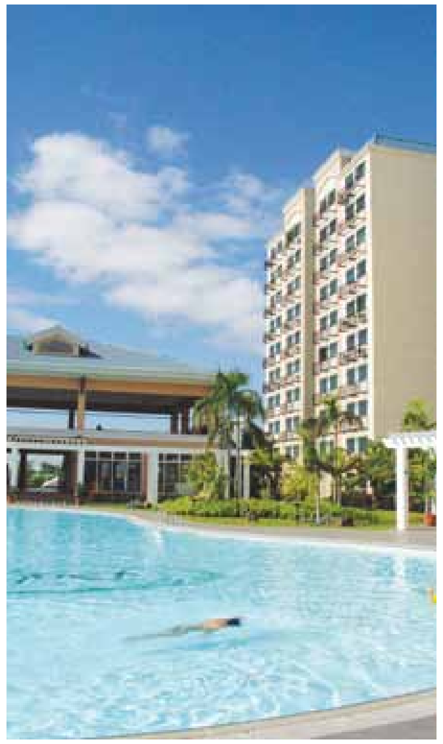
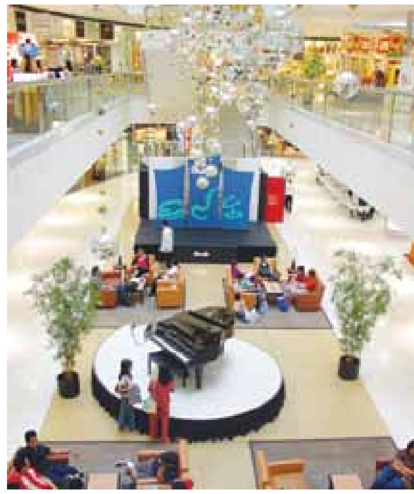
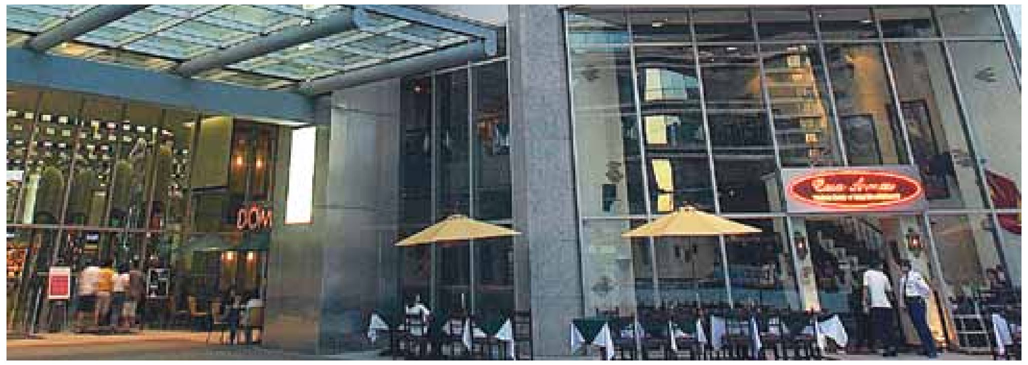
Keppel Philippines Properties

DEFINITIVELY KEPPEL







REPORT TO SHAREHOLDERS 2011

KEPPEL PHILIPPINES PROPERTIES, INC.
(Incorporated in the Republic of The Philippines)

Penthouse, Benguet Centre Building
12 ADB Avenue Ortigas Center
1550 Mandaluyong City, Philippines
Tel: (632) 637 5184
Fax: (632) 637 5185
Email: keppel.prop@kepland.com.ph

SEC Reg No: PW-305

TO BE A DEVELOPER OF CHOICE, CREATING HALLMARK QUALITY PROPERTIES OF ENDURING VALUE FOR THE COMMUNITY AND ACHIEVING SUSTAINABLE RETURNS FOR OUR SHAREHOLDERS.

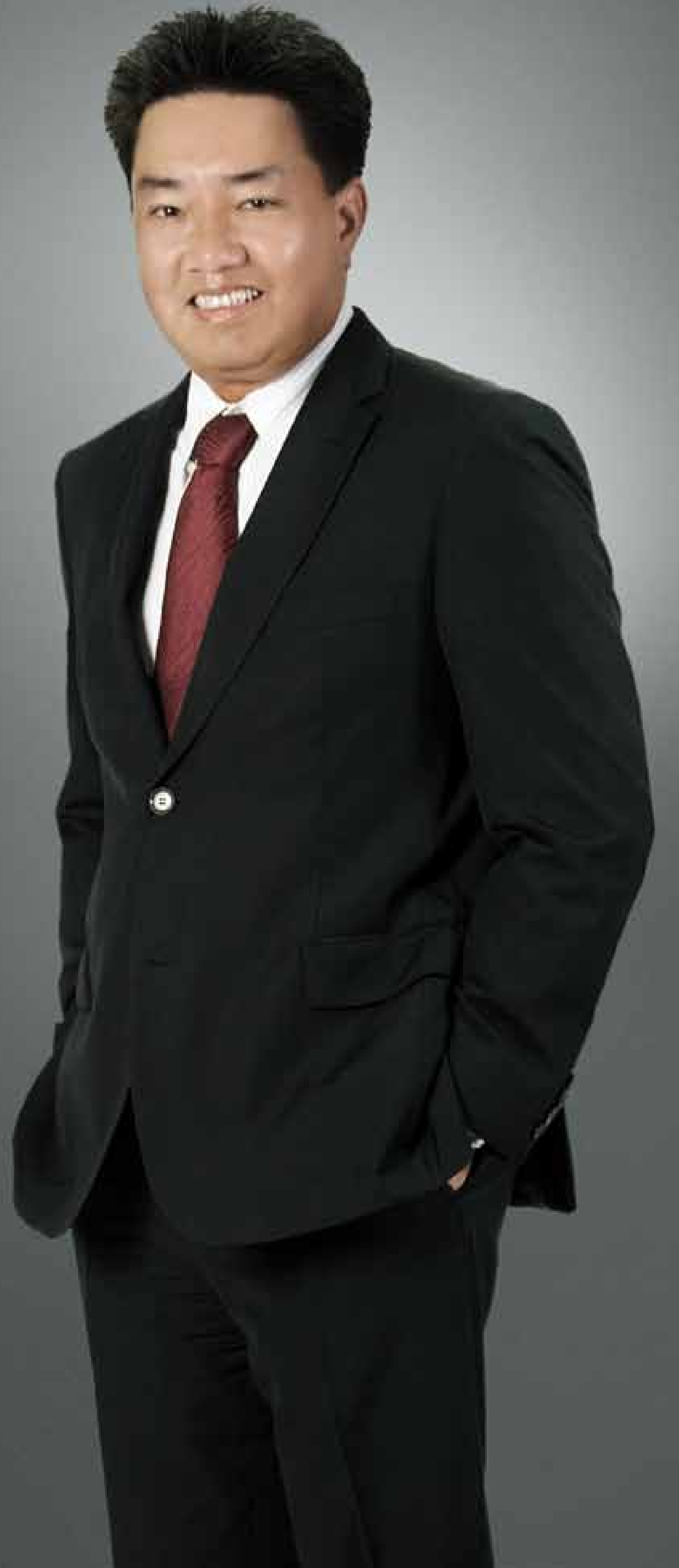
CONTENTS

FINANCIAL HIGHLIGHTS 2011

	2011	2010
For the year (In ₱'000)		
Revenue	**227,112**	32,607
Profit before income tax	**206,424**	12,856
Net profit	**203,443**	10,165
At Year-end (In ₱'000)		
Cash and cash equivalents	**307,418**	325,737
Total assets	**1,895,972**	1,704,906
Total liabilities	**284,799**	297,176
Stockholders' equity	**1,611,173**	1,407,730
Per share		
Earnings (cents)	**0.69**	0.03
Net tangible assets (₱)	**3.46**	2.77

1. Keppel Philippines Properties is committed to deliver quality properties of enduring value.

CHAIRMAN'S STATEMENT



KEPPEL PHILIPPINES PROPERTIES HAS PUT UP A STRONG PERFORMANCE IN 2011 DESPITE THE GLOBAL ECONOMIC CHALLENGES.

₱206.4m

PROFIT BEFORE INCOME TAX
A fifteen time increase from 2010

Demand for homes is expected to remain robust with stronger economic growth in 2012.

DEAR SHAREHOLDERS,
On behalf of the Board of Directors, I present the Annual Report of Keppel Philippines Properties, Inc. (KPP) for the year ended 31 December 2011.

Financial Performance

2011 was an exceptional year for KPP. The Company posted a profit before income tax of ₱206.4 million, a fifteen-time increment of ₱193.5 million from ₱12.9 million in 2010.

The positive results were primarily due to higher contributions from KPP's associates, Buena Homes Sandoval Inc. (BHSI) and SM Keppel Land Inc. (SMKL), which amounted to ₱207.2 million in 2011, compared with ₱11.7 million in 2010. SMKL recorded a one-time gain from the assignment of development rights and sale of the entire basement carpark of The Podium in Phase 1.

Interest income from bank deposits amounted to ₱12.9 million, a decrease of 8% from ₱13.9 million in 2010. A lower level of money market placements and decrease in interest rates contributed to the decline.

Net income for 2011 amounted to ₱203.4 million, an increment of nineteen times from ₱10.2 million in 2010. Earnings per share increased to ₱0.69 correspondingly, compared to ₱0.03 in 2010.

Overview

The Philippine property market recorded strong performance against a steady economic growth in 2011.

Business optimism has been sustained on the back of positive outlook on the local economy and continued inflow of investments.

Domestic demand remained robust, especially in the middle-income and affordable housing sectors.

KPP currently has two development projects in Metro Manila – Palmdale Heights and SMKL Towers.

The low interest rate environment and flexible mortgage packages from banks contribute to housing affordability in The Philippines.

Palmdale Heights, a condominium catering to the middle-income market, has been positively received by home buyers for the high quality apartments and amenities. Developed by BHSI, 86% of 828 units from Phases 1 and 2 have been sold as at 31 December 2011.

In August 2011, KPP inked a Memorandum of Agreement (MOA) with Phinma Property Holdings Corporation (PPHC) to jointly develop the remaining 5-ha land at Palmdale Heights into another condominium project. The MOA, among others, provides that PPHC shall cover the project funding and be responsible for the master planning, construction, management as well as selling/ marketing of the new project.

The retail sector also maintained a steady pace of growth in 2011, supported by sustained domestic spending.

The Podium houses over 152 specialty stores and restaurants and features two state-of-the-art cinemas. Promotional activities and events are organised regularly to enhance the shopping and dining experiences for visitors. The Podium recorded a healthy occupancy of 90% as at 31 December 2011.

