shares of stock, bonds, and other securities of any corporation or association, domestic or foreign. The cost of investment in MCHC amounted to ₱537,514,860 as of December 31, 2012 and 2011.

MCHC has investments in the following subsidiaries:

| | Country of Incorporation | Percentage of Ownership 2012 | 2011 |
|---|---|---|---|
| Pinamucan Industrial Estates, Inc. (PIEI) | Philippines | **100** | 100 |
| Malabrigo Corporation (MC)* | Philippines | **100** | 100 |
| Magellan Capital Realty Development Corporation (MCRDC)* | Philippines | **100** | 100 |
| Magellan Capital Trading Corporation (MCTC)* | Philippines | **100** | 100 |

**Still in the preoperating stage.*

*PIEI*
PIEI was organized primarily as a real estate developer and was registered with the Philippine SEC on May 5, 1993. It started its commercial operations on July 14, 1994.

*MC*
MC was organized primarily to purchase, operate, maintain and sell coal mines and their products and by-products. MC was incorporated on August 31, 1993 and has not yet started commercial operations.

On December 11, 2012, the BOD of MC authorized the issuance of its remaining 7,500,000 unissued shares to MCHC and convert part of the Company's advances to MC as payment of the subscription.

*MCRDC*
MCRDC was organized to purchase, subscribe for, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts and obligations of any corporation or corporations, domestic or foreign. MCRDC was registered with the Philippine SEC on November 14, 1990 and has not yet started commercial operations.

*MCTC*
MCTC was organized to conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail all kinds of goods, commodities, wares and merchandise. MCTC was registered in the Philippine SEC on January 7, 1991 and has not yet started commercial operations.

*Batangas-Agro Industrial Development Corporation (BAID)*
In 2011, the Group sold its investment in BAID. Gain on the disposal of the investment in BAID amounted to ₱925,298,431, presented as "Income from discontinued operations - net of tax" in the consolidated statements of income, net of share in net loss in 2011. Furthermore, allowance for

impairment pertaining to receivables from BAID and subsidiaries that have been collected were reversed and recognized as gain by the Group.

Transactions with Non-controlling Interests
Non-controlling interests represent the portion of net income or loss and net assets in MCHC not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to equity holders of the Parent Company. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interests is also recognized directly in equity.

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the share in the results of operations of the associates. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of these profits only after its share of the profits equals the share of the losses not recognized.

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

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

| | Country of Incorporation | Percentage of Ownership | |
|---|---|---|---|
| | | **2012** | 2011 |
| Magellan Utilities Development Corporation (MUDC) | Philippines | **43** | 43 |
| Business Process Outsourcing, International (BPO) | | **35** | 35 |
| Pointwest Technologies Corporation (PTC) | Philippines | **30** | 30 |

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Impairment of goodwill*
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Discontinued Operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to re-sell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are represented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from continuing income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

## 3. Summary of Significant Accounting Policies

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of changes in value.

Financial Instruments
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, is done using settlement date accounting.

Financial assets and financial liabilities are recognized at fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

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

*Financial assets*
Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets are classified as current assets when these are expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as other noncurrent assets.

*Financial assets at FVPL*
Financial assets at FVPL include financial assets held for trading purposes and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interest earned is recorded in interest income, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

The Group's investments in trading securities are classified under financial assets at FVPL as of December 31, 2012 and 2011.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2012 and 2011, the Group's cash and cash equivalents, receivables, and fixed income deposits included under "Prepayments and other current assets" and "Other noncurrent assets" and receivables from related parties are classified as loans and receivables.

*HTM investments*
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets and the Group will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group previously had financial assets classified as HTM investments that were reclassified to AFS financial assets due to the sale of a significant portion of the investments. The Group has no HTM investments as of December 31, 2012 and 2011.

*AFS financial assets*
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments.

After initial measurement, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component in the equity section of the consolidated statements of financial position 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 statement of income.

Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity instruments are recognized in the consolidated statement of income when the right to the payment has been established. AFS financial assets are classified as current if they are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets. The losses arising from impairment of AFS financial assets are recognized in the consolidated statement of income.

The Group's AFS financial assets consist of debt and equity securities as of December 31, 2012 and 2011.

*Determination of fair value*
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

*Derivative financial instruments*
Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives are recognized in the consolidated statement of income.

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2012 and 2011, the Group has no bifurcated embedded derivatives.

*Financial liabilities*
Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Financial liabilities are classified as current liabilities when these are expected to be realized within 12 months from the reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from reporting date. Otherwise, these are classified as noncurrent liabilities.

*Other financial liabilities*
Issued financial instruments or their components, which are not held for trading or not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to accounts payable and accrued expenses, dividends payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derecognition of Financial Assets and Liabilities

*Financial asset*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all 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 from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liability*

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

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

Impairment of Financial Assets

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

*Assets carried at amortized cost*
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 assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss, is or continues to be, recognized are not included in a collective assessment of impairment.

If 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). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced either directly or through use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. The amount of the loss shall be recognized in the consolidated statement of income.

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

In relation to receivables, a provision for impairment losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivables shall be reduced through the use of an allowance account. Impaired debts shall be derecognized when they are assessed as uncollectible.

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

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

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Interest income” in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

“Day 1” Profit or Loss

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

Reclassification of Financial Instruments

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry a financial asset or financial liability at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable.

In the case of a financial asset with a fixed maturity, any previous gain or loss on that asset that has been recognized directly in equity shall be amortized to the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest rate method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognized in the consolidated statement of income. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in the consolidated statement of income.

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

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

Creditable Withholding Taxes (CWT)
CWT, included in "Prepayments and other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment, including borrowing cost for long-term construction projects, when that cost is incurred and if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

| Category | Number of Years |
|---|---|
| Condominium | 25 |
| Condominium improvements | 10 |
| Transportation equipment | 10 |
| Office furniture, fixtures and equipment | 5 |

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 difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the values, periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Investment Property
Investment property, comprising a parcel of land, is held either to earn rental income or for capital appreciation or both. Investment property is measured at cost, including transaction costs less any accumulated impairment in value.

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

Transfers are made to or from investment property only when there are changes in use. For a transfer from investment property under the cost model to owner occupied property or inventories, no change in the carrying value amount of the property transferred and the transfers do not change the deemed cost for subsequent accounting of that property for measurement or disclosure purposes.

Impairment of Nonfinancial Assets
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely: prepayments and other current assets, investment in associates, property and equipment, investment property, and other noncurrent assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. The estimated recoverable amount is the higher of the asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the estimated recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its estimated recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.
A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s estimated recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Capital Stock and Additional Paid-in Capital
The Group has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

Treasury Shares
The Group's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the considerations received is recognized as capital reserves.

Dividends Payable
Dividends payable are recorded in the financial year in which they are declared by the BOD.

Retained Earnings
The amount included in retained earnings includes income attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

*Interest*
Interest income from bank deposits and investments is recognized as the interest accrues on a time proportion basis on the principal outstanding balance and at the effective interest rate as applicable.

*Dividend*
Dividend income is recognized when the Group's right to receive payment is established.

*Fair value gains on financial assets at FVPL*
Financial assets at FVPL which consist of equity securities are stated at fair values based on the current market quotations. The difference between the aggregate market values of investments in securities at respective reporting dates and the carrying value is shown as "Fair value gains or losses on financial assets at FVPL" account in the consolidated statement of income.

*Rent*
Rent income from condominium spaces is accounted for on a straight-line basis over the lease term.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

Retirement Benefits

The Group has an unfunded, noncontributory retirement benefit plan covering substantially all its regular employees. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefit costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognized as income or expense when the net cumulative net actuarial gains and losses of 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 amortized over the expected average remaining working lives of the covered employees.

The past service cost, if any, 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, the retirement benefit plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations 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.

Leases

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

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

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

*Operating lease - Group as a lessor*

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Foreign Currency Transactions
The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional and presentation currency. Each entity in the Group determines its own functional and presentation currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are measured in the functional currency and are recorded on initial recognition in that functional currency at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values were determined. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

*Deferred tax*
Deferred tax is provided using the liability method on temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits in the form of minimum corporate income tax (MCIT) and unused tax losses in the form of net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Sales tax*
Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

Earnings (Loss) Per Share
Earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends or stock splits declared during the year and adjusted for the effects of dilutive stock warrants and other dilutive securities. Effects of anti-dilutive potential common shares are not considered in computing diluted earnings per share.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets (see Note 19).

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

## 4. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
*Determining Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue and expenses of the Group.

*Classification of Financial Instruments*
The Group exercises judgments in classifying a financial instrument, or its component parts, upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis (see Note 22).

*Operating Lease - The Group as a Lessor*
The Group entered into various lease agreements as a lessor. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating lease due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the lessee has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that at the inception of the lease, it is reasonable and certain that the option will be exercised;

c. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and

d. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

*Contingencies*
In the ordinary course of business, the Group is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon analysis of potential results. Although there can be no assurances, the Group believes, based on information currently available and the advise by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims (see Note 20).

<u>Estimates and Assumptions</u>
*Determination of Fair Values of Financial Instruments*
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect either income or loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Group's financial instruments are presented in Note 22 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL amounted to ₱59.2 million and ₱52.4 million as of December 31, 2012 and 2011, respectively (see Notes 6 and 22). The carrying amount of the Group's AFS financial assets amounted to ₱354.8 million and ₱307.6 million as of December 31, 2012 and 2011, respectively (see Notes 9,12 and 22).

*Estimating Allowance for Impairment Losses on Loans and Receivables*
The Group reviews its loans and receivables (cash and cash equivalents, short-term investments, receivables, and fixed income deposits included under "Other noncurrent assets" and receivables from related parties) at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For receivables from related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For trade receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded in "Receivables". These allowances are re-evaluated and adjusted as additional information is received. The allowance for impairment losses on receivables from related parties amounted to ₱186.4 million as of December 31, 2012 and 2011 while the allowance for impairment losses on receivables from third parties amounted to ₱1.1 million as of December 31, 2012 and 2011 (see Notes 7 and 17). No provision for impairment losses on receivables was recognized in 2012 and 2011. The Group's current receivables, net of allowance for impairment losses, amounted to ₱64.2 million and ₱58.3 million as of December 31, 2012 and 2011, respectively (see Note 7). The Group's noncurrent receivables from related parties, net of allowance for impairment losses, amounted to ₱3.9 million as of December 31, 2012 and 2011 (see Note 17).

*Estimating Impairment of AFS Equity Financial Assets*
The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The balance of the Group's allowance for impairment losses on investment in equity securities amounted to ₱10.7 million as of December 31, 2012 and 2011 (see Notes 9 and 21). The carrying amount of the Group's AFS equity financial assets amounted to ₱19.5 million and ₱26.2 million as of December 31, 2012 and 2011, respectively (see Notes 9 and 12).

*Estimating Impairment of Nonfinancial Assets*
The Group determines whether prepayments and other current assets, investments in associates, property and equipment, investment property, and other noncurrent assets are impaired whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;

- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The Group has an allowance for impairment losses on its investment in MUDC, an associate, amounting to ₱94.8 million as of December 31, 2012 and 2011 (see Note 8). The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flows method. The Group has fully impaired its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC amounted to nil as of December 31, 2012 and 2011 (see Note 8). The carrying amount of the Group's remaining investments in associates amounted to ₱163.5 million and ₱141.2 million as of December 31, 2012 and 2011, respectively (see Note 8).

The Group has not identified any events or changes in circumstances that would indicate an impairment loss on the following other nonfinancial assets as of December 31, 2012 and 2011:

| | **2012** | 2011 |
|---|---:|---:|
| Prepayments and other current assets | **₱5,075,296** | ₱5,326,761 |
| Property and equipment (see Note 10) | **28,653,201** | 31,430,909 |
| Investment property (see Note 11) | **46,319,625** | 46,319,625 |
| Other noncurrent assets (see Note 12) | **805,425** | 3,092,307 |
| | **₱80,853,547** | ₱86,169,602 |

*Estimating Useful Lives of Property and Equipment*
The estimated useful lives used as bases for depreciating the Group's property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets.

The net book value of the Group's property and equipment amounted to ₱28.7 million and ₱31.4 million as of December 31, 2012 and 2011, respectively (see Note 10).

*Estimating Retirement Benefit Obligation*
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recorded in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Retirement benefits expense recognized amounted to ₱0.8 million, ₱0.6 million and ₱0.7 million in 2012, 2011 and 2010, respectively. The carrying amount of the Group's retirement benefit obligation amounted to ₱4.8 million and ₱4.0 million as of December 31, 2012 and 2011, respectively (see Note 14).

*Estimating Realizability of Deferred Tax Assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized.

The Group recognized deferred tax assets amounting to ₱15.5 million and ₱15.3 million as of December 31, 2012 and 2011, respectively (see Note 15). The Group did not recognize deferred tax assets on temporary differences, unused tax credits from MCIT and unused NOLCO as of December 31, 2012 and 2011 (see Note 15).

*Estimating Provision for Legal Obligation*
The Group's estimate of provision for legal obligations has been developed by management. The Group's management currently does not believe the provision will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates of provisions. In 2011, the Group recognized provision for legal obligations amounting to ₱5.0 million for claims arising from lawsuits filed by third parties which are either pending decision by the courts or are subject to settlement obligations (see Note 20). No additional provisions were made in 2012.

## 5. Cash and Cash Equivalents

| | **2012** | 2011 |
|---|---:|---:|
| Cash on hand | **₱9,000** | ₱9,000 |
| Cash in banks | **11,401,614** | 12,178,204 |
| Short-term placements | **1,036,133,379** | 1,030,016,493 |
| | **₱1,047,543,993** | ₱1,042,203,697 |

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso, made for varying periods of up to three months or less depending on the immediate cash requirements of the Group and earn interest at the respective bank rates ranging from 1.5% to 4.4% in 2012 and 1.5% to 6.5% in 2012 and 2011, respectively. Interest income earned from cash and cash equivalents amounted to ₱34.9 million, ₱23.1 million and ₱1.5 million in 2012, 2011 and 2010, respectively.

## 6. Financial Assets at FVPL

Financial assets at FVPL consist of listed securities which are traded in the Philippine Stock Exchange (PSE), New York Stock Exchange (NYSE) and Hong Kong Stock Exchange (HKEx). Fair values of listed equity securities are based on quoted market prices in the PSE, NYSE and HKEx.

The carrying value of financial assets at FVPL includes net unrealized gain on fair value changes amounting to ₱6.6 million, ₱3.4 million and ₱2.8 million in 2012, 2011 and 2010, respectively. Fair value changes are presented under "Fair value gains on financial assets at FVPL" in the consolidated statements of income. Net cumulative unrealized gains on financial assets at FVPL amounted to ₱30.0 million and ₱23.4 million as of December 31, 2012 and 2011, respectively.

The rollforward of the Group's investments in financial assets at FVPL is as follows:

| | **2012** | 2011 |
|---|---|---|
| Cost: | | |
| Balances at beginning of year | **₱29,012,437** | ₱24,666,386 |
| Additions | **157,087** | 4,346,051 |
| Balances at end of year | **29,169,524** | 29,012,437 |
| Changes in fair value: | | |
| Balances at beginning of year | **23,360,204** | 19,913,512 |
| Fair value gains | **6,646,383** | 3,446,692 |
| Balances at end of year | **30,006,587** | 23,360,204 |
| | **₱59,176,111** | ₱52,372,641 |

Dividend income earned on investments in financial assets at FVPL amounted to ₱0.5 million, ₱0.5 million and ₱0.4 million in 2012, 2011 and 2010, respectively.

## 7. Receivables

| | **2012** | 2011 |
|---|---|---|
| Third parties: | | |
| Accrued interest (see Note 9) | **₱8,891,910** | ₱8,964,487 |
| Others | **746,556** | 379,839 |
| Related parties: | | |
| Dividends receivable (see Notes 8 and 17) | **55,416,032** | 49,500,000 |
| Management fees (see Note 17) | **45,197,865** | 45,197,865 |
| Accrued interest (see Note 17) | **43,753,772** | 43,753,772 |
| Others (see Note 17) | **348,575** | 636,023 |
| | **154,354,710** | 148,431,986 |
| Less allowance for impairment losses | **90,110,187** | 90,110,187 |
| | **₱64,244,523** | ₱58,321,799 |

Accrued interest receivables from third parties pertain to interest earned on investments in AFS debt securities and short-term placements that are expected to be collected within one year.

The terms and conditions related to receivables from related parties are discussed in Notes 8 and 17.

The breakdown of allowance for impairment losses on receivables are as follows:

| | | |
|---|---|---|
| Third parties | | ₱1,120,789 |
| Related parties (see Note 17): | | |
| Management fees | ₱45,197,865 | |
| Accrued interest | 43,753,772 | |
| Others | 37,761 | 88,989,398 |
| Total | | ₱90,110,187 |

8. **Investments in Associates**

| | **2012** | 2011 |
|---|---|---|
| Unquoted equity securities: | | |
| Acquisition cost | | |
| As at beginning of year | **₱168,760,135** | ₱168,760,135 |
| Conversion of deposit for future stock subscription to capital stock | **17,500,000** | – |
| | **186,260,135** | 168,760,135 |
| Accumulated equity in net earnings: | | |
| As at beginning of year | **49,790,299** | 36,916,323 |
| Equity in net earnings for the year | **77,663,475** | 62,373,976 |
| Dividends received | **(55,416,000)** | (49,500,000) |
| As at end of year | **72,037,774** | 49,790,299 |
| | **258,297,909** | 218,550,434 |
| Less allowance for impairment losses | **94,830,129** | 94,830,129 |
| | **163,467,780** | 123,720,305 |
| Deposit for future stock subscription: | | |
| As at beginning of year | **17,500,000** | 26,600,000 |
| Conversion of deposit for future stock subscription to capital stock | **(17,500,000)** | – |
| Return of deposit | – | (26,600,000) |
| Deposit made | – | 17,500,000 |
| As at end of year | – | 17,500,000 |
| | **₱163,467,780** | ₱141,220,305 |

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

| | Country of Incorporation | Percentage of Ownership 2012 | 2011 | Carrying amount of Investment 2012 | 2011 |
|---|---|---|---|---|---|
| MUDC | Philippines | **43** | 43 | **₱94,830,129** | ₱94,830,129 |
| Less allowance for impairment losses | | | | **(94,830,129)** | (94,830,129) |
| | | | | **–** | – |
| BPO | Philippines | **35** | 35 | **54,973,725** | 54,856,448 |
| PTC | Philippines | **30** | 30 | **108,494,055** | 86,363,857 |
| | | | | **₱163,467,780** | ₱141,220,305 |

*MUDC*

The Group has a 43% interest in MUDC. As of December 31, 2011, MUDC has not yet started commercial operations. However, it has obtained the necessary requirements for the signing of a supply agreement with a public utility firm and a purchase agreement with certain oil companies. As of December 31, 2012 and 2011, MUDC has project development costs of ₱207.1 million. The recoverability of these assets and the ultimate success of MUDC's future operations are dependent upon the signing of these agreements. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt on MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2012 and 2011, MUDC has incurred significant losses, which resulted in deficit of ₱438.0 million and ₱437.9 million, respectively, and capital deficiency of ₱257.1 million and ₱257.0 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Consequently, the Group has discontinued recognizing its share of further losses of ₱94.8 million as of December 31, 2012 and 2011. Additional losses are provided for by the Group to the extent that it has made payments on behalf of MUDC to satisfy MUDC's obligations that the Group has guaranteed or otherwise committed.

The Group has assessed that its investment in and advances to MUDC amounting to ₱94.8 million and ₱89.0 million, respectively, is impaired since management believes that it will no longer recover from such investment and advances. Accordingly, the Group provided a full allowance for impairment losses on its investment and receivables from MUDC due to non-recoverability of the project development costs incurred in 2004.

The summarized financial information of MUDC is as follows:

| | 2012 | 2011 |
|---|---|---|
| Current assets | **₱204,376** | ₱213,379 |
| Noncurrent assets | **16,012,451** | 16,144,645 |
| Total assets | **16,216,827** | 16,358,024 |
| Current liabilities | **281,894** | 315,631 |

(Forward)

| | 2012 | 2011 |
|---|---|---|
| Noncurrent liabilities | **₱273,059,700** | ₱273,047,234 |
| Total liabilities | **273,341,594** | 273,362,865 |
| Revenues | **1,570** | 450 |
| Expenses | **121,496** | 1,215,280 |
| Net loss | **119,926** | 1,214,830 |

*BPO*
BPO is a provider of accounting and finance related services such as payroll, internal audit, payables processing and others. It is involved in outsourcing business process services in the Philippines, servicing many of the multinational and large corporations operating in the country.

Dividends
On December 17, 2010, the BOD of BPO approved the declaration of cash dividends amounting to ₱30.0 million or ₱107.14 per share of BPO's common stocks as of record date December 17, 2010.

On December 22, 2011, the BOD of BPO approved the declaration of cash dividends amounting to ₱45.0 million or ₱160.71 per share of BPO's common stocks as of record date December 21, 2011.

On December 21, 2012, the BOD of BPO approved another declaration of cash dividends amounting to ₱52.3 million or ₱67.00 per share of BPO's common stocks as of record date December 21, 2012.

Deposit for stock subscription
On October 25, 2011, the BOD of BPO approved the increase of BPO's authorized capital stock from One Hundred Million Pesos (₱100,000,000), divided into 1,000,000 shares, with par value of ₱100.00 to ₱300,000,000, divided into 3,000,000 shares with par value of ₱100.00.

In compliance with the minimum subscription requirement for the application of the increase of BPO's capital stock, its stockholders, including the Parent Company, deposited a total amount of ₱50,000,000, representing 25% of the minimum subscription of the capital increase. The Parent Company maintained its percentage ownership over BPO by providing an advance amounting to ₱17,500,000.

On April 20, 2012, the SEC has approved BPO's application for increase in authorized capital stock. Accordingly, the advance/deposit for stock subscription amounting to ₱17,500,000 was converted to capital stock.

*PTC*
PTC is a global service company outsourcing information technology services from the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the US.

On December 10, 2010, the BOD of PTC approved the declaration of cash dividends amounting to ₱90.0 million or ₱0.80 per share of PTC's common stocks as of record date December 31, 2010. On December 9, 2011, the BOD of PTC approved the declaration of cash dividends amounting to ₱112.5 million or ₱1.00 per share of PTC's common stocks as of record date December 31, 2011.

On November 28, 2012, the BOD of PTC approved the declaration of cash dividends amounting to ₱123.8 million or ₱1.10 per share of PTC's common stocks as of record date December 30, 2012.

The summarized combined financial information of the Group's associates, BPO and PTC, are as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current assets | **₱785,005,733** | ₱680,212,811 | ₱592,291,218 |
| Noncurrent assets | **120,634,617** | 129,951,162 | 119,349,729 |
| Total assets | **905,640,350** | 810,163,973 | 711,640,947 |
| | | | |
| Current liabilities | **419,305,039** | 363,663,607 | 291,712,005 |
| Noncurrent liabilities | **55,276,534** | 328,855,379 | 316,948,208 |
| Total liabilities | **474,581,573** | 692,518,986 | 608,660,213 |
| | | | |
| Revenues | **1,409,456,633** | 1,172,525,720 | 984,411,729 |
| Expenses | **1,137,945,627** | 945,582,999 | 791,551,137 |
| Net income | **250,125,031** | 199,125,661 | 183,729,869 |

9. **AFS Financial Assets**

| | 2012 | 2011 |
|---|---|---|
| Current: | | |
| Debt securities | **₱23,390,100** | ₱12,275,200 |
| Non-current: | | |
| Debt securities | **311,955,148** | 269,051,727 |
| Equity securities - net of allowance for impairment losses of ₱10.7 million as of December 31, 2012 and 2011 | **9,228,088** | 15,270,622 |
| | **₱344,573,336** | ₱296,597,549 |

*Investments in debt securities*
Investments in debt securities are denominated in US dollar, Australian dollar, Brazil real, Turkish lira, Euro, Chinese yuan and Philippine peso and are stated at fair value based on quoted prices. Changes in market values are included in the consolidated statements of comprehensive income. Fixed interest rates range from 6.0% to 13.6% per annum. Value dates of the investments range from August 4, 2009 to November 28, 2012 and maturity dates range from January 18, 2013 to perpetuity. Interests on investments are received and settled semi-annually in US dollar.

On March 19, 2010, HTM instruments were reclassified to AFS financial assets following the sale of a significant portion of its HTM investments in 2010. Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity.

Interest income earned from AFS financial assets amounted to ₱26.6 million, ₱28.3 million and ₱26.6 million in 2012, 2011 and 2010, respectively.

The Group recognized loss on disposal of AFS debt financial assets amounting to ₱0.2 million, ₱0.3 million in 2012 and 2011, gain on disposal amounting to ₱0.6 million in 2010.

*Investments in equity securities*
Investments in equity securities consist of proprietary club shares and investments in quoted shares of stock which the Group has neither control nor significant influence. The Group did not recognize impairment losses in 2012 but recognized provision for impairment losses amounting to ₱0.06 million and ₱0.02 million in 2011 and 2010, respectively. Allowance for impairment losses on AFS equity securities amounted to ₱10.7 million as of December 31, 2012 and 2011.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of December 31, 2012 and 2011.

