## COVER SHEET

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S.E.C. Registration Number

STARMALLS, INC. (FORMERLY: POLAR PROPERTY HOLDINGS CORP.

(Company's Full Name)

3RD LEVEL STARMALL LAS PINAS, CV STARR AVENUE, PHILAMLIFE VILLAGE, PAMPLONA, LAS PINAS CITY

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

**Jo L. Ilijay**
Contact Person

**571-5948**
Company Telephone Number

| 1 | 2 | | 3 | 1 |
|---|---|---|---|---|

*Month* *Day*
Calendar Year

**17-A**
FORM TYPE

*Month* *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

---------------------------------------------------------------------------------------------------------

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

starmalls.inc
3/L Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City 1746
UGF Worldwide Corporate Center, Shaw Boulevard, Mandaluyong City
Tel. No. **(+632) 532 0605 / (+632) 871 4001** | Fax No. **(+632) 872 4697**
Website: www.starmallsinc.com.ph

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Starmalls, Inc. and Subsidiaries** (the Group), is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with Philippine Financial Reporting Standards (PFRS), including the List of Supplementary Information filed separately from the basic consolidated financial statements.

Management's responsibility on the consolidated financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

**Manuel B. Villar Jr.**
Chairman of the Board

**Jerry M. Navarrete**
Chief Executive Officer

**Frances Rosalie T. Coloma**
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 12 2013 at MANDALUYONG CITY, affiants exhibiting to me their respective Passports, to wit:

| Name | Valid ID No. | Valid Until |
|---|---|---|
| Manuel B. Villar Jr. | Passport EB 1858840 | 11/30/2015 |
| Jerry M. Navarrete | Passport EB1908540 | 02/10/2016 |
| Frances Rosalie T. Coloma | Passport XX1008696 | 04/21/2013 |

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Book No. I
Series of 2013.

ATTY. JO MARIE C. LAZARO-LIM
NOTARY PUBLIC
UNTIL DECEMBER 31, 2014
ROLL NO. 48438
PTR No. 1627121/08 Jan. 2013 / Mandaluyong City
IBP No. 914269 / 03 Jan. 2013, RSM

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2012**

2. SEC Identification Number **39587** 3. BIR Tax Identification No. **000-806-396-000**

4. Exact name of issuer as specified in its charter **STARMALLS, INC.**

5. **Philippines**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **3rd Floor Starmall Las Piñas CV Starr Ave. Philamlife Village Pamplona, Las Piñas City**
Address of principal office

**1746**
Postal Code

8. **(632) 571-5948 / (632) 571-5949**
Issuer's telephone number, including area code

9. **Las Piñas Business Center, National Road, Talon, Las Piñas City**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| **Common stock** | **7,202,808,365 shares** *(net of 1,223,102,790 Treasury Shares)* |
| **Preferred stock** | **2,350,000,000 shares** |

11. Are any or all of these securities listed on a Stock Exchange?

Yes [ **x** ] No [ ]

Name of Stock Exchange: **Philippine Stock Exchange**
Class of securities listed: **Common Stocks**

*7,682,687,828 Common shares are listed with the Philippine Stock Exchange as of December 31, 2012*

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [ **x** ] No [ ]

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

Yes [ **x** ]                    No [ ]

13. Aggregate market value of voting stocks held by non-affiliates:

**₱ 6.3 Billion as of December 31, 2012**

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

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

Yes [ ]          No [ x ]   **NOT APPLICABLE**

**DOCUMENTS INCORPORATED BY REFERENCE**

15. Briefly describe documents incorporated by reference and identify the part of SEC Form 17-A into which the document is incorporated:

Consolidated Financial Statements as of and for the year ended December 31, 2012 (incorporated as reference for Items 7 and 12 of SEC Form 17-A)

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## PART I – BUSINESS

### Item 1. Business

#### Overview

***Starmalls Inc. (STR), formerly Polar Property Holdings Corp,*** was incorporated in Metro Manila, Philippines, on October 16, 1969 originally to pursue mineral exploration. After obtaining SEC approval in 2004, the Company changed its primary business and is now presently engaged in investment and real estate business.

On May 14, 2012, the Company's BOD authorized the change in name of the Company from Polar Property Holdings Corp. to Starmalls, Inc. THE SEC approved the Company's application for the change in corporate name on June 22, 2012.