In April 2011, KPP concluded a MOA with Banco de Oro Unibank (BDO), for the assignment of development rights to BDO for the construction of an office tower on top of Phase 1 of The Podium. The office tower will house BDO's business units and is estimated to be completed in the next five years. BDO has also purchased the entire basement car park in Phase 1 from SMKL.

Plans for the development of Phases 2 and 3 of the retail mall are currently under eview.

Prospects

In 2011, economic growth in The Philippines slowed to 3.7% amid uncertainties in Europe and weaknesses in the US economy.

Nonetheless, the government has set a target of achieving a Gross Domestic Product (GDP) growth of 5.5% - 6.5% for 2012 driven by sound macroeconomic fundamentals that is supported by robust domestic demand.

The property market as a whole improved steadily in 2011 with the high-end residential market putting in a strong performance. Demand for homes continues to be sustained and is expected to remain robust in 2012.

The middle-income residential market continued its upward ascend in 2011 as sales volume improved. However, the supply of middle-income condominiums is expected to outpace demand, leading to downward pressure on sales rates in 2012.

KPP is currently reviewing strategic opportunities to tap on increasing positive consumer confidence and maximise the value of its assets, including plans to develop the commercial and residential components on the SMKL site.

Corporate Governance

As a premier developer, KPP upholds the highest standards of ethical business culture, corporate disclosure, transparency, integrity and accountability in a timely reporting of financial and non-financial information.

The Company is fully committed to provide its stakeholders with a clear and balanced assessment of the Company's operations, strategies, business plans and prospects.

KPP will continue to improve on its management practices, policies and procedures based on leading practices on corporate governance. It keeps a vigilant eye on the potential risks the Company may be exposed to, and implements strategic measures responding to the changes in the business environment. To this effect, KPP has put in place a system of internal controls to safeguard stakeholders' interests and maximise long-term shareholder value.

Acknowledgments

With guidance from the KPP Board of Directors, as well as the dedication and hard work from the management team and employees, KPP was able to put up a strong performance amidst global economic challenges.

My appreciation also goes out to our shareholders, business partners and customers for their unwavering support which will go a long way in enabling us to grow the business as we capture opportunities in the years ahead.

Sincerely,

LINSON LIM SOON KOOI
CHAIRMAN
5 March 2012

Palmdale Heights is well-received by homebuyers for its high quality apartments and amenities

BOARD OF DIRECTORS

LINSON LIM SOON KOOI

DIRECTOR
CHAIRMAN OF THE BOARD

Mr Lim has been a Director since November 2006. He was President of the Company from June 2009 to June 2011, when he was appointed as Chairman of the Board of Directors.

Mr Lim joined Keppel Land International Limited (KLI) in 1995. He is President (Vietnam) of Keppel Land International and General Director of Keppel Land Vietnam. He is also Director of a number of other subsidiaries and associated companies of KLL.

Mr Lim holds a Bachelor of Engineering Degree from Monash University, Australia and is a member of the Institute of Engineers in Malaysia.

LEE FOO TUCK

DIRECTOR
PRESIDENT

Mr Lee was elected as a Director of the Company in May 2008. He had been Vice President (Finance and Administration) and Treasurer of the Company from April 2004 to June 2008. He was Senior Vice President of the Company from July 2008 to June 2011, when he was appointed as President of the Company.

Mr Lee is a Certified Accountant and is a Fellow of the Association of Chartered Certified Accountants (U.K.). He has more than thirty years of experience in accounting and finance. He has held various managerial positions in several companies prior to joining the Company.

RAMON J ABEJUELA

INDEPENDENT DIRECTOR

Mr Abejuela has been an Independent Director of the Company from November 1999 to June 2008. He was re-elected in June 2009 and is currently the Chairman of the Audit Committee of the Company.

He also serves as Director of Philippine Nutrifoods Corporation and NCP Publishing Corporation.

Mr Abejuela holds a Degree in Bachelor of Science in Chemical Engineering (Cum Laude) from De La Salle University and Master's Degree in Business Management – General Management Curriculum from Asian Institute of Management.

CELSO P VIVAS

INDEPENDENT DIRECTOR

Mr Vivas has been an Independent Director of the Company since November 2004 and is a member of the Company's Audit Committee. He is a Certified Public Accountant and is currently Vice-Chairman and CEO of the Corporate Governance Institute of the Philippines (CGIP). He is the Vice Chairman of Corporate Holdings Management, Inc. and Acacia Hotel Manila. He is a member of Marubeni Foundation's Board of Trustees and Canadian Chamber of Commerce's Board of Governors. He is also an Independent Director and Chairman of the Audit Committee of Keppel Philippines Marine, Inc. and Independent Director of Keppel Philippines Holdings since June 2005 and is currently a member of the Audit Committee of the Company.

He was Risk Consulting Partner and Assurance Business Advisory Partner of SGV & Company until his retirement in 2001. Mr Vivas obtained his Bachelor's Degree in Business Administration (Cum Laude) from the University of the East. He also obtained a Master's Degree in Business Management from the Asian Institute of Management (SGV & Co. Scholar). He is also a graduate of Company Directors' Course from Australian Institute of Company Directors (ICD Scholar). Mr Vivas has accumulated 45 years of experience in audit, finance, enterprise risk management and corporate governance.

BOARD OF DIRECTORS

CHOO CHIN TECK

DIRECTOR

Mr Choo has been a Director of the Company since November 1999. He is the Director of Corporate Services of Keppel Land International Limited and Company Secretary of Keppel Land Limited (KLL). He has held various senior positions in the Keppel Land Group, and is presently a Director of Keppel Thai Properties Public Co Limited, and a number of other subsidiaries and associated companies of KLL.

Mr Choo holds a Master of Business Administration from Brunel University. He graduated with a Bachelor of Science in Accountancy from University of Singapore.

LIM KEI HIN

DIRECTOR

Mr Lim was elected as Director of the Company in June 2011. Mr Lim joined the Keppel Land Group as Chief Financial Officer in July 2007. Prior to joining the Keppel Land Group, he was with Singapore Airlines Limited and has more than 20 years of diverse experience having served in different financial and general management roles in Singapore, the Philippines, Australia and the United States. His last appointment was Chief Financial Officer of Singapore Airport Terminal Services Limited.

Mr Lim holds a Bachelor of Science (Economics) Degree in Accounting & Finance (Honours) from London School of Economics & Political Science, UK. He is a Director of a number of subsidiaries and associated companies of the Keppel Land Group.

STEFAN TONG WAI MUN

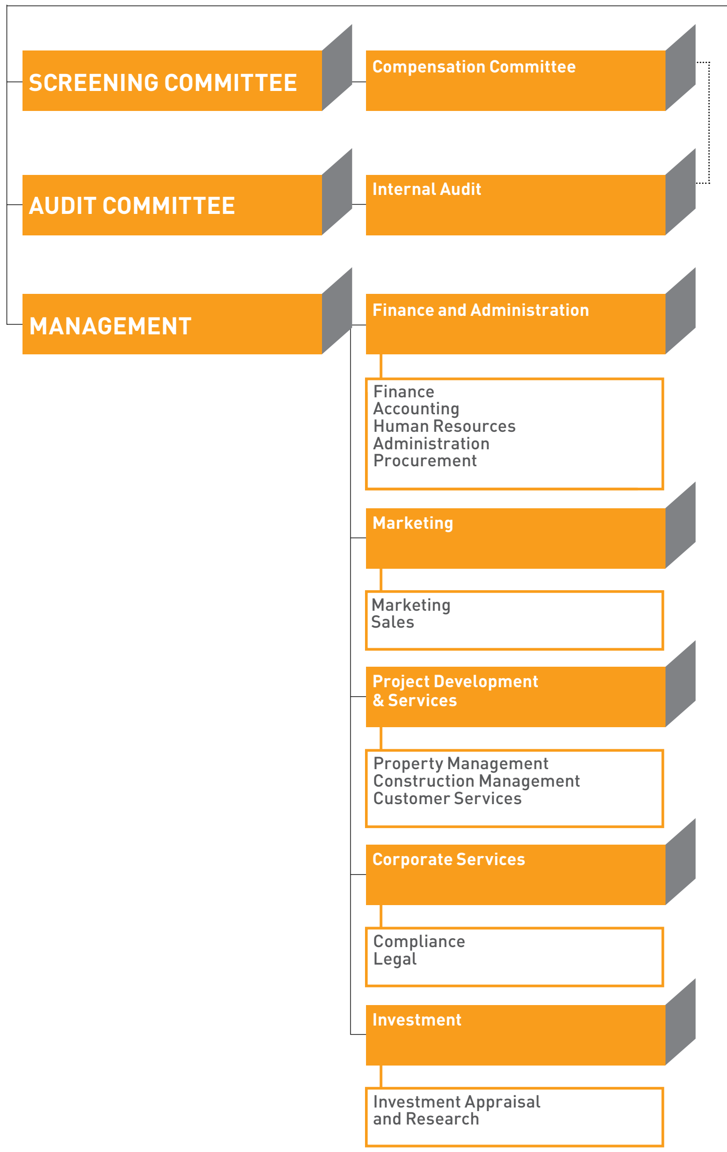
DIRECTOR

Mr Tong was elected as a Director of the Company in June 2007. He is currently the President and Director of Keppel Philippines Holdings, Inc. He is also Director and Executive Vice President of Keppel Philippines Marine, Inc. He is a Director of Kepwealth Property Philippines, Inc., Director and Treasurer of Keppel Communications Philippines, Inc., Keppel IVI Investments, Inc., and Trisilco Folec Philippines, Inc. He is also a Director of Emerging Markets Capital Holdings, Inc., Kepwealth, Inc., Kepventure, Inc., Keppel IVI Capital, Inc., and KPSI Property, Inc.

Mr Tong holds a Bachelor of Commerce (Honours) Degree from University of Western Australia. He is also a Member of the Institute of Chartered Accountants in Australia.

ORGANISATIONAL STRUCTURE AND MAJOR SHAREHOLDERS

Board of Directors



Screening Committee

Linson Lim Soon Kooi, Chairman
Celso P Vivas, Member
Stefan Tong Wai Mun, Member

Audit Committee

Ramon J Abejuela, Chairman
Celso P Vivas, Member
Stefan Tong Wai Mun, Member

Compensation Committee

Linson Lim Soon Kooi, Chairman
Ramon J Abejuela, Member
Stefan Tong Wai Mun, Member

Ten Major Shareholders (as at 31 December 2011)

No.	Shareholders' Name	No. of shares	%
1	Keppel Land Limited	148,365,050	50.49
2	Kepwealth, Inc.	51,033,178	17.37
3	Keppel Corporation Limited	35,783,741	12.18
4	PCD Nominee Corporation - Filipino	28,255,296	9.62
5	PCD Nominee Corporation - Foreign	5,426,762	1.85
6	International Container Terminal Services Inc.	4,265,171	1.45
7	George S. Dee, Jr.	3,442,891	1.17
8	PNOC Shipping and Transport Corporation	2,227,511	0.76
9	Visayan Surety & Insurance Corporation	1,671,664	0.57
10	Lee Foo Tuck	1,455,708	0.50

KEY PERSONNEL

Linson Lim Soon Kooi
Chairman

Lee Foo Tuck
President

Elizabeth M Perez
Treasurer

Ma Melva E Valdez
Corporate Secretary

Myla Gloria A Amboy
Assistant Corporate Secretary

DEFINITIVELY KEPPEL

BUSINESS REVIEW

PROPERTY MARKET REVIEW: The sound economy expected in 2012 will see continued growth in the residential, commercial and retail sectors in the Philippines.