Dividend income earned on AFS in equity securities amounted to ₱0.5 million, ₱0.4 million and ₱0.4 million in 2012, 2011 and 2010, respectively.

Movements in the net unrealized valuation gains (losses) on AFS financial assets are as follows:

**2012**

| | **Parent** | **Non-controlling Interests** | **Total** |
|---|---|---|---|
| **Balances at beginning of year** | **(₱17,625,131)** | **(₱911,396)** | **(₱18,536,527)** |
| **Changes in fair value of AFS financial assets** | **16,547,238** | **722,404** | **17,269,642** |
| **Disposal of AFS financial assets** | **164,371** | **8,651** | **173,022** |
| **Balances at end of year** | **(₱913,522)** | **(₱180,341)** | **(₱1,093,863)** |

2011

| | Parent | Non-controlling Interests | Total |
|---|---|---|---|
| Balances at beginning of year | ₱9,650,109 | ₱536,722 | ₱10,186,831 |
| Changes in fair value of AFS financial assets | (27,382,959) | (1,453,787) | (28,836,746) |
| Disposal of AFS financial assets | 107,719 | 5,669 | 113,388 |
| Balances at end of year | (₱17,625,131) | (₱911,396) | (₱18,536,527) |

Net unrealized valuation losses on AFS financial assets presented in the equity section of the consolidated statement of financial position as of December 31, 2012 and 2011 amounted to ₱0.9 million and ₱17.6 million.

## 10. Property and Equipment

### As of December 31, 2012

| | Condominium | Condominium Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Balances at beginning of year** | **₱47,014,750** | **₱8,058,590** | **₱8,636,948** | **₱2,607,273** | **₱66,317,561** |
| **Additions** | **–** | **–** | **–** | **125,364** | **125,364** |
| **Disposals** | **–** | **–** | **(804,364)** | **–** | **(804,364)** |
| **Balances at end of year** | **47,014,750** | **8,058,590** | **7,832,584** | **2,732,637** | **65,638,561** |
| **Accumulated depreciation:** | | | | | |
| **Balances at beginning of year** | **21,157,350** | **7,213,621** | **4,072,252** | **2,443,429** | **34,886,652** |
| **Depreciation** | **1,880,590** | **229,098** | **734,756** | **58,628** | **2,903,072** |
| **Disposals** | **–** | **–** | **(804,364)** | **–** | **(804,364)** |
| **Balances at end of year** | **23,037,940** | **7,442,719** | **4,002,644** | **2,502,057** | **36,985,360** |
| **Net book value** | **₱23,976,810** | **₱615,871** | **₱3,829,940** | **₱230,580** | **₱28,653,201** |

As of December 31, 2011

| | Condominium | Condominium Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balances at beginning of year | ₱47,014,750 | ₱8,058,590 | ₱8,656,378 | ₱2,498,613 | ₱66,228,331 |
| Additions | – | – | 1,578,570 | 108,660 | 1,687,230 |
| Disposals | – | – | (1,598,000) | – | (1,598,000) |
| Balances at end of year | 47,014,750 | 8,058,590 | 8,636,948 | 2,607,273 | 66,317,561 |
| Accumulated depreciation: | | | | | |
| Balances at beginning of year | 19,276,760 | 7,051,332 | 5,154,694 | 2,409,012 | 33,891,798 |
| Depreciation | 1,880,590 | 162,289 | 515,558 | 34,417 | 2,592,854 |
| Disposals | – | – | (1,598,000) | – | (1,598,000) |
| Balances at end of year | 21,157,350 | 7,213,621 | 4,072,252 | 2,443,429 | 34,886,652 |
| Net book value | ₱25,857,400 | ₱844,969 | ₱4,564,696 | ₱163,844 | ₱31,430,909 |

In 2012, the Group sold fully depreciated transportation equipment with cost of ₱0.2 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.1 million.

In 2011, the Group sold fully depreciated transportation equipment with cost of ₱1.6 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.3 million.

The balance of property and equipment includes fully depreciated assets still in use amounting to ₱10.6 million and ₱4.9 million as of December 31, 2012 and 2011.

## 11. Investment Property

Investment property as of December 31, 2012 and 2011 consist of land held by MCHC situated in Fort Bonifacio, Taguig City, Metro Manila and is carried at cost in the consolidated statements of financial position. This land is currently held by the Group for an undetermined future use. Based on the latest appraisal report dated February 25, 2011, the fair value of this property amounts to ₱129.7 million, which exceeds its carrying amount. The fair value was estimated using the sales comparison approach, where fair value is derived by considering and comparing the prices for the sales of similar or substitute properties.

Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

12. **Other Noncurrent Assets**

| | 2012 | 2011 |
|---|---:|---:|
| Investment in limited liability partnership (LLP) | **₱10,262,500** | ₱10,960,000 |
| Fixed income deposits | **500,000** | 1,000,000 |
| Deposits | **470,155** | 596,629 |
| Others | **335,270** | 2,495,678 |
| | **₱11,567,925** | ₱15,052,307 |

Investment in LLP pertains to MC's investment carried at cost and adjusted for changes in the foreign exchange rates. Deposits consist of security and utility deposits. Fixed income deposit pertains to the Group's time deposit in Xavier Punla Rural Bank. Fixed income deposit earns interest at the rate of 10% per annum. Interest income earned amounted to ₱0.1 million in 2012 and 2011.

13. **Accounts Payable and Accrued Expenses**

| | 2012 | 2011 |
|---|---:|---:|
| Deposits payable (see Note 20) | **₱1,193,714** | ₱1,170,028 |
| Accounts payable | **1,403,857** | 968,951 |
| Accrued expenses | **650,619** | 821,461 |
| | **₱3,248,190** | ₱2,960,440 |

Deposits payable pertain to deposits made by tenants for the lease of the Group's surplus condominium spaces and will be returned to the lessee after the lease term. Accounts payable are generally noninterest-bearing payables to third party contractors. Accrued expenses include accrual of professional fees, withholding taxes and other government payables. The above balances are noninterest-bearing and are payable within one year.

14. **Retirement Benefits Cost**

The Group has an unfunded, defined benefit pension plan covering substantially all of its regular employees. Retirement benefits under the plan are based on a percentage of latest monthly salary and years of credited service.

The latest independent actuarial valuation of the plan as of December 31, 2012, prepared by an independent actuary, is determined using the projected unit credit method in accordance with PAS 19.

The following tables summarize the components of retirement benefit expense recognized in the consolidated statements of income and the unfunded status and amounts recognized in the consolidated statements of financial position for the plan.

The composition of retirement benefit expense recognized in the consolidated statements of income is as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current service cost | **₱502,936** | ₱291,294 | ₱433,822 |
| Interest cost on benefit obligation | **228,398** | 222,859 | 201,939 |
| Net actuarial losses | **77,277** | 68,612 | 15,946 |
| Net benefit expense | **₱808,611** | ₱582,765 | ₱651,707 |

The amounts recognized in the consolidated statements of financial position as retirement benefit obligation are as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of obligation | **₱6,349,214** | ₱4,734,779 |
| Unrecognized net actuarial losses | **(1,550,435)** | (744,611) |
| Retirement benefit obligation | **₱4,798,779** | ₱3,990,168 |

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

| | **2012** | 2011 |
|---|---|---|
| Balances at beginning of year | **₱4,734,779** | ₱4,031,877 |
| Current service cost | **502,936** | 291,294 |
| Interest cost on benefit obligation | **228,398** | 222,859 |
| Actuarial loss on obligation | **883,101** | 188,749 |
| Balances at end of year | **₱6,349,214** | ₱4,734,779 |

Movements in the retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

| | **2012** | 2011 |
|---|---|---|
| Beginning balances | **₱3,990,168** | ₱3,407,403 |
| Net periodic benefit expense | **808,611** | 582,765 |
| Ending balances | **₱4,798,779** | ₱3,990,168 |

The Group’s retirement plan is unfunded as of December 31, 2012. As of December 31, 2012, management does not yet have a definite plan to fund the retirement benefits.

The principal actuarial assumptions used in determining retirement benefit obligation for the Group’s retirement plan are as follows:

| | **2012** | 2011 |
|---|---|---|
| Discount rate | **4.20%** | 5.35% |
| Salary increase rate | **5.00%** | 5.00% |

Amounts for the current year and previous four (4) years are as follows:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **₱6,349,214** | ₱4,734,779 | ₱4,031,877 | ₱3,022,933 | ₱2,278,988 |
| Actuarial losses (gains) on obligation | **883,101** | 188,749 | 373,183 | (226,113) | (366,349) |
| Experience adjustments on plan liabilities - (gains) losses | **810,515** | 145,732 | 257,211 | 228,402 | (232,511) |
| Change in assumptions | **162,586** | 43,017 | 115,972 | (454,515) | (133,838) |

15. **Income Taxes**

Provision for (benefit from) income tax consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current: | | | |
| Regular corporate income tax | **₱3,243,976** | ₱3,442,517 | ₱851,404 |
| Final tax on interest income | **6,651,690** | 4,601,077 | 293,696 |
| MCIT | **35,617** | 24,911 | 457,502 |
| Deferred | **–** | (313,103) | – |
| | **₱9,931,283** | ₱7,755,402 | ₱1,602,602 |

The Group's current provision for income tax represents regular corporate income tax, MCIT and final tax on interest income.

Reconciliation of income tax expense computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of income follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Provision for income tax at statutory tax rate of 30% | **₱38,639,112** | ₱209,065,500 | ₱17,075,607 |
| Additions to (reductions in) income tax resulting from: | | | |
| Movement of unrecognized deferred tax assets | **1,080,989** | 3,464,270 | 1,549,395 |
| Expired NOLCO | **655,635** | 1,383,893 | 881,129 |
| Unallowable entertainment, amusement and recreation | **65,936** | 70,134 | 50,378 |
| Nondeductible expenses | **6,977** | 27,900 | – |
| Expired MCIT | **–** | 129 | 68,106 |
| Gain on disposal of subsidiary subject to capital gains tax | **–** | (183,110,780) | – |
| Dividend income exempt from tax | **(273,757)** | (120,573) | (113,686) |
| Nontaxable gain on fair value changes of financial assets at FVPL | **(2,479,648)** | (1,980,608) | (852,344) |
| Interest income subjected to final tax | **(4,464,919)** | (2,332,270) | (164,592) |
| Equity in net earnings of associates | **(23,299,042)** | (18,712,193) | (16,891,391) |
| | **₱9,931,283** | ₱7,755,402 | ₱1,602,602 |

The components of net deferred tax liabilities as of December 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Deferred tax assets: | | |
| *Recognized directly in income:* | | |
| Allowance for impairment losses on receivables and AFS financial assets | **₱15,496,294** | ₱15,300,221 |
| Deferred tax liabilities: | | |
| *Recognized directly in income:* | | |
| Unrealized foreign exchange gains | **15,496,294** | 15,300,221 |
| Net deferred tax liabilities | **₱–** | ₱– |

No deferred tax assets were recognized on the following deductible temporary differences, carryforward of unused MCIT and unused NOLCO because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

| | 2012 | 2011 |
|---|---|---|
| Allowance for impairment losses on investment in MUDC | **₱94,830,129** | ₱94,830,129 |
| Allowance for impairment losses on receivables and AFS financial assets | **146,482,949** | 147,136,527 |
| Unrealized foreign exchange loss | **6,672,757** | 3,360,468 |
| Unrealized valuation loss on AFS financial assets | **5,904,745** | 23,174,387 |
| Provision for legal obligation | **5,000,000** | 5,000,000 |
| Retirement benefit obligation | **4,798,779** | 3,990,168 |
| Net unrealized valuation loss on foreign financial assets at FVPL | **4,774,447** | 3,155,336 |
| NOLCO | **4,142,684** | 5,571,943 |
| MCIT | **70,694** | 86,857 |

As of December 31, 2012, the Group has NOLCO that can be claimed as deduction from future taxable income and MCIT that can be used against payment of regular income tax as follows:

NOLCO:

| Year of Recognition | Availment Period | Beginning Balance | Additions | Expiration | Ending Balance |
|---|---|---|---|---|---|
| 2009 | 2010-2012 | ₱2,185,450 | ₱– | (₱2,185,450) | ₱– |
| 2010 | 2011-2013 | 1,911,228 | | – | 1,911,228 |
| 2011 | 2012-2014 | 1,475,263 | – | – | 1,475,263 |
| 2012 | 2013-2015 | – | 756,193 | – | 756,193 |
| | | ₱5,571,941 | ₱756,193 | (₱2,185,450) | ₱4,142,684 |

MCIT:

| Year of Recognition | Availment Period | Beginning Balance | Additions | Application | Expiration | Ending Balance |
|---|---|---|---|---|---|---|
| 2010 | 2011-2013 | ₱10,166 | ₱– | ₱– | ₱– | ₱10,166 |
| 2011 | 2012-2014 | 24,911 | – | – | – | 24,911 |
| 2012 | 2013-2015 | – | 35,617 | – | – | 35,617 |
| | | ₱35,077 | ₱35,617 | ₱– | ₱– | ₱70,694 |

## 16. **Equity**

a. Common Stock

The details of the Group's capital stock (number of shares and amounts) follow:

| | **2012** | 2011 |
|---|---|---|
| Common stock - ₱1 par value | | |
| Class A | | |
| Authorized - 600 million shares | | |
| Issued and outstanding - 292,610,118 shares | **₱292,610,118** | ₱292,610,118 |
| Class B | | |
| Authorized - 400 million shares | | |
| Issued and outstanding - 189,217,535 shares | **189,217,535** | 189,217,535 |
| | **₱481,827,653** | ₱481,827,653 |

Class A and B common stockholders enjoy the same rights and privileges, except that Class A shares may be owned by, transferred to and subscribed only by Filipino citizens or corporations, partnerships and associations organized under the laws of the Philippines, of which 60% of the common stock outstanding is owned by citizens of the Philippines. Class B shares may be issued, transferred or sold to any person, corporation, partnership or association regardless of nationality.

In 1979, the registrant listed with the PSE (or its predecessor, Manila Stock Exchange) its common stock under its previous name, Ultrana Energy and Resource Corporation, where it offered 1,000,000,000 shares to the public at the issue price of ₱0.01 per share.

On July 28, 1997, the SEC approved the increase in the Group's authorized capital stock from 10,000,000,000, divided into 6,000,000,000 Class A common shares with par value of ₱0.01 per share and 4,000,000,000 Class B common shares with par value of ₱0.01 per share to 1,000,000,000 common shares, divided into 600,000,000 Class A common shares with par value of ₱1 per share and 400,000,000 Class B common share with par value of ₱1 per share.

On November 26, 2000, the BOD approved the issuance, out of the authorized common stock, of 192,413,090 shares at ₱1 par value which will be offered through a pre-emptive stock rights issue and detachable stock warrants, as follows: (a) 96,206,545 shares consisting of 58,377,278 Class A shares and 37,829,267 Class B shares, to be offered in two tranches, the First Tranche consisting of 48,103,272 shares of stock and the Second Tranche consisting of 48,103,273 shares of stock, to which each stockholder may subscribe on a pre-emptive rights basis, and (b) the balance of 96,206,545 shares to be offered through detachable stock warrants, which shall entitle each stockholder to subscribe to one share of stock for every one share of stock of the same class that such stockholder subscribe to out of this stock rights issue.

The Group's application to list additional 192,413,090 common shares with a par value of ₱1 per share through pre-emptive rights issue and detachable subscription warrants was approved by the PSE on February 27, 2002 and by the SEC on April 5, 2002.

The exercise periods and expiration dates of the Group's subscription warrants are as follows:

| | Number of Shares | Exercise Periods | Expiration Dates |
|---|---|---|---|
| First Tranche: | | | |
| Class A common shares | 29,188,639 | | |
| Class B common shares | 18,914,633 | June 4, 2002 to June 3, 2007 | June 3, 2007 |
| | 48,103,272 | | |
| Second Tranche: | | | |
| Class A common shares | 29,188,639 | | |
| Class B common shares | 18,914,634 | May 9, 2003 to May 8, 2008 | May 8, 2008 |
| | 48,103,273 | | |
| | 96,206,545 | | |

Full payment of each subscription under the First Tranche was made within the offer period approved by the PSE and the SEC, and the full payment of each subscription under the Second Tranche shall be due and payable one year from the last day of the offer period. With the full subscription of the Pre-Emptive Rights Stock Offering, the Group's outstanding common stock increased to 481,032,728 common shares of stock, consisting of 291,886,391 Class A common shares and 189,146,337 Class B common shares, all with par value of ₱1 per share.

With the complete exercise of all Detachable Stock Warrants, the Group will have an outstanding common stock of 577,239,273 shares, consisting of 350,263,669 Class A common shares and 226,975,604 Class B common shares, all with par value of ₱1 per share. However, as of December 31, 2007, 723,727 Class A common stock warrants and 71,198 Class B common stock warrants were exercised and 28,464,912 Class A common stock warrants and 18,843,435 Class B common stock warrants expired. As of December 31, 2008, 29,188,639 Class A common stock warrants and 18,914,634 Class B common stock warrants expired due to non-exercise of stock warrants before expiration date. After the expiration of the said warrants, the Group's outstanding common stock amounted to ₱481,827,653 with additional paid-in capital of ₱144,759,977. There have been no movements since 2008.

As of December 31, 2012, 2011 and 2010, the Parent Company has 502, 533 and 548 stockholders, respectively.

b. Treasury shares

In 2002, MCHC subscribed, through the above offering, to 47,143,022 Class A shares of the Parent Company. On the other hand, PIEI subscribed to 9,762,114 Class A shares and 37,496,379 Class B shares. In 2005, additional 260,000 Class A shares and 20,000 Class B shares were transferred by the transfer agent to PIEI. For consolidation purposes, the costs of these shares are presented under the "Treasury shares" account in the equity section of the consolidated statements of financial position.

In a special meeting held on May 22, 2003, the BOD resolved that the period for the payment of the deferred tranche be extended to 60 days from May 9, 2003 to July 9, 2003. If no payment is made within 30 days from July 9, 2003, the shares pertaining to the unpaid subscriptions shall become delinquent. On August 9, 2003, shares of stock amounting to ₱0.7 million were declared delinquent and sold at a public auction on October 9, 2003. There was only one bidder, PIEI, to whom the delinquent shares were sold, and in whose favor a certificate of sale was issued. In 2004, additional 60,000 shares of stock of the Group were sold to PIEI at ₱0.05 million.

In 2011, MCHC purchased additional shares of the Parent Company. The cost to acquire 346,000 units of Class A shares and 66,000 units of Class B shares amounted to ₱0.5 million.

In 2012, MCHC purchased additional shares of the Parent Company. The cost to acquire 24,000 units of Class A shares and 5,000 units of Class B shares amounted to ₱0.1 million.

MCHC and PIEI holds 58,727,448 and 58,703,448 Class A shares of the Parent Company as of December 31, 2012 and 2011, respectively, and 37,784,379 and 37,779,379 Class B shares of the Parent Company as of December 31, 2012 and 2011, respectively.

c. Net unrealized valuation gains (losses) on AFS financial assets

Net unrealized valuation gain on AFS financial assets presented in the equity section of the consolidated statements of financial position amounted to ₱6.7 million as of December 31, 2012. Net unrealized valuation loss on AFS financial assets amounted to ₱17.6 million as of December 31, 2011 (see Note 9).

d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱96.4 million and ₱96.3 million as of December 31, 2012 and 2011, respectively.

On July 28, 2010, the BOD declared a regular cash dividend amounting to ₱0.05 per share held or ₱24,091,383 (481,827,653 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of August 27, 2010, payable on or before September 23, 2010. Of the total amount declared, ₱23,987,860 have been paid out in 2010 and ₱356 in 2011.

On July 28, 2011, the BOD declared a regular cash dividend amounting to ₱0.07 per share held or ₱33,727,936 (481,827,653 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 10, 2011, payable on or before September 15, 2011. Of the total amount declared, ₱33,531,619 have been paid out in 2011.

On July 17 2012, the BOD declared a regular cash dividend amounting to ₱0.12 per share held payable as follows; ₱0.07 per share or ₱33,727,936 (481,827,653 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 14, 2012, payable on or before September 7, 2012; and ₱0.05 per share held or ₱24,091,383 (481,827,653 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of October 8, 2012, payable on or before November 2, 2012. Of the total amount declared, ₱57,438,833 have been paid out in 2012.

## 17. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties can be corporate or individual entities.

A summary of receivable balances and transactions with related parties follows:

| | | Amount | Receivables | Terms | Conditions |
|---|---|---|---|---|---|
| *Associates:* | | | | | |
| MUDC | **2012** | **₱–** | **₱190,179,403** | 30 day; non | Unsecured; |
| Advances | 2011 | – | 190,229,003 | interest bearing | with impairment amounting to ₱186,324,713 |
| BPO | | | | | |
| Rent income | **2012** | **1,047,689** | – | 30 days; non | – |
| | 2011 | 1,003,773 | – | interest bearing | – |
| Payroll services expense | **2012** | **222,098** | – | 30 days; non | – |
| | 2011 | 71,769 | – | interest bearing | – |
| Dividends | **2012** | – | **18,291,000** | 30 day; non | Unsecured; no |
| | 2011 | – | 15,750,000 | interest bearing | Impairment |
| PTC | | | | | |
| Dividends | **2012** | – | **37,125,000** | 30 day; non | Unsecured; no |
| | 2011 | – | 33,750,000 | interest bearing | Impairment |
| *Other related parties* | | | | | |
| Advances | **2012** | – | **354,431** | 30 day; non | Unsecured; |
| | 2011 | – | 636,523 | interest bearing | with impairment amounting to ₱37,761 |
| | **2012** | | **₱245,949,834** | | |
| | 2011 | | 240,365,526 | | |

There were no movements in allowance for impairment losses in 2012 and 2011.

a. MCHC has executed a management agreement (the Agreement) with MUDC and other related parties. The Agreement with MUDC requires MCHC to provide general management services for the operation of the business and affairs of MUDC for a period of five years, renewable for the same period thereafter under certain terms and conditions, unless terminated earlier by either party after serving the required written notice to the other.

   MCHC's BOD approved MUDC's request for suspension of the management fee for the period January 1, 2002 up to the contract's expiration in March 2003. Subsequently, the agreement was terminated in December 2002. As of December 31, 2012 and 2011, management fees receivable from MUDC amounted to ₱45.2 million (see Note 7). In 2004, the management fee receivable was fully provided with allowance for impairment losses, since management believes that this is not likely to be collected in the future.

b. MCHC has existing noninterest-bearing long-term advances to MUDC amounting to ₱49.1 million, including accumulated unpaid interest as of December 31, 2012 and 2011. In 2004, the loan and unpaid interest was fully provided with an allowance for impairment loss since management believes that it is not likely to be collected in the future.

c. In 2006, total noninterest-bearing long-term advances to related parties amounting to ₱56.8 million, including the unamortized discount of ₱23.4 million as of December 31, 2005, was fully provided with allowance for impairment losses, since management believes that the entire balance is not likely to be collected in the future.

Compensation of the Group's key management personnel comprised mainly of short-term employee benefits amounting to ₱7.5 million and ₱6.2 million in 2012 and 2011, respectively, and long-term employee benefits amounting to ₱1.5 million and ₱0.5 million in 2012 and 2011, respectively. Key management personnel have no other long-term employee benefits other than statutory retirement benefit.

## 18. Earnings per Share

Basic earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in computing basic and diluted earnings per share for the years ended December 31:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net income from continuing operations attributable to equity holders of the parent | **₱116,513,380** | ₱78,075,977 | ₱55,607,836 |
| Weighted average number of ordinary shares outstanding for basic and diluted earnings per share | **385,316,243** | 385,344,826 | 385,756,826 |
| Basic and diluted earnings per share | **₱0.302** | ₱0.203 | ₱0.144 |
| Net income from discontinued operations attributable to equity holders of the parent | **₱–** | ₱579,761,741 | (₱575,069) |
| Weighted average number of ordinary shares outstanding for basic and diluted earnings per share | – | 385,344,826 | 385,756,826 |
| Basic and diluted earnings per share | **₱–** | ₱1.505 | (₱0.001) |

## 19. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Parent Company and its subsidiaries, is to invest in real and personal properties. MCHC's subsidiary, BAID, which was disposed in 2011, was engaged in real estate business which, as of December 31, 2010, has not yet started commercial operations. Accordingly, the Group operates mainly in one reportable business segment which is investing and one reportable geographical segment which is the Philippines.

## 20. Commitments and Contingencies

a. The Group leases an insignificant portion of its condominium spaces. The Group recognized rental income amounting to ₱3.5 million in 2012, ₱3.2 million in 2011 and ₱2.6 million in 2010. Future minimum rental income of ₱3.3 million from existing rental agreements will be recognized in 2013. The lease agreements have terms of one to two years and can be renewed upon the written agreement of the Group and the lessees.

b. The Group is currently involved in legal litigations covering various labor cases. In 2011, the Group recognized provision for legal obligation amounting to ₱5.0 million, for claims arising from lawsuits filed by a third party, which is pending decision by the courts. Probable cost has been estimated in consultation with the Group's legal counsel.

c. Aside from the case discussed above, in the ordinary course of business, the Group is a plaintiff in various litigations and claims. The Group believes, based on information currently available and the advice of its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims.