The Company's subsidiaries include the following:

- ***Brittany Estates Corporation (BEC).*** BEC is engaged in developing and selling real estate properties, particularly residential house and lots;
- ***Masterpiece Asia Properties Inc. (MAPI)***. MAPI is currently in the operations and development of commercial properties for lease.
- ***Manuela Corporation (MC)***. MC is currently in the operations and development of commercial properties for lease.

The Company and its subsidiaries are hereinafter collectively referred to as the Group. All subsidiaries were incorporated in the Philippines.

The Company's principal place of business is at the 3rd Floor Starmall Las Piñas, CV Starr Avenue, Philamlife Village, Pamplona, Las Piñas City.

#### Recent Developments

As of December 31, 2012, 2011, 2010, the Company has equity interests in the following entities:

| Entity | Explanatory Notes | Percentage of Ownership 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| Brittany Estate Corporation (BEC) | | **100%** | 100.0% | 100.0% |
| Masterpiece Asia Properties, Inc. (MAPI) | | **100%** | 100.0% | 100.0% |
| Manuela Corporation | (a) | **98.4%** | - | - |
| Associate: | | | | |
| Vista Land & Lifescapes, Inc. (VLL) | (b,c) | **4.7**% | 9.1% | 9.1% |

(a) Acquired in June 2012 through share swap.
(b) Acquired in April 2007 through share swap.
(c) Sold in the period July-August 2012

On June 22, 2012, the Company increased its authorized capital stock from P5.5 billion to P17.0 billion. The Company also completed a series of transactions for the purpose of acquiring

Manuela as a subsidiary and changed its name to Starmalls, Inc. This has enabled the STR to effectively consolidate its resources, businesses and operations with MC to create a strong consolidated entity that will pursue mall and BPO office development and operations business in the country.

In the period July-August 2012, the Company sold 4.4% of its shareholdings in VLL. Despite the 4.7% ownership, the Company considers VLL as an associate due to the presence of significant influence but not control over VLL's operations since some of the Company's Board of Directors (BOD) are also directors of VLL.

**Description of the Business of the Registrant and its Subsidiaries**

The Company and its subsidiaries are incorporated in the Philippines. BEC is primarily engaged in the development and sale of real estate properties, and MAPI and MC is in the commercial property development and operations.

**Products**

MAPI and MC combined have five (5) malls and one (1) corporate building namely: Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang, Starmall San Jose del Monte and Worldwide Corporate Center. The malls house various retail establishments and the corporate building caters to the office space needs of the business process outsourcing companies.

Last February 2013, the Chairman of the Board announced the development of four to five new malls for the Group.

BEC's product is the Island Park subdivision in Dasmarinas, Cavite which mainly caters to the middle to higher income segment of the market. Its house and lot package ranges from ₱4.0 million to ₱6.0 million, while its lot only packages ranges from ₱3.5 million to ₱5.0 million.

**Distribution Methods of Products**

Leasing of commercial and office space is done by the Company's leasing team. The internal team is augmented by major international property companies for the sourcing of prospective tenants for BPO office spaces.

Houses and lots are principally sold through a network of brokers and in-house marketing subsidiaries that in turn use agents or property consultants to introduce the Company's products to potential buyers. The selling network earns commissions and other incentives on every sale or quota of sales that passes the requirements.

**Patents, Trademarks, Copyrights, Licenses, Franchises, Concessions and Royalty Agreements Held**

The Company does not hold any patent, trademark, copyright, license, franchise, concession or royalty agreement.

**Development of the business of the registrant and its key operating subsidiaries or affiliates**

*Starmalls Inc.* – parent company was incorporated on October 16, 1969 and presently engaged in investment and real estate business.

*Brittany Estates Corporation* – incorporated in May 8, 1996, 100.00% owned by STR, offers residential house and lots. The company's development project is known as Island Park located in Dasmariñas, Cavite.

*Masterpiece Asia Properties Inc.* – incorporated in October 4, 2001 and is wholly owned by STR. The Company's mall development is known as Starmall San Jose del Monte in Bulacan. Its investment properties in are in Bacoor, Cavite and Mandaluyong. Both properties are undergoing development for future lease.

*Manuela Corporation* – incorporated in February 22, 1972 and is 98.36% wholly owned by STR. The Company's mall developments are Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw and Starmall Alabang. Its corporate building is known as the Worldwide Corporate Center.

The Company virtually conducts all of its operations through its subsidiaries.

The Company's subsidiaries are involved in the acquisition of undeveloped land, the planning and design of developments, the securing of regulatory approvals for development and sale or lease, the supervision of land development and construction and the marketing and selling/leasing of it products.