1. Ortigas central business district

ECONOMIC OUTLOOK

Muted Economic Growth

The Philippine economy grew by 3.7% in 2011, a significant decrease from the 7.6% in 2010. The slowdown in growth can be attributed to the Eurozone debt crisis, a sluggish US ecomony, decline in the local government's public spending for the fourth consecutive quarter as well as a delayed implementation of the Public-Private Partnership programme.

Nevertheless, consumer spending increased by 6.1% and was a major contributor to the growth in the Philippine economy. Domestic consumption was supported by steady overseas remittances estimated at US$20 billion and the Business Process Outsourcing sector with estimated revenues totalling US$11 billion in 2011.

Economic growth is estimated at 3.9% and 4.7% for 2012 and 2013 respectively. Although a slower paced growth is expected, the Philippine economy should remain sound.

RESIDENTIAL

Steady Demand

In Makati, developments totalling an estimated 1,660 units were completed as at end-2011. These projects include the highly anticipated luxury Raffles Residences, which is developed by Kingdom Hotel Investments of the United Arab Emirates. In Ortigas, about 1,600 residential units were completed as at end-2011. Total supply of homes in the pipeline reached 14,735 units in Makati, mainly in the high-end category and 9,085 homes in Ortigas, most of which fall in the upper-middle income category.

Occupancy rates in Makati decreased slightly to 89.6% in 2011 from 91.2% in the previous year. This may drop further to 88% in the next 12 months due to the continuous inflow of smaller-size units, which may push up vacancy rates further. On the other hand, the demand for rental in the luxury residential segment was high with an occupancy rate of 94% in Makati's central business district.

Rental rates of prime homes in Makati have reached ₱600 / US$14 psm per month, much sooner than previously forecasted. As occupancy rates continue to improve, the significant increase of 8% in rents in 2011 compared with the previous year indicates that landowners are confident of a positive outlook in the luxury residential market over the long term.

Rents of prime homes in Ortigas improved to ₱390 / US$9 psm per month in 2011 from the previous year's ₱340 / US$8 psm per month. No upward pressures are expected to cause a significant rise in rents in the near future.

Capital values in Makati rose by 5% to ₱107,000 / US$2,488 psm in 2011 and is expected to increase a further 4% in the next 12 months. New high-end developments are now priced at ₱135,000 / US$3,103 psm. In Ortigas, capital values has remained the same at an average of ₱59,000 / US$1,372 psm. Prices of luxury condominiums were higher at about ₱125,000 / US$ 2,874 psm Capital values are expected to grow by just 3% over the next 12 months.

OFFICE

Renewed Optimism

Supply of office space in Makati's central business district (CBD) remains stable at 2.7 million sm in 2011. There is no new office development in the pipeline in Makati except for a prime building with 57,000 sm of office space to be completed in 2012 and a Grade A office building with 38,000 sm of office space to be completed in 2013.

Occupancy rates in 2011 increased to 95.9% in 2011 from 94.5% in the previous year, due to higher take-up rates in both premium and Grade A buildings.

In Ortigas' CBD, 12,480 sm of leasable space was completed in 2011, which brought total supply closer to 1.2 million sm in 2011. Occupancy rate remained steady at 97.0%.

Office space at both central business districts remain attractive with high occupancies, due to strong demand for Business Process Outsourcing (BPO) spaces used for either contact centres or back-office functions. Apart from this, Makati enjoys a high occupancy rate with a good mix of offices comprising banks, financial institutions and large local conglomerates.

Rental rates of premium grade office buildings in Makati increased marginally in 2011 to ₱840 / US$19 psm per month. In Ortigas, overall rental rates increased marginally to ₱560 / US$13 psm per month. Rates are expected to improve by 8% to10% in the next 12 months as demand for space, especially from BPO sectors, reduces the supply.

Capital values in Makati increased by 4% from the previous year to ₱105,100/ US$2,416 psm in 2011. They are expected to appreciate by 8% to 10% to about ₱115,500 / US$2,655 psm over the next 12 months. In Ortigas, capital values remained unchanged at ₱55,000/ US$1,264 psm and is expected to appreciate 4% over the next 12 months.

RETAIL

Prospects for Rental Growth

The retail sector of the property market in the Philippines remains resilient. As at the end of 2011, total supply of retail space in Metro Manila was 5.1 million sm. No large-scale mall development is in the pipeline. Average occupancy rate remained at a healthy 99%.

Effective rental rates in Makati and Ortigas increased to ₱1,180 / US$27 psm per month and ₱1,055 / US$25 psm per month in 2011 respectively. As consumer confidence increases, retail sales are expected to improve, which will likely push up rentals by 5% in the next 12 months.

The retail industry in the Philippines is currently estimated at ₱1,400 billion / US$32 billion annually. It is expected to grow at an annual rate of 8% through 2015.

OPERATIONS REVIEW

Palmdale Heights

Palmdale Heights is a middle-income residential development located on a 7.6-ha site in Pasig City, between the two major commercial districts of Makati and Ortigas.

The condominium project provides homeowners with a quality lifestyle at an affordable price and is well-equipped with recreational facilities such as a swimming pool, a basketball court, a children's playground and a clubhouse.

The first two phases, comprising six 10-storey residential blocks with a total of 828 units have been completed. As at 31 December 2011, 86% or 711 units have been sold. With elegantly designed living spaces, beautifully landscaped open areas and carefully planned amenities, Palmdale Heights offers homeowners a tranquil community lifestyle.

In August 2011, we entered into a Memorandum of Agreement (MOA) with Phinma Property Holdings Corporation (PPHC) to jointly develop the remaining 5-ha land at Palmdale Heights into a condominium project. The MOA, among others, provides that PPHC shall provide the funding for the project and is responsible for the master planning, construction, management, and selling/ marketing of the project.

SMKL Towers

SM-KL Towers is a mixed-use development strategically located on a 2-ha site in the heart of Ortigas CBD.

Phase One of the retail component, The Podium, offers a first-class shopping experience. With over 17,000 sm of leasable space, it has a good mix of 152 specialty stores featuring well-known international and local labels in apparel, footwear and leather products. With a wide selection of restaurants, service outlets and two state-of-the-art cinemas, it has become one of the preferred lifestyle malls in the city.

The Podium holds regular events including art exhibitions, fashion shows, product launches and special performances to provide visitors wtih a unique and enhanced shopping and dining experience.

In April 2011, we concluded a MOA with Banco de Oro Unibank (BDO) for the assignment of development rights which allows BDO to construct an office tower on top of The Podium in Phase 1. The office tower will house BDO's business units and is estimated to be completed in five years. BDO has also purchased from SMKL the entire basement car park in Phase 1.

DIRECTORY

Board Registered Office

Keppel Philippines Properties, Inc.
Penthouse, Benguet Centre Building
12 ADB Avenue, Ortigas Center
1550 Mandaluyong City
Philippines

Temporary Office

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22nd Floor, Unit 2203 & 2204
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Philippines
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Facsimile: (632) 584 3915
Email: keppel.prop@kepland.com.ph

Auditors

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6760 Ayala Avenue
1226 Makati City
Philippines
Telephone: (632) 891 0307
Facsimile: (632) 818 1377
Email: sgv_information@sgv.com.ph

Transfer Agent

Securities Transfer Services, Inc.
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Philippines
Telephone: (632) 490 0060
Facsimile: (632) 631 7148
Email: stsi@fphc.com

Legal Counsels

Jimenez Gonzales Liwanag Bello
Valdez Caluya & Fernandez (JG Law)
6th Floor, SOL Building, 112 Amorsolo St.
Legaspi Village, 1229 Makati City
Philippines
Telephone: (632) 815 9071
Facsimile: (632) 817 3251
Email: info@jglawph.com

Share Listing

The Company's shares are listed on the Philippine Stock Exchange.

Financial Statements

CONTENTS

Statement of Management's Responsibility for Financial Statements

For the financial year ended 31 December 2011

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong City

The management of Keppel Philippines Properties, Inc. and Subsidiaries (the Group) is responsible for the preparation and fair presentation of the consolidated financial statements for the year(s) ended December 31, 2011 and 2010, 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 accouting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Linson Lim Soon Kooi
Chairman

Lee Foo Tuck
President

Elizabeth M Perez
Treasurer

The Philippines, 5 March 2012

Report of Independent Auditors

For the financial year ended 31 December 2011

The Stockholders and the Board of Directors
Keppel Philippines Properties, Inc.
Units 2203 and 2204, Raffles Corporate Center
F. Ortigas Jr. Road (formerly Emerald Avenue)
Ortigas Center, Pasig City

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2009
June 1, 2009, Valid until May 31, 2012
PTR No. 3174583, January 2, 2012, Makati City

March 5, 2012

Consolidated Statements of Financial Position

As at 31 December 2011

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 22)	**₱ 307,418,255**	₱ 325,737,487
Receivables (Notes 7 and 22)	**1,034,637**	1,099,620
Due from related parties (Notes 15 and 22)	**224,382,613**	221,833,623
Other current assets (Notes 8, 21 and 22)	**15,833,539**	14,912,037
Total Current Assets	**548,669,044**	563,582,767
Noncurrent Assets		
Available-for-sale financial assets (Notes 9 and 22)	**225,000**	225,000
Investments in associates and a joint venture (Note 10)	**1,344,998,187**	1,137,774,469
Investment properties - net (Note 11)	**1**	1
Property and equipment - net (Note 12)	**1,857,519**	2,551,756
Refundable deposits (Note 22)	**56,108**	360,388
Deferred tax assets - net (Note 18)	**166,509**	412,031
Total Noncurrent Assets	**1,347,303,324**	1,141,323,645
	₱1,895,972,368	₱1,704,906,412
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 15 and 22)	**₱ 3,014,631**	₱ 4,556,822
Due to related parties (Notes 15 and 22)	**279,078,006**	289,678,861
Income tax payable (Note 18)	**143,971**	–
Provisions (Note 19)	**2,562,364**	2,940,815
Total Current Liabilities	**284,798,972**	297,176,498
Equity (Note 14)		
Capital stock	**356,104,000**	356,104,000
Additional paid-in capital	**602,885,517**	602,885,517
Retained earnings	**654,851,524**	451,408,042
	1,613,841,041	1,410,397,559
Less treasury stock	**2,667,645**	2,667,645
Total Equity	**1,611,173,396**	1,407,729,914
	₱1,895,972,368	₱1,704,906,412

See accompanying notes to financial statements.