## 21. Financial Risk Management Objectives and Policies

Risk Management Structure

*BOD*

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The principal financial instruments of the Group consist of financial assets at FVPL, short-term investments, fixed income deposits and AFS financial assets. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial instruments such as cash and cash equivalents, receivables, fixed income deposit, and receivables from related parties included under other noncurrent assets and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (i.e., interest rate risk, foreign currency risk and equity price risk). The Group's management reviews and approves policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments. The magnitudes of these risks that have arisen over the year are discussed below.

*Credit Risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Group is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (i.e., foreign currency-denominated debt instruments, short-term investments, fixed income deposits and receivables) to its financial assets.

*Credit risk management*
In managing credit risk on these investments, capital preservation is paramount. The Group trades only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record, as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Group's President and Treasurer.
With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables from third parties and related parties, short-term investments and fixed income deposits, the Group's President and Treasurer monitor these financial assets on an ongoing basis with the result that the Group's exposure to impairment losses is not significant.

*Credit risk exposures*
At reporting date, the Group's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the consolidated statements of financial position. The Group's financial assets are not covered by collateral from counterparties.

*Credit risk concentration profile*
The Group has no significant concentrations of credit risk.

*Credit quality*
As of December 31, 2012 and 2011, the credit qualities per class of financial assets are as follows:

**2012**

| | Neither past due nor impaired | | Past due | | |
|---|---|---|---|---|---|
| | High grade | Standard grade | but not impaired | Individually impaired | Total |
| **Loans and receivables:** | | | | | |
| **Cash and cash equivalents** | **₱1,047,543,993** | **₱–** | **₱–** | **₱–** | **₱1,047,543,993** |
| **Receivables** | **64,244,523** | – | – | **90,110,187** | **154,354,710** |
| **Receivables from related parties** | **3,860,514** | – | – | **97,373,076** | **101,233,590** |
| **Fixed income deposits** | **1,000,000** | – | – | – | **1,000,000** |
| **Financial assets at FVPL** | **59,176,111** | – | – | – | **59,176,111** |
| **AFS financial assets:** | | | | | |
| **Debt and equity securities** | **344,573,336** | – | – | **10,654,000** | **355,227,336** |
| **Investment in LLP** | **10,262,500** | – | – | – | **10,262,500** |
| | **₱1,530,660,977** | **₱–** | **₱–** | **₱198,137,263** | **₱1,728,798,240** |

2011

| | Neither past due nor impaired | | Past due | | |
|---|---|---|---|---|---|
| | High grade | Standard grade | but not impaired | Individually impaired | Total |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | ₱1,042,194,697 | ₱– | ₱– | ₱– | ₱1,042,194,697 |
| Receivables | 58,321,799 | – | – | 90,110,187 | 148,431,986 |
| Receivables from related parties | 1,110,019 | 2,794,771 | – | 97,373,076 | 101,277,866 |
| Fixed income deposits | 1,000,000 | – | – | – | 1,000,000 |
| Financial assets at FVPL | 52,372,641 | – | – | – | 52,372,641 |
| AFS financial assets: | | | | | |
| Debt and equity securities | 296,597,549 | – | – | 10,654,000 | 307,251,549 |
| Investment in LLP | 10,960,000 | – | – | – | 10,960,000 |
| | ₱1,462,556,705 | ₱2,794,771 | ₱– | ₱198,137,263 | ₱1,663,488,739 |

*High grade financial assets*
High grade receivables pertain to receivables from related parties and customers with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Other high grade financial assets reflect the investment grade quality of the investments and/or counterparty and realizability is thus assured.

*Standard grade financial assets*
Receivables from customers that slide beyond the credit terms are classified under standard grade. Other standard grade financial assets are considered moderately realizable. There are no standard grade financial assets as of December 31, 2012 and 2011.

*Aging Analysis*
Aging analysis per class of financial assets as of December 31, 2012 and 2011 are as follows:

**2012**

| | **Neither Past Due nor Impaired** | **Past due but not impaired** | | | |
|---|---|---|---|---|---|
| | | **<1 year** | **>1 year** | **Impaired** | **Total** |
| **Loans and receivables:** | | | | | |
| **Cash and cash equivalents** | **₱1,047,543,993** | **₱–** | **₱–** | **₱–** | **₱1,047,543,993** |
| **Receivables** | **64,244,523** | **–** | **–** | **90,110,187** | **154,354,710** |
| **Receivables from related parties** | **3,860,514** | **–** | **–** | **97,373,076** | **101,233,590** |
| **Fixed income deposits -** | **1,000,000** | **–** | **–** | **–** | **1,000,000** |
| **Financial assets at FVPL** | **59,176,111** | **–** | **–** | **–** | **59,176,111** |
| **AFS financial assets** | | | | | |
| **Debt and equity securities** | **344,573,336** | **–** | **–** | **10,654,000** | **355,227,336** |
| **Investment in LLP** | **10,262,500** | **–** | **–** | **–** | **10,262,500** |
| | **₱1,530,660,977** | **₱–** | **₱–** | **₱198,137,263** | **₱1,728,798,240** |

2011

| | Neither Past Due nor Impaired | Past due but not impaired | | Impaired | Total |
|---|---|---|---|---|---|
| | | <1 year | >1 year | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | ₱1,042,194,697 | ₱– | ₱– | ₱– | ₱1,042,194,697 |
| Receivables | 58,321,799 | – | – | 90,110,187 | 148,431,986 |
| Receivables from related parties | 1,110,019 | 2,794,771 | – | 97,373,076 | 101,277,866 |
| Fixed income deposits | 1,000,000 | – | – | – | 1,000,000 |
| Financial assets at FVPL | 52,372,641 | – | – | – | 52,372,641 |
| AFS financial assets | | | | | |
| Debt and equity securities | 296,597,549 | – | – | 10,654,000 | 307,251,549 |
| Investment in LLP | 10,960,000 | – | – | – | 10,960,000 |
| | ₱1,462,556,705 | ₱2,794,771 | ₱– | ₱198,137,263 | ₱1,663,488,739 |

*Impairment assessment*
The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are nonmoving accounts receivable, accounts of defaulted companies and accounts from closed companies.

The carrying amount of the Group's financial assets as at December 31, 2012 and 2011 are as follows:

**2012**

| | **Receivables** | **Receivables from related parties** | **AFS financial assets** | **Total** |
|---|---|---|---|---|
| **Nominal amounts** | **₱154,354,710** | **₱101,233,590** | **₱355,227,336** | **₱610,815,636** |
| **Less allowance for impairment losses** | **90,110,187** | **97,373,076** | **10,654,000** | **198,137,263** |
| **At December 31, 2012** | **₱64,244,523** | **₱3,860,514** | **₱344,573,336** | **₱412,678,373** |

2011

| | Receivables | Receivables from related parties | AFS financial assets | Total |
|---|---|---|---|---|
| Nominal amounts | ₱148,431,986 | ₱101,277,866 | ₱307,251,549 | ₱556,961,401 |
| Less allowance for impairment losses | 90,110,187 | 97,373,076 | 10,654,000 | 198,137,263 |
| At December 31, 2011 | ₱58,321,799 | ₱3,904,790 | ₱296,597,549 | ₱358,824,138 |

Movement in allowance for impairment losses account:

| | Receivables | Receivables from related parties | AFS financial assets | Total |
|---|---|---|---|---|
| At January 1, 2011 | ₱90,110,187 | ₱97,373,076 | ₱10,594,000 | ₱198,077,263 |
| Provision for the year | – | – | 60,000 | 60,000 |
| At December 31, 2011 | 90,110,187 | 97,373,076 | 10,654,000 | 198,137,263 |
| Provision for the year | – | – | – | – |
| At December 31, 2012 | ₱90,110,187 | ₱97,373,076 | ₱10,654,000 | ₱198,137,263 |

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱0.06 million and ₱0.02 million in 2011 and 2010, respectively. There was no impairment losses provision in 2012.

*Liquidity Risk*

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due and this is done by primarily investing in highly liquid investments and maintaining a significant amount of cash and cash equivalents and pre-terminable investments in its portfolio.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2012 and 2011 based on contractual undiscounted cash flows. The table also analyzes the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

**2012**

| | **On demand** | **< 1 year** | **> 1 year** | **Total** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Cash and cash equivalents** | **₱11,401,614** | **₱1,036,133,379** | **₱–** | **₱1,047,534,993** |
| **Receivables** | **64,244,523** | – | – | **64,244,523** |
| **Receivables from related parties** | – | – | **3,860,514** | **3,860,514** |
| **Financial assets at FVPL** | **59,176,111** | – | – | **59,176,111** |
| **AFS financial assets** | **344,573,336** | **500,000** | **500,000** | **345,573,336** |
| **Total financial assets** | **479,395,584** | **1,036,633,379** | **4,360,514** | **1,520,389,477** |
| **Financial liabilities:** | | | | |
| **Accounts payable and accrued expenses** | **1,602,366** | – | – | **1,602,366** |
| **Dividends payable** | **679,970** | – | – | **679,970** |
| **Total financial liabilities** | **2,282,336** | – | – | **2,282,336** |
| | **₱477,113,248** | **₱1,036,633,379** | **₱4,360,514** | **₱1,518,107,141** |

2011

| | On demand | < 1 year | > 1 year | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and cash equivalents | ₱12,187,204 | ₱1,030,016,493 | ₱– | ₱1,042,203,697 |
| Receivables | 58,321,799 | – | – | 58,321,799 |
| Receivables from related parties | – | – | 3,904,790 | 3,904,790 |
| Financial assets at FVPL | 52,372,641 | – | – | 52,372,641 |
| AFS financial assets | 296,597,549 | – | 1,000,000 | 297,597,549 |
| Total financial assets | 419,479,193 | 1,030,016,493 | 4,904,790 | 1,454,400,476 |
| Financial liabilities: | | | | |
| Accounts payable and accrued expenses | 2,738,137 | – | – | 2,738,137 |
| Dividends payable | 299,484 | – | – | 299,484 |
| Total financial liabilities | 3,037,621 | – | – | 3,037,621 |
| | ₱416,441,572 | ₱1,030,016,493 | ₱4,904,790 | ₱1,451,362,855 |

Market Risks
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group derives majority of its revenue from interest-bearing placements and bonds. Accordingly, the Group is subject to financial risk arising from changes in interest rates. The Group manages interest rate risk by investing mainly on fixed coupon bonds and other investments. By doing so, the Group is assured of future interest revenues from such investments.

Since the Group invests on fixed coupon interest bonds and other investments, the Group is not exposed significantly to cash flow interest rate risk.

The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's equity due to changes in fair values of AFS financial assets in debt securities (see Note 9):

| | **2012** | 2011 |
|---|---|---|
| Change in interest rate (in basis points) | | |
| +10% | **₱535,122** | ₱28,132,693 |
| –10% | **(535,122)** | (28,132,693) |

b. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign currencies.

In the normal course of business, the Group enters into transactions denominated in US dollar and other foreign currencies. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent as of December 31 are as follows:

US Dollar:

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| Cash and cash equivalents | **$615,215** | **₱25,254,576** | $859,264 | ₱37,670,134 |
| Receivables | **257,131** | **10,555,228** | 92,374 | 4,049,676 |
| Financial assets at FVPL | **396,749** | **16,286,546** | 228,710 | 10,026,646 |
| AFS financial assets | **4,826,854** | **198,142,357** | 3,908,280 | 171,338,995 |
| Other noncurrent assets | **250,000** | **10,262,500** | 250,000 | 10,960,000 |
| | **$6,345,949** | **₱260,501,207** | $5,338,628 | ₱234,045,451 |

The exchange rate of the Philippine peso vis-à-vis the US dollar is ₱41.05 and ₱43.84 as of December 31, 2012 and 2011, respectively.

Other Foreign Currencies:

| | **2012** | | | |
|---|---|---|---|---|
| | **Currency** | **Exchange Rate** | **Original Currency** | **Peso Equivalent** |
| Cash and cash equivalents | **EUR** | **54.53** | **–** | **₱–** |
| | **HKD** | **5.31** | **26,629** | **141,400** |
| | **AUD** | **42.67** | **3,750** | **160,013** |
| AFS financial assets | **EUR** | **54.53** | **197,063** | **10,745,845** |
| | **HKD** | **5.31** | **2,425,500** | **12,879,405** |
| | **AUD** | **42.67** | **97,526** | **4,161,434** |
| | **BRL** | **20.02** | **916,595** | **18,350,232** |
| | **TRY** | **22.9** | **594,236** | **13,608,004** |
| | **RMB** | **6.57** | **5,025,260** | **33,015,958** |
| | **SGD** | **33.62** | **269,165** | **9,049,327** |
| Financial assets at FVPL | **HKD** | **5.31** | **594,000** | **3,154,140** |
| | | | | **₱105,265,758** |

| | 2011 | | | |
|---|---|---|---|---|
| | Currency | Exchange Rate | Original Currency | Peso Equivalent |
| Cash and cash equivalents | EUR | 56.84 | 10,897 | ₱619,385 |
| | HKD | 5.65 | 26,226 | 148,177 |
| | AUD | 44.32 | 3,750 | 166,200 |
| AFS financial assets | EUR | 56.84 | 168,102 | 9,554,918 |
| | HKD | 5.65 | 1,951,500 | 11,025,975 |
| | AUD | 44.32 | 73,682 | 3,265,586 |
| | BRL | 23.30 | 831,965 | 19,384,785 |
| | TRY | 22.94 | 300,992 | 6,904,756 |
| | RMB | 6.94 | 3,231,000 | 22,423,140 |
| Financial assets at FVPL | HKD | 5.65 | 666,000 | 3,762,900 |
| | | | | ₱77,255,822 |

The Group has no foreign currency denominated monetary liabilities as of December 31, 2012 and 2011.

As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses amounting to ₱5.8 million and ₱11.6 million in 2012 and 2011, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies exchange rates based on past foreign currencies exchange rates and macroeconomic forecasts for 2011, with all other variables held constant, of the Group's 2012 and 2011 income before income tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

| | | Effect on income before tax | |
|---|---|---|---|
| Original Currency | Percentage | Strengthened | Weakened |
| **2012** | | | |
| **US dollar** | **5%** | **₱13,025,058** | **(₱13,025,058)** |
| **Hongkong dollar (HKD)** | **5%** | **808,747** | **(808,747)** |
| **E.M.U euro (EUR)** | **5%** | **537,292** | **(537,292)** |
| **Australia dollar (AUD)** | **5%** | **216,072** | **(216,072)** |

(Forward)

| | | Effect on income before tax | |
|---|---|---|---|
| Original Currency | Percentage | Strengthened | Weakened |
| **Brazil real (BRL)** | **5%** | **₱917,512** | **(₱917,512)** |
| **Turkish lira (TRY)** | **5%** | **680,400** | **(680,400)** |
| **Chinese yuan (RMB)** | **5%** | **1,663,636** | **(1,663,636)** |
| **Singapore dollar (SGD)** | **5%** | **452,466** | **(452,466)** |

| | | Effect on income before tax | |
|---|---|---|---|
| Original Currency | Percentage | Strengthened | Weakened |
| 2011 | | | |
| US dollar | 5% | ₱11,702,273 | (₱11,702,273) |
| Hongkong dollar (HKD) | 5% | 746,853 | (746,853) |
| E.M.U euro (EUR) | 5% | 508,715 | (508,715) |
| Australia dollar (AUD) | 5% | 171,589 | (171,589) |
| Brazil real (BRL) | 5% | 969,239 | (969,239) |
| Turkish lira (TRY) | 5% | 345,238 | (345,238) |
| Chinese yuan (RMB) | 5% | 1,121,157 | (1,121,157) |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

c. 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 the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's financial assets at FVPL and investments in AFS equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Group measures the sensitivity of its equity securities by using PSE, NYSE and HKEx indices fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2012 and 2011, with all other variables held constant, of the Group's income before income tax and equity:

*Effect on income before income tax:*

| | **2012** | 2011 |
|---|---|---|
| *Financial assets at FVPL*: | | |
| Change in stock market index (%) | | |
| +10% | **₱4,215,229** | ₱5,237,053 |
| –10% | **(4,215,229)** | (5,237,053) |

*Effect on equity:*

| | **2012** | 2011 |
|---|---|---|
| *Investment in equity securities (AFS)*: | | |
| Change in club share prices (%) | | |
| +10% | **₱50,000** | ₱284,150 |
| –10% | **(50,000)** | (284,150) |

## 22. **Financial Instruments**

Categories of Financial Instruments

**2012**

| | **Financial assets** | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Financial assets at FVPL** | **AFS financial assets** | **Total** |
| **ASSETS** | | | | |
| **Current:** | | | | |
| **Cash and cash equivalents** | **₱1,047,543,993** | **₱–** | **₱–** | **₱1,047,543,993** |
| **Listed debt securities** | – | **–** | **23,390,100** | **23,390,100** |
| **Listed equity securities** | – | **59,176,111** | **–** | **59,176,111** |
| **Receivables** | **166,764,003** | **–** | **–** | **166,764,003** |

(Forward)

| | Financial assets | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Financial assets at FVPL** | **AFS financial assets** | **Total** |
| **Noncurrent:** | | | | |
| **Receivable from related parties** | **₱3,860,514** | **₱–** | **₱–** | **₱3,860,514** |
| **Fixed income deposits** | **1,000,000** | **–** | **–** | **1,000,000** |
| **Investment in LLP** | – | **–** | **10,262,500** | **10,262,500** |
| **Listed debt securities** | – | **–** | **311,955,148** | **311,955,148** |
| **Listed equity securities** | – | **–** | **9,228,088** | **9,228,088** |
| **TOTAL** | **₱1,219,168,510** | **₱59,176,111** | **₱354,835,836** | **₱1,633,180,457** |

2011

| | Financial assets | | | |
|---|---|---|---|---|
| | Loans and receivables | Financial assets at FVPL | AFS financial assets | Total |
| ASSETS | | | | |
| Current: | | | | |
| Cash and cash equivalents | ₱1,042,203,697 | ₱– | ₱– | ₱1,042,203,697 |
| Listed debt securities | – | – | 12,275,200 | 12,275,200 |
| Listed equity securities | – | 52,372,641 | – | 52,372,641 |
| Receivables | 58,321,799 | – | – | 58,321,799 |
| Noncurrent: | | | | |
| Receivable from related parties | 3,904,790 | – | – | 3,904,790 |
| Fixed income deposits | 1,000,000 | – | – | 1,000,000 |
| Investment in LLP | – | – | 10,960,000 | 10,960,000 |
| Listed debt securities | – | – | 269,051,727 | 269,051,727 |
| Listed equity securities | – | – | 15,270,622 | 15,270,622 |
| TOTAL | ₱1,105,430,286 | ₱52,372,641 | ₱307,557,549 | ₱1,465,360,476 |

**2012**

| | **Other financial liabilities** | **Total** |
|---|---|---|
| **LIABILITIES** | | |
| **Current:** | | |
| **Accounts payable and accrued expenses:** | | |
| **Deposits payable** | **₱1,193,714** | **₱1,193,714** |
| **Accounts payable** | **1,403,857** | **1,403,857** |
| **Accrued expenses** | **650,619** | **650,619** |
| **Dividends payable** | **679,970** | **679,970** |
| **TOTAL** | **₱3,928,160** | **₱3,928,160** |

2011

| | Other financial liabilities | Total |
|---|---|---|
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accrued expenses: | | |
| Deposits payable | ₱1,170,028 | ₱1,170,028 |
| Accounts payable | 968,951 | 968,951 |
| Accrued expenses | 599,158 | 599,158 |
| Dividends payable | 299,484 | 299,484 |
| TOTAL | ₱3,037,621 | ₱3,037,621 |

Fair Values
The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, reasonably approximate their fair values because these are short-term in nature or the fair value difference is not material. Financial assets at FVPL and AFS financial assets are stated at their fair values based on quoted prices.

Short-term investments are fixed-rate time deposits denominated in US dollar with a maturity of over three months but within one year from the reporting date and earn annual interest of 2.4% to 4.0% in 2012 and 2011. The carrying value of short-term investments approximates its fair value due to its short-term nature.

Fixed income deposits represent fixed rate time deposits denominated in US dollar and earn interest annually at 3.25% to 10.0% in 2010. For fixed income deposits maturing within one year, the carrying amount approximates its fair value due to its short-term nature. For fixed income deposits maturing beyond one year, fair value is calculated by computing the present value of future cash flows using current market rates ranging from 8% to 10% in 2012 and 6.8% to 8.1% in 2011.

The fair value of receivables from related parties classified as noncurrent in the consolidated statements of financial position is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2012 and 2011.

The following table shows financial instruments recognized at fair value, analyzed between those whose fair value is based on:
- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The Group's financial asset at FVPL and AFS financial assets, except for investment in LLP, as of December 31, 2012 and 2011 are measured under level 1 of the fair value hierarchy.

As of December 31, 2012 and 2011, there were no transfers between Level 1 and Level 2 fair value measurements. Also, there were no transfers into and out of Level 3 fair value measurements.

## 23. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure, which pertains to its equity, and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2012 and 2011. The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is computed as net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio below 40%. The Group includes, within net debt, accounts payable and accrued expenses and payables to related parties, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less unrealized losses on changes in fair value of AFS financial assets.

| | **2012** | 2011 |
|---|---|---|
| Accounts payable and accrued expenses | **₱3,248,190** | ₱2,960,440 |
| Less cash and cash equivalents | **1,047,543,993** | 1,042,203,697 |
| Net debt | **(1,044,295,803)** | (1,039,243,257) |
| Equity attributable to equity holders of the parent | **1,685,809,151** | 1,599,464,673 |
| Unrealized losses on changes in fair value of AFS financial assets | **913,522** | 17,625,131 |
| Total capital | **1,686,722,673** | 1,617,089,804 |
| Total capital and net debt | **₱642,426,870** | ₱577,846,547 |
| | | |
| Gearing ratio | **1.62:1** | 1.79. :1 |

## 24. Note to Consolidated Statements of Cash Flows

In 2011, the non-cash activities of the Group pertain to application of MCIT and set-up of provision for legal obligation.