**<u>Bankruptcy, Receivership or Similar Proceeding</u>**

As of December 31, 2012, there is no bankruptcy, receivership or similar proceedings involving the Group.

**<u>Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary) over the past three years</u>**

In June 2012, the Securities and Exchange Commission approved the approved the increase in the authorized capital stock of the Company from FIVE BILLION FIVE HUNDRED MILLION PESOS (Php5,500,000,000.00) divided into FIVE BILLION FIVE HUNDRED MILLION (5,500,000,000) common shares with par value of ONE PESO (PhP1.00) per share to SEVENTEEN BILLION PESOS (PhP17,000,000,000.00) divided into SIXTEEN BILLION NINE HUNDRED MILLION (16,900,000,000) common shares with par value of ONE PESO (PhP1.00) per share and TEN BILLION (10,000,000,000) voting, cumulative, non-participating, non-convertible and non-redeemable preferred shares with par value of ONE CENTAVO (PhP0.01) per share and the issuance of shares out of the aforementioned increase in authorized capital stock to the Hero Holdings Corp., Land & Houses Public Company Limited, Manuel B. Villar Jr., Manuel Paolo A. Villar and Mark A. Villar in exchange for 98.36% share in Manuela Corporation ("MC).

In July 2012, the Company issued TWO BILLION THREE HUNDRED FIFTY MILLION (2,350,000,000) preferred shares to Fine Properties, Inc.

**<u>Various diversification/ new product lines introduced by the Company during the last three years</u>**

In April 2012, MAPI opened its first mall development in what is known as Starmall San Jose Del Monte in Bulacan.

After its acquisition of Manuela Corporation in June 2012, the Company increased its mall portfolio to include Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw and Starmall Alabang and a corporate building, Worldwide Corporate Center.

**Competition**

Our shopping malls compete with other shopping malls in the geographic areas in which they operate. The other major shopping mall operators in the Mega Manila are Robinsons, SM Prime and Ayala Land. These national mall operators serve principally the “A”, “B” and “upper C” segments of the population. In the mass market segment, our competitors consist principally of smaller mall operators such as Sta. Lucia Realty and Development, Inc. and Ever Gotesco that are closely comparable to us in terms of its target segment. We believe that we are well-positioned to face increased competition in the shopping mall industry given the competitive advantages we have including, among other things, the location of our existing shopping malls, the land bank of the Company and its affiliates, our balance sheet strength, a successful tenant mix and selection criteria and our strategic partnership with the Villar Family Companies. Our experience and understanding of the retail industry has also been a contributing factor to our competitive advantage in the industry.

WCC competes with other BPO commercial centers and office buildings in the geographic area in which it operates. The major BPO office building commercial center developers in Metro Manila are Ayala Land, Robinsons Land, Megaworld and Filinvest Land. These developers have undertaken mixed-use residential, office and commercial developments in and around the major CBDs in Metro Manila as well as in key provincial cities. Apart from these real estate companies, there are many other independent developers in Metro Manila who have undertaken construction of new BPO buildings or conversion of existing buildings into BPO facilities in anticipation of a growing demand for BPO office spaces. We believe that we are well-positioned to face increased competition in the BPO commercial development given the competitive advantages we have including, among other things, the strategic location of our existing BPO commercial center, our strong and stable partnership with our existing BPO tenants and our expertise in flexible build-out arrangements to suit the requirements of our BPO tenants. Our experience and understanding of the BPO industry has also been a contributing factor to our competitive advantage in the industry

**Supplier**

Site development and construction work is contracted out to various qualified and accredited independent contractors. For larger projects, such as major repair or construction work, contracts are awarded on the basis of competitive bidding. For operational repairs and maintenance projects, we hire contractors without a competitive process based on our previous experience with the contractor. In all cases, our accreditation procedure takes into consideration each contractor’s experience, financial capability, resources and track record of adhering to quality, cost and time of completion commitments. We maintain relationships with various accredited independent contractors and deal with each of them on an arm’s length basis. We are not and do not expect to be dependent upon one or a limited number of suppliers or contractors.

**Dependence on a Few Major Customers**

The target customer segment of the commercial leasing business consists of mass market retail consumers. We believe that our shopping malls address the needs and aspirations of our target customers through our wide selection of retail outlets, supermarkets and department stores, together with other attractions, such as food courts, cinemas and other entertainment facilities. We attract local chains and franchises, to satisfy the preferences of our target customers.