Consolidated Statements of Comprehensive Income

As at 31 December 2011

	Years Ended December 31		
	2011	2010	2009
REVENUE			
Equity in net earnings of associates and a joint venture (Note 10)	**₱207,223,718**	₱11,669,845	₱25,125,819
Interest income (Notes 6 and 15)	**12,869,219**	13,942,720	18,313,497
Management consultancy and franchise fees (Note 15)	**7,019,136**	6,994,920	7,871,466
	227,112,073	32,607,485	51,310,782
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**(20,969,859)**	(19,958,659)	(20,599,310)
OTHER INCOME (CHARGES)			
Gain on sale of property and equipment (Note 12)	**195,000**	–	–
Foreign exchange gain (loss) – net	**76,913**	(262,486)	(741,860)
Dividend income	**–**	1,400	67,083
Gain on sale of available-for-sale financial assets (Note 9)	**–**	461,320	–
Reversal of accrued expenses and accounts payable	**–**	7,266	119,350
Others	**9,744**	–	13,911
	281,657	207,500	(541,516)
INCOME BEFORE TAX	**206,423,871**	12,856,326	30,169,956
PROVISION FOR INCOME TAX (Note 18)			
Current	**2,734,867**	2,785,887	3,604,374
Deferred	**245,522**	(94,881)	(714,485)
	2,980,389	2,691,006	2,889,889
NET INCOME	**203,443,482**	10,165,320	27,280,067
OTHER COMPREHENSIVE INCOME (LOSS)			
Net fair value gain (loss) on available-for-sale financial assets	**–**	(236,413)	146,328
TOTAL COMPREHENSIVE INCOME	**₱203,443,482**	₱9,928,907	₱27,426,395
Basic/Diluted Earnings Per Share (Note 20)	**₱ 0.69**	₱ 0.03	₱ 0.09

See accompanying notes to financial statements.

Consolidated Statements of Changes in Equity

As at 31 December 2011

	Capital Stock Common (Note 14)	Capital Stock Preferred (Note 14)	Additional Paid-in Capital (Note 14)	Unrealized Gain on Available-for-Sale Financial Assets	Retained Earnings (Note 14)	Treasury Stock (Note 14)	Total Equity
At January 1, 2011	**₱296,629,900**	**₱59,474,100**	**₱602,885,517**	**₱ –**	**₱451,408,042**	**(₱2,667,645)**	**₱1,407,729,914**
Net income	**–**	**–**	**–**	**–**	**203,443,482**	**–**	**203,443,482**
At December 31, 2011	**₱296,629,900**	**₱59,474,100**	**₱602,885,517**	**₱ –**	**₱654,851,524**	**(₱2,667,645)**	**₱1,611,173,396**
At January 1, 2010	₱296,629,900	₱73,074,100	₱725,285,517	₱236,413	₱584,042,722	(₱2,667,645)	₱1,676,601,007
Other comprehensive loss	–	–	–	(236,413)	–	–	(236,413)
Net income	–	–	–	–	10,165,320	–	10,165,320
Total comprehensive income	–	–	–	(236,413)	10,165,320	–	9,928,907
Redemption of preferred shares (Note 19)	–	(13,600,000)	(122,400,000)	–	(142,800,000)	–	(278,800,000)
At December 31, 2010	₱296,629,900	₱59,474,100	₱602,885,517	₱ –	₱451,408,042	(₱2,667,645)	₱1,407,729,914
At January 1, 2009	₱296,629,900	₱73,074,100	₱725,285,517	₱ 90,085	₱556,762,655	(₱2,667,645)	₱1,649,174,612
Other comprehensive income	–	–	–	146,328	–	–	146,328
Net income	–	–	–	–	27,280,067	–	27,280,067
Total comprehensive income	–	–	–	146,328	27,280,067	–	27,426,395
At December 31, 2009	₱296,629,900	₱73,074,100	₱725,285,517	₱236,413	₱584,042,722	(₱2,667,645)	₱1,676,601,007

See accompanying notes to financial statements.

Consolidated Statements of Cash Flows

As at 31 December 2011

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱206,423,871**	₱12,856,326	₱30,169,956
Adjustments for:			
Depreciation and amortization (Notes 12 and 16)	**1,033,576**	490,100	462,304
Unrealized foreign exchange losses	**17,813**	247,318	575,635
Gain on sale of property and equipment (Note 12)	**(195,000)**	–	–
Interest income (Notes 6 and 15)	**(12,869,219)**	(13,942,720)	(18,313,497)
Equity in net earnings of associates and joint ventures (Note 10)	**(207,223,718)**	(11,669,845)	(25,125,819)
Gain on sale of available-for-sale financial assets (Note 9)	**–**	(461,320)	–
Dividend income	**–**	(1,400)	(67,083)
Loss before changes in working capital	**(12,812,677)**	(12,481,541)	(12,298,504)
Decrease (increase) in:			
Receivables	**(39,634)**	104,509	(235,540)
Amounts due from related parties	**(2,548,990)**	4,623,026	(2,267,296)
Other current assets	**(921,502)**	(2,415,480)	(783,622)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(1,542,191)**	(17,226)	(4,424,893)
Provisions	**(378,451)**	378,451	(747,715)
Net pension liability	**–**	–	(45,119)
Net cash used in operations	**(18,243,445)**	(9,808,261)	(20,802,689)
Interest received	**12,973,836**	13,962,713	18,878,801
Income tax paid	**(2,590,896)**	(2,785,887)	(3,604,374)
Net cash provided by (used in) operating activities	**(7,860,505)**	1,368,565	(5,528,262)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in refundable deposits	**304,280**	(81,732)	–
Proceeds from sale of:			
Property and equipment (Note 12)	**195,000**	–	–
Available-for-sale financial assets (Note 9)	**–**	570,171	–
Acquisition of property and equipment (Note 12)	**(339,339)**	(2,216,315)	(163,008)
Dividends received	–	8,694	59,788
Net cash provided by (used in) investing activities	**159,941**	(1,719,182)	(103,220)
CASH FLOWS FROM FINANCING ACTIVITY			
Decrease in amounts due to related parties	**(10,600,855)**	(59,550,796)	(96,470,086)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(17,813)**	(247,318)	(575,635)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(18,319,232)**	(60,148,731)	(102,677,203)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**325,737,487**	385,886,218	488,563,421
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱307,418,255**	₱325,737,487	₱385,886,218

See accompanying notes to financial statements.

Supplementary Schedule of Retained Earnings Available for Dividend Declaration

As at 31 December 2011

Unappropriated retained earnings, as adjusted to available for dividend distribution, beginning		₱198,830,215
Add: Net income actually earned/realized during the year		
Net income during the period closed to retained earnings		203,443,482
Less: Non-actual/unrealized income net of tax		
Equity in net income of associate/joint venture	(207,223,718)	
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	–	
Unrealized actuarial gain	–	
Fair value adjustment (mark-to-market gains)	–	
Fair value adjustment of investment property resulting to gain	–	
Adjustment due to deviation from PFRS/GAAP - gain	–	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	–	
Sub-total	(207,223,718)	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	–	
Adjustment due to deviation from PFRS/GAAP - loss	–	
Loss on fair value of investment property (after tax)	–	
Provision for deferred tax	245,522	
Net loss actually earned during the year		(206,978,196)
Add (Less):		
Dividend declarations during the year		–
Appropriations of retained earnings during the period		–
Reversals of appropriations		–
Effects of prior period adjustments		–
Treasury shares		(2,667,645)
Unappropriated retained earnings, end available for dividend distribution		₱192,627,856

The reconciliation of consolidated retained earnings beginning to retained earnings available for dividend declaration beginning is as follows:

Consolidated retained earnings, beginning	₱594,208,042
Accumulated share in net earnings of subsidiary and associate	(252,165,796)
Redemption of preferred shares	(142,800,000)
Deferred tax asset - net, beginning	(412,031)
Unappropriated retained earnings, as adjusted to available for dividend declaration, beginning	₱198,830,215

Notes to Consolidated Financial Statements

For the financial year ended 31 December 2011

1. Corporate Information

Keppel Philippines Properties, Inc. ("the Parent") and the following subsidiaries (collectively referred to as "the Group") were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 7, 1918. The Parent's corporate life was extended for another fifty (50) years starting February 7, 1968.

Subsidiaries	Percentage of Ownership	Nature of Business
Buena Homes, Inc. (BHI)	100%	Investment holding
CSRI Investment Corporation (CSRI)	100%	Investment holding

The Parent is listed in the Philippine Stock Exchange (PSE). Its parent company is Keppel Land Limited (KLL) and the ultimate parent company is Keppel Corporation Limited (KCL), both incorporated in Singapore.

The Group holds investments in associates involved in property holding and development and renders management consultancy services to associates. Incidental to its investment holding activity, the Parent charges interest on certain advances to SM Keppel Land, Inc. (SMKL), a jointly controlled entity (see Note 15).

On December 6, 2010, the Group submitted its application to SEC to temporarily change its business address to Units 2203 and 2204, Raffles Corporate Center, F. Ortigas Jr. Road (formerly Emerald Avenue), Ortigas Center, Pasig City due to the ongoing reconstruction of the Group's principal office.

The consolidated financial statements of the Group have been authorized for issue by the Board of Directors (BOD) on March 5, 2012.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements of the Group have been prepared under the historical cost basis. The consolidated financial statements are presented in Philippine Peso (₱), which is the Group's functional currency. Amounts are rounded off to the nearest Philippine Peso unit, except when otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The accompanying consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as of December 31, 2011 and 2010 and for each of the three years ended December 31, 2011. The financial statements of the subsidiaries are prepared for the same reporting year as the parent, using consistent accounting policies.

A subsidiary is an entity in which the parent company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or exercises control over the operations and management of t he entity.

All intra-group balances and transactions, including income, expenses and dividends are eliminated in full during consolidation in accordance with the accounting policy on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date of the acquisition or up to the date of the disposal, as appropriate.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS, Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to existing Standards which became effective on January 1, 2011. The adoption of these new and amended Standards and Philippine Interpretations did not have a significant impact on the financial statements of the Group.

- Amendment to PAS 24, *Related Party Disclosures*
- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*
- Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Improvements to PFRSs
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of these new standards did not have significant impact on the Group financial statements.