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1226 Makati City
Philippines

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Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001,
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

**INDEPENDENT AUDITORS' REPORT**
**ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
F & J Prince Holdings Corporation
5th Floor, Citibank Center Building
8741 Paseo de Roxas corner Villar Street
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of F & J Prince Holdings Corporation and its subsidiaries as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A and have issued our report thereon dated April 12, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-A (Group A),
March 15, 2012, valid until March 14, 2015
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2012,
January 11, 2012, valid until January 10, 2015
PTR No. 3670038, January 2, 2013, Makati City

April 12, 2013

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
## INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

## F & J PRINCE HOLDINGS CORPORATION

## SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

### DECEMBER 31, 2012

| | |
|---|---|
| **Retained Earnings, beginning** | ₱128,086,140 |
| *Adjustment:* | |
| Unrealized foreign exchange gain net of effect on cash and cash equivalents | (200,183) |
| Fair value adjustment (Marked to Market gains) | (21,840,961) |
| **Retained Earnings, as adjusted, beginning** | 106,044,996 |
| **Net income based on the face of the Audited Financial Statements** | 181,977,079 |
| *Less: Non-actual/unrealized income net of tax* | |
| Fair value adjustment (Marked to Market gains) | (2,725,667) |
| **Net income actual/realized** | 179,251,412 |
| *Less:* | |
| Dividend declaration | (57,819,319) |
| **Retained earnings and total retained earnings available for dividend declaration, end** | ₱227,477,089 |

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

## SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

**DECEMBER 31, 2012**

The table below presents the list of Philippine Financial Reporting Standards (PFRS) [which consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2012:

| **PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS**<br>**Effective as of December 31, 2012** | | **Adopted** | **Not Adopted** | **Not Applicable** |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>Conceptual Framework Phase A: Objectives and qualitative characteristics | | | | |
| **PFRS Practice Statement Management Commentary** | | | | |
| **Philippine Financial Reporting Standards** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | | | ✓ |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | | Not early adopted | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | Not early adopted | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments | | Not early adopted | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | | Not early adopted | |
| **PFRS 10** | Consolidated Financial Statements | | Not early adopted | |
| **PFRS 11** | Joint Arrangements | | Not early adopted | |
| **PFRS 12** | Disclosure of Interests in Other Entities | | Not early adopted | |
| **PFRS 13** | Fair Value Measurement | | Not early adopted | |
| **Philippine Accounting Standards** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendment to PAS 1: Capital Disclosures | | | ✓ |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | | Not early adopted | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | | | ✓ |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | | | ✓ |
| PAS 19 (Amended) | Employee Benefits | | Not early adopted | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | | | ✓ |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | | Not early adopted | |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | | Not early adopted | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 31 | Interests in Joint Ventures | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | | Not early adopted | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | | | ✓ |
| PAS 36 | Impairment of Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | | | ✓ |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | | | ✓ |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | *Determining Whether an Arrangement Contains a Lease* | | | ✓ |
| **IFRIC 5** | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| **IFRIC 6** | *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment* | | | ✓ |
| **IFRIC 7** | *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies* | | | ✓ |
| **IFRIC 8** | *Scope of PFRS 2* | | | ✓ |
| **IFRIC 9** | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | | | ✓ |
| **IFRIC 10** | *Interim Financial Reporting and Impairment* | | | ✓ |
| **IFRIC 11** | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | | | ✓ |
| **IFRIC 14** | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| **IFRIC 16** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2012 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 18** | Transfers of Assets from Customers | | | ✓ |
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-12** | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| **SIC-15** | Operating Leases - Incentives | | | ✓ |
| **SIC-21** | Income Taxes - Recovery of Revalued Non-Depreciable Assets | | | ✓ |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures. | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services | | | ✓ |
| **SIC-32** | Intangible Assets - Web Site Costs | | | ✓ |

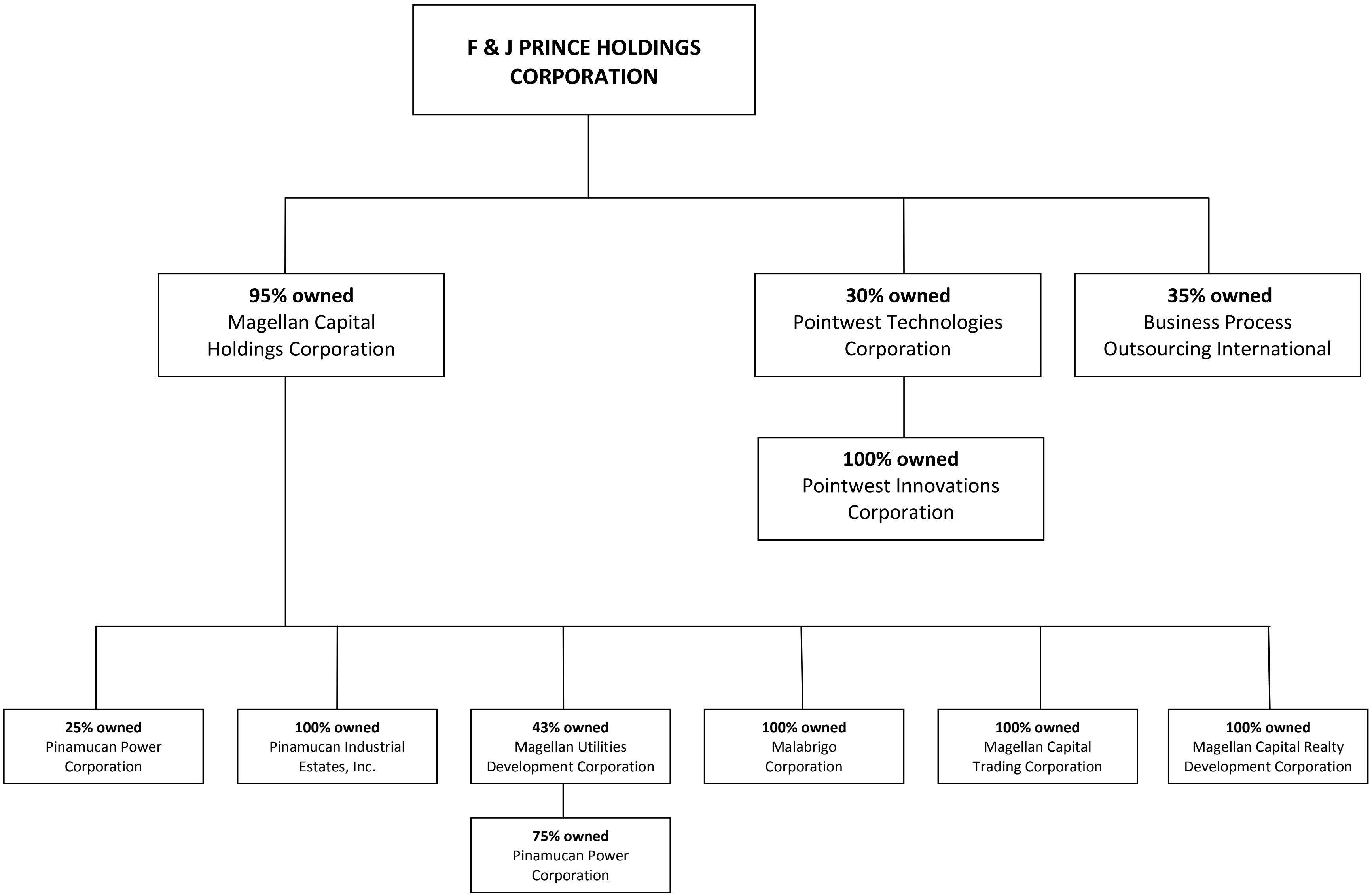
*F & J Prince Holdings Corporation*

## KEY RATIOS

| | | December 2011 | December 2012 |
|---|---|---|---|
| **LIQUIDITY RATIOS** | | | |
| Current ratio | <u>Current assets</u><br>Current liabilities | 105 | 121 |
| Acid test ratio | Cash + Marketable Securities +<br>Accounts Receivables +<br><u>Other Liquid Assets</u><br>Current liabilities | 103 | 112 |
| **SOLVENCY RATIOS** | | | |
| Debt to equity ratio | <u>Total liabilities</u><br>Total equity | .009 | 0.006 |
| Asset to equity ratio | <u>Total assets</u><br>Total equity | 1.01 | 1.01 |
| Net debt to equity ratio | <u>Debt-cash & cash equivalents</u><br>Total equity | 0 | 0 |
| Gearing ratio | <u>Debt-cash & cash equivalents</u><br>Total equity + (Debt – cash & cash equivalents) | 0 | 0 |
| Interest coverage ratio [1] | <u>EBIT</u><br>Interest expense | N.A. | N.A. |
| **PROFITABILITY RATIOS** | | | |
| Operating Margin | <u>Operating Profit</u><br>Total revenues | 70.5% | 81.2% |
| Return on Equity | <u>Net income after tax</u><br>Total equity | 41.1% | 6.8% |

[1] No interest expense

# SCHEDULE OF SUBSIDIARIES AND ASSOCIATES



*F & J Prince Holdings Corporation*

# 2013
# First Quarter
# Unaudited Financial Report

# PART I
# FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

The following financial statements, presented in a comparative format, are submitted:

(1) Unaudited Consolidated Interim Balance Sheet as of 31 March 2013 and Audited Consolidated Balance Sheet as of 31 December 2012as Annex "A";

(2) Unaudited Interim Statement of Income and Retained Earnings for the three (3) month period ending 31 March 2013 and the three (3) month period ending 31 March 2012 as Annex "B";

(3) Unaudited Interim Statement of Changes in Stockholders' Equity for the three (3) months ending 31 March 2013 and 2012 and Audited Statement of Changes in Stockholders' Equity for the year ending 31 December 2012 as Annex "C";

(4) Unaudited Interim Cash Flow Statement for the three (3) month period ending 31 March 2013 and the three (3) month period ending 31 March 2012 as Annex "D";

(5) Interim Cash Flow for the quarterly periods ending 30 June and 30 September 2012, Audited Cash Flow Statement for the year ended 31 December 2012 as Annex "E";

(6) Consolidated Balance Sheet as of 31 March 2013 and 31 December 2012 with vertical and horizontal percentage analysis as Annex "F".

## ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### (1) Management's Discussion and Analysis

The Registrant's consolidated total revenue increased by 29% in 2012 to ₱158.5 million from ₱122.8 million in 2011. This does not include the extraordinary income after tax of ₱610.3 million derived in 2011 from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Part of the increase in revenue was accounted for by the 35% increase in interest income from ₱51.4 million in 2011 to ₱69.3 million in 2012. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 24.5% to ₱77.7 million in 2012 from ₱62.4 million in 2011 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱6.7 million in 2012 from ₱3.4 million in 2011 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been setting record highs. Rental income also increased slightly to ₱3.5 million in 2012 from ₱3.2 million in 2011. Dividend income increased slightly to ₱1.0 million in 2012 from ₱0.9 million in 2011.

Total consolidated expenses of the Registrant was lower at ₱29.7 million in 2012 compared to ₱36.2 million in 2011. Unrealized foreign exchange losses of ₱5.8 million in 2012 was lower than the ₱11.6 million in 2011. In addition, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits also increased 2011 expenses. These two items account for the bulk in reduction of operating expenses in 2012. Labor expense increased due to MCHC absorbing the staff of MUDC in preparation for dissolution of MUDC.

As a result of the above, total consolidated income before tax from continuing operation in 2012 totalled ₱128.8 million, an improvement of 49% over the ₱86.6 million in 2011. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱118.9 million in 2012, a 50% improvement over the ₱78.9 million in 2011.

However, in 2011, the Registrant also had an extraordinary income of ₱610.3 million after tax from the sale of the BAID shares which increased net income after tax to ₱689.1 million for 2011.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱2.4 million in 2012 compared to ₱31.3 million in 2011.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2012, the Registrant's consolidated cash and cash equivalent totaled over ₱1.047 billion slightly higher than the level of ₱1.042 billion as of December 31, 2011. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱14.7 million compared to total equity of ₱1.8 billion as of the end of 2012.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2012 totalled ₱1,047 million compared to ₱1,042 million at the end of 2011 while total current assets totalled ₱1.2 billion at year-end 2012 compared to ₱1.17 billion at year-end 2011. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

**(a) Operating Results and Financial Condition for the First Quarter of 2013**

(i) There are no known trends, demands, events or uncertainties that would have a material effect on the Issuer's liquidity.

(ii) There are no known or anticipated events that would trigger direct or contingent financial obligation that is material to the Company including any default or acceleration of any obligation.

(iii) There are no material off-balance sheet transaction, arrangements, obligations (including contingent obligations) and other relationship of the Company with unconsolidated entities or other persons created during first quarter of 2012 or in prior periods.

(iv) There are no material commitments for capital expenditures, by the Company or its majority owned subsidiary.

(v) There are no trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable impact on net revenues/income from continuing operations except for possible unrealized or realized foreign exchange gains from the dollar denominated investments of the Company and its majority owned subsidiary. These are generally recognized in the year-end Audited Financial Statements except for realized foreign exchange gain which are reported in the period realized.

(vi) The Company did not realize any non-operating income in the first quarter of 2013 or in the first quarter of 2012 aside from unrealized gains on trading securities and gains on disposal of AFS/HTM investments.

The following is a detailed discussion of the Registrant's operations and financial condition during the first quarter of 2013 and first quarter of 2012.

**Operating Results**

Breakdown of Revenue for the Three Month Periods Ending March 31, 2013 and March 31, 2012 with Vertical and Horizontal Percentage Analysis:

| **(P000)** | **FIRST QUARTER MARCH 31, 2013** | **VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2013** | **FIRST QUARTER MARCH 31, 2012** | **VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2012** | **INCREASE (DECREASE) AMOUNT MARCH 31, 2013** | **INCREASE (DECREASE) PERCENTAGE MARCH 31, 2013** |
|---|---|---|---|---|---|---|
| INTEREST INCOME | | | | | | |
| From Banks | ₱ 6,208 | 31.8% | 9,024 | 34.3% | ₱ (2,816) | (31.2%) |
| From Securities | 6,272 | 32.1% | 6,819 | 26.0% | (547) | (8.01%) |
| **TOTAL** | 12,480 | **63.9%** | **15,843** | **60.3%** | **(3,363)** | **(21.2%)** |
| Dividend Income | 20 | 0.1% | 68 | 0.3% | (48) | (70.5%) |
| Rent Income | 944 | 4.8% | 876 | 3.3% | 68 | 7.8% |
| Unrealized Gain on Trading Securities | 5,478 | 28.1% | 9,487 | 36.1% | (4,009) | (42.2%) |
| Gains on Disposal of AFS/HTM | 610 | 3.1% | - | - | 610 | - |
| **TOTAL** | **₱19,532** | **100%** | **₱ 26,276** | **100%** | **(₱ 6,744)** | **(25.7%)** |

***Revenues.*** Consolidated Revenues, during the 3 month period ended March 31, 2013, totaled ₱19.5 million compared to the ₱26.3 million during the same 3 month period in 2012 or a decrease of 25.7%. The lower revenue was mainly due to lower interest income which decreased by ₱3.4 million or 21% lower than the interest income in the first quarter of 2012 and to unrealized gain on trading securities which decreased by ₱4.0 million or 42.2% lower than in the first quarter of 2012. The lower interest income was due to lower interest rates on bank deposits and Short Term Investments. Increase in the prices of listed equities owned by the Registrant and its subsidiaries was at a lower rate in the first quarter of 2013 compared to the first quarter of 2012.

***Expenses.*** Consolidated General and Administrative Expenses in the first quarter of 2013 totaled ₱5.2 million which was lower than the ₱7.1 million in the first quarter of 2013. Lower taxes and licenses accounted for most of the decrease.

***Operating Income.*** As a result of the factors discussed above, consolidated operating income in first quarter 2013 totaled ₱14.3 million compared to a ₱19.2 million net income in the same period of 2012.

***Net Income***. Net income totaled ₱14.3 million during the first quarter of 2013 compared to net income of ₱19.2 million in the first quarter of 2012. The net income in the first quarter of 2013 attributable to shareholders of the Company totaled ₱13.8 million while ₱0.6 million net income was attributable to minority shareholders in the company's majority owned subsidiary Magellan Capital Holdings Corporation. In the first quarter of 2012, ₱18.5 million net income was attributable to shareholders of the company and ₱0.6 million attributable to minority shareholders in the Registrant's subsidiary.

**BALANCE SHEET ACCOUNTS**

Annex "F" shows the Vertical and Horizontal Percentage Analysis of Balance Sheet Account for March 31, 2013 compared to December 31, 2012.

## ASSETS

***Current Assets***. Consolidated current assets as of March 31, 2013 totaled ₱1,216.8 million compared to ₱1,199.9 million as of December 31, 2012. Most of the increase was due to the increase of cash and cash equivalents.

***Receivables from Related Parties.*** This account stayed level at ₱3.9 million at March 31, 2013, the same level as at year-end 2012.

***Investments in Associates***. This account which consists of investment in Pointwest Technologies Corporation and BPO International, Inc. remained unchanged from year-end 2012 to March 31, 2013 at ₱163.5 million as equity in net earnings of associates are taken up at year-end.

***Available for Sale Investments***. This account which consists mostly of corporate bonds increased to ₱324.4 million as of March 31, 2013 from ₱321.2 million at year-end 2012 due to improvement in bond prices.

***Property And Equipment***. This account totaled ₱28.4 million as of March 31, 2013 compared to ₱28.7 million as of December 31, 2012 due to allowance for depreciation in the first quarter of 2013.

***Investment in Property***. This Account remained unchanged at ₱46.3 million from year-end 2012 to March 31, 2013.

***Other Non-Current Assets***. This account totaled ₱11.0 million as of March 31, 2013, slightly lower than the ₱11.6 million at year end.

***Total Assets***. As a result of the foregoing, total assets increased to ₱1,794.3 million as of March 31, 2013 from ₱1,774.9 million as of December 31, 2012.

## LIABILITIES AND EQUITY

***Current Liabilities.*** Current liabilities was at ₱9.8 million as of March 31, 2013 compared to ₱9.9 million at year-end 2012.

***Non-Current Liabilities.*** Non-current liabilities which consists mostly of retirement benefits obligation was stable at ₱4.8 million as of March 31, 2013, the same level as at year-end 2012. The accrual of additional retirement benefit obligation is taken up at year-end based on actuarial studies commissioned at that time.

***Stockholder's Equity.*** Total stockholder's equity increased to ₱1,779.8 million as of March 31, 2013 from ₱1,760.3 million at year-end 2012 due to the comprehensive net income of ₱19.5 million generated in the first quarter of 2013. Total equity attributable to stockholders of the company totaled ₱1,704.7 million at March 31, 2013 from ₱1,685.8 million at December 31, 2012 due to the comprehensive income of ₱18.5 million attributable to stockholders of the company. In the first quarter of 2013, minority interest which represents the share of minority shareholders of Magellan Capital Holdings Corporation was ₱75.1 million at March 31, 2013 compared to ₱74.5 million at December 31, 2012 due to their share of comprehensive earnings generated in the first quarter of 2013 of ₱0.6 million.

**(a) Top Performance Indicators**

The top five (5) performance indicators for the Company and its Subsidiary are as follows:

1) Change in revenues
2) Change in net income
3) Earnings per share
4) Current ratio
5) Book Value per share

***Change in Revenues***. Consolidated revenues in the first quarter of 2013 and 2012 are shown in Annex "B" and presented below in summary form:

| (P 000) | 1st Quarter-2013 | Percentage (%) | 1st Quarter-2012 | Percentage (%) |
|---|---|---|---|---|
| Interest Income | ₱ 12,480 | 63.9% | ₱ 15,844 | 60.3% |
| Lease Rental Income | 944 | 4.8% | 877 | 3.3% |
| Dividend Income | 20 | 0.1% | 68 | 0.3% |
| Unrealized Gain on trading securities | 5,478 | 28.1% | 9,487 | 36.1% |
| Gain on Disposal/Redemption of AFS/HTM Investments | 610 | 3.1% | - | - |
| **Total Income** | **₱ 19,532** | **100%** | **₱ 26,276** | **100%** |

Total revenue decreased in the first quarter of 2013 to ₱19.5 million from ₱26.3 million in the first quarter of 2012. Lower interest income and lower unrealized gain on trading securities accounted for most of the decrease.

***Change in Net Income.*** The income statement in the first quarter of 2013 and 2012 are shown in Annex "B" and summarized below:

| (P 000) | 1st Quarter-2013 | Percentage (%) | 1st Quarter-2012 | Percentage (%) |
|---|---|---|---|---|
| Revenues | ₱ 19,532 | 100% | ₱ 26,276 | 100% |
| Expenses | 5,209 | 26.7% | 7,123 | 27.1% |
| Net Income | 14,323 | 73.3% | 19,153 | 72.9% |
| Attributable to: | | | | |
| - Minority Interest | 578 | 2.9% | 643 | 2.4% |
| - Stockholders of Company | ₱ 13,745 | 70.4% | ₱ 18,510 | 70.5% |

The Registrant realized a net income of ₱14.3 million in the first quarter of 2013 compared to ₱19.2 million in the first quarter of 2012. Net income of ₱13.8 million was attributable to stockholders of the company in the first quarter of 2013 compared to ₱18.5 million in the first quarter of 2012.

***Earnings Per Share.*** The net income per share attributable to shareholders of the Company during the first quarter of 2013 was ₱0.036 per share compared to net income per share of ₱0.048 in the first quarter of 2012 due to the decrease in net income generated in the first quarter of 2013.

***Current Ratio.*** Current ratio as of March 31, 2013 was 124 X compared to 121 X as of December 31, 2012. The increase was due mainly to the increase in cash and cash equivalents.

***Book Value Per Share.*** Book value per share as of March 31, 2013 was ₱4.43 per share compared to ₱4.38 as of December 31, 2012 due to the comprehensive income attributable to stockholders of the company realized in the first quarter of 2013.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Issuer** ........ *F & J Prince Holdings Corporation* ........

**Principal Executive Officer**

Signature and Title ........ **ROBERT Y. COKENG, President** ........

Date ........ **15 May 2013** ........

**Principal Financial/Accounting Officer/Controller**

Signature and Title........ **JOHNSON U. CO, Vice President and Treasurer** ........

Date ........ **15 May 2013** ........

My Docs>F&J>2013 Files>SEC Form 17Q>
1st Quarter>1ST Quarter 31 March 2013

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEET**
**AS OF MARCH 31, 2013 AND DECEMBER 31, 2012**



| ASSETS | | UNAUDITED MARCH 31, 2013 | | AUDITED DEC. 31,2012 |
|---|---|---|---|---|
| *Current Assets* | | | | |
| Cash and cash equivalents | P | **1,073,565,173** | P | **1,047,543,993** |
| Financial assets at fair value through profit or loss | | **64,653,662** | | **59,176,111** |
| Convertible note receivable | | **10,262,500** | | 0 |
| Receivables-net : | | | | |
| Advances to Officers & Employees | | 0 | | 1,500 |
| Creditable Withheld Taxes | | 45,216 | | 0 |
| Dividends Receivable | | 37,125,032 | | 55,416,032 |
| Accounts Receivable | | 400,843 | | 327,945 |
| Management Fee Receivable | | 45,197,865 | | 45,197,865 |
| Accrued Interest Receivable | | 43,753,772 | | 43,753,772 |
| Others | | 10,605,373 | | 9,657,596 |
| Total Receivables | | **137,128,101** | | **154,354,710** |
| Allowance for doubtful accounts | | 90,110,187 | | 90,110,187 |
| **Total Receivables-Net** | | **47,017,914** | | **64,244,523** |
| Fixed income deposits | | **0** | | **0** |
| Current portion of AFS financial assets | | **15,710,100** | | **23,390,100** |
| **Prepaid expenses & other current assets:** | | | | |
| Input Tax | | 3,306,532 | | 3,279,561 |
| Prepaid Income Tax | | 400,000 | | 400,000 |
| Others | | 1,902,771 | | 1,895,735 |
| **Total Prepaid expenses and other current assets** | | **5,609,303** | | **5,575,296** |
| ***Total Current Assets*** | P | **1,216,818,652** | P | **1,199,930,023** |
| ***Non-current Assets*** | | | | |
| **Receivables from related parties-net** | | **3,901,612** | | **3,860,514** |
| **Investments in associates** | | **163,467,780** | | **163,467,780** |
| **Fixed income deposits** | | **0** | | **0** |
| **Available-for-sale (AFS) investments–net of current portion** | | **324,429,678** | | **321,183,236** |
| **Investment in property** | | **46,319,625** | | **46,319,625** |
| **Property and Equipment** | | | | |
| Building | | 47,014,750 | | 47,014,750 |
| Building Improvements | | 8,058,590 | | 8,058,590 |
| Transportation equipment | | 7,832,584 | | 7,832,584 |
| Furniture and fixtures | | 2,732,637 | | 2,732,637 |
| Total | | 65,638,561 | | 65,638,561 |
| Less: Accumulated depreciation | | 37,245,761 | | 36,985,360 |
| Net Book Value | | 28,392,800 | | 28,653,201 |
| **Total Property and Equipment** | | **28,392,800** | | **28,653,201** |
| **Other non-current assets** | | **10,988,608** | | **11,567,925** |
| ***Total Non-Current Assets*** | | **577,500,103** | | **575,052,281** |
| TOTAL ASSETS | P | **1,794,318,755** | P | **1,774,982,304** |

| LIABILITIES & STOCKHOLDERS' EQUITY | | UNAUDITED MARCH 31, 2013 | | AUDITED DEC. 31, 2012 |
|---|---|---|---|---|
| ***Current Liabilities*** | | | | |
| Accounts Payable and accrued expenses | | | | |
| Accounts payable-trade | | 6,395 | | 0 |
| Accounts payable-others | | 735,509 | | 974,058 |
| Withholding taxes payable | | 203,999 | | 404,084 |
| SSS Premium Payable | | 16,683 | | 17,490 |
| HDMF Premium Payable | | 2,400 | | 2,400 |
| Philhealth Premium Payable | | 6,200 | | 5,825 |
| Deposit Payable | | 1,588,122 | | 1,193,714 |
| Output Vat Payable | | 39,571 | | 0 |
| Accrued expenses | | 499,812 | | 650,619 |
| | | | | |
| **Total Accounts payable and accrued expenses** | P | **3,098,691** | P | **3,248,190** |
| Dividends Payable | | **679,970** | | **679,970** |
| Income Tax Payable | | **968,515** | | **968,515** |
| Provision for legal obligation | | **5,000,000** | | **5,000,000** |
| ***Total Current Liabilities*** | P | **9,747,176** | P | **9,896,675** |
| | | | | |
| ***Non-Current Liabilities*** | | | | |
| Deferred income tax liabilities-net | | **0** | | **0** |
| Payable to related parties | | **0** | | **0** |
| Retirement benefit obligation) | | **4,798,779** | | **4,798,779** |
| ***Total Non-Current Liabilities*** | | **4,798,779** | | **4,798,779** |
| | | | | |
| ***Stockholders' Equity*** | | | | |
| | | | | |
| Capital stock | | **481,827,653** | | **481,827,653** |
| Additional paid in capital | | **144,759,977** | | **144,759,977** |
| Treasury shares | | **(96,400,447)** | | **(96,400,447)** |
| Other Reserves | | **4,249,558** | | **(913,522)** |
| Retained earnings | | **1,170,280,622** | | **1,156,535,490** |
| **Total Equity Attributable to Stockholders of the Company** | | **1,704,717,363** | | **1,685,809,151** |
| **Minority Interest** | | **75,055,437** | | **74,477,699** |
| **Total Stockholders' Equity** | | **1,779,772,800** | | **1,760,286,850** |
| **TOTAL LIABILITIES & STOCKHOLDERS' EQUITY** | P | **1,794,318,755** | P | **1,774,982,304** |