The management team also took a proactive approach towards managing the tenant mix at its existing assets to ensure optimal alignment with the needs of the mass market, including removing and replacing delinquent tenants with tenants that provide more suitable retail concepts and offerings and reorganizing mall layouts to address customers’ needs as well as increasing the efficiency of available NLA.

The remaining house and lot business is not dependent on repeat business from customers. The Company has a broad market base including local and foreign buyers.

**Transactions with related parties**

The Company and its subsidiaries, in their ordinary course of business, engage in significant commercial transactions with certain companies controlled by the Villar Family, including the Villar Family Companies and their respective subsidiaries. We have signed a memorandum of agreement with certain subsidiaries of Vista Land under which we have been granted a right of first refusal and right of first offer in respect of certain commercial properties he by such VLL subsidiaries.

The Company's policy with respect to related party transactions is to ensure that these transactions are entered into on terms at least comparable to those available from unrelated third-parties.

**Government approvals**

The Company secures various government approvals such as license to sell, development permits, environmental compliance certificate, etc. as part of the normal course of its business.

The Company has no principal product that has pending government approval as of December 31, 2012.

**Effect of Existing or Probable Governmental Regulations**

By the nature of its business, the Company's subsidiaries are subject to governmental regulations on its land development and marketing activities, which includes, among others, zoning and environmental laws, development permit and license to sell regulations. The Company's subsidiaries comply with the said regulations in the regular conduct of its business operations.

As of December 31, 2012, the Company is not aware of any existing or probable governmental regulations that will have an effect on the Company's business operations.

**Compliance With Environmental Laws**

Prior to any land development activity, the subsidiaries of the Company secure the requisite environmental permits from the appropriate government agencies.

**Costs and Effects of Compliance with Environmental Laws**

The subsidiaries of the Company pay such amount as may be imposed by the appropriate government agencies for the procurement of all necessary environmental permits prior to commencement of any development project. The costs are generally minimal and vary from time to time.

Unless pertinent environmental laws are complied with, and requisite permits are secured, the Company's subsidiaries cannot and does not proceed with its projects.

**Research and Development Costs**

Research and development activities, such as training and contractor's development programs, are treated as normal operating expense. For 2012, the amount that the Company spent for research and development is minimal and does not constitute a significant percentage of the Company's revenues.

## Employees

As of December 31, 2012, the Company, through its subsidiaries, had a total of **121** employees. This is broken down by function as follows:

| Function | Number of employees |
|---|---|
| Operations | 88 |
| Administrative | 8 |
| Technical | 25 |
| **Total** | **121** |

The Company has no collective bargaining agreements with its employees and none of the Company's employees belong to a union. In addition to the regular remuneration packages being given by the Company, it also adopts a performance-based incentive scheme to employees holding strategic positions, such as foreign travel grants. The Company has no employee stock option plan.

## Risks related to the Companies Business

Each of the businesses of the Company and its Subsidiaries would inevitably involve some risks factors such as:

- Competition;
- Socio-economic conditions of the country;
- Effect of the changes in global economy;
- Foreign exchange devaluation;
- Changes in the country's political and economic situation;
- Inflation of prices affecting the cost and expenses;
- Reforms in the applicable rules and regulations affecting the Philippine Real Estate industry; and
- Changes in Philippine and International interest rates, with respect to the Company's borrowings.

To mitigate the aforementioned risks, the Company shall continue to adopt prudence in financial management and discipline in the area of operational controls, policies and procedures. With respect to competitive pressures among the industry players, the Company shall continue to compete through project concept, quality of projects, affordability of products, location of projects and value enhancement through project management and financing.

## Item 2. Properties

Details of the Company's properties as of December 31, 2012 are set out in the table below:

LAND

| Location | Owner | Use |
|---|---|---|
| Valenzuela City | STR | Land bank |
| Bacoor, Cavite | MAPI | Land bank |
| Mandaluyong City | MAPI | Office Building |
| San Jose del Monte, Bulacan | MAPI | Mall |
| Dasmarinas, Cavite | BEC | Residential |
| Dasmarinas, Cavite | MC | Residential |
| Alabang, Muntinlupa | MC | Mall |
| EDSA-Shaw | MC | Mall |
| Las Pinas City | MC | Mall |

BUILDING AND IMPROVEMENTS

| Location | Owner | Use |
|---|---|---|
| San Jose del Monte, Bulacan | MAPI | Mall |
| Alabang, Muntinlupa | MC | Mall |
| EDSA-Shaw | MC | Mall |
| Las Pinas City | MC | Mall |
| EDSA-Shaw | MC | Office Building |

As of December 31, 2012, investment properties with fair value of ₱1.2 billion were used to secure the bank loans of MAPI and MC (see Note 14 of the 2012 Audited Financial Statements).