- PFRS 3, *Business Combinations (Revised)*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Reporting*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Future Changes in Accounting Policies
The Group will adopt the following new and amended standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective 2012
- PAS 12, *Income Taxes - Recovery of Underlying Assets*
  The amendment becomes effective for annual periods beginning on or after January 1, 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment, always be measured on a sale basis of the asset.*

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*
  The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Effective 2013

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

- Amendment to PAS 19, *Employee Benefits*
  This amendment is effective for annual periods beginning on or after 1 January 2013. 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 re-wording.

- PAS 27 (Revised), *Separate Financial Statements*
  This amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statement* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28 (Revised), *Investments in Associates and Joint Ventures*
  This amendment becomes effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures,* and describes the application of the equity method to investments in joint ventures in addition to associates.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*
  The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. 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 offset in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are offset in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes 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 in PAS 27.

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

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

- PFRS 13, *Fair Value Measurement*
  This standard becomes effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to offset" 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 Group is currently assessing impact of the amendments to PAS 32.

Effective in 2015

- PFRS 9, *Financial Instruments: Classification and Measurement*
  The standard is effective for annual periods beginning on or after January 1, 2015. PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

  After consideration of the result of its impact evaluation, the Group has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2011 annual financial reporting. It shall conduct in early 2012 another impact evaluation using the outstanding balances of the financial statements as of December 31, 2011. The Group will disclose in the March 31, 2012 interim financial statements whether to adopt the PFRS 9 (2009) or PFRS 9 (2010) on its 2012 financial reporting. If the decision of the Group is to adopt PFRS 9 on its 2012 financial reporting, the interim report by March 31, 2012 will reflect the application of the requirements under the said standard and will contain a qualitative and quantitative discussion of the result of the Group's impact evaluation.

- 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 which should be applied retroactively and prospectively. 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.

4. Summary of Significant Accounting Policies

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

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

Initial recognition. Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

The Group has no financial assets and liabilities at FVPL and HTM investments as of December 31, 2011 and 2010.

Determination of fair value. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price 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 ask prices are not available, the price of the most recent transaction 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 listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has no financial assets carried at fair value as of December 31, 2011 and 2010. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

Day 1 profit. Where the transaction price in a nonactive 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) in profit or loss. In cases where no observable data is used, the difference between the transaction price and model values is recognized in profit or loss 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 amount.

Loans and receivables. Loans and receivables are nonderivative 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 designated as AFS financial assets or financial assets at FVPL.

Loans and receivables are carried at cost or amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy relates to the consolidated statement of financial position captions "Cash and cash equivalents", "Receivables", "Due from related parties", "Refundable deposits" and "Other current assets" (see Notes 6, 7, 15 and 21).

AFS financial assets. AFS financial assets are nonderivatives that are either designated in this category or not classified in any other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are reported as unrealized gain or loss on AFS financial assets as other comprehensive income until the investment is derecognized or the investment is determined to be impaired. Assets under this category are classified as current assets if maturity is within twelve months from the end of the reporting date and as noncurrent assets if maturity date is more than a year from the end of the reporting date.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment loss.

Classified under this category are the Group's unquoted club shares carried at cost (see Note 9).

Other financial liabilities. This category pertains to financial liabilities that are not held-for-trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations or loans and borrowings.

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

This accounting policy applies to the Group's "Accounts payable and other current liabilities" and "Due to related parties" and other obligations that meet the above definition (other than liabilities covered by other accounting standards) (see Notes 13 and 15).

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

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

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, 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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of impairment loss is recognized in profit or loss.

AFS financial assets. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in the fair value of the investment can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

AFS financial 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, 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.

<u>Derecognition of Financial Assets and Liabilities</u>

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 right 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 right 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 right 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 or the maximum amount of consideration that the Group could be required to repay.

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

<u>Offsetting Financial Instruments</u>

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.

<u>Investments in Associates and a Joint Venture</u>

Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. A joint venture is an entity, not being a subsidiary nor an associate, in which the Group exercises joint control together with one or more venturers. Investments in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investments in associates and joint venture 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 associate, less dividends declared and impairment in value. If the Group's share of losses of an associate and joint venture equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate and joint venture is the carrying amount of the investment in the associate and joint venture under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate and joint venture. After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investments in the associates and joint venture. The consolidated statement of income reflects the Group's share in the results of operations of the associates. After the Group's interest is reduced to zero, additional losses are provided to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any change and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates, joint venture and the Group are identical and the accounting policies of the associates and joint venture conform to those used by the Group for like transactions and events in similar circumstances. Unrealized gains arising from intercompany transactions with its associates and joint venture are eliminated to the extent of the Group's interest in the associate and joint venture. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

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

<u>Investment Properties</u>

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Depreciation of investment properties is computed using the straight-line method over the estimated useful life of the assets of 10 years.

Investment properties are derecognized when either 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 profit or loss in the year of retirement or disposal. Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when such cost is incurred if the recognition criteria are met.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Transportation equipment	2-5
Office equipment	1-4
Furniture and fixtures	4

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

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.

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

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

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 estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase in the consolidated statement of other comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint venture. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investments in associates or jointly controlled entities are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in profit or loss.

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. The expense relating to any provision is presented in profit or loss 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.

Treasury Shares
Treasury shares are recorded at cost and presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is deducted from additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and from retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Interest income. Interest income is recognized as interest accrues, taking into account the effective yield on the asset.

Management consultancy and franchise fees. Management consultancy and franchise fees are recognized on an accrual basis in accordance with the terms and conditions of the agreement.

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

General and Administrative Expenses
General and administrative 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 decrease in equity, other than those relating to distributions to equity participants. General and administrative expenses are recognized in profit or loss in the period these are incurred.

Equity
Capital stock is measured at par value for all shares issued.

Additional paid-in capital (APIC)
APIC represents capital contribution in excess of par value of the capital stock.

Retained Earnings
Retained earnings represent the cumulative balance of net income or loss of the Group, net of any dividend distribution.

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

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

Group as a lessee. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

Foreign Currency Transaction
The consolidated financial statements are presented in Philippine Peso, which is the Group's functional currency. The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at reporting date. All differences are taken to the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expense in the period such are realized.

Retirement Cost
The Group has a funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on any plan assets, recognized actuarial gains or losses, the effect of any past service cost and curtailment or settlement.

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

The net pension liability recognized by the Group in respect of the defined benefit pension plan is the present value of the defined benefit obligation less fair value of the plan assets at the reporting date, together with the adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods. The present value of the defined benefit obligation is calculated by an independent actuary using the projected unit credit method and is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

A portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

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

Deferred tax. Deferred tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses 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 assets 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 all or part of the deferred tax assets to be recovered.

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

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

Movements in the deferred income tax assets and liabilities arising from changes in the tax rates are charged against or credited to income for the period.

Value-Added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the 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 tax included.

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

Basic/Diluted Earnings Per Share (EPS)
EPS is computed by dividing net income for the year attributable to common shareholders by the weighted average number of common shares issued and outstanding during the year, with retroactive adjustments for any stock dividends declared.

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 when an inflow of economic benefits is probable.

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Provisions and contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Provisions for estimated losses on claims by a third party amounted to ₱2.6 million and ₱2.9 million as of December 31, 2011 and 2010, respectively (see Note 19).

Functional currency. The Group determined its functional currency to be the Philippine Peso. The determination of functional currency was based on the primary economic environment in which the Group generates and expends cash.

Operating leases - Group as lessee. The Group has entered into commercial property leases related to its office spaces. Substantially, all the risks and benefits incidental to ownership of the leased items are not transferred to the Group. Total rent expense charged to operations amounted to ₱1.2 million, ₱0.8 million and ₱0.4 million in 2011, 2010 and 2009, respectively (see Notes 16 and 21).

Financial assets not quoted in an active market. 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 quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. The carrying values of AFS financial assets not quoted in an active market amounted to ₱0.2 million as of December 31, 2011 and 2010. No allowance for impairment was provided for AFS equity investments in 2011 and 2010 (see Note 9).

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

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements 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. These estimates may include considerations of liquidity, volatility, and correlation.

Allowance for doubtful accounts. The Group maintains allowance for doubtful accounts on its receivables at a level adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Group. The Group assesses whether objective impairment exists for the receivable by considering the financial condition and credit history of the counterparty. Moreover, the Group also considers its historical loss experience in assessing collective impairment of receivables. The Group reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for doubtful accounts on receivables would increase the Group's recorded expenses and decrease current assets.

Receivables and amounts due from related parties amounted to ₱225.4 million and ₱222.9 million as of December 31, 2011 and 2010, respectively. No allowance was provided for these receivables as of December 31, 2011 and 2010 (see Notes 7, 15 and 22).

Estimated useful lives of property and equipment and investment properties. The useful life of each of the Group's items of property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each item of property and equipment and investment properties is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment and investment properties would increase the recorded general and administrative expenses and decrease noncurrent assets.

The total carrying value of the Group's property and equipment and investment properties as of December 31, 2011 and 2010 amounted to ₱1.9 million and ₱2.6 million, respectively (see Notes 11 and 12).

Impairment of nonfinancial assets. The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

This requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

As of December 31, 2011 and 2010, the Group did not recognize any impairment loss on its nonfinancial assets. The total carrying value of investments in associates and joint venture, investment properties and property and equipment as of December 31, 2011 and 2010 amounted to a total of ₱1,346.9 million and ₱1,140.3 million, respectively (see Notes 10, 11 and 12).

Retirement benefits. The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets and estimated future salary increase rates. Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

The assumptions used in the actuarial valuation are disclosed in Note 17 to the consolidated financial statements. As of December 31, 2011 and 2010, net pension liability is nil.

Recognition of deferred tax assets. The Group's assessment on the recognition of deferred tax assets on non-deductible temporary differences and carryforward benefit of NOLCO is based on the forecasted taxable income of the following reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As of December 31, 2011 and 2010, net deferred tax assets amounted to ₱0.2 million and ₱0.4 million, respectively. The amount of unrecognized deferred tax assets amounted to ₱11.2 million and ₱16.8 million as of December 31, 2011 and 2010, respectively (see Note 18).

6. Cash and Cash Equivalents

This account consists of:

	2011	2010
Petty cash fund	**₱ 15,000**	₱ 15,000
Cash on hand and in banks	**16,309,883**	44,789,100
Cash equivalents	**12,293,372**	280,933,387
Restricted cash	**278,800.00**	-
	₱307,418,255	₱325,737,487

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates that range from 3.5% to 4.0% in 2011 and 2010.

On October 25, 2011, the Parent Company's Audit Committee approved the restriction of cash and cash equivalents amounting to ₱1.4 million and ₱277.4 million, respectively, for the redemption of preferred shares to be settled in 2012.

Interest income from cash and cash equivalents amounted ₱11.0 million, ₱11.8 million and ₱15.8 million in 2011, 2010 and 2009, respectively.