*See accompanying Notes to Consolidated Financial Statements*

**Prepared by:**

**ARSENIO T. LIAO**
**Accountant**

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2013 AND MARCH 31, 2012**

| | | UNAUDITED MARCH 31, 2013 | | UNAUDITED MARCH 31, 2012 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| **Interest Income** | | | | |
| From Banks | P | 6,207,566 | P | 9,024,476 |
| From Securities | | 6,272,200 | | 6,819,372 |
| **Total Interest Income** | | 12,479,766 | | 15,843,848 |
| **Unrealized gains on trading securities** | | 5,477,550 | | 9,486,708 |
| **Rental Income** | | 943,796 | | 876,695 |
| **Gains on disposal /redemption of AFS/HTM investments** | | 609,990 | | 0 |
| **Dividend Income** | | 20,430 | | 68,366 |
| **Net unrealized foreign exchange gain** | | 0 | | 0 |
| **Other income** | | 0 | | 0 |
| | P | 19,531,532 | P | 26,275,616 |
| **EXPENSES** | | | | |
| **Net foreign exchange loss** | | 740,724 | | 225,700 |
| **Amortization of unrealized losses on changes in fair value of AFS investments** | | 0 | | 0 |
| **Salaries, wages and employees' benefits** | | 2,222,247 | | 2,226,253 |
| **Depreciation** | | 260,399 | | 729,122 |
| **Professional fees** | | 581,546 | | 482,593 |
| **Condominium dues** | | 505,932 | | 467,158 |
| **Loss on disposal of AFS financial assets** | | 0 | | 179,350 |
| **Taxes and licenses** | | 427,268 | | 2,239,035 |
| **Entertainment, amusement and recreation** | | 109,019 | | 64,276 |
| **Unrealized loss on financial assets at FVPL** | | 0 | | 0 |
| **Others** | | 361,527 | | 509,167 |
| | | 5,208,662 | | 7,122,654 |
| **NET INCOME** | P | 14,322,870 | P | 19,152,962 |
| **NET INCOME ATTRIBUTABLE TO:** | | | | |
| **STOCKHOLDERS OF THE COMPANY** | P | 13,745,133 | P | 18,510,221 |
| **MINORITY INTERESTS** | | 577,737 | | 642,741 |
| **EARNINGS PER SHARE** | P | 0.036 | P | 0.048 |

*See accompanying Notes to Consolidated Financial Statements*

**Prepared by:**

**ARSENIO T. LIAO**
**Accountant**

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2013 AND MARCH 31, 2012**

| | | UNAUDITED MARCH 31, 2013 | | UNAUDITED MARCH 31, 2012 |
|---|---|---|---|---|
| NET INCOME | P | 14,322,870 | P | 19,152,962 |
| OTHER COMPREHENSIVE INCOME(LOSS) | | | | |
| Changes in fair value of AFS investments | | 5,163,080 | | (1,763,922) |
| Amortization of unrealized losses on changes in fair value of AFS investments | | - | | - |
| Disposal of AFS investment | | | | |
| Impairment loss on AFS investments | | | | |
| Others | | | | |
| | | 5,163,080 | | (1,763,922) |
| TOTAL COMPREHENSIVE INCOME(LOSS) | P | 19,485,950 | P | 17,389,040 |
| TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO: | | | | |
| STOCKHOLDERS OF THE COMPANY | P | 18,511,653 | P | 16,519,588 |
| MINORITY INTERESTS | | 974,297 | | 869,452 |
| | P | 19,485,950 | P | 17,389,040 |

*See accompanying Notes to Consolidated Financial Statements*

**Prepared by:**

**ARSENIO T. LIAO**
**Accountant**

ANNEX "C"

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
## FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND MARCH 31, 2012
## AND THE YEAR ENDED DECEMBER 31, 2012

| | | UNAUDITED MARCH 31, 2013 | | UNAUDITED MARCH 31, 2012 | | AUDITED DEC. 31, 2012 |
|---|---|---|---|---|---|---|
| **CAPITAL STOCK** | | | | | | |
| **Balance at beginning of year** | P | 481,827,653 | P | 481,827,653 | P | 481,827,653 |
| **Exercise of stock warrants** | | | | | | |
| **Issuance of additional shares of stock** | | | | | | |
| **Subscription of additional shares of stock** | | | | | | |
| **Balance at end of period** | | 481,827,653 | | 481,827,653 | | 481,827,653 |
| **ADDITIONAL PAID-IN CAPITAL** | | 144,759,977 | | 144,759,977 | | 144,759,977 |
| **Treasury Shares** | | (96,400,447) | | (96,336,907) | | (96,400,447) |
| **Other Reserves** | | 4,249,558 | | (15,861,209) | | (913,522) |
| **SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES** | | | | | | |
| **RETAINED EARNINGS** | | | | | | |
| **Balance at beginning of period** | | 1,156,535,490 | | 1,086,839,081 | | 1,086,839,081 |
| **Net Income** | | 13,745,132 | | 18,510,221 | | 116,513,380 |
| **Dividends declared** | | | | | | (46,816,971) |
| **Balance at end of period** | | 1,170,280,622 | | 1,105,349,302 | | 1,156,535,490 |
| | | 1,704,717,363 | | 1,619,738,816 | | 1,685,809,151 |
| **Minority Interests** | | 75,055,437 | | 78,788,135 | | 74,477,699 |
| **TOTAL STOCKHOLDERS' EQUITY** | P | 1,779,772,800 | P | 1,698,526,951 | P | 1,760,286,850 |

*See accompanying Notes to Consolidated Financial Statements*

**Prepared by:**

**ARSENIO T. LIAO**
**Accountant**

ANNEX "D"

**F & J PRINCE HOLDINGS CORPORATION**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2013 AND MARCH 31, 2012**

| | | UNAUDITED MARCH 31, 2013 | | UNAUDITED MARCH 31, 2012 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net Income | P | 13,745,133 | P | 18,510,221 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Minority Interest | | 577,737 | | 642,741 |
| Depreciation and amortization | | 260,401 | | 659,119 |
| Amortization of unrealized loss/gain on FV of AFS inv. | | (5,163,080) | | 1,763,922 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in: | | | | |
| Receivables | | 17,226,609 | | (988,788) |
| Prepaid expenses and other current assets | | (34,007) | | (19,518) |
| Increase (decrease) in accounts payable and accrued expenses | | (149,499) | | 5,985 |
| *Net cash provided by operating activities* | | 26,463,294 | | 20,573,682 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions/disposals of property and equipment | | 0 | | 0 |
| AFS/HTM investments and financial assets (FVPL) | | (1,043,873) | | (17,836,158) |
| Decrease (increase) in: | | | | |
| Receivable from related parties | | (41,098) | | (944) |
| Other assets | | 579,317 | | (4) |
| *Net cash provided by (used in) investing activities* | | (505,654) | | (17,837,106) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in: | | | | |
| Purchase of treasury shares | | 63,540 | | |
| Payable to related parties | | 0 | | 0 |
| Income tax payable | | 0 | | 0 |
| *Net cash provided by (used in) financing activities* | | 63,540 | | 0 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | P | 26,021,180 | P | 2,736,576 |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | | 1,047,543,993 | | 1,042,203,697 |
| **CASH AND CASH EQUIVALENTS, ENDING** | P | 1,073,565,173 | P | 1,044,940,273 |

See accompanying Notes to Consolidated Financial Statements

**Prepared by:**

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**ARSENIO T. LIAO**
**Accountant**

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE 3 MONTHS PERIOD ENDING JUNE 30, 2012 AND SEPTEMBER 30, 2012**

| | | UNAUDITED SEPTEMBER 30, 2012 | | UNAUDITED JUNE 30, 2012 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Net income | P | 34,097,465 | P | 26,400,071 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Minority interest | | 2,039,747 | | 1,117,714 |
| Depreciation and amortization | | 2,187,040 | | 871,164 |
| Unrealized loss/gain on changes in fair value of AFS/FVPL | | 1,931,970 | | 1,391,298 |
| Amortization of unrealized loss/gain on FV of AFS inv. | | - | | |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in: | | | | |
| Receivables | | 49,181,507 | | 50,759,824 |
| Prepaid expenses and other current assets | | (59,405) | | (69,674) |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | | 1,886,463 | | (200,219) |
| Net cash provided by operating activities | | 91,264,787 | | 80,270,178 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions/disposals of property and equipment | | (118,218) | | 516,360 |
| Investment in property | | 0 | | |
| AFS/HTM/other investments and financial assets (FVPL) | | (17,328,984) | | (20,038,358) |
| Decrease (increase) in: | | | | |
| Receivables from related parties | | 49,056 | | (944) |
| Other assets | | (4) | | (4) |
| Net cash provided by (used in) investing activities | | (17,398,150) | | (19,522,946) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Increase (decrease) in: | | | | |
| Cash dividends declared and paid | | (34,449,350) | | 0 |
| Deposit liability | | 0 | | 0 |
| Dividends payable | | 7,330,220 | | 0 |
| Income tax payable | | (2,890,224) | | (2,890,224) |
| Net cash provided by (used in) financing activities | | (30,009,354) | | (2,890,224) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **P** | **43,857,283** | **P** | **57,857,008** |
| **CASH AND CASH EQUIVALENTS, BEGINNING** | | **1,042,203,697** | | **1,042,203,697** |
| **CASH AND CASH EQUIVALENTS, ENDING** | **P** | **1,086,060,980** | **P** | **1,100,060,705** |

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDING DECEMBER 31, 2012**



| | | Audited |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income (loss) before income tax from continuing operations | P | 128,797,040 |
| Income (loss) from discontinued operations | | |
| Adjustments for: | | |
| Net unrealized foreign exchange losses (gains) | | 2,002,275 |
| Provision for legal obligation | | |
| Depreciation | | 2,903,072 |
| Retirement expense | | 808,611 |
| Provision for impairment losses on AFS financial assets | | |
| Gain on disposal of investment in subsidiary | | |
| Dividend income | | (1,009,024) |
| Losses(gains) on fair value changes of financial assets at FVPL | | (6,646,383) |
| Equity in net losses (earnings) of associates | | (77,663,475) |
| Interest income | | (69,540,176) |
| Loss(gain) on disposal of property and equipment | | (125,000) |
| Loss(gain) on disposal of AFS and HTM investments | | 179,350 |
| Operating loss before working capital changes | | (20,293,710) |
| Decrease (increase) in: | | |
| Receivables | | (79,237) |
| Prepaid expenses and other current assets | | (248,535) |
| Increase (decrease) in accounts payable and accrued expense | | 287,750 |
| Net cash flows used in operations | | (20,333,732) |
| Dividends received | | 50,423,637 |
| Interest received | | 69,612,753 |
| Income taxes paid | | (11,852,992) |
| Net cash flows from operating activities | | 87,849,666 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from disposal of: | | |
| Investment in subsidiary | | |
| AFS financial assets | | 7,577,883 |
| Fixed income deposits | | - |
| Property and equipment | | 125,000 |
| Addition to: | | |
| AFS financial assets | | (40,113,005) |
| Investments in associates | | |
| Return of deposit from associate | | |
| Financial assets at FVPL | | (71,764) |
| Property and equipment | | (125,364) |
| Increase(decrease) in receivable from related parties | | 44,276 |
| Increase(decrease) in other non-current assets | | 3,484,382 |
| Net cash flows from (used in) investing activities | | (29,078,592) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | | (45,857,413) |
| Purchase of treasury shares | | (63,540) |
| Dividends to non-controlling interest | | (7,330,200) |
| Net cash flows from financing activities | | (53,251,153) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **5,519,921** |
| **EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | | **(179,625)** |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1,042,203,697** |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | P | **1,047,543,993** |

F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2013 AND DECEMBER 31, 2012
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX F"



| | UNAUDITED3 MARCH 31, 2013 | VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2013 | AUDITED DEC. 31,2012 | VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2012 | INCREASE (DECREASE) AMOUNT MARCH 31, 2013 | INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2013 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current Assets | | | | | | |
| Cash and cash equivalents | 1,073,565,173 | 59.83% | 1,047,543,993 | 59.02% | 26,021,180 | 2.48% |
| Financial assets at fair value through fair value thru profit or loss (FVPL) | 64,653,662 | 3.60% | 59,176,111 | 3.34% | 5,477,551 | 9.26% |
| Short-term Investments | - | - | - | - | - | - |
| Receivables : | | | | | | |
| Advances to Officers & Employees | 0 | 0.00% | 1.500 | 0.00% | (1,500) | -100.00% |
| Creditable Withheld Taxes | 45,216 | 0.00% | 0 | 0.00% | 45,216 | 0.00% |
| Accounts Receivable | 400,843 | 0.01% | 327,945 | 0.02% | 72,898 | 22.23% |
| Dividends Receivable | 37,125,032 | 2.08% | 55,416,032 | 3.12% | (18,291,000) | -33.01% |
| Management Fee Receivable | 45,197,865 | 2.53% | 45,197,865 | 2.55% | 0 | 0.00% |
| Accrued Interest Receivable | 43,753,772 | 2.44% | 43,753,772 | 2.47% | 0 | 0.00% |
| Others | 10,605,373 | 0.59% | 9,657,596 | 0.54% | 947,777 | 9.81% |
| Total Receivables | 137,128,101 | 7.65% | 154,354,710 | 8.70% | (17,226,609) | -11.16% |
| Allowance for doubtful accounts | 90,110,187 | -502% | 90,110,187 | -5.08% | 0 | 0.00% |
| Total Receivables-Net | 47,017,914 | 2.63% | 64,244,523 | 3.62% | (17,226,609) | -26.81% |
| Convertible note receivable | 10,262,500 | 0.57% | 0 | 0.00% | 10,262,500 | 0.00% |
| Current portion of AFS investments | 15,710,100 | 0.88% | 23,390,100 | 1.32% | (7,680,000) | -39.72% |
| Prepaid expenses & other current assets: | | | | | | |
| Others | 1,902,771 | 0.11% | 1,895,735 | 0.10% | 7,036 | 0.37% |
| Input Tax | 3,306,532 | 0.18% | 3,279,561 | 0.18% | 26,971 | 0.82% |
| Prepaid Income Tax | 400,000 | 0.02% | 400,000 | 0.02% | 0 | 0.00% |
| Total Prepaid expenses & other current assets | 5,609,303 | 0.31% | 5,575,296 | 0.30% | 34,007 | 0.61% |
| Total Current Assets | 1,216,818,652 | 67.82% | 1,199,930,023 | 67.60% | 16,888,629 | 1.41% |
| Non-current Assets | | | | | | |
| Receivables from related parties | 3,901,612 | 0.22% | 3,860,514 | 0.22% | 41,098 | 1.06% |
| Investments in associates | 163,467,780 | 9.11% | 163,467,780 | 9.21% | 0 | 0.00% |
| Fixed income deposits | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Available -for-sale (AFS) investments | 324,429,678 | 18.08% | 321,183,236 | 18.10% | 3,246,442 | 1.01% |
| Investment in properties | 46,319,625 | 2.58% | 46,319,625 | 2.61% | 0 | 0.00% |
| Property and Equipment | | | | | | |
| Building | 47,014,750 | 2.62% | 47,014,750 | 2.65% | 0 | 0.00% |
| Building Improvements | 8,058,590 | 0.45% | 8,058,590 | 0.45% | 0 | 0.00% |
| Transportation equipment | 7,832,584 | 0.44% | 7,832,584 | 0.44% | 0 | 0.00% |
| Furniture and fixtures | 2,732,637 | 0.15% | 2,732,637 | 0.15% | 0 | 0.00% |
| Total Property and Equipment | 65,638,561 | 3.66% | 65,638,561 | 3.69% | 0 | 0.00% |
| Less: accumulated depreciation | 37,245,761 | -2.08% | 36,985,360 | -2.08% | 260,401 | 0.70% |
| Net Book Value | 28,392,800 | 1.58% | 28,653,201 | 1.61% | (260,401) | -0.91% |
| Total Property and Equipment | 28,392,800 | 1.58% | 28,653,201 | 1.61% | (260,401) | -0.91% |
| Deferred income tax assets-net | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Other Assets – net | 10,988,608 | 0.61% | 11,567,925 | 0.65% | (579,317) | -5.01% |
| Total Non-Current Assets | 577,500,103 | 32.18% | 575,052,281 | 32.40% | 2,447,822 | 0.43% |
| TOTAL ASSETS | 1,794,318,755 | 100.00% | 1,774,982,304 | 100.00% | 19,336,451 | 1.09% |

| | UNAUDITED MARCH 31, 2013 | VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2013 | AUDITED DEC. 31,2012 | VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2012 | INCREASE (DECREASE) AMOUNT MARCH 31, 2013 | INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2013 |
|---|---|---|---|---|---|---|
| LIABILITIES & STOCKHOLDERS' EQUITY | | | | | | |
| Current Liabilities | | | | | | |
| Accounts Payable and accrued expenses | | | | | | |
| Accounts payable-trade | 6,395 | 0.00% | 0 | 0.00% | 6,395 | 0.00% |
| Accounts payable-others | 735,509 | 0.03% | 974,058 | 0.05% | (238,549) | -24.49% |
| Withholding taxes payable | 203,999 | 0.01% | 404,084 | 0.02% | (200,085) | -49.52% |
| SSS Premium Payable | 16,683 | 0.00% | 17,490 | 0.00% | (807) | -4.61% |
| HDMF Premium Payable | 2,400 | 0.00% | 2,400 | 0.00% | 0 | 0.00% |
| Philhealth Premium Payable | 6,200 | 0.00% | 5,825 | 0.00% | 375 | 6.44% |
| Deposit Payable | 1,588,122 | 0.09% | 1,193,714 | 0.07% | 394,408 | 33.04% |
| Output Vat Payable | 39,571 | 0.00% | 0 | 0.00% | 39,571 | 0.00% |
| Accrued expenses | 499,812 | 0.03% | 650,619 | 0.04% | (150,807) | -23.18% |
| Total Accounts payable & accrued expenses | 3,098,691 | 0.16% | 3,248,190 | 0.18% | (149,499) | -4.60% |
| Dividends Payable | 679,970 | 0.04% | 679,970 | 0.04% | 0 | 0.00% |
| Income Tax Payable | 968,515 | 0.05% | 968,515 | 0.05% | 0 | 0.00% |
| Provision for legal obligation | 5,000,000 | 0.29% | 5,000,000 | 0.28% | 0 | 0.00% |
| Total Current Liabilities | 9,747,176 | 0.54% | 9,896,675 | 0.55% | (149,499) | -1.51% |
| Non-Current Liabilities | | | | | | |
| Deferred tax liabilities-net | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Payable to related parties | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |
| Retirement benefit obligation | 4,798,779 | 0.28% | 4,798,779 | 0.27% | 0 | 0.00% |
| Total Non-Current Liabilities | 4,798,779 | 0.28% | 4,798,779 | 0.27% | 0 | 0.00% |
| Stockholders' Equity | | | | | | |
| Capital stock | 481,827,653 | 26.85% | 481,827,653 | 27.15% | 0 | 0.00% |
| Additional paid in capital | 144,759,977 | 8.06% | 144,759,977 | 8.16% | 0 | 0.00% |
| Other reserves | 4,249,558 | 0.24% | (913,522) | -0.05% | 5,163,080 | 565.18% |
| Treasury shares | (96,400,447) | -5.37% | (96,400,447) | -5.43% | 0 | 0.00% |
| Retained earnings | 1,170,280,622 | 65.22% | 1,156,535,490 | 65.15% | 13,745,132 | 1.19% |
| Total Equity Attributable to Stock-holders of the Company | 1,704,717,363 | 95.00% | 1,685,809,151 | 94.98% | 18,908,212 | 1.12% |
| Minority Interest | 75,055,437 | 4.18% | 74,477,699 | 4.20% | 577,738 | 0.78% |
| Total Stockholders' Equity | 1,779,772,800 | 99.18% | 1,760,286,850 | 99.18% | 19,485,950 | 1.11% |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | 1,794,318,755 | 100.00% | 1,774,982,304 | 100.00% | 19,336,451 | 1.09% |

# F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
# NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. Corporate Information

Organization
F & J Prince Holdings Corporation (the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on February 18, 1971. Its primary purpose is to purchase, subscribe for 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, but not limited to, land, building, condominium units, shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts or obligations of any corporation and associations, domestic or foreign. The Parent Company's shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). The principal activities of its subsidiaries are described in Note 2.

The registered office address of the Parent Company is 5th Floor, Citibank Center Building, 8741 Paseo de Roxas corner Villar Street, Salcedo Village, Makati City.

Authorization for Issuance
The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were authorized for issue by the Board of Directors (BOD) on April 12, 2013.

## 2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value (see Notes 4 and 9). The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional currency.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippine SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS which were adopted as of January 1, 2012. Except as otherwise indicated, adoption of these changes in PFRS did not have any significant effect to the Group.

PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets* (Amendments)
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets

Philippine Accounting Standards (PAS) 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires 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 ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendments are effective for periods beginning on or after January 1, 2012.

<u>Standards issued but not yet effective</u>
The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS to have significant impact on its financial statements.

*Effective 2013*
PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)
These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;
b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the consolidated statement of financial position;
c) The net amounts presented in the consolidated 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 and are effective for annual periods beginning on or after January 1, 2013.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 12, *Disclosure of Interests in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The standard becomes effective for annual periods beginning on or after January 1, 2013.

PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (Amendments)
The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance. 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 of other comprehensive income.

PAS 19, *Employee Benefits* (Revised)
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching

strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. The amendments become effective for annual periods beginning on or after January 1, 2013. Once effective, the Group has to apply the amendments retroactively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the amended standard has significant impact on its accounting for retirement benefits. The effects are detailed below:

| | As at December 31, 2012 | As at January 1, 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Consolidated statements of financial position | | |
| Retirement benefit obligation | (₱7,592) | ₱99,124 |
| Deferred tax asset* | 516,845 | 283,929 |
| Other comprehensive income | (1,211,285) | (593,114) |
| Retained earnings | 1,735,722 | 777,919 |

| | For the year ended December 31, 2012 | For the year ended December 31, 2011 |
|---|---|---|
| Consolidated statement of income | | |
| Retirement benefit cost | (₱240,907) | (₱1,368,290) |
| Provision for income tax | 72,272 | 410,487 |
| Net income for the year | | |
| Attributable to the owners of the Parent Company | (275,865) | (909,913) |
| Attributable to non-controlling interests | (14,519) | (47,890) |
| Other comprehensive income, net of deferred income tax | | |
| Attributable to the owners of the Parent Company | 587,262 | 125,518 |
| Attributable to non-controlling interests | 30,909 | 6,606 |

**As of December 31, 2012, the Group did not recognize deferred tax asset on temporary difference arising from retirement benefits.*

PAS 27, *Separate Financial Statements* (as revised in 2011)
As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28, Investments in Associates, 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 amendment becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

*Effective 2014*

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

*Effective 2015*

PFRS 9, *Financial Instruments*
PFRS 9, as issued, reflects the first phase on the replacement of PAS 39, *Financial Instruments: Recognition and Measurement*, and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in 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. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Group decided not to early adopt PFRS 9 for its 2012 reporting ahead of its effectivity date on January 1, 2015 and therefore the consolidated financial statements as at and for the year ended December 31, 2012 do not reflect the impact of the said standard. The Group, at present, decided not to early adopt the amendments to PFRS 9 in its 2013 financial reporting.

The Group's AFS financial assets may be affected by the adoption of this standard in 2015.

*Effective date to be determined*

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

*Annual Improvements to PFRS (2009-2011 cycle)*
The *Annual Improvements to PFRS* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. 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 consolidated 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 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.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012.

Subsidiaries are entities over which the Parent Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-group balances and transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained

- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2012 and 2011, the Group has 94.37% interest in the unquoted equity stocks of MCHC, a holding company involved in investing real and personal properties of every kind, including, but not limited to, land, buildings, condominium units, shares of stock, bonds, and other securities of any corporation or association, domestic or foreign. The cost of investment in MCHC amounted to ₱537,514,860 as of March 31, 2013 and December 31, 2012.

MCHC has investments in the following subsidiaries:

| | Country of Incorporation | Percentage of Ownership | |
|---|---|---|---|
| | | **2012** | 2011 |
| Pinamucan Industrial Estates, Inc. (PIEI) | Philippines | **100** | 100 |
| Malabrigo Corporation (MC)* | Philippines | **100** | 100 |
| Magellan Capital Realty Development Corporation (MCRDC)* | Philippines | **100** | 100 |
| Magellan Capital Trading Corporation (MCTC)* | Philippines | **100** | 100 |

**Still in the preoperating stage.*

*PIEI*
PIEI was organized primarily as a real estate developer and was registered with the Philippine SEC on May 5, 1993. It started its commercial operations on July 14, 1994.

*MC*
MC was organized primarily to purchase, operate, maintain and sell coal mines and their products and by-products. MC was incorporated on August 31, 1993 and has not yet started commercial operations.

On December 11, 2012, the BOD of MC authorized the issuance of its remaining 7,500,000 unissued shares to MCHC and convert part of the Company's advances to MC as payment of the subscription.

*MCRDC*
MCRDC was organized to purchase, subscribe for, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts and obligations of any corporation or corporations, domestic or foreign. MCRDC was registered with the Philippine SEC on November 14, 1990 and has not yet started commercial operations.

*MCTC*
MCTC was organized to conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail all kinds of goods, commodities, wares and merchandise. MCTC was registered in the Philippine SEC on January 7, 1991 and has not yet started commercial operations.

*Batangas-Agro Industrial Development Corporation (BAID)*
In 2011, the Group sold its investment in BAID. Gain on the disposal of the investment in BAID amounted to ₱925,298,431, presented as "Income from discontinued operations - net of tax" in the consolidated statements of income, net of share in net loss in 2011. Furthermore, allowance for

impairment pertaining to receivables from BAID and subsidiaries that have been collected were reversed and recognized as gain by the Group.