**Item 3. Legal Proceedings**

The Group is currently involved in litigation over a portion of the land in Molino, Bacoor, Cavite (the "Bacoor Property"). The land involved is comprised of approximately 117,480 square meters and is registered in the name of MAPI. The case is an administrative action pending before the Land Management Bureau, the government agency responsible for administering disposable land in the Philippines. The plaintiffs claim to be the heirs of the rightful owner of the Bacoor Property and dispute the authenticity of MAPI's title; however, the plaintiffs do not possess a certificate of title over the property. A civil case based on a similar cause of action has been dismissed by the Regional Trial Court of Bacoor. MAPI continues to defend itself against the claim.

The rehabilitation of Manuela was terminated on January 25, 2012. The court-appointed receiver is required to submit a final report and accounting no later than December 31, 2012 for approval of the court. The submission of the final report and accounting is required only for the discharge of the receiver and the termination of the rehabilitation proceedings is not subject to the submission or approval of such report and accounting.

We are subject to various civil lawsuits and legal actions arising in the ordinary course of our business. Typical cases include adverse claims regarding the title to parcels of land. In the Group’s opinion, none of the lawsuits or legal actions to which we are currently subject will materially affect the daily operations of our business or have a material adverse effect on our consolidated financial position and results of operations.

**Item 4. Submission of Matters to a Vote of Security Holders**

Except for matters taken up during the Annual Stockholders Meeting, there was no other matter submitted to a vote of security holders during the period covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholders Matters

**Market Information**

The Company's common shares are being traded at the Philippine Stock Exchange. The high and low sales prices for each quarter within the last two fiscal years as traded on the Philippine Stock Exchange are as follows:

| Quarter | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| 1st | 4.09 | 3.51 | 3.67 | 2.32 | 5.75 | 3.28 |
| 2nd | | | 4.45 | 3.14 | 4.74 | 3.28 |
| 3rd | | | 4.50 | 3.78 | 3.70 | 2.40 |
| 4th | | | 4.00 | 3.55 | 2.89 | 2.40 |

The market capitalization of STR as of December 31, 2012, based on the closing price of ₱3.98/share, was approximately ₱33.54 billion.

As of March 31, 2013, STR's market capitalization stood at ₱33.7 billion based on the ₱4.00 per share closing price.

**Price Information as of the Latest Practicable Trading Date**

| Trading Date | High | Low |
|---|---|---|
| 08 April 2013 | 4.05 | 4.00 |

**Stockholders**

There are approximately 459 holders of common equity security of the Company as of December 31, 2012 (based on the number of accounts registered with the Stock Transfer Agent).

The following are the top 20 holders of the common securities of the Company:

| | Stockholders Name | No. of Common Shares | Percentage (of Common Shares)[1] |
|---|---|---|---|
| 1. | Adelfa Properties Inc.[2] | 2,573,507,156 | 30.5425% |
| 2. | PCD Nominee Corporation (Filipino) | 2,297,339,654 | 27.2650% |
| 3. | Hero Holdings Corporation | 1,402,278,726 | 16.6423% |
| 4. | Land & Houses Public Company Ltd. | 808,431,465 | 9.5945% |
| 5. | Manuel B. Villar Jr. | 728,900,022 | 8.6506% |
| 6. | Manuel Paolo A. Villar | 361,945,243 | 4.2956% |
| 7. | Mark A. Villar | 232,015,541 | 2.7536% |
| 8. | Althorp Holdings Inc. | 14,909,708 | 0.1769% |
| 9. | Peter O. Tan | 1,798,000 | 0.0213% |
| 10. | Peter Tan &/or Marilou Tan | 1,524,000 | 0.0181% |

| | | | |
|---|---|---|---|
| 11. | PCD Nominee Corporation (Foreign) | 519,003 | 0.0062% |
| 12. | Campos, Lanuza & Co. Inc. | 210,000 | 0.0025% |
| 13. | Ching Kuan Lim | 150,000 | 0.0018% |
| 14. | Arthur Winikoff FAO OBMVM | 120,000 | 0.0014% |
| 15. | Orion-Squire Capital Inc. | 82,000 | 0.0010% |
| 16. | Orion-Squire Securities Inc. | 77,900 | 0.0009% |
| 17. | Cua, Ang & Chua Securities Inc. | 66,000 | 0.0008% |
| 18. | Dees Securities Corp. | 60,715 | 0.0007% |
| 19. | Paic Securities Corporation | 60,400 | 0.0007% |
| 20. | Tansengco & Co. Inc. | 56,000 | 0.0007% |
| | | **8,424,051,533** | **99.9771%** |