7. Receivables

This account consists of:

	2011	2010
Trade (Note 15)	**₱ 525,379**	₱ 461,689
Interest	**380,119**	484,736
Receivable from employees	**129,139**	153,195
	₱1,034,637	₱1,099,620

Interest pertains to accrued interest on cash and cash equivalents. Receivables generally have 30 to 60-day terms. As of December 31, 2011 and 2010, the Group has no past due receivables except for trade receivables that are more than 360 days past due.

8. Other Current Assets

This account consists of:

	2011	2010
Creditable withholding taxes	**₱13,963,426**	₱13,173,228
Prepayments	**1,641,895**	1,347,991
Others	**228,218**	390,818
	₱15,833,539	₱14,912,037

Prepayments are advance rental deposits for one year which arose from the transfer of the Group's office to a temporary address due to the ongoing reconstruction of its principal office.

9. Available-for-Sale Financial Assets

As of December 31, 2011 and 2010, unquoted AFS financial asset amounting to ₱0.2 million pertains to an investment in club share of Club Filipino, Inc. de Cebu.

In 2010, the Parent and CSRI sold all of its quoted AFS financial assets consisting of investments in ordinary shares of a publicly listed company and club shares for ₱0.4 million and ₱0.2 million, respectively, which resulted in a gain of ₱0.3 million and ₱0.2 million, respectively.

10. Investments in Associates and a Joint Venture

The details and movements of this account follow:

	2011	2010
Cost	**₱ 806,321,443**	₱ 806,321,443
Advances for conversion to preferred shares of associates	**79,287,230**	79,287,230
Accumulated equity in net earnings (Notes 14 and 18):		
At January 1	**252,165,796**	240,495,951
Equity in net earnings of associates and a joint venture	**207,223,718**	11,669,845
At December 31	**459,389,514**	252,165,796
	₱1,344,998,187	₱1,137,774,469

The carrying values of the Group's investments in associates and a joint venture and the related percentages of ownership are shown below:

	Percentage of Ownership		**Carrying Amount**	
	2011	2010	**2011**	2010
SMKL*	**40%**	40%	**₱ 965,470,319**	₱ 793,653,669
Buena Homes (Sandoval), Inc. (BHSI)	**40**	40	**175,105,292**	176,178,561
Opon-KE Properties, Inc. (OKEP)	**40**	40	**116,202,754**	99,363,990
Opon Ventures, Inc. (OVI)	**40**	40	**67,629,416**	57,835,968
Opon Realty and Development Corporation (ORDC)	**40**	40	**20,590,406**	10,742,281
			₱1,344,998,187	₱1,137,774,469

***Investment in a joint venture**

In 2006, the stockholders approved the conversion of the advances to associates into investments in preferred shares of OVI and OKEP amounting to ₱46.9 million and ₱31.3 million, respectively. The SEC approved the conversion of the advances to associates into investment in preferred shares in OVI and OKEP on February 29, 2012 and March 2, 2012, respectively.

The Group is obligated to provide financial support to OVI proportionate to its shareholdings.

Significant financial information of the associates and joint venture follows:

	2011				
	BHSI	SMKL	OKEP	OVI	ORDC
			(In Millions)		
Current assets	**₱304.9**	**₱1,578.3**	**₱9.5**	**₱0.3**	**₱27.5**
Noncurrent assets	**318.5**	**1,012.6**	**322.9**	**119.8**	**81.9**
Total assets	**623.4**	**2,590.9**	**332.4**	**120.1**	**109.4**
Current liabilities	**180.0**	**454.2**	**79.1**	**1.5**	**77.3**
Noncurrent liabilities	**5.6**	**86.2**	**–**	**–**	**–**
Total liabilities	**185.6**	**541.1**	**79.1**	**1.5**	**77.3**
Gross revenues (losses)	**(3.9)**	**849.2**	**42.7**	**–**	**16.2**
Cost and expenses – net	**(2.3)**	**218.1**	**0.6**	**0.8**	**1.9**
Income (loss) before income tax	**(1.4)**	**631.1**	**42.1**	**(0.8)**	**14.3**
Net income (loss)	**(2.7)**	**429.5**	**42.0**	**(0.8)**	**10.3**

	2010				
	BHSI	SMKL	OKEP	OVI	ORDC
			(In Millions)		
Current assets	₱280.6	₱331.7	₱9.3	₱0.3	₱4.3
Noncurrent assets	346.9	1,521.5	280.7	119.8	89.5
Total assets	627.5	1,853.2	290.0	120.1	93.8
Current liabilities	181.4	150.4	78.7	0.8	72.1
Noncurrent liabilities	5.6	85.2	–	–	–
Total liabilities	187.0	235.6	78.7	0.8	72.1
Gross revenues (losses)	(15.8)	229.7	2.4	–	0.1
Cost and expenses – net	(10.6)	180.0	0.3	0.4	0.9
Income (loss) before income tax	(5.2)	49.7	2.1	(0.4)	(0.8)
Net income (loss)	(6.3)	30.7	2.1	(0.4)	(0.8)

On November 28, 2011, SMKL assigned its development rights and sold its basement car park to BDO at a gain of ₱585.8 million and ₱37.1 million, respectively.

11. Investment Properties

This account consists of condominium units as follows:

	2011	2010
Cost	**₱4,000,000**	₱4,000,000
Accumulated depreciation	**3,999,999**	3,999,999
Net book value at January 1 and December 31	**₱ 1**	₱ 1

The Group did not incur any operating expense or recognized rental income on this investment property in 2011, 2010 and 2009.

The fair value of the investment properties determined in reference to the fair value of similar properties within the same local market approximates ₱2.0 million as of December 31, 2011 and 2010.

12. Property and Equipment

The movement of this account follows:

	Transportation Equipment	Office Equipment	Furniture and Fixtures	Total
Cost				
At January 1, 2010	₱2,068,142	₱2,889,604	₱433,161	₱5,390,907
Additions	–	115,012	2,101,303	2,216,315
At December 31, 2010	2,068,142	3,004,616	2,534,464	7,607,222
Additions	–	213,938	125,401	339,339
Disposals	(663,636)	–	–	(663,636)
Retirement	–	–	(241,564)	(241,564)
At December 31, 2011	**1,404,506**	**3,218,554**	**2,418,301**	**7,041,361**
Accumulated depreciation				
At January 1, 2010	1,746,426	2,401,110	417,830	4,565,366
Depreciation (Note 16)	85,790	342,634	61,676	490,100
At December 31, 2010	1,832,216	2,743,744	479,506	5,055,466
Depreciation (Note 16)	85,792	201,981	745,803	1,033,576
Disposals	(663,636)	–	–	(663,636)
Retirement	–	–	(241,564)	(241,564)
At December 31, 2011	**1,254,372**	**2,945,725**	**983,745**	**5,183,842**
Net book value				
At December 31, 2011	**₱150,134**	**₱272,829**	**₱1,434,556**	**₱1,857,519**
At December 31, 2010	₱235,926	₱260,872	₱2,054,958	₱2,551,756

Depreciation expense charged against operations amounted to ₱1.0 million in 2011 and ₱0.5 million in 2010 and 2009 (see Note 16).

The gain on sale of property and equipment amounting to ₱0.2 million in 2011 resulted from the disposal of transportation equipment.

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2011	2010
Accrued expenses (Note 15)	**₱1,526,928**	₱1,244,371
Dividends payable	**553,981**	553,981
Taxes payable	**458,868**	1,773,343
Trade	**271,768**	662,544
Nontrade	**203,086**	322,583
	₱3,014,631	₱4,556,822

Accrued expenses pertain to accruals on consultancy fees, salaries and other employee benefits and professional fees. Accrued expenses and other payables are payable within 30 to 60 days.

Dividends payable pertain to amounts declared when the Parent's name was still Cebu Shipyard and Engineering Works, Inc. but which have not been claimed by the respective shareholders to date.

Taxes payable pertain to taxes withheld for transactions subject to withholding tax.

Trade accounts payable represent payables to suppliers and are normally settled within one year.

14. Equity

a. Capital Stock
The authorized capital stock of the Parent as of December 31, 2011, 2010 and 2009 follows:

	2011	2010	2009
Common stock - ₱1 par value	**375,000,000**	375,000,000	375,000,000
Preferred stock - ₱1 par value	**135,700,000**	135,700,000	135,700,000

Issued and outstanding shares of the Parent as of December 31, 2011, 2010 and 2009 follow:

	2011	2010	2009
Common stock (net of treasury shares of 2,801,000)	**293,828,900**	293,828,900	293,828,900
Preferred stock	**59,474,100**	59,474,100	73,074,100

Preferred shares, which were issued on November 11, 2003, are redeemable in full or in part at the option of the Parent, not later than November 11, 2010, and provided that the Parent has sufficient unrestricted retained earnings. The redemption price will be ₱10 per share and calculated to give the holders an estimated return of fifteen percent (15%) per annum.

On November 10, 2010, the Parent exercised its option to redeem 13,600,000 or approximately 19% of its outstanding redeemable preferred shares at a redemption price of ₱20.50 per share or a total consideration of ₱278.8 million (see Note 15). Total reduction in preferred stock, additional paid-in capital and retained earnings amounted to ₱13.6 million, ₱122.4 million and ₱142.8 million, respectively. No additional preferred shares have been redeemed as of December 31, 2011.

After this redemption, the Parent has 59,474,100 of its redeemable preferred shares outstanding.

Preferred stockholders have preference over common stockholders with respect to the distribution of assets upon dissolution but not with respect to the payment of dividends.

Preferred stockholders are not entitled to dividends. Moreover, no voting right is vested on the preferred stockholders, except for the cases provided for under Section 6, Paragraph 6 of the Corporation Code (Code) of the Philippines as follows:

i. Amendment of the articles of incorporation;
ii. Adoption and amendment of by-laws;
iii. Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
iv. Incurring, creating or increasing bonded indebtedness;
v. Increase or decrease of capital stock;
vi. Merger or consolidation of the corporation with another corporation or other corporations;
vii. Investment of corporate funds in another corporation or business in accordance with this Code; and
viii. Dissolution of the corporation.

On October 6, 2010, the BOD authorized the amendment of its articles of incorporation, particularly article 7 to read as follows:

Preferred shares may be redeemed in full or in part, at the option of the issuer, within a call period of seven (7) years from the date of approval of the amended articles. The redemption price will be equivalent to the issue price with an annual premium to be approved by the BOD. Likewise, the fairness of the annual premium rate must be confirmed by an independent financial advisor. The issue price will be ₱10 per share.