Transactions with Non-controlling Interests
Non-controlling interests represent the portion of net income or loss and net assets in MCHC not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to equity holders of the Parent Company. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interests is also recognized directly in equity.

Investments in Associates
The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the share in the results of operations of the associates. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of these profits only after its share of the profits equals the share of the losses not recognized.

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

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

| | Country of Incorporation | Percentage of Ownership | |
|---|---|---|---|
| | | **2012** | 2011 |
| Magellan Utilities Development Corporation (MUDC) | Philippines | **43** | 43 |
| Business Process Outsourcing, International (BPO) | | **35** | 35 |
| Pointwest Technologies Corporation (PTC) | Philippines | **30** | 30 |

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Impairment of goodwill*
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Discontinued Operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to re-sell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are represented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from continuing income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

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3. **Summary of Significant Accounting Policies**

Cash and Cash Equivalents
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to insignificant risk of changes in value.

Financial Instruments
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, is done using settlement date accounting.

Financial assets and financial liabilities are recognized at fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

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

*Financial assets*
Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets are classified as current assets when these are expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as other noncurrent assets.

*Financial assets at FVPL*
Financial assets at FVPL include financial assets held for trading purposes and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interest earned is recorded in interest income, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

The Group's investments in trading securities are classified under financial assets at FVPL as of December 31, 2012 and 2011.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2012 and 2011, the Group's cash and cash equivalents, receivables, and fixed income deposits included under "Prepayments and other current assets" and "Other noncurrent assets" and receivables from related parties are classified as loans and receivables.

*HTM investments*
HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets and the Group will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group previously had financial assets classified as HTM investments that were reclassified to AFS financial assets due to the sale of a significant portion of the investments. The Group has no HTM investments as of March 31, 2013 and December 31, 2012.

*AFS financial assets*
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments.

After initial measurement, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component in the equity section of the consolidated statements of financial position 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 statement of income.

Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity instruments are recognized in the consolidated statement of income when the right to the payment has been established. AFS financial assets are classified as current if they are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets. The losses arising from impairment of AFS financial assets are recognized in the consolidated statement of income.

The Group's AFS financial assets consist of debt and equity securities as of March 31, 2013 and December 31, 2012.

*Determination of fair value*
The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

*Derivative financial instruments*
Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives are recognized in the consolidated statement of income.

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2012 and 2011, the Group has no bifurcated embedded derivatives.

*Financial liabilities*
Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Financial liabilities are classified as current liabilities when these are expected to be realized within 12 months from the reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from reporting date. Otherwise, these are classified as noncurrent liabilities.

*Other financial liabilities*
Issued financial instruments or their components, which are not held for trading or not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

This accounting policy applies primarily to accounts payable and accrued expenses, dividends payable and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derecognition of Financial Assets and Liabilities

*Financial asset*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all 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 from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liability*

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

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

Impairment of Financial Assets

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

*Assets carried at amortized cost*
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 assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss, is or continues to be, recognized are not included in a collective assessment of impairment.

If 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). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced either directly or through use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. The amount of the loss shall be recognized in the consolidated statement of income.

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

In relation to receivables, a provision for impairment losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivables shall be reduced through the use of an allowance account. Impaired debts shall be derecognized when they are assessed as uncollectible.

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

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

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

"Day 1" Profit or Loss

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

Reclassification of Financial Instruments

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry a financial asset or financial liability at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable.

In the case of a financial asset with a fixed maturity, any previous gain or loss on that asset that has been recognized directly in equity shall be amortized to the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest rate method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognized in the consolidated statement of income. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in the consolidated statement of income.

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

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

Creditable Withholding Taxes (CWT)
CWT, included in "Prepayments and other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment, including borrowing cost for long-term construction projects, when that cost is incurred and if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

| Category | Number of Years |
|---|---|
| Condominium | 25 |
| Condominium improvements | 10 |
| Transportation equipment | 10 |
| Office furniture, fixtures and equipment | 5 |

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 difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the values, periods and method of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

Investment Property
Investment property, comprising a parcel of land, is held either to earn rental income or for capital appreciation or both. Investment property is measured at cost, including transaction costs less any accumulated impairment in value.

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

Transfers are made to or from investment property only when there are changes in use. For a transfer from investment property under the cost model to owner occupied property or inventories, no change in the carrying value amount of the property transferred and the transfers do not change the deemed cost for subsequent accounting of that property for measurement or disclosure purposes.

Impairment of Nonfinancial Assets
At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely: prepayments and other current assets, investment in associates, property and equipment, investment property, and other noncurrent assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. The estimated recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the estimated recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its estimated recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.
A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's estimated recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Capital Stock and Additional Paid-in Capital
The Group has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

Treasury Shares
The Group's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the considerations received is recognized as capital reserves.

Dividends Payable
Dividends payable are recorded in the financial year in which they are declared by the BOD.

Retained Earnings
The amount included in retained earnings includes income attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

*Interest*
Interest income from bank deposits and investments is recognized as the interest accrues on a time proportion basis on the principal outstanding balance and at the effective interest rate as applicable.

*Dividend*
Dividend income is recognized when the Group's right to receive payment is established.

*Fair value gains on financial assets at FVPL*
Financial assets at FVPL which consist of equity securities are stated at fair values based on the current market quotations. The difference between the aggregate market values of investments in securities at respective reporting dates and the carrying value is shown as "Fair value gains or losses on financial assets at FVPL" account in the consolidated statement of income.

*Rent*
Rent income from condominium spaces is accounted for on a straight-line basis over the lease term.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

Retirement Benefits
The Group has an unfunded, noncontributory retirement benefit plan covering substantially all its regular employees. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefit costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognized as income or expense when the net cumulative net actuarial gains and losses of 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 amortized over the expected average remaining working lives of the covered employees.

The past service cost, if any, 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, the retirement benefit plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations 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.

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

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

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

*Operating lease - Group as a lessor*
Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating

lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional and presentation currency. Each entity in the Group determines its own functional and presentation currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are measured in the functional currency and are recorded on initial recognition in that functional currency at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values were determined. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

Income Taxes

*Current income tax*

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits in the form of minimum corporate income tax (MCIT) and unused tax losses in the form of net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

*Sales tax*
Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

<u>Provisions</u>
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

<u>Contingencies</u>
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Earnings (Loss) Per Share
Earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends or stock splits declared during the year and adjusted for the effects of dilutive stock warrants and other dilutive securities. Effects of anti-dilutive potential common shares are not considered in computing diluted earnings per share.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets (see Note 19).

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

## 4. Significant Accounting Judgments and Estimates

The preparation of the accompanying consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
*Determining Functional Currency*
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the revenue and expenses of the Group.

*Classification of Financial Instruments*
The Group exercises judgments in classifying a financial instrument, or its component parts, upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis (see Note 22).

*Operating Lease - The Group as a Lessor*
The Group entered into various lease agreements as a lessor. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating lease due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the lessee has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that at the inception of the lease, it is reasonable and certain that the option will be exercised;

c. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and

d. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

*Contingencies*
In the ordinary course of business, the Group is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon analysis of potential results. Although there can be no assurances, the Group believes, based on information currently available and the advise by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims (see Note 20).

Estimates and Assumptions
*Determination of Fair Values of Financial Instruments*
The Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect either income or loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Group's financial instruments are presented in Note 22 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL amounted to ₱64.7 million and ₱59.2million as of March 31, 2013 and December 31, 2012 , respectively (see Notes 6 and 22). The carrying amount of the Group's AFS financial assets amounted to ₱334.2 million and ₱354.8 million as of March 31, 2013 and December 31, 2012 , respectively (see Notes 9,12 and 22).

*Estimating Allowance for Impairment Losses on Loans and Receivables*
The Group reviews its loans and receivables (cash and cash equivalents, short-term investments, receivables, and fixed income deposits included under "Other noncurrent assets" and receivables from related parties) at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

For receivables from related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For trade receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded in "Receivables". These allowances are re-evaluated and adjusted as additional information is received. The allowance for impairment losses on receivables from related parties amounted to ₱186.4 million as of March 31, 2013 and December 31, 2012 while the allowance for impairment losses on receivables from third parties amounted to ₱1.1 million as of March 31, 2013 and December 31, 2012 (see Notes 7 and 17). No provision for impairment losses on receivables was recognized in 2012 and 2011. The Group's current receivables, net of allowance for impairment losses, amounted to ₱47 million and ₱64.2 million as of March 31, 2013 and December 31, 2012 , respectively (see Note 7). The Group's noncurrent receivables from related parties, net of allowance for impairment losses, amounted to ₱ 3.9 million as of March 31, 2013 and December 31, 2012 (see Note 17).

*Estimating Impairment of AFS Equity Financial Assets*
The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The balance of the Group's allowance for impairment losses on investment in equity securities amounted to ₱10.7 million as of March 31, 2013 and December 31, 2012 (see Notes 9 and 21). The carrying amount of the Group's AFS equity financial assets amounted to ₱18.9 million and ₱ ₱19.5 million as of March 31, 2013 and December 31, 2012, respectively (see Notes 9 and 12).

*Estimating Impairment of Nonfinancial Assets*
The Group determines whether prepayments and other current assets, investments in associates, property and equipment, investment property, and other noncurrent assets are impaired whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The Group has an allowance for impairment losses on its investment in MUDC, an associate, amounting to ₱94.8 million as of December 31, 2012 and 2011 (see Note 8). The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flows method. The Group has fully impaired its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC amounted to nil as of December 31, 2012 and 2011 (see Note 8). The carrying amount of the Group's remaining investments in associates amounted to ₱163.5 million and ₱163.5 million as of March 31, 2013 and December 31, 2012 , respectively (see Note 8).

The Group has not identified any events or changes in circumstances that would indicate an impairment loss on the following other nonfinancial assets as of March 31, 2013 and December 31, 2012 :

| | **March 2013** | December 2012 |
|---|---|---|
| Prepayments and other current assets | **₱5,109,303** | **₱5,075,296** |
| Property and equipment (see Note 10) | **28,392,800** | **28,653,201** |
| Investment property (see Note 11) | **46,319,625** | **46,319,625** |
| Other noncurrent assets (see Note 12) | **805,425** | **805,425** |
| | **₱80,627,153** | **₱80,853,547** |

*Estimating Useful Lives of Property and Equipment*
The estimated useful lives used as bases for depreciating the Group's property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets.

The net book value of the Group's property and equipment amounted to ₱28.4 million and ₱28.7 million as of March 31, 2013 and December 31, 2012 , respectively (see Note 10).

*Estimating Retirement Benefit Obligation*
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the expense and obligation to be recorded in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Retirement benefits expense recognized amounted to ₱0.8 million, ₱0.6 million and ₱0.7 million in 2012, 2011 and 2010, respectively. The carrying amount of the Group's retirement benefit obligation amounted to ₱4.8 million and ₱4.0 million as of March 31, 2013 and December 31, 2012 , respectively (see Note 14).

*Estimating Realizability of Deferred Tax Assets*
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilized.

The Group recognized deferred tax assets amounting to ₱15.5 million and ₱15.3 million as of December 31, 2012 and 2011, respectively (see Note 15). The Group did not recognize deferred tax assets on temporary differences, unused tax credits from MCIT and unused NOLCO as of December 31, 2012 and 2011 (see Note 15).

*Estimating Provision for Legal Obligation*
The Group's estimate of provision for legal obligations has been developed by management. The Group's management currently does not believe the provision will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates of provisions. In 2011, the Group recognized provision for legal obligations amounting to ₱5.0 million for claims arising from lawsuits filed by third parties which are either pending decision by the courts or are subject to settlement obligations (see Note 20). No additional provisions were made in 2012.

5. **Cash and Cash Equivalents**

| | **March 2013** | December 2012 |
|---|---|---|
| Cash on hand | **₱9,000** | **₱9,000** |
| Cash in banks | **22,757,811** | **11,401,614** |
| Short-term placements | **1,050,798,362** | **1,036,133,379** |
| | **₱1,073,565,173** | **₱1,047,543,993** |

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso, made for varying periods of up to three months or less depending on the immediate cash requirements of the Group and earn interest at the respective bank rates ranging from 1.5% to 4.4% in 2012 and 1.5% to 6.5% in 2012 and 2011, respectively. Interest income earned from cash and cash equivalents amounted to ₱34.9 million, ₱23.1 million and ₱1.5 million in 2012, 2011 and 2010, respectively.

6. **Financial Assets at FVPL**

Financial assets at FVPL consist of listed securities which are traded in the Philippine Stock Exchange (PSE), New York Stock Exchange (NYSE) and Hong Kong Stock Exchange (HKEx). Fair values of listed equity securities are based on quoted market prices in the PSE, NYSE and HKEx.

The carrying value of financial assets at FVPL includes net unrealized gain on fair value changes amounting to ₱6.6 million, ₱3.4 million and ₱2.8 million in 2012, 2011 and 2010, respectively. Fair value changes are presented under "Fair value gains on financial assets at FVPL" in the consolidated statements of income. Net cumulative unrealized gains on financial assets at FVPL amounted to ₱35.5 million and ₱30.0 million as of March 31, 2013 and December 31, 2012 , respectively.

The rollforward of the Group's investments in financial assets at FVPL is as follows:

| | **March 2013** | December 2012 |
|---|---|---|
| Cost: | | |
| Balances at beginning of year | **₱29,012,437** | **₱29,012,437** |
| Additions | **157,087** | **157,087** |
| Balances at end of year | **29,169,524** | **29,169,524** |
| Changes in fair value: | | |
| Balances at beginning of year | **30,006,587** | **23,360,204** |
| Fair value gains | **5,477,551** | **6,646,383** |
| Balances at end of year | **35,484,138** | **30,006,587** |
| | **₱64,653,662** | **₱59,176,111** |

Dividend income earned on investments in financial assets at FVPL amounted to ₱0.5 million, ₱0.5 million and ₱0.4 million in 2012, 2011 and 2010, respectively.

7. **Receivables**

| | **March 2013** | December 2012 |
|---|---|---|
| Third parties: | | |
| Accrued interest (see Note 9) | **₱9,520,456** | **₱8,891,910** |
| Others | **745,258** | **746,556** |
| Related parties: | | |
| Dividends receivable (see Notes 8 and 17) | **37,125,032** | **55,416,032** |
| Management fees (see Note 17) | **45,197,865** | **45,197,865** |
| Accrued interest (see Note 17) | **43,753,772** | **43,753,772** |
| Others (see Note 17) | **785,718** | **348,575** |
| | **137,128,101** | **154,354,710** |
| Less allowance for impairment losses | **90,110,187** | **90,110,187** |
| | **₱47,017,914** | **₱64,244,523** |

Accrued interest receivables from third parties pertain to interest earned on investments in AFS debt securities and short-term placements that are expected to be collected within one year.

The terms and conditions related to receivables from related parties are discussed in Notes 8 and 17.

The breakdown of allowance for impairment losses on receivables are as follows:

| | | |
|---|---|---|
| Third parties | | ₱1,120,789 |
| Related parties (see Note 17): | | |
| Management fees | ₱45,197,865 | |
| Accrued interest | 43,753,772 | |
| Others | 37,761 | 88,989,398 |
| Total | | ₱90,110,187 |

As of March 31, 2013, the convertible note receivable consists of investment in convertible interest bearing note issue of a limited liability partnership.

## 8. Investments in Associates

| | **March 2013** | December 2012 |
|---|---|---|
| Unquoted equity securities: | | |
| Acquisition cost | | |
| As at beginning of year | **₱168,760,135** | ₱168,760,135 |
| Conversion of deposit for future stock subscription to capital stock | **17,500,000** | **17,500,000** |
| | **186,260,135** | **186,260,135** |
| Accumulated equity in net earnings: | | |
| As at beginning of year | **49,790,299** | **49,790,299** |
| Equity in net earnings for the year | **77,663,475** | **77,663,475** |
| Dividends received | **(55,416,000)** | **(55,416,000)** |
| As at end of year | **72,037,774** | **72,037,774** |
| | **258,297,909** | **258,297,909** |
| Less allowance for impairment losses | **94,830,129** | **94,830,129** |
| | **163,467,780** | **163,467,780** |
| Deposit for future stock subscription: | | |
| As at beginning of year | **17,500,000** | **17,500,000** |
| Conversion of deposit for future stock subscription to capital stock | **(17,500,000)** | **(17,500,000)** |
| Return of deposit | **–** | **–** |
| Deposit made | **–** | **–** |
| As at end of year | **–** | **–** |
| | **₱163,467,780** | **₱163,467,780** |

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

| | Country of Incorporation | Percentage of Ownership 2012 | 2011 | Carrying amount of Investment 2012 | 2011 |
|---|---|---|---|---|---|
| MUDC | Philippines | **43** | 43 | **₱94,830,129** | ₱94,830,129 |
| Less allowance for impairment losses | | | | **(94,830,129)** | (94,830,129) |
| | | | | **–** | – |
| BPO | Philippines | **35** | 35 | **54,973,725** | 54,856,448 |
| PTC | Philippines | **30** | 30 | **108,494,055** | 86,363,857 |
| | | | | **₱163,467,780** | ₱141,220,305 |

*MUDC*
The Group has a 43% interest in MUDC. As of December 31, 2011, MUDC has not yet started commercial operations. However, it has obtained the necessary requirements for the signing of a supply agreement with a public utility firm and a purchase agreement with certain oil companies. As of December 31, 2012 and 2011, MUDC has project development costs of ₱207.1 million. The recoverability of these assets and the ultimate success of MUDC's future operations are dependent upon the signing of these agreements. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt on MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2012 and 2011, MUDC has incurred significant losses, which resulted in deficit of ₱438.0 million and ₱437.9 million, respectively, and capital deficiency of ₱257.1 million and ₱257.0 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Consequently, the Group has discontinued recognizing its share of further losses of ₱94.8 million as of December 31, 2012 and 2011. Additional losses are provided for by the Group to the extent that it has made payments on behalf of MUDC to satisfy MUDC's obligations that the Group has guaranteed or otherwise committed.

The Group has assessed that its investment in and advances to MUDC amounting to ₱94.8 million and ₱89.0 million, respectively, is impaired since management believes that it will no longer recover from such investment and advances. Accordingly, the Group provided a full allowance for impairment losses on its investment and receivables from MUDC due to non-recoverability of the project development costs incurred in 2004.

The summarized financial information of MUDC is as follows:

| | 2012 | 2011 |
|---|---|---|
| Current assets | **₱204,376** | ₱213,379 |
| Noncurrent assets | **16,012,451** | 16,144,645 |
| Total assets | **16,216,827** | 16,358,024 |
| Current liabilities | **281,894** | 315,631 |

(Forward)

| | 2012 | 2011 |
|---|---|---|
| Noncurrent liabilities | **₱273,059,700** | ₱273,047,234 |
| Total liabilities | **273,341,594** | 273,362,865 |
| Revenues | **1,570** | 450 |
| Expenses | **121,496** | 1,215,280 |
| Net loss | **119,926** | 1,214,830 |

*BPO*
BPO is a provider of accounting and finance related services such as payroll, internal audit, payables processing and others. It is involved in outsourcing business process services in the Philippines, servicing many of the multinational and large corporations operating in the country.

Dividends
On December 17, 2010, the BOD of BPO approved the declaration of cash dividends amounting to ₱30.0 million or ₱107.14 per share of BPO's common stocks as of record date December 17, 2010.

On December 22, 2011, the BOD of BPO approved the declaration of cash dividends amounting to ₱45.0 million or ₱160.71 per share of BPO's common stocks as of record date December 21, 2011.

On December 21, 2012, the BOD of BPO approved another declaration of cash dividends amounting to ₱52.3 million or ₱67.00 per share of BPO's common stocks as of record date December 21, 2012. In March, 2013, P18.3 million representing cash dividend was collected from BPO.

Deposit for stock subscription
On October 25, 2011, the BOD of BPO approved the increase of BPO's authorized capital stock from One Hundred Million Pesos (₱100,000,000), divided into 1,000,000 shares, with par value of ₱100.00 to ₱300,000,000, divided into 3,000,000 shares with par value of ₱100.00.

In compliance with the minimum subscription requirement for the application of the increase of BPO's capital stock, its stockholders, including the Parent Company, deposited a total amount of ₱50,000,000, representing 25% of the minimum subscription of the capital increase. The Parent Company maintained its percentage ownership over BPO by providing an advance amounting to ₱17,500,000.

On April 20, 2012, the SEC has approved BPO's application for increase in authorized capital stock. Accordingly, the advance/deposit for stock subscription amounting to ₱17,500,000 was converted to capital stock.

*PTC*
PTC is a global service company outsourcing information technology services from the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the US.

On December 10, 2010, the BOD of PTC approved the declaration of cash dividends amounting to ₱90.0 million or ₱0.80 per share of PTC's common stocks as of record date December 31, 2010. On December 9, 2011, the BOD of PTC approved the declaration of cash dividends amounting to ₱112.5 million or ₱1.00 per share of PTC's common stocks as of record date December 31, 2011.

On November 28, 2012, the BOD of PTC approved the declaration of cash dividends amounting to ₱123.8 million or ₱1.10 per share of PTC's common stocks as of record date December 30, 2012.

The summarized combined financial information of the Group's associates, BPO and PTC, are as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current assets | **₱785,005,733** | ₱680,212,811 | ₱592,291,218 |
| Noncurrent assets | **120,634,617** | 129,951,162 | 119,349,729 |
| Total assets | **905,640,350** | 810,163,973 | 711,640,947 |
| | | | |
| Current liabilities | **419,305,039** | 363,663,607 | 291,712,005 |
| Noncurrent liabilities | **55,276,534** | 328,855,379 | 316,948,208 |
| Total liabilities | **474,581,573** | 692,518,986 | 608,660,213 |
| | | | |
| Revenues | **1,409,456,633** | 1,172,525,720 | 984,411,729 |
| Expenses | **1,137,945,627** | 945,582,999 | 791,551,137 |
| Net income | **250,125,031** | 199,125,661 | 183,729,869 |

## 9. AFS Financial Assets

| | March 2013 | December 2012 |
|---|---|---|
| Current: | | |
| Debt securities | **₱15,710,100** | **₱23,390,100** |
| Non-current: | | |
| Debt securities | **315,201,590** | **311,955,148** |
| Equity securities - net of allowance for impairment losses of ₱10.7 million as of December 31, 2012 and 2011 | **9,228,088** | **9,228,088** |
| | **₱340,139,778** | **₱344,573,336** |

*Investments in debt securities*
Investments in debt securities are denominated in US dollar, Australian dollar, Brazil real, Turkish lira, Euro, Chinese yuan and Philippine peso and are stated at fair value based on quoted prices. Changes in market values are included in the consolidated statements of comprehensive income. Fixed interest rates range from 6.0% to 13.6% per annum. Value dates of the investments range from August 4, 2009 to November 28, 2012 and maturity dates range from January 18, 2013 to perpetuity. Interests on investments are received and settled semi-annually in US dollar.

On March 19, 2010, HTM instruments were reclassified to AFS financial assets following the sale of a significant portion of its HTM investments in 2010. Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity.

Interest income earned from AFS financial assets amounted to ₱26.6 million, ₱28.3 million and ₱26.6 million in 2012, 2011 and 2010, respectively.

The Group recognized loss on disposal of AFS debt financial assets amounting to ₱0.2 million, ₱0.3 million in 2012 and 2011, gain on disposal amounting to ₱0.6 million in 2010.

*Investments in equity securities*
Investments in equity securities consist of proprietary club shares and investments in quoted shares of stock which the Group has neither control nor significant influence. The Group did not recognize impairment losses in 2012 but recognized provision for impairment losses amounting to ₱0.06 million and ₱0.02 million in 2011 and 2010, respectively. Allowance for impairment losses on AFS equity securities amounted to ₱10.7 million as of March 31, 2013 and December 31, 2012 .

The fair market values of these listed shares are determined by reference to published quotations in an active market as of March 31, 2013 and December 31, 2012.

Dividend income earned on AFS in equity securities amounted to ₱0.5 million, ₱0.4 million and ₱0.4 million in 2012, 2011 and 2010, respectively.

Movements in the net unrealized valuation gains (losses) on AFS financial assets are as follows:

**March 2013**

| | **Parent** | **Non-controlling Interests** | **Total** |
|---|---|---|---|
| **Balances at beginning of year** | **(₱913,522)** | **(₱180,341)** | **(₱1,093,863)** |
| **Changes in fair value of AFS financial assets** | **5,163,080** | **271,741** | **5,434,821** |
| **Disposal of AFS financial assets** | | | |
| **Balances at end of year** | **4,249,558** | **₱91,400** | **₱4,340,958** |

December 2012

| | Parent | Non-controlling Interests | Total |
|---|---|---|---|
| Balances at beginning of year | **(₱17,625,131)** | **(₱911,396)** | **(₱18,536,527)** |
| Changes in fair value of AFS financial assets | **16,547,238** | **722,404** | **17,269,642** |
| Disposal of AFS financial assets | **164,371** | **8,651** | **173,022** |
| Balances at end of year | **(₱913,522)** | **(₱180,341)** | **(₱1,093,863)** |

Net unrealized valuation losses/losses on AFS financial assets presented in the equity section of the consolidated statement of financial position as of March 31, 2013 and December 31, 2012 amounted to ₱4.3 million and ₱0.9 million.