[1] *based on the total shares issued of 8,425,981,155*
[2] *The Securities and Exchange Commission approved the merger of Fine Properties Inc. and Adelfa Properties Inc. on March 30, 2010 with Fine Properties, Inc. as the surviving entity.*

## Dividends

The Company did not declare any dividends in 2012, 2011 and 2010. The payment of dividends will be dependent on the Company's profits, capital expenditures and investment requirement. There are no restrictions that limit the ability of the Company to pay dividends on common equity other than the above mentioned conditions.

## Recent Sale of Unregistered Securities

There have been no sales of unregistered securities in the past three years.

## Stock Options

None

## Item 6. Management's Discussion and Analysis or Plan of Operation

## REVIEW OF YEAR END 2012 VS YEAR END 2011

### RESULTS OF OPERATIONS

### Revenues

***Rental Revenue***
Rental revenue increased from nil in the year ended December 31, 2011 to ₱1.2 billion in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

***Equity in Net Earnings of an Associate***
Equity in net earnings of an associate increased from ₱337.1 million in the year ended December 31, 2011 to ₱344.6 million in the year ended December 31, 2012. The 2% increase was due to net effect of the increase in the net income of VLL in 2012 and the disposal of 4.4% shareholdings in VLL in 2012.

***Common Usage and Service Area Charges***
Common usage and service area (CUSA) charges increased from nil in the year ended December 31, 2011 to ₱76.0 million in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

***Parking Fees***
Parking fee revenue increased from nil in the year ended December 31, 2011 to ₱30.8 million in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

***Realized GP on Real Estate Sales***
The Company recorded realized gross profit on real estate sales of ₱27.3 million in the year ended December 31, 2012, posting an increase of 1,265% from ₱2.0 million in same period last year. This was due to the collection on installment receivables from real estate sales in prior years from the real estate projects of MC namely Augustine Groove and Manuelaville.

***Other operating income***
Other operating income increased from ₱3.2 million in the year ended December 31, 2011 to ₱100.7 million in the year ended December 31, 2012. The 3,049% increase was due to various charges from tenants and customers of Starmall San Jose del Monte, Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center and the gain on derecognition of liabilities.

***Finance Income***
Finance income increased from ₱2.2 million in the year ended December 31, 2011 to ₱17.1 million in the year ended December 31, 2012. The 672.7% increase was due to the increase in savings and time deposit accounts and interest income from collections.

***Income from Acquisition of a Subsidiary***
The Group recorded a one-time gain as a result of the negative goodwill amounting to ₱9.3 billion, representing the excess of the Company's share in the fair value of the identifiable net assets of Manuela at the date of the transaction over acquisition cost. This was recognized directly in profit or loss in the 2012 consolidated statement of comprehensive income under Other Income (Charges) as Income from acquisition of a subsidiary.

***Loss from Disposal of an Investment in an Associate***
In the period July-August 2012, the Company sold 378.1 million shares of its investment in VLL, with a carrying amount of ₱1.57 billion for a total consideration of ₱1.54 million. The Group recognized a loss from this transaction amounting to ₱35 million.

## **Costs and Expenses**

***Operating Expenses***
Cost and expenses increased from ₱72.6 million in the year ended December 31, 2011 to ₱977.7 million in the year ended December 31, 2012. The 1,247% increase in the account was primarily attributable to the following:

- Increase in depreciation and amortization by 14,210% from ₱3.1 million in the year ended December 31, 2011 to ₱443.6 million in the year ended December 31, 2012 due to the increase in buildings and equipment with the completion of Starmall San Jose del Monte and the consolidation of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in agency service fees by 100% from nil in the year ended December 31, 2011 to ₱118.4 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in salaries and employee benefits by 417% from ₱17.9 million in the year ended December 31, 2011 to ₱92.6 million in the year ended December 31, 2012 due to the increase in manpower for the operations and management of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in taxes and licenses by 7,743% from ₱0.7 million in the year ended December 31, 2011 to ₱54.9 million in the year ended December 31, 2012 due to the taxes paid for the increase in capitalization of STR, stock transaction tax for the sale of VLL shares, payment of real property taxes of the various investment properties, and business permits and other licenses for the operations of the malls and the corporate building.