The above amendments were approved by the stockholders on November 26, 2010.

b. Additional paid-in capital

The details of "Additional paid-in capital" presented in the consolidated statements of financial position and consolidated statements of changes in equity as of December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Common stock	**₱ 67,618,617**	₱ 67,618,617	₱ 67,618,617
Preferred stock	**535,266,900**	535,266,900	657,666,900
	₱602,885,517	₱602,885,517	₱725,285,517

c. Retained earnings

The portion of retained earnings corresponding to the Parent's undistributed equity in net earnings of the associates and joint venture amounted to ₱459.4 million, ₱252.2 million and ₱240.5 million as of December 31, 2011, 2010 and 2009, respectively. These amounts are not available for distribution as dividends until declared by associates. Retained earnings are further restricted to the extent of ₱2.7 million representing the cost of shares held in treasury as of December 31, 2011, 2010 and 2009.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Group's retained earnings available for dividend declaration as of December 31, 2011, 2010 and 2009 amounted to ₱192.6 million, ₱196.2 million and ₱340.6 million, respectively.

15. Related Party Transactions

Outstanding balances arising from related party transactions
Outstanding balances of transactions with related parties follow:

Receivables:

		Due from related parties	
Related Party	Relationship	**2011**	2010
BHSI	Associate	**₱107,200,000**	₱107,200,000
OKEP	Associate	**78,642,052**	78,642,052
SMKL	Associate	**37,639,919**	35,280,791
OVI	Associate	**900,642**	710,780
		₱224,382,613	₱221,833,623

Payables:

Related Party	Relationship	Due to related parties 2011	2010
KLL	Stockholder	**₱278,800,000**	₱289,357,195
Keppel Land International Limited (KLIL)	Entity under common control	**278,006**	321,666
		₱279,078,006	₱289,678,861

On November 10, 2010, the Parent partially redeemed 13,600,000 preferred shares of KLL amounting to ₱278.8 million. This amount remains unpaid as of December 31, 2011 and included in "Due to related parties" in the consolidated statements of financial position. Cash and cash equivalents amounting to ₱278.8 million has been restricted for the settlement of the redemption (see Note 8).

In 2011 and 2010, the Group made payments to KLL amounting to ₱10.6 million and ₱52.7 million, respectively.

Nontrade receivable eliminated during the consolidation amounted to ₱208.2 million. There were no trade and other payables from the related parties that were eliminated during the consolidation.

On January 16, 2012, BHI and BHSI made payments to the Parent amounting to ₱64.0 million and ₱36.0 million, respectively.

Terms and Conditions of Transactions with Related Parties
Outstanding balances of accounts with related parties at year-end are unsecured and are settled in cash. Amounts due from related parties represent interest and non-interest-bearing cash advances for working capital requirements and reimbursable expenses which are settled within 30 to 60 days. Interest-bearing advances bear interest at prevailing market rates. Amounts due to related parties are non-interest-bearing.

For the years ended December 31, 2011, 2010 and 2009, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties based on review of the financial position of the related parties.

Amounts due from/due to related parties are due and demandable.

Significant Transactions with Related Parties

a. KLIL
   i. KLIL provides consultancy, advisory and support services to the Parent. Management consultancy fees, which are based on time spent by KLIL personnel, amounted to ₱6.3 million, ₱6.1 million and ₱8.8 million in 2011, 2010 and 2009, respectively (see Note 16). As of December 31, 2011 and 2010, outstanding payable to KLIL for consultancy fees included in "Accrued expenses" amounted to ₱0.3 million (see Note 13). Accrued expenses are payable within 30 to 60 days.

b. SMKL
   i. The Group provides management, advisory and consultancy services to SMKL. The management consultancy fee is computed at 2.5% of SMKL's annual net revenues. Furthermore, the Group also bills SMKL a franchise fee equivalent to 1.0% of SMKL's net revenues for the rights, license and privilege to use the name "Keppel". Management consultancy and franchise fees amounted to ₱7.0 million in 2011 and 2010 and ₱7.9 million in 2009.

   ii. The Group advances to SMKL aggregating to ₱37.6 million and ₱35.3 million as of December 31, 2011 and 2010, respectively, are interest-bearing. Interest income charged to SMKL amounted to ₱1.9 million, ₱2.2 million and ₱2.5 million in 2011, 2010 and 2009, respectively. Interest rates are based on Bangko Sentral ng Pilipinas (BSP) lending rates that ranged from 6.56% to 7.52%, 7.65% to 8.25% and 8.43% to 10.20% in 2011, 2010 and 2009, respectively.

Compensation of Key Management Personnel of the Group
Details of the compensation of key management personnel of the Group are as follows:

	2011	2010	2009
Salaries and other short-term employee benefits	**₱3,496,444**	₱3,019,406	₱2,660,777
Bonuses and allowances	**124,584**	197,857	38,538
	₱3,621,028	₱3,217,263	₱2,699,315

16. General and Administrative Expenses

This account consists of:

	2011	2010	2009
Salaries, wages and employee benefits (Note 15)	**₱6,839,030**	₱5,976,731	₱5,316,295
Management consultancy fee (Note 15)	**6,340,725**	6,061,297	8,825,048
Professional fees	**2,148,548**	2,653,050	1,977,804
Rental (Note 21)	**1,184,675**	752,885	429,770
Depreciation (Note 12)	**1,033,576**	490,100	462,304
Transportation and travel	**626,209**	386,557	480,747
Membership and dues	**535,460**	407,530	328,330
Utilities	**498,823**	655,548	458,323
Postage, printing and advertising	**337,085**	491,110	305,530
Taxes and licenses	**252,931**	333,046	94,639
Insurance	**244,497**	213,787	186,834
Repairs and maintenance	**199,211**	159,947	250,872
Supplies	**169,450**	144,394	207,207
Staff recreation and others	**85,852**	76,394	216,333
Bank and other charges	**34,674**	35,849	101,835
Retirement benefits (Note 17)	**31,944**	198,247	71,573
Security and other services	**13,471**	100,625	218,625
Others	**393,698**	821,562	667,241
	₱20,969,859	₱19,958,659	₱20,599,310

Other expenses pertain to storage costs, retainers' fee, printing costs and out-of-pocket expenses for professional services.

17. Retirement Benefits

The Group has a funded, non-contributory defined benefit retirement plan, administered by a trustee, covering its regular employees.

The latest actuarial valuation date of the Group's retirement plan is December 31, 2011.

The following tables summarize the components of net benefit expense recognized in profit or loss under "General and administrative expenses" and the funded status and amounts recognized in the consolidated statements of financial position for the plan:

The amounts recognized in profit or loss is as follows:

	2011	2010	2009
Current service cost	**₱63,863**	₱175,833	₱ 7,626
Interest cost	**47,518**	68,248	120,330
Expected return on plan assets	**(56,498)**	(39,772)	(36,559)
Actuarial gain recognized	**(22,939)**	(6,062)	(19,824)
Net benefit expense (Note 16)	**₱31,944**	₱198,247	₱71,573

The amount recognized in the consolidated statements of financial position follow:

	2011	2010
Present value of obligation	**₱ 647,982**	₱ 489,372
Fair value of plan assets	**1,255,843**	1,129,956
	(607,861)	(640,584)
Unrecognized actuarial gain	**607,861**	640,584
Net pension liability	**₱ –**	₱ –

Changes in the present value of the defined benefit obligation follow:

	2011	2010
At January 1	**₱ 489,372**	₱ 633,689
Current service cost	**63,863**	175,833
Interest cost	**47,518**	68,248
Benefits paid	**(26,431)**	–
Actuarial loss (gain)	**73,660**	(388,398)
At December 31	**₱ 647,982**	₱ 489,372

Changes in the fair value of retirement plan assets follow:

	2011	2010
At January 1	**₱1,129,956**	₱ 859,016
Expected return on plan assets	**56,498**	39,772
Contributions	**31,944**	198,247
Benefits paid	**(26,431)**	–
Actuarial gain	**63,876**	32,921
At December 31	**₱1,255,843**	₱1,129,956
Actual return on plan assets	**₱ 120,374**	₱ 72,693

Changes in unrecognized net actuarial gain follow:

	2011	2010
At January 1	**₱ 640,584**	₱ 225,327
From plan assets	**63,876**	32,921
From defined benefit obligation	**(73,660)**	388,398
Amortization of actuarial gain	**(22,939)**	(6,062)
At December 31	**₱ 607,861**	₱ 640,584

Movements in the net pension liability follow:

	2011	2010
At January 1	**₱ –**	₱ –
Net benefit expense	**31,944**	198,247
Contributions	**(31,944)**	(198,247)
At December 31	**₱ –**	₱ –

The Group expects to contribute ₱0.1 million to the plan in 2012.

The major categories of plan assets as a percentage of the fair value of total plan assets follow:

	2011	2010
Short-term deposits	**99.27%**	98.75%
Cash in bank and interest receivables	**0.73%**	1.25%
	100.00%	100.00%

The principal actuarial assumptions used in determining retirement benefit obligations follow:

	2011	2010
Discount rate	**6.25%**	9.71%
Expected rate of return on plan assets	**5.00%**	5.00%
Salary increase rate	**5.00%**	5.00%
Average remaining working lives of employees	**20 years**	23 years

The expected rate of return on plan assets is determined based on market expectations at the beginning of the period for returns over the entire life of the related obligation.

Experience adjustment on benefit obligation amounted to ₱0.1 million and ₱0.3 million in 2011 and 2010, respectively.

Amounts for current and previous periods follow:

	2011	2010	2009	2008	2007
Plan assets	**₱1,255,843**	₱1,129,956	₱859,016	₱812,433	₱ 588,473
Defined benefit obligation	**(647,982)**	(489,372)	(633,689)	(320,368)	(1,136,060)
Surplus (deficit)	**₱ 607,861**	₱ 640,584	₱225,327	₱492,065	(₱547,587)

18. Income Tax

Current Tax
The current provision for income tax represents final tax paid on interest income and MCIT.

Details follow:

	2011	2010	2009
Final tax	**₱2,590,896**	₱2,779,954	₱3,604,374
MCIT	**143,971**	5,933	–
	₱2,734,867	₱2,785,887	₱3,604,374

Deferred Tax

The components of net deferred tax assets as of December 31, 2011 and 2010, computed at 30%, follow:

	2011	2010
Deferred tax assets		
Accrued expenses	**₱180,199**	₱334,549
Unrealized foreign exchange loss	**–**	77,482
Deferred tax liability		
Unrealized foreign exchange gain	**(13,690)**	–
Net deferred tax assets	**₱166,509**	₱412,031

As of December 31, 2011, details of NOLCO and MCIT which can be claimed as deduction from future taxable income are as follows:

Year incurred	Year of Expiry	NOLCO	MCIT
2009	2012	₱12,216,746	₱ –
2010	2013	11,343,910	5,933
2011	2014	13,222,670	143,971
		₱36,783,326	₱149,904

Deferred tax assets on NOLCO and MCIT as of December 31, 2011 and 2010, respectively, have not been recognized since management believes that the benefits will not be realized prior to their expiry dates. Details of unrecognized deferred tax assets follow:

	2011	2010
NOLCO	**₱36,783,326**	₱56,036,640
Tax rate	**30%**	30%
	11,034,998	16,810,992
MCIT	**149,904**	5,933
	₱11,184,902	₱16,816,925

The movements in NOLCO are as follows:

	2011	2010
At January 1	**₱56,036,640**	₱45,618,275
Additions	**13,222,670**	11,343,910
Expirations	**(32,475,984)**	(925,545)
At December 31	**₱36,783,326**	₱56,036,640

The movements in MCIT are as follows:

	2011	2010
At January 1	**₱ 5,933**	₱ –
Additions	**143,971**	5,933
At December 31	**₱149,904**	₱5,933

The reconciliation between the statutory income tax rate and the effective income tax rate is as follows

	2011	2010	2009
Statutory income tax rate	**30.0%**	30.0%	30.0%
Add (deduct) tax effects of:			
Change in unrecognized deferred tax assets	**1.8**	27.1	10.1
Nondeductible expenses	**0.2**	1.5	0.6
Interest income subjected to final tax	**(0.6)**	(10.5)	(6.1)
Equity in net earnings of associates and a joint venture	**(30.1)**	(27.2)	(25.0)
Effective income tax rate	**1.3%**	20.9%	9.6%

19. Provisions and Contingencies

- The Parent is a party to a lawsuit involving a claim for commission by an agent amounting to ₱1.8 million plus damages. The case is now pending with the Regional Trial Court of Cebu City, Philippines. The Parent's management and legal counsel believe that the said agent has no valid claim from the Parent. No provision for commission has been made for the years ended December 31, 2011, 2010 and 2009.

- In 2006, provisions of ₱2.6 million were recognized for estimated losses on claims by third party. As of December 31, 2011 and 2010, the outstanding balance of the provision amounted to ₱2.6 million and ₱2.9 million, respectively. The information usually required by PAS 37 is not disclosed because of the sensitivity of the information.

20. Basic/Diluted Earnings Per Share

	2011	2010	2009
Net income (a)	**₱203,443,482**	₱10,165,320	₱27,280,067
Weighted average number of common shares issued and outstanding (b) (Note 14)	**293,828,900**	293,828,900	293,828,900
Basic/Diluted Earnings per share (a/b)	**₱0.69**	₱0.03	₱0.09

The basic EPS is equal to the diluted EPS since the Group has no potential shares that will have a dilutive effect on EPS.

21. Commitments

a. The Parent has an operating lease contract that expired on August 30, 2011. This agreement has been renewed for one year until August 2012. Total rent expense charged to operations amounted to ₱1.2 million, ₱0.8 million and ₱0.4 million in 2011, 2010 and 2009, respectively (see Note 16).

   As of December 31, 2011 and 2010, the required advance rentals and deposit amounted to ₱0.6 million and ₱0.5 million, respectively. These are included under "Other current assets" in the consolidated statements of financial position.

There are no assets of the Group pledged as collaterals to any loans of its stockholders and associates nor are there any restrictions on revenue.

22. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, AFS financial assets and amounts due to and from related parties. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Credit Risk
Credit risk arises when the counterparty to a financial asset of the Group is unable to fulfill its obligation at the time the obligation becomes due. Credit risk arises from the Group's financial assets, which comprise of cash and cash equivalents, receivables, amounts due from related parties, refundable deposits and AFS financial assets. As of December 31, 2011 and 2010, the carring values of the Group's financial instruments represent maximum exposure to the credit risk at reporting date.

The Group's due from related parties are approximately ninety-nine percent (99%) of total receivables.

Credit quality
As of December 31, 2011 and 2010, the Group determined that the financial assets are rated high grade as the counterparties possess strong to very strong capacity to meet their obligations.

Since the Group trades only with related parties, there is no requirement for collateral. Due from related parties aggregating ₱224.4 million and ₱221.8 million as of December 31, 2011 and 2010, respectively, are collectible. Cash and cash equivalents are placed with reputable financial institutions with strong financial capacity.

As of December 31, 2011 and 2010, the Group has no past due and impaired financial assets.

Liquidity Risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and short-term deposits. The Group also monitors its risk to shortage of funds through monthly evaluation of the projected and actual cash flow information.

The table below summarizes the maturity profile of the Group's nonderivative financial assets and liabilities based on contractual undiscounted payments:

December 31, 2011

	On Demand	**Less than 3 months**	**More than 3 months to 1 year**	**More than one year**	**Total**
Financial assets:					
Cash and cash equivalents	**₱307,418,255**	**₱ –**	**₱–**	**₱ –**	**₱ 307,418,255**
Receivables	**1,034,637**	**–**	**–**	**–**	**1,034,637**
Due from related parties	**224,382,613**	**–**	**–**	**–**	**224,382,613**
Refundable deposit	**-**	**–**	**–**	**56,108**	**56,108**
	₱532,835,505	**₱ –**	**₱–**	**₱ 56,108**	**₱532,891,613**
Financial liabilities:					
Accounts payable and other current liabilities*	**₱ –**	**₱2,555,763**	**₱–**	**₱ –**	**₱ 2,555,763**
Due to related parties	**279,078,006**	**–**	**–**	**–**	**279,078,006**
	₱279,078,006	**₱2,555,763**	**₱–**	**₱ –**	**₱281,633,769**

** Accounts payable and other current liabilities exclude taxes payable.*

December 31, 2010

	On Demand	Less than 3 months	More than 3months to 1 year	More than one year	Total
Financial assets:					
Cash and cash equivalents	₱325,737,487	₱ –	₱–	₱ –	₱325,737,487
Receivables	1,099,620	–	–	–	1,099,620
Due from related parties	221,833,623	–	–	–	221,833,623
Refundable deposits	–	–	–	360,388	360,388
	₱548,670,730	₱ –	₱–	₱360,388	₱549,031,118
Financial liabilities:					
Accounts payable and other current liabilities*	₱ –	₱2,783,479	₱–	₱ –	₱ 2,783,479
Due to related parties	289,678,861	–	–	–	289,678,861
	₱289,678,861	₱2,783,479	₱–	₱ –	₱292,462,340

** Accounts payable and other current liabilities exclude taxes payable.*

Foreign Currency Risk
The Group's exposure to foreign currency arises from US-dollar denominated bank accounts and SG-dollar denominated consultancy fees due to the Parent Company.

The Group's foreign currency denominated financial asset pertains to cash in bank account amounting to ₱8.0 million (US$0.2 million) and ₱2.2 million (US$0.1 million) as of December 31, 2011 and 2010, respectively. In translating the foreign currency denominated cash in bank account into Philippine Peso amounts, the exchange rates used was ₱43.64 and ₱43.84 to US$1.0 as of December 31, 2011 and 2010, respectively.

The foreign currency denominated financial liabilities of the Parent pertain to advances from related parties amounting to ₱0.3 million (SG$8,313) in 2011 and ₱0.3 million (SG$9,688) in 2010. In translating the foreign currency denominated advances from the related parties into Philippine Peso amounts, the exchange rate used was ₱33.85 in 2011 and ₱33.95 in 2010.

The Group manages its foreign currency exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into relevant domestic currency as and when the management deems necessary.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine Peso exchange rate, with all other variables held constant, of the Group's income before tax. There is no impact on the Group's other comprehensive income other than those already affecting the net income.

December 31, 2011

Currency	**Change in Philippine Peso**	**Effect on Other Comprehensive Income**
USD	**+1**	**₱182,550**
	-1	**(182,550)**
SGD	**+1**	**(8,313)**
	-1	**8,313**

December 31, 2010

Currency	Change in Philippine Peso	Effect on Other Comprehensive Income
USD	+1	₱50,132
	-1	(50,132)
SGD	+1	(9,688)
	-1	9,688

In 2011 and 2010, the Group used the average change in the quarterly closing rates for the year in determining the reasonable possible change in foreign exchange rates.

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates primarily to placements in short-term deposits with floating interest rates. The Group earned interest ranging from 2.25% to 4.00% in 2011 and 2.75% to 4.00% in 2010. The Group manages its exposure to interest rate risk by actively monitoring various short-term placements and related coupon rates. Furthermore, the Group has no significant concentration of interest rate risk.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rates). There is no impact on the Group's other comprehensive income other than those already affecting the net income.

December 31, 2011

Currency	**Change in variable**	**Effect on Other Comprehensive Income**
PHP	+1.0%	**₱2,896,992**
	-1.0	**(2,896,992)**
	+0.5	**1,448,496**
	-0.5	**(1,448,496)**

December 31, 2010

Currency	Change in variable	Effect on Other Comprehensive Income
PHP	+1.0%	₱2,809,334
	-1.0	(2,809,334)
	+0.5	1,404,667
	-0.5	(1,404,667)

In 2011 and 2010, the Group determined the reasonably possible change in interest rates using the percentage changes in coupon rates of outstanding placements in short-term deposits on a quarterly basis.

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 and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using percentage of debt to equity, which is total debt divided by total equity net of treasury stock. The Group's policy is to maintain the percentage of debt to equity ratio below 100%. The Group includes, within total debt, accounts payable and other current liabilities and amounts due to related parties.

The Group's objective is to ensure that there are no known events that may trigger direct or contingent financial obligation that is material to the Group, including default or acceleration of an obligation, which was not disclosed. The percentages of debt to equity as of December 31, 2011 and 2010 are as follows:

	2011	2010
Liabilities	**₱ 281,633,769**	₱ 294,235,683
Equity	**1,611,173,396**	1,407,729,914
Percentage of debt to equity	**17.48%**	20.90%

The Group is not subject to any externally imposed capital requirement.

Fair Values

Due to the short-term nature of cash and cash equivalents, receivables, amounts due to and from related parties, other current assets, refundable deposits and accounts payable and other current liabilities, their carrying values reported in the consolidated statements of financial position approximate their fair values at reporting date.

The unquoted club shares are valued at cost less any impairment in value because these club shares do not have a quoted market price in an active market and whose fair value cannot be measured reliably.

23. Segment Information

The Group has only one segment as it derives its revenues primarily from investments and management consultancy services rendered to its associates.

Significant information on the reportable segment follows:

	2011	2010	2009
Operating assets	**₱1,895,972,368**	₱1,704,906,412	₱1,754,167,076
Operating liabilities	**284,798,972**	297,176,498	77,566,069
Revenue	**227,112,073**	32,607,485	51,310,782
Other income (charges)	**281,657**	207,500	(541,516)
General and administrative expenses	**20,969,859**	19,958,659	20,599,310
Segment income	**203,443,482**	10,165,320	27,280,067

All revenues are from domestic entities incorporated in the Philippines.

There are no revenues derived from a single external customer above 10% of total revenue.

There is no need to present reconciliation since the Group's operating assets, operating liabilities, revenue, cost and expenses and segment profit pertains to a single operating segment.