## 10. **Property and Equipment**

### As of March 31, 2013

| | Condominium | Condominium Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| **Balances at beginning of year** | **₱47,014,750** | **₱8,058,590** | **₱8,636,948** | **₱2,607,273** | **₱66,317,561** |
| **Additions** | **–** | **–** | **–** | **125,364** | **125,364** |
| **Disposals** | **–** | **–** | **(804,364)** | **–** | **(804,364)** |
| **Balances at end of year** | **47,014,750** | **8,058,590** | **7,832,584** | **2,732,637** | **65,638,561** |
| **Accumulated depreciation:** | | | | | |
| **Balances at beginning of year** | **23,037,940** | **7,442,719** | **4,002,644** | **2,502,057** | **36,985,360** |
| **Depreciation** | **156,715** | **17,876** | **79,167** | **6,643** | **2,903,072** |
| **Disposals** | **–** | **–** | **–** | **–** | **–** |
| **Balances at end of year** | **23,194,655** | **7,460,595** | **4,081,811** | **2,508,700** | **37,245,761** |
| **Net book value** | **₱23,820,095** | **₱597,995** | **₱3,750,773** | **₱223,937** | **₱28,392,800** |

As of December 31, 2012

| | Condominium | Condominium Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|---|
| Cost: | | | | | |
| Balances at beginning of year | **₱47,014,750** | **₱8,058,590** | **₱8,636,948** | **₱2,607,273** | **₱66,317,561** |
| Additions | **–** | **–** | **–** | **125,364** | **125,364** |
| Disposals | **–** | **–** | **(804,364)** | **–** | **(804,364)** |
| Balances at end of year | **47,014,750** | **8,058,590** | **7,832,584** | **2,732,637** | **65,638,561** |
| Accumulated depreciation: | | | | | |
| Balances at beginning of year | **21,157,350** | **7,213,621** | **4,072,252** | **2,443,429** | **34,886,652** |
| Depreciation | **1,880,590** | **229,098** | **734,756** | **58,628** | **2,903,072** |
| Disposals | **–** | **–** | **(804,364)** | **–** | **(804,364)** |
| Balances at end of year | **23,037,940** | **7,442,719** | **4,002,644** | **2,502,057** | **36,985,360** |
| Net book value | **₱23,976,810** | **₱615,871** | **₱3,829,940** | **₱230,580** | **₱28,653,201** |

In 2012, the Group sold fully depreciated transportation equipment with cost of ₱0.2 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.1 million.

In 2011, the Group sold fully depreciated transportation equipment with cost of ₱1.6 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.3 million.

The balance of property and equipment includes fully depreciated assets still in use amounting to ₱10.6 million as of March 31, 2013 and December 31, 2012.

## 11. **Investment Property**

Investment property as of March 31, 2013 and December 31, 2012 consist of land held by MCHC situated in Fort Bonifacio, Taguig City, Metro Manila and is carried at cost in the consolidated statements of financial position. This land is currently held by the Group for an undetermined future use. Based on the latest appraisal report dated February 25, 2011, the fair value of this property amounts to ₱129.7 million, which exceeds its carrying amount. The fair value was estimated using the sales comparison approach, where fair value is derived by considering and comparing the prices for the sales of similar or substitute properties.

Fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's length transaction at the date of valuation.

## 12. Other Noncurrent Assets

| | March 2013 | December 2012 |
|---|---|---|
| Investment in limited liability partnership (LLP) | **₱9,683,183** | **₱10,262,500** |
| Fixed income deposits | **500,000** | **500,000** |
| Deposits | **470,155** | **470,155** |
| Others | **335,270** | **335,270** |
| | **₱10,988,608** | **₱11,567,925** |

Investment in LLP pertains to MC's investment carried at cost and adjusted for changes in the foreign exchange rates. Deposits consist of security and utility deposits. Fixed income deposit pertains to the Group's time deposit in Xavier Punla Rural Bank. Fixed income deposit earns interest at the rate of 10% per annum. Interest income earned amounted to ₱0.1 million in 2012 and 2011.

## 13. Accounts Payable and Accrued Expenses

| | March 2013 | December 2012 |
|---|---|---|
| Deposits payable (see Note 20) | **₱1,588,122** | **₱1,193,714** |
| Accounts payable | **741,904** | **1,403,857** |
| Accrued expenses | **768,665** | **650,619** |
| | **₱3,098,691** | **₱3,248,190** |

Deposits payable pertain to deposits made by tenants for the lease of the Group's surplus condominium spaces and will be returned to the lessee after the lease term. Accounts payable are generally noninterest-bearing payables to third party contractors. Accrued expenses include accrual of professional fees, withholding taxes and other government payables. The above balances are noninterest-bearing and are payable within one year.

## 14. Retirement Benefits Cost

The Group has an unfunded, defined benefit pension plan covering substantially all of its regular employees. Retirement benefits under the plan are based on a percentage of latest monthly salary and years of credited service.

The latest independent actuarial valuation of the plan as of December 31, 2012, prepared by an independent actuary, is determined using the projected unit credit method in accordance with PAS 19.

The following tables summarize the components of retirement benefit expense recognized in the consolidated statements of income and the unfunded status and amounts recognized in the consolidated statements of financial position for the plan.

The composition of retirement benefit expense recognized in the consolidated statements of income is as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current service cost | **₱502,936** | ₱291,294 | ₱433,822 |
| Interest cost on benefit obligation | **228,398** | 222,859 | 201,939 |
| Net actuarial losses | **77,277** | 68,612 | 15,946 |
| Net benefit expense | **₱808,611** | ₱582,765 | ₱651,707 |

The amounts recognized in the consolidated statements of financial position as retirement benefit obligation are as follows:

| | **2012** | 2011 |
|---|---|---|
| Present value of obligation | **₱6,349,214** | ₱4,734,779 |
| Unrecognized net actuarial losses | **(1,550,435)** | (744,611) |
| Retirement benefit obligation | **₱4,798,779** | ₱3,990,168 |

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

| | **2012** | 2011 |
|---|---|---|
| Balances at beginning of year | **₱4,734,779** | ₱4,031,877 |
| Current service cost | **502,936** | 291,294 |
| Interest cost on benefit obligation | **228,398** | 222,859 |
| Actuarial loss on obligation | **883,101** | 188,749 |
| Balances at end of year | **₱6,349,214** | ₱4,734,779 |

Movements in the retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

| | **2012** | 2011 |
|---|---|---|
| Beginning balances | **₱3,990,168** | ₱3,407,403 |
| Net periodic benefit expense | **808,611** | 582,765 |
| Ending balances | **₱4,798,779** | ₱3,990,168 |

The Group's retirement plan is unfunded as of December 31, 2012. As of December 31, 2012, management does not yet have a definite plan to fund the retirement benefits.

The principal actuarial assumptions used in determining retirement benefit obligation for the Group's retirement plan are as follows:

| | **2012** | 2011 |
|---|---|---|
| Discount rate | **4.20%** | 5.35% |
| Salary increase rate | **5.00%** | 5.00% |

Amounts for the current year and previous four (4) years are as follows:

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **₱6,349,214** | ₱4,734,779 | ₱4,031,877 | ₱3,022,933 | ₱2,278,988 |
| Actuarial losses (gains) on obligation | **883,101** | 188,749 | 373,183 | (226,113) | (366,349) |
| Experience adjustments on plan liabilities - (gains) losses | **810,515** | 145,732 | 257,211 | 228,402 | (232,511) |
| Change in assumptions | **162,586** | 43,017 | 115,972 | (454,515) | (133,838) |

## 15. **Income Taxes**

Provision for (benefit from) income tax consists of:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current: | | | |
| Regular corporate income tax | **₱3,243,976** | ₱3,442,517 | ₱851,404 |
| Final tax on interest income | **6,651,690** | 4,601,077 | 293,696 |
| MCIT | **35,617** | 24,911 | 457,502 |
| Deferred | **–** | (313,103) | – |
| | **₱9,931,283** | ₱7,755,402 | ₱1,602,602 |

The Group's current provision for income tax represents regular corporate income tax, MCIT and final tax on interest income.

Reconciliation of income tax expense computed at the statutory income tax rate to provision for income tax shown in the consolidated statements of income follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Provision for income tax at statutory tax rate of 30% | **₱38,639,112** | ₱209,065,500 | ₱17,075,607 |
| Additions to (reductions in) income tax resulting from: | | | |
| Movement of unrecognized deferred tax assets | **1,080,989** | 3,464,270 | 1,549,395 |
| Expired NOLCO | **655,635** | 1,383,893 | 881,129 |
| Unallowable entertainment, amusement and recreation | **65,936** | 70,134 | 50,378 |
| Nondeductible expenses | **6,977** | 27,900 | – |
| Expired MCIT | **–** | 129 | 68,106 |
| Gain on disposal of subsidiary subject to capital gains tax | **–** | (183,110,780) | – |
| Dividend income exempt from tax | **(273,757)** | (120,573) | (113,686) |
| Nontaxable gain on fair value changes of financial assets at FVPL | **(2,479,648)** | (1,980,608) | (852,344) |
| Interest income subjected to final tax | **(4,464,919)** | (2,332,270) | (164,592) |
| Equity in net earnings of associates | **(23,299,042)** | (18,712,193) | (16,891,391) |
| | **₱9,931,283** | ₱7,755,402 | ₱1,602,602 |

The components of net deferred tax liabilities as of December 31, 2012 and 2011 are as follows:

| | **2012** | 2011 |
|---|---|---|
| Deferred tax assets: | | |
| *Recognized directly in income:* | | |
| Allowance for impairment losses on receivables and AFS financial assets | **₱15,496,294** | ₱15,300,221 |
| Deferred tax liabilities: | | |
| *Recognized directly in income:* | | |
| Unrealized foreign exchange gains | **15,496,294** | 15,300,221 |
| Net deferred tax liabilities | **₱–** | ₱– |

No deferred tax assets were recognized on the following deductible temporary differences, carryforward of unused MCIT and unused NOLCO because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

| | **2012** | 2011 |
|---|---|---|
| Allowance for impairment losses on investment in MUDC | **₱94,830,129** | ₱94,830,129 |
| Allowance for impairment losses on receivables and AFS financial assets | **146,482,949** | 147,136,527 |
| Unrealized foreign exchange loss | **6,672,757** | 3,360,468 |
| Unrealized valuation loss on AFS financial assets | **5,904,745** | 23,174,387 |
| Provision for legal obligation | **5,000,000** | 5,000,000 |
| Retirement benefit obligation | **4,798,779** | 3,990,168 |
| Net unrealized valuation loss on foreign financial assets at FVPL | **4,774,447** | 3,155,336 |
| NOLCO | **4,142,684** | 5,571,943 |
| MCIT | **70,694** | 86,857 |

As of December 31, 2012, the Group has NOLCO that can be claimed as deduction from future taxable income and MCIT that can be used against payment of regular income tax as follows:

NOLCO:

| Year of Recognition | Availment Period | Beginning Balance | Additions | Expiration | Ending Balance |
|---|---|---|---|---|---|
| 2009 | 2010-2012 | ₱2,185,450 | ₱– | (₱2,185,450) | ₱– |
| 2010 | 2011-2013 | 1,911,228 | | – | 1,911,228 |
| 2011 | 2012-2014 | 1,475,263 | – | – | 1,475,263 |
| 2012 | 2013-2015 | – | 756,193 | – | 756,193 |
| | | ₱5,571,941 | ₱756,193 | (₱2,185,450) | ₱4,142,684 |

MCIT:

| Year of Recognition | Availment Period | Beginning Balance | Additions | Application | Expiration | Ending Balance |
|---|---|---|---|---|---|---|
| 2010 | 2011-2013 | ₱10,166 | ₱– | ₱– | ₱– | ₱10,166 |
| 2011 | 2012-2014 | 24,911 | – | – | – | 24,911 |
| 2012 | 2013-2015 | – | 35,617 | – | – | 35,617 |
| | | ₱35,077 | ₱35,617 | ₱– | ₱– | ₱70,694 |

## 16. **Equity**

a. Common Stock

The details of the Group's capital stock (number of shares and amounts) follow:

| | **2012** | 2011 |
|---|---|---|
| Common stock - ₱1 par value | | |
| Class A | | |
| Authorized - 600 million shares | | |
| Issued and outstanding - 292,610,118 shares | **₱292,610,118** | ₱292,610,118 |
| Class B | | |
| Authorized - 400 million shares | | |
| Issued and outstanding - 189,217,535 shares | **189,217,535** | 189,217,535 |
| | **₱481,827,653** | ₱481,827,653 |

Class A and B common stockholders enjoy the same rights and privileges, except that Class A shares may be owned by, transferred to and subscribed only by Filipino citizens or corporations, partnerships and associations organized under the laws of the Philippines, of which 60% of the common stock outstanding is owned by citizens of the Philippines. Class B shares may be issued, transferred or sold to any person, corporation, partnership or association regardless of nationality.

In 1979, the registrant listed with the PSE (or its predecessor, Manila Stock Exchange) its common stock under its previous name, Ultrana Energy and Resource Corporation, where it offered 1,000,000,000 shares to the public at the issue price of ₱0.01 per share.

On July 28, 1997, the SEC approved the increase in the Group's authorized capital stock from 10,000,000,000, divided into 6,000,000,000 Class A common shares with par value of ₱0.01 per share and 4,000,000,000 Class B common shares with par value of ₱0.01 per share to 1,000,000,000 common shares, divided into 600,000,000 Class A common shares with par value of ₱1 per share and 400,000,000 Class B common share with par value of ₱1 per share.

On November 26, 2000, the BOD approved the issuance, out of the authorized common stock, of 192,413,090 shares at ₱1 par value which will be offered through a pre-emptive stock rights issue and detachable stock warrants, as follows: (a) 96,206,545 shares consisting of 58,377,278 Class A shares and 37,829,267 Class B shares, to be offered in two tranches, the First Tranche consisting of 48,103,272 shares of stock and the Second Tranche consisting of 48,103,273 shares of stock, to which each stockholder may subscribe on a pre-emptive rights basis, and (b) the balance of 96,206,545 shares to be offered through detachable stock warrants, which shall entitle each stockholder to subscribe to one share of stock for every one share of stock of the same class that such stockholder subscribe to out of this stock rights issue.

The Group's application to list additional 192,413,090 common shares with a par value of ₱1 per share through pre-emptive rights issue and detachable subscription warrants was approved by the PSE on February 27, 2002 and by the SEC on April 5, 2002.

The exercise periods and expiration dates of the Group's subscription warrants are as follows:

| | Number of Shares | Exercise Periods | Expiration Dates |
|---|---|---|---|
| First Tranche: | | | |
| Class A common shares | 29,188,639 | | |
| Class B common shares | 18,914,633 | June 4, 2002 to June 3, 2007 | June 3, 2007 |
| | 48,103,272 | | |
| Second Tranche: | | | |
| Class A common shares | 29,188,639 | | |
| Class B common shares | 18,914,634 | May 9, 2003 to May 8, 2008 | May 8, 2008 |
| | 48,103,273 | | |
| | 96,206,545 | | |

Full payment of each subscription under the First Tranche was made within the offer period approved by the PSE and the SEC, and the full payment of each subscription under the Second Tranche shall be due and payable one year from the last day of the offer period. With the full subscription of the Pre-Emptive Rights Stock Offering, the Group's outstanding common stock increased to 481,032,728 common shares of stock, consisting of 291,886,391 Class A common shares and 189,146,337 Class B common shares, all with par value of ₱1 per share.

With the complete exercise of all Detachable Stock Warrants, the Group will have an outstanding common stock of 577,239,273 shares, consisting of 350,263,669 Class A common shares and 226,975,604 Class B common shares, all with par value of ₱1 per share. However, as of December 31, 2007, 723,727 Class A common stock warrants and 71,198 Class B common stock warrants were exercised and 28,464,912 Class A common stock warrants and 18,843,435 Class B common stock warrants expired. As of December 31, 2008, 29,188,639 Class A common stock warrants and 18,914,634 Class B common stock warrants expired due to non-exercise of stock warrants before expiration date. After the expiration of the said warrants, the Group's outstanding common stock amounted to ₱481,827,653 with additional paid-in capital of ₱144,759,977. There have been no movements since 2008.

As of December 31, 2012, 2011 and 2010, the Parent Company has 502, 533 and 548 stockholders, respectively.

b. Treasury shares

In 2002, MCHC subscribed, through the above offering, to 47,143,022 Class A shares of the Parent Company. On the other hand, PIEI subscribed to 9,762,114 Class A shares and 37,496,379 Class B shares. In 2005, additional 260,000 Class A shares and 20,000 Class B shares were transferred by the transfer agent to PIEI. For consolidation purposes, the costs of these shares are presented under the "Treasury shares" account in the equity section of the consolidated statements of financial position.

In a special meeting held on May 22, 2003, the BOD resolved that the period for the payment of the deferred tranche be extended to 60 days from May 9, 2003 to July 9, 2003. If no payment is made within 30 days from July 9, 2003, the shares pertaining to the unpaid subscriptions shall become delinquent. On August 9, 2003, shares of stock amounting to ₱0.7 million were declared delinquent and sold at a public auction on October 9, 2003. There was only one bidder, PIEI, to whom the delinquent shares were sold, and in whose favor a certificate of sale was issued. In 2004, additional 60,000 shares of stock of the Group were sold to PIEI at ₱0.05 million.

In 2011, MCHC purchased additional shares of the Parent Company. The cost to acquire 346,000 units of Class A shares and 66,000 units of Class B shares amounted to ₱0.5 million.

In 2012, MCHC purchased additional shares of the Parent Company. The cost to acquire 24,000 units of Class A shares and 5,000 units of Class B shares amounted to ₱0.1 million.

MCHC and PIEI holds 58,727,448 and 58,703,448 Class A shares of the Parent Company as of December 31, 2012 and 2011, respectively, and 37,784,379 and 37,779,379 Class B shares of the Parent Company as of December 31, 2012 and 2011, respectively.

c. Net unrealized valuation gains (losses) on AFS financial assets

Net unrealized valuation gain on AFS financial assets presented in the equity section of the consolidated statements of financial position amounted to ₱4.2 million as of March 31, 2013. Net unrealized valuation loss/gain on AFS financial assets amounted to ₱0.9 million as of December 31, 2012 (see Note 9).

d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱96.4 million and ₱96.3 million as of December 31, 2012 and 2011, respectively.

On July 28, 2010, the BOD declared a regular cash dividend amounting to ₱0.05 per share held or ₱24,091,383 (481,827,653 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of August 27, 2010, payable on or before September 23, 2010. Of the total amount declared, ₱23,987,860 have been paid out in 2010 and ₱356 in 2011.

On July 28, 2011, the BOD declared a regular cash dividend amounting to ₱0.07 per share held or ₱33,727,936 (481,827,653 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 10, 2011, payable on or before September 15, 2011. Of the total amount declared, ₱33,531,619 have been paid out in 2011.

On July 17 2012, the BOD declared a regular cash dividend amounting to ₱0.12 per share held payable as follows; ₱0.07 per share or ₱33,727,936 (481,827,653 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 14, 2012, payable on or before September 7, 2012; and ₱0.05 per share held or ₱24,091,383 (481,827,653 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of October 8, 2012, payable on or before November 2, 2012. Of the total amount declared, ₱57,438,833 have been paid out in 2012.

## 17. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties can be corporate or individual entities.

Receivables from related parties (net) amounted to P3.9 million as of March 31, 2013 and December 31, 2012.

A summary of receivable balances and transactions with related parties follows:

| | | Amount | Receivables | Terms | Conditions |
|---|---|---|---|---|---|
| *Associates:* | | | | | |
| MUDC | **2012** | **₱–** | **₱190,179,403** | 30 day; non | Unsecured; |
| Advances | 2011 | **–** | 190,229,003 | interest bearing | with impairment amounting to ₱186,324,713 |
| BPO | | | | | |
| Rent income | **2012** | **1,047,689** | **–** | 30 days; non | **–** |
| | 2011 | 1,003,773 | – | interest bearing | – |
| Payroll services expense | **2012** | **222,098** | **–** | 30 days; non | **–** |
| | 2011 | 71,769 | – | interest bearing | – |
| Dividends | **2012** | **–** | **18,291,000** | 30 day; non | Unsecured; no |
| | 2011 | – | 15,750,000 | interest bearing | Impairment |
| PTC | | | | | |
| Dividends | **2012** | **–** | **37,125,000** | 30 day; non | Unsecured; no |
| | 2011 | – | 33,750,000 | interest bearing | Impairment |
| *Other related parties* | | | | | |
| Advances | **2012** | **–** | **354,431** | 30 day; non | Unsecured; |
| | 2011 | – | 636,523 | interest bearing | with impairment amounting to ₱37,761 |
| | **2012** | | **₱245,949,834** | | |
| | 2011 | | 240,365,526 | | |

There were no movements in allowance for impairment losses in 2012 and 2011.

a. MCHC has executed a management agreement (the Agreement) with MUDC and other related parties. The Agreement with MUDC requires MCHC to provide general management services for the operation of the business and affairs of MUDC for a period of five years, renewable for the same period thereafter under certain terms and conditions, unless terminated earlier by either party after serving the required written notice to the other.

   MCHC's BOD approved MUDC's request for suspension of the management fee for the period January 1, 2002 up to the contract's expiration in March 2003. Subsequently, the agreement was terminated in December 2002. As of December 31, 2012 and 2011, management fees receivable from MUDC amounted to ₱45.2 million (see Note 7). In 2004, the management fee receivable was fully provided with allowance for impairment losses, since management believes that this is not likely to be collected in the future.

b. MCHC has existing noninterest-bearing long-term advances to MUDC amounting to ₱49.1 million, including accumulated unpaid interest as of December 31, 2012 and 2011. In 2004, the loan and unpaid interest was fully provided with an allowance for impairment loss since management believes that it is not likely to be collected in the future.

c. In 2006, total noninterest-bearing long-term advances to related parties amounting to ₱56.8 million, including the unamortized discount of ₱23.4 million as of December 31, 2005, was fully provided with allowance for impairment losses, since management believes that the entire balance is not likely to be collected in the future.

Compensation of the Group's key management personnel comprised mainly of short-term employee benefits amounting to ₱7.5 million and ₱6.2 million in 2012 and 2011, respectively, and long-term employee benefits amounting to ₱1.5 million and ₱0.5 million in 2012 and 2011, respectively. Key management personnel have no other long-term employee benefits other than statutory retirement benefit.

## 18. Earnings per Share

Basic earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in computing basic and diluted earnings per share for the years ended December 31:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net income from continuing operations attributable to equity holders of the parent | **₱116,513,380** | ₱78,075,977 | ₱55,607,836 |
| Weighted average number of ordinary shares outstanding for basic and diluted earnings per share | **385,316,243** | 385,344,826 | 385,756,826 |
| Basic and diluted earnings per share | **₱0.302** | ₱0.203 | ₱0.144 |
| Net income from discontinued operations attributable to equity holders of the parent | **₱–** | ₱579,761,741 | (₱575,069) |
| Weighted average number of ordinary shares outstanding for basic and diluted earnings per share | **–** | 385,344,826 | 385,756,826 |
| Basic and diluted earnings per share | **₱–** | ₱1.505 | (₱0.001) |

## 19. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Parent Company and its subsidiaries, is to invest in real and personal properties. MCHC's subsidiary, BAID, which was disposed in 2011, was engaged in real estate business which, as of December 31, 2010, has not yet started commercial operations. Accordingly, the Group operates mainly in one reportable business segment which is investing and one reportable geographical segment which is the Philippines.

## 20. Commitments and Contingencies

a. The Group leases an insignificant portion of its condominium spaces. The Group recognized rental income amounting to ₱3.5 million in 2012, ₱3.2 million in 2011 and ₱2.6 million in 2010. Future minimum rental income of ₱3.3 million from existing rental agreements will be recognized in 2013. The lease agreements have terms of one to two years and can be renewed upon the written agreement of the Group and the lessees.

b. The Group is currently involved in legal litigations covering various labor cases. In 2011, the Group recognized provision for legal obligation amounting to ₱5.0 million, for claims arising from lawsuits filed by a third party, which is pending decision by the courts. Probable cost has been estimated in consultation with the Group's legal counsel.

c. Aside from the case discussed above, in the ordinary course of business, the Group is a plaintiff in various litigations and claims. The Group believes, based on information currently available and the advice of its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims.

## 21. Financial Risk Management Objectives and Policies

Risk Management Structure

*BOD*

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The principal financial instruments of the Group consist of financial assets at FVPL, short-term investments, fixed income deposits and AFS financial assets. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial instruments such as cash and cash equivalents, receivables, fixed income deposit, and receivables from related parties included under other noncurrent assets and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (i.e., interest rate risk, foreign currency risk and equity price risk). The Group's management reviews and approves policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments. The magnitudes of these risks that have arisen over the year are discussed below.

*Credit Risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Group is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (i.e., foreign currency-denominated debt instruments, short-term investments, fixed income deposits and receivables) to its financial assets.

*Credit risk management*
In managing credit risk on these investments, capital preservation is paramount. The Group trades only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record, as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Group's President and Treasurer.
With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables from third parties and related parties, short-term investments and fixed income deposits, the Group's President and Treasurer monitor these financial assets on an ongoing basis with the result that the Group's exposure to impairment losses is not significant.