- Increase in professional fees by 215% from ₱11.6 million in the year ended December 31, 2011 to ₱36.5 million in the year ended December 31, 2012 primarily due to the professional fees paid to design consultants during the year.

- Increase in repairs and maintenance by 1,089% from ₱2.8 million in the year ended December 31, 2011 to ₱33.3 million in the year ended December 31, 2012 due to the repairs made to various equipments and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in advertising and promotion by 6,767% from ₱0.3 million in the year ended December 31, 2011 to ₱20.6 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in light and power by 962% from ₱1.7 million in the year ended December 31, 2011 to ₱17.0 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in security services by 249% from ₱3.9 million in the year ended December 31, 2011 to ₱13.6 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in insurance expense by 2,500% from ₱0.5 million in the year ended December 31, 2011 to ₱13.1 million in the year ended December 31, 2012 due to the increase in investment properties to be insured with the completion of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Increase in other operating expenses by 116% from ₱30.1 million in the year ended December 31, 2011 to ₱65.1 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

***Interest and Financing Charges***
Interest and financing charges increased by 182% from ₱10.3 million in the year ended December 31, 2011 to ₱29.1 million in the year ended December 31, 2012. This was due increased borrowing costs to finance the completion of Starmall San Jose del Monte and and various improvement projects on the existing malls and office building.

***Other Charges***
Other charges increased by 100% from nil in the year ended December 31, 2011 to ₱61.7 million in the year ended December 31, 2012. This was due various expenses incurred by the group in relation to the issuance of additional shares and the company's future plans of offering additional shares to the public.

**<u>Provision for Income Tax</u>**

Tax expense for the year ended December 31, 2011 is ₱1.1 million and increased by 2,130% to ₱235.4 million for the year ended December 31, 2012. This is due to the payment of capital gains tax in relation to the share swap transaction for the acquisition of MC, regular income tax on MC and the increase in final tax and MCIT.

**<u>Net Income</u>**

As a result of the foregoing, the Company's net income increased from ₱260.5 million in the year ended December 31, 2011 to ₱9.8 billion in the year ended December 31, 2012.

For the year ended December 31, 2012, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

**FINANCIAL CONDITION**

***As of December 31, 2012 vs. December 31, 2011***

Total assets as of December 31, 2011 were ₱6.9 billion compared to ₱21.7 billion as of December 31, 2012, or a 213% increase. This was due to the following:

- Cash and cash equivalents including short term cash investments increased by 1,687.0% from ₱83.5 million as of December 31, 2011 to ₱1.5 billion as of December 31, 2011 due to the sale of VLL shares, receipt of dividends from VLL and the securing of interest-bearing loans.

- Net Receivables decreased by 2,234% from ₱22.7 million as of December 31, 2011 to ₱688.7 million as of December 31, 2012 mainly due to receivables from tenants of Starmall San Jose Del Monte and the consolidation of the receivables from tenants of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Due from related parties increased by 72% from ₱184.3 million as of December 31, 2011 to ₱316.6 million as of December 31, 2012 due to advances made to affiliates.

- Real estate for sale and development increased by 88% from ₱381.2 million as of December 31, 2011 to ₱715.7 million as of December 31, 2012 due to the consolidation of real estate properties owned by MC primarily its real estate projects Augustine Grove and Manuelaville.

- Prepayments and other current assets increased by 450% from ₱75.3 million as of December 31, 2011 to ₱414.2 million as of December 31, 2012 due mainly to the increase in increase in input taxes from the construction of Starmall San Jose del Monte, additional creditable withholding taxes from tenants of Starmall San Jose del Monte and consolidation of prepayments and other current assets of MC.

- Available for sale financial assets increased by 49% from ₱19.6 million as of December 31, 2011 to ₱29.2 million as of December 31, 2012 due mainly to the increase in the fair values of investment in Dizon Copper Silver Mines Inc. shares in 2012.

- Investment in associate decreased by 43% from ₱2.97 billion as of December 31, 2011 to ₱1.68 billion as of December 31, 2012 due to the net effect of the equity in net income of VLL, dividends received from VLL and the disposal of VLL shares in 2012.

- Property and equipment increased by 612% from ₱33.6 million as of December 31, 2010 to ₱239.4 million as of December 31, 2012 due purchases of various furniture and equipments of Starmall San Jose del Monte and the consolidation of the furniture and equipments of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Investment properties increased by 407% from ₱3.2 billion as of December 31, 2010 to ₱16.0 billion as of December 31, 2012. The increase was due to completion of Starmall San Jose del Monte, purchase of a property for development in Mandaluyong City and the consolidation of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Other non-current assets increased by 2,092% from ₱4.9 million as of December 31, 2011 to ₱107.4 million as of December 31, 2011 due to the increase in long-term installment contracts receivable and refundable deposits with the consolidation of MC.

Total liabilities as of December 31, 2011 were ₱677.1 million compared to ₱2.5 billion as of December 31, 2012, or a 274% increase. This was due to the following:

- Current portion of liability for land acquisition increased by 128% from ₱9.7 million as of December 31, 2011 from ₱22.1 million as of December 31, 2011 due to the increase in currently amount due of the liability for the purchase of land in Bulacan.

- Interest bearing loans and borrowings – current increased by 38% from ₱86.0 million as of December 31, 2011 from ₱118.8 million as of December 31, 2012 due to the additional interest bearing loans obtained in 2012.

- Accounts and other payables increased by 475% from ₱144.8 million as of December 31, 2011 to ₱832.9 million as of December 31, 2012 due mainly to the increase in accounts payable to suppliers and contractors for the operations of Starmall San Jose del Monte and those of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

- Due to related parties decreased by 24% from ₱353.1 million as of December 31, 2011 to ₱270.0 million as of December 31, 2012 to due to payments made during the year and the consolidation of MC.

- Income tax payable increased by 100% from nil as of December 31, 2011 to ₱30.9 million as of December 31, 2012 to due to the income tax payable of MC.

- Other current liabilities increased by 89% from ₱7.1 million as of December 31, 2011 to ₱13.4 million as of December 31, 2012 to due to the consolidation of the payable of MC.

- Non-current portion of liability for land acquisition decreased by 30% from ₱33.8 million as of December 31, 2011 to ₱23.6 million as of December 31, 2011 due to the increase in currently amount due of the liability for the purchase of land in Bulacan.

- Interest bearing loans – non-current increased by 16,156% from ₱3.9 million as of December 31, 2011 from ₱634.0 million as of December 31, 2012 due to the additional interest bearing loans obtained in 2012.

- Retirement benefit obligation increased by 108% from ₱11.8 million as of December 31, 2011 to ₱24.5 million as of December 31, 2012 due to the actuarial adjustments and the consolidation of the retirement benefit obligation of MC.

- Deferred gross profit increased by 4,144% from ₱0.9 million as of December 31, 2011 to ₱38.2 million as of December 31, 2012 due to the consolidation of the deferred gross profit on the real estate sales of MC.

- Deferred tax liabilities posted an increase of 265% from ₱11.3 million as of December 31, 2011 to ₱41.3 million as of December 31, 2012. The difference is due to the increased in temporary tax differences of MAPI and the consolidation of the deferred tax liabilities of MC.

- Other non-current liabilities increased by 220,750% from ₱0.2 million as of December 31, 2011 to ₱441.7 million as of December 31, 2012 mainly due to the consolidation of the increase in security deposits from tenants of Starmall San Jose del Monte and the consolidation of security deposits from tenants of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Total stockholder's equity increased from ₱6.3 billion as of December 31, 2011 to ₱19.2 billion as of December 31, 2012 to due mainly to the net income for the year and revaluation increase of financial assets.

Considered as the top five key performance indicators of the Company as shown below:

*Notes:*

| Key Performance Indicators | 12/31/2012 | 12/31/2011 |
|---|---|---|
| Current ratio [(a)] | 2.81:1 | 1.24:1 |
| Debt-to-equity ratio [(b)] | 0.135:1 | 0.099:1 |
| Interest expense/Income before Interest expense [(c)] | 4.1% | 3.7% |
| Return on assets [(d)] | 1.9% | 3.8% |
| Return on equity [(e)] | 2.2% | 4.2% |

*(a) Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company s liquidity.*

*(b) Debt-to-equity ratio: This ratio is obtained by dividing the Company s Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company s borrowing capacity.*

*(c) Interest expense/Income before interest expense: This ratio is obtained by dividing interest expense for the period by its income before interest expense. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably*

*(d) Return on assets: This ratio is obtained by dividing the Company s net income (net of income from acquisition of subsidiary) by its total assets. This measures the Company s earnings in relation to all of the resources it had at its disposal.*

*(e) Return on equity: This ratio is obtained by dividing the Company s net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company s stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company s presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of December 31, 2012 increased from that of December 31, 2011 due to the increase in cash and receivables.

The increase in debt-to-equity ratio was due to the increase in interest-bearing loans and accounts payable.

Interest expense as a percentage of income before interest expense for