*Credit risk exposures*
At reporting date, the Group's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the consolidated statements of financial position. The Group's financial assets are not covered by collateral from counterparties.

*Credit risk concentration profile*
The Group has no significant concentrations of credit risk.

*Credit quality*
As of March 31, 2013 and December 31, 2012, the credit qualities per class of financial assets are as follows:

**March 2013**

| | Neither past due nor impaired | | Past due | | |
|---|---|---|---|---|---|
| | High grade | Standard grade | but not impaired | Individually impaired | Total |
| **Loans and receivables:** | | | | | |
| **Cash and cash equivalents** | **₱1,073,565,173** | **₱–** | **₱–** | **₱–** | **₱1,073,565,173** |
| **Receivables** | **47,017,914** | **–** | **–** | **90,110,187** | **137,128,101** |
| **Receivables from related parties** | **3,901,612** | **–** | **–** | **97,373,076** | **101,274,688** |
| **Fixed income deposits** | **1,000,000** | **–** | **–** | **–** | **1,000,000** |
| **Financial assets at FVPL** | **64,653,662** | **–** | **–** | **–** | **64,653,662** |
| **AFS financial assets:** | | | | | |
| **Debt and equity securities** | **340,139,778** | **–** | **–** | **10,654,000** | **350,793,778** |
| **Investment in LLP** | **9,683,183** | **–** | **–** | **–** | **9,683,183** |
| | **₱1,539,961,322** | **₱–** | **₱–** | **₱198,137,263** | **₱1,738,098,585** |

December, 2012

| | Neither past due nor impaired | | Past due | | |
|---|---|---|---|---|---|
| | High grade | Standard grade | but not impaired | Individually impaired | Total |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | **₱1,047,543,993** | **₱–** | **₱–** | **₱–** | **₱1,047,543,993** |
| Receivables | **64,244,523** | **–** | **–** | **90,110,187** | **154,354,710** |
| Receivables from related parties | **3,860,514** | **–** | **–** | **97,373,076** | **101,233,590** |
| Fixed income deposits | **1,000,000** | **–** | **–** | **–** | **1,000,000** |
| Financial assets at FVPL | **59,176,111** | **–** | **–** | **–** | **59,176,111** |
| AFS financial assets: | | | | | |
| Debt and equity securities | **344,573,336** | **–** | **–** | **10,654,000** | **355,227,336** |
| Investment in LLP | **10,262,500** | **–** | **–** | **–** | **10,262,500** |
| | **₱1,530,660,977** | **₱–** | **₱–** | **₱198,137,263** | **₱1,728,798,240** |

*High grade financial assets*
High grade receivables pertain to receivables from related parties and customers with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Other high grade financial assets reflect the investment grade quality of the investments and/or counterparty and realizability is thus assured.

*Standard grade financial assets*
Receivables from customers that slide beyond the credit terms are classified under standard grade. Other standard grade financial assets are considered moderately realizable. There are no standard grade financial assets as of December 31, 2012 and 2011.

*Aging Analysis*
Aging analysis per class of financial assets as of March 31, 2013 and December 31, 2012 are as follows:

**March 2013**

| | **Neither Past Due nor Impaired** | **Past due but not impaired** | | | |
|---|---|---|---|---|---|
| | | **<1 year** | **>1 year** | **Impaired** | **Total** |
| **Loans and receivables:** | | | | | |
| **Cash and cash equivalents** | **₱1,073,565,173** | **₱–** | **₱–** | **₱–** | **₱1,073,565,173** |
| **Receivables** | **47,017,914** | **–** | **–** | **90,110,187** | **137,128,101** |
| **Receivables from related parties** | **3,901,612** | **–** | **–** | **97,373,076** | **101,274,688** |
| **Fixed income deposits -** | **1,000,000** | **–** | **–** | **–** | **1,000,000** |
| **Financial assets at FVPL** | **64,653,662** | **–** | **–** | **–** | **64,653,662** |
| **AFS financial assets** | | | | | |
| **Debt and equity securities** | **340,139,778** | **–** | **–** | **10,654,000** | **350,793,778** |
| **Investment in LLP** | **9,683,183** | **–** | **–** | **–** | **9,683,183** |
| | **₱1,539,961,322** | **₱–** | **₱–** | **₱198,137,263** | **₱1,738,098,585** |

December 2012

| | Neither Past Due nor Impaired | Past due but not impaired <1 year | >1 year | Impaired | Total |
|---|---|---|---|---|---|
| Loans and receivables: | | | | | |
| Cash and cash equivalents | **₱1,047,543,993** | **₱–** | **₱–** | **₱–** | **₱1,047,543,993** |
| Receivables | **64,244,523** | **–** | **–** | **90,110,187** | **154,354,710** |
| Receivables from related parties | **3,860,514** | **–** | **–** | **97,373,076** | **101,233,590** |
| Fixed income deposits | **1,000,000** | **–** | **–** | **–** | **1,000,000** |
| Financial assets at FVPL | **59,176,111** | **–** | **–** | **–** | **59,176,111** |
| AFS financial assets | | | | | |
| Debt and equity securities | **344,573,336** | **–** | **–** | **10,654,000** | **355,227,336** |
| Investment in LLP | **10,262,500** | **–** | **–** | **–** | **10,262,500** |
| | **₱1,530,660,977** | **₱–** | **₱–** | **₱198,137,263** | **₱1,728,798,240** |

*Impairment assessment*

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are nonmoving accounts receivable, accounts of defaulted companies and accounts from closed companies.

The carrying amount of the Group's financial assets as at March 31, 2013 and December 31, 2012 are as follows:

**March 2013**

| | **Receivables** | **Receivables from related parties** | **AFS financial assets** | **Total** |
|---|---|---|---|---|
| **Nominal amounts** | **₱137,128,101** | **₱101,274,688** | **₱350,793,778** | **₱589,196,567** |
| **Less allowance for impairment losses** | **90,110,187** | **97,373,076** | **10,654,000** | **198,137,263** |
| **At March 31, 2013** | **₱47,017,914** | **₱3,901,612** | **₱340,139,778** | **₱391,059,304** |

December 2012

| | Receivables | Receivables from related parties | AFS financial assets | Total |
|---|---|---|---|---|
| Nominal amounts | **₱154,354,710** | **₱101,233,590** | **₱355,227,336** | **₱610,815,636** |
| Less allowance for impairment losses | **90,110,187** | **97,373,076** | **10,654,000** | **198,137,263** |
| At December 31, 2011 | **₱64,244,523** | **₱3,860,514** | **₱344,573,336** | **₱412,678,373** |

Movement in allowance for impairment losses account:

| | Receivables | Receivables from related parties | AFS financial assets | Total |
|---|---|---|---|---|
| At January 1, 2011 | ₱90,110,187 | ₱97,373,076 | ₱10,594,000 | ₱198,077,263 |
| Provision for the year | – | – | 60,000 | 60,000 |
| At December 31, 2011 | 90,110,187 | 97,373,076 | 10,654,000 | 198,137,263 |
| Provision for the year | – | – | – | – |
| At December 31, 2012 | ₱90,110,187 | ₱97,373,076 | ₱10,654,000 | ₱198,137,263 |

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱0.06 million and ₱0.02 million in 2011 and 2010, respectively. There was no impairment losses provision in 2012.

*Liquidity Risk*
Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due and this is done by primarily investing in highly liquid investments and maintaining a significant amount of cash and cash equivalents and pre-terminable investments in its portfolio.

The following table summarizes the maturity profile of the Group's financial liabilities as of March 31, 2013 and December 31, 2012 based on contractual undiscounted cash flows. The table also analyzes the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

**March 2013**

| | **On demand** | **< 1 year** | **> 1 year** | **Total** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| **Cash and cash equivalents** | **22,757,811** | **₱1,050,798,362** | **₱–** | **₱1,073,556,173** |
| **Receivables** | **47,017,914** | – | – | **47,017,914** |
| **Receivables from related parties** | – | – | **3,901,612** | **3,901,612** |
| **Financial assets at FVPL** | **64,653,662** | – | – | **64,653,662** |
| **AFS financial assets** | **340,139,778** | **500,000** | **500,000** | **341,139,778** |
| **Total financial assets** | **474,569,165** | **1,051,298,362** | **4,401,612** | **1,530,269,139** |
| **Financial liabilities:** | | | | |
| **Accounts payable and accrued expenses** | **1,817,404** | – | – | **1,817,404** |
| **Dividends payable** | **679,970** | – | – | **679,970** |
| **Total financial liabilities** | **2,497,374** | – | – | **2,497,374** |
| | **₱477,066,539** | **1,051,298,362** | **4,401,612** | **₱1,532,766,513** |

December 2012

| | On demand | < 1 year | > 1 year | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash and cash equivalents | **₱11,401,614** | **₱1,036,133,379** | **₱–** | **₱1,047,534,993** |
| Receivables | **64,244,523** | – | – | **64,244,523** |
| Receivables from related parties | – | – | **3,860,514** | **3,860,514** |
| Financial assets at FVPL | **59,176,111** | – | – | **59,176,111** |
| AFS financial assets | **344,573,336** | **500,000** | **500,000** | **345,573,336** |
| Total financial assets | **479,395,584** | **1,036,633,379** | **4,360,514** | **1,520,389,477** |
| Financial liabilities: | | | | |
| Accounts payable and accrued expenses | **1,602,366** | – | – | **1,602,366** |
| Dividends payable | **679,970** | – | – | **679,970** |
| Total financial liabilities | **2,282,336** | – | – | **2,282,336** |
| | **₱477,113,248** | **₱1,036,633,379** | **₱4,360,514** | **₱1,518,107,141** |

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group derives majority of its revenue from interest-bearing placements and bonds. Accordingly, the Group is subject to financial risk arising from changes in interest rates. The Group manages interest rate risk by investing mainly on fixed coupon bonds and other investments. By doing so, the Group is assured of future interest revenues from such investments.

Since the Group invests on fixed coupon interest bonds and other investments, the Group is not exposed significantly to cash flow interest rate risk.

The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's equity due to changes in fair values of AFS financial assets in debt securities (see Note 9):

| | **March, 2013** | December, 2012 |
|---|---|---|
| Change in interest rate (in basis points) | | |
| +10% | **₱33,091,169** | **₱33,534,525** |
| –10% | **(₱33,091,169)** | **(33,534,525 )** |

b. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign currencies.

In the normal course of business, the Group enters into transactions denominated in US dollar and other foreign currencies. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent as of December 31 are as follows:

US Dollar:

| | **March 2013** | | December 2012 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| Cash and cash equivalents | **$940,155** | **₱38,488,065** | **$615,215** | **₱25,254,576** |
| Receivables | **218,440** | **8,942,497** | **257,131** | **10,555,228** |
| Financial assets at FVPL | **331,733** | **13,580,486** | **396,749** | **16,286,546** |
| AFS financial assets | **4,951,050** | **202,686,085** | **4,826,854** | **198,142,357** |
| Other noncurrent assets | **250,000** | **10,234,500** | **250,000** | **10,262,500** |
| | **$6,691,378** | **₱273,931,633** | **$6,345,949** | **₱260,501,207** |

The exchange rate of the Philippine peso vis-à-vis the US dollar is ₱41.05 and ₱43.84 as of December 31, 2012 and 2011, respectively.

Other Foreign Currencies:

| | **March 2013** | | | |
|---|---|---|---|---|
| | **Currency** | **Exchange Rate** | **Original Currency** | **Peso Equivalent** |
| Cash and cash equivalents | **SGD** | **33.70** | **13,321** | **₱448,918** |
| | **HKD** | **5.31** | **26,629** | **141,400** |
| | **AUD** | **42.67** | **3,750** | **160,013** |
| AFS financial assets | **EUR** | **50.05** | **202,283** | **10,124,264** |
| | **HKD** | **5.31** | **2,427,000** | **12,887,370** |
| | **AUD** | **42.67** | **95,075** | **4,056,850** |
| | **BRL** | **21.59** | **910,797** | **19,664,107** |
| | **TRY** | **23.66** | **575,137** | **13,607,741** |
| | **RMB** | **6.41** | **5,155,518** | **33,046,870** |
| | **SGD** | **33.70** | **288,729** | **9,730,167** |
| Financial assets at FVPL | **HKD** | **5.31** | **594,000** | **3,154,140** |
| | | | | **₱107,021,840** |

| | December 2012 | | | |
|---|---|---|---|---|
| | Currency | Exchange Rate | Original Currency | Peso Equivalent |
| Cash and cash equivalents | EUR | 56.84 | 10,897 | ₱619,385 |
| | HKD | 5.65 | 26,226 | 148,177 |
| | AUD | 44.32 | 3,750 | 166,200 |
| AFS financial assets | EUR | 56.84 | 168,102 | 9,554,918 |
| | HKD | 5.65 | 1,951,500 | 11,025,975 |
| | AUD | 44.32 | 73,682 | 3,265,586 |
| | BRL | 23.30 | 831,965 | 19,384,785 |
| | TRY | 22.94 | 300,992 | 6,904,756 |
| | RMB | 6.94 | 3,231,000 | 22,423,140 |
| Financial assets at FVPL | HKD | 5.65 | 666,000 | 3,762,900 |
| | | | | ₱77,255,822 |

The Group has no foreign currency denominated monetary liabilities as of March 31, 2013 and December 31, 2012.

As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses amounting to ₱5.8 million and ₱11.6 million in 2012 and 2011, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies exchange rates based on past foreign currencies exchange rates and macroeconomic forecasts for 2011, with all other variables held constant, of the Group's 2012 and 2011 income before income tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

| | | Effect on income before tax | |
|---|---|---|---|
| Original Currency | Percentage | Strengthened | Weakened |
| **March 2013** | | | |
| **US dollar** | **5%** | **₱13,696,582** | **(₱13,696,582)** |
| **Hongkong dollar (HKD)** | **5%** | **809,146** | **(809,146)** |
| **E.M.U euro (EUR)** | **5%** | **506,213** | **(506,213)** |
| **Australia dollar (AUD)** | **5%** | **210,843** | **(210,843)** |
| **Brazil real (BRL)** | **5%** | **₱983,205** | **(₱983,205)** |
| **Turkish lira (TRY)** | **5%** | **680,387** | **(680,387)** |
| **Chinese yuan (RMB)** | **5%** | **1,652,343** | **(1,652,343)** |
| **Singapore dollar (SGD)** | **5%** | **508,954** | **(508,954)** |

| | | Effect on income before tax | |
|---|---|---|---|
| Original Currency | Percentage | Strengthened | Weakened |
| December 2012 | | | |
| US dollar | 5% | **₱13,025,058** | **(₱13,025,058)** |
| Hongkong dollar (HKD) | 5% | **808,747** | **(808,747)** |
| E.M.U euro (EUR) | 5% | **537,292** | **(537,292)** |
| Australia dollar (AUD) | 5% | **216,072** | **(216,072)** |
| Brazil real (BRL) | 5% | **₱917,512** | **(₱917,512)** |
| Turkish lira (TRY) | 5% | **680,400** | **(680,400)** |
| Chinese yuan (RMB) | 5% | **1,663,636** | **(1,663,636)** |
| Singapore dollar (SGD) | 5% | **452,466** | **(452,466)** |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

c. 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 the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's financial assets at FVPL and investments in AFS equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Group measures the sensitivity of its equity securities by using PSE, NYSE and HKEx indices fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2012 and 2011, with all other variables held constant, of the Group's income before income tax and equity:

*Effect on income before income tax:*

| | **March 2013** | December 2012 |
|---|---|---|
| *Financial assets at FVPL*: | | |
| Change in stock market index (%) | | |
| +10% | **₱6,465,366** | **₱4,215,229** |
| –10% | **(₱6,465,366)** | **(4,215,229)** |

*Effect on equity:*

| | **March 2013** | December 2012 |
|---|---|---|
| *Investment in equity securities (AFS)*: | | |
| Change in club share prices (%) | | |
| +10% | **₱292,700** | **₱292,700** |
| –10% | **(292,700)** | **(292,700)** |

## 22. **Financial Instruments**

Categories of Financial Instruments

**March 2013**

| | **Financial assets** | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Financial assets at FVPL** | **AFS financial assets** | **Total** |
| **ASSETS** | | | | |
| **Current:** | | | | |
| **Cash and cash equivalents** | **₱1,073,565,173** | **₱–** | **₱–** | **₱1,073,565,173** |
| **Listed debt securities** | – | **–** | **15,710,100** | **15,710,100** |
| **Listed equity securities** | – | **64,653,662** | **–** | **64,653,662** |
| **Receivables** | **147,393,815** | **–** | **–** | **147,393,815** |

(Forward)

| | Financial assets | | | |
|---|---|---|---|---|
| | **Loans and receivables** | **Financial assets at FVPL** | **AFS financial assets** | **Total** |
| **Noncurrent:** | | | | |
| **Receivable from related parties** | **₱3,901,612** | **₱–** | **₱–** | **₱3,901,612** |
| **Fixed income deposits** | **1,000,000** | **–** | **–** | **1,000,000** |
| **Investment in LLP** | – | **–** | **9,683,183** | **9,683,183** |
| **Listed debt securities** | – | **–** | **315,201,590** | **315,201,590** |
| **Listed equity securities** | – | **–** | **9,228,088** | **9,228,088** |
| **TOTAL** | **₱1,225,860,600** | **₱64,653,662** | **₱349,822,961** | **₱1,640,337,223** |

December 2012

| | Financial assets | | | |
|---|---|---|---|---|
| | Loans and receivables | Financial assets at FVPL | AFS financial assets | Total |
| ASSETS | | | | |
| Current: | | | | |
| Cash and cash equivalents | **₱1,047,543,993** | **₱–** | **₱–** | **₱1,047,543,993** |
| Listed debt securities | – | **–** | **23,390,100** | **23,390,100** |
| Listed equity securities | – | **59,176,111** | **–** | **59,176,111** |
| Receivables | **166,764,003** | **–** | **–** | **166,764,003** |
| Noncurrent: | | | | |
| Receivable from related parties | **₱3,860,514** | **₱–** | **₱–** | **₱3,860,514** |
| Fixed income deposits | **1,000,000** | **–** | **–** | **1,000,000** |
| Investment in LLP | – | **–** | **10,262,500** | **10,262,500** |
| Listed debt securities | – | **–** | **311,955,148** | **311,955,148** |
| Listed equity securities | – | **–** | **9,228,088** | **9,228,088** |
| TOTAL | **₱1,219,168,510** | **₱59,176,111** | **₱354,835,836** | **₱1,633,180,457** |

**March 2013**

| | **Other financial liabilities** | **Total** |
|---|---|---|
| **LIABILITIES** | | |
| **Current:** | | |
| **Accounts payable and accrued expenses:** | | |
| **Deposits payable** | **₱1,588,122** | **₱1,193,714** |
| **Accounts payable** | **741,904** | **1,403,857** |
| **Accrued expenses** | **768,665** | **650,619** |
| **Dividends payable** | **679,970** | **679,970** |
| **TOTAL** | **₱3,778,661** | **₱3,928,160** |

December 2012

| | Other financial liabilities | Total |
|---|---|---|
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accrued expenses: | | |
| Deposits payable | **₱1,193,714** | **₱1,193,714** |
| Accounts payable | **1,403,857** | **1,403,857** |
| Accrued expenses | **650,619** | **650,619** |
| Dividends payable | **679,970** | **679,970** |
| TOTAL | **₱3,928,160** | **₱3,928,160** |

Fair Values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, reasonably approximate their fair values because these are short-term in nature or the fair value difference is not material. Financial assets at FVPL and AFS financial assets are stated at their fair values based on quoted prices.

Short-term investments are fixed-rate time deposits denominated in US dollar with a maturity of over three months but within one year from the reporting date and earn annual interest of 2.4% to 4.0% in 2012 and 2011. The carrying value of short-term investments approximates its fair value due to its short-term nature.

Fixed income deposits represent fixed rate time deposits denominated in US dollar and earn interest annually at 3.25% to 10.0% in 2010. For fixed income deposits maturing within one year, the carrying amount approximates its fair value due to its short-term nature. For fixed income deposits maturing beyond one year, fair value is calculated by computing the present value of future cash flows using current market rates ranging from 8% to 10% in 2012 and 6.8% to 8.1% in 2011.

The fair value of receivables from related parties classified as noncurrent in the consolidated statements of financial position is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2012 and 2011.

The following table shows financial instruments recognized at fair value, analyzed between those whose fair value is based on:

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

The Group's financial asset at FVPL and AFS financial assets, except for investment in LLP, as of March 31, 2013 and December 31, 2012 are measured under level 1 of the fair value hierarchy.

As of March 31, 2013 and December 31, 2012 , there were no transfers between Level 1 and Level 2 fair value measurements. Also, there were no transfers into and out of Level 3 fair value measurements.

## 23. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure, which pertains to its equity, and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended March 31, 2013 and December 31, 2012 . The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is computed as net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio below 40%. The Group includes, within net debt, accounts payable and accrued expenses and payables to related parties, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less unrealized losses on changes in fair value of AFS financial assets.

| | **March 2013** | December 2012 |
|---|---|---|
| Accounts payable and accrued expenses | **₱3,098,691** | **₱3,248,190** |
| Less cash and cash equivalents | **1,073,565,173** | **1,047,543,993** |
| Net debt | **(1,070,466,482)** | **(1,044,295,803)** |
| Equity attributable to equity holders of the parent | **1,704,717,363** | **1,685,809,151** |
| Unrealized losses on changes in fair value of AFS financial assets | **4,249,558** | **913,522** |
| Total capital | **1,700,467,805** | **1,686,722,673** |
| Total capital and net debt | **₱630,001,323** | **₱642,426,870** |
| Gearing ratio | **1.70:1** | **1.62:1** |

## 24. Note to Consolidated Statements of Cash Flows

In 2011, the non-cash activities of the Group pertain to application of MCIT and set-up of provision for legal obligation.

## F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
## AGING OF ACCOUNTS RECEIVABLE
## AS OF MARCH 31, 2013

| Name | Beginning Balance | Additions | Deductions | | Current 30 days | 60 days or over | Over 120 days | Ending Balance |
|---|---|---|---|---|---|---|---|---|
| | | | Amount Collected | Amount Written-Off | | | | |
| Magellan Capital Realty Development Corp. | 148,097 | 500 | | | | 500 | 148,097 | 148,597 |
| Magellan Capital Trading Corporation | 157,103 | 500 | | | | 500 | 157,103 | 157,603 |
| Magellan Utilities Development Corp. | 21,569 | | | | | | 21,569 | 21,569 |
| Pinamucan Power Corporation | 1,176 | | | | | | 1,176 | 1,176 |
| Business Process Outsourcing International | | 329,617 | 321,596 | | | | 8,021 | 8,021 |
| Credit and Risk Systems Asia Pacific, Inc. | | 215,130 | 159,690 | | | 55,440 | | 55,440 |
| Others | | 8,437 | | | | | 8,437 | 8,437 |
| | 327,945 | 554,184 | 481,286 | | | 56,440 | 344,403 | 400,843 |

# DIRECTORY/BANKERS

**EXECUTIVE OFFICES:**
5th Floor, Citibank Center
8741 Paseo de Roxas, Makati City 1226
Tel. Nos.: 8927133 • 8927137 • 8929443

**LEGAL COUNSEL:**
**ATTY. FINA C. TANTUICO**
5th Floor, Citibank Center
8741 Paseo de Roxas, Makati City

**AUDITORS:**
**SYCIP GORRES VELAYO & CO.**
Certified Public Accountants
6760 Ayala Avenue, Makati City

**TRANSFER AGENT:**
**RCBC STOCK TRANSFER**
Ground Floor, West Wing
Grepalife Building
Sen. Gil Puyat Avenue, Makati City

**LISTED AT:**
**THE PHILIPPINE STOCK EXCHANGE, INC.**
- PSE Center, Tektite Towers
  Julia Vargas Avenue
  Ortigas Center, Pasig City
- PSE Plaza, Ayala Triangle
  Ayala Avenue, Makati City

**BANKERS:**

**BANK OF SINGAPORE**
22nd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, Makati City

**BANK OF THE PHILIPPINE ISLANDS**
Ortigas Branch
Benpres Building, Ortigas Center
Pasig City

**CHINA BANKING CORPORATION**
Balintawak-Boni Branch
Balintawak, Quezon City

**BDO PRIVATE BANK**
Mezzanine Floor, BDO Executive Tower
8751 Paseo de Roxas, Makati City

**SECURITY BANK**
Greenhills Branch
37 Greenhills Mansions, Anapolis Street,
Greenhills, San Juan City

**METROPOLITAN BANK & TRUST CO.**
Meralco Branch
Ground Floor, Ortigas Building
Ortigas Avenue, Pasig City

**PHILIPPINE BANK OF COMMUNICATIONS**
Meralco Avenue Branch
Ground Floor, Horizon Condominium
Meralco Avenue, Pasig City

## ANNUAL REPORT ON SEC FORM 17-A

The corporation undertakes to provide without charge to the shareholders or to each person solicited, on the written request of any such person, a copy of the Annual Report on SEC Form 17-A. Said written request, may be directed to:

**ATTY. FINA C. TANTUICO**
**Corporate Secretary**
*F&J Prince Holdings Corporation*
**5th Floor, Citibank Center**
**8741 Paseo de Roxas, Makati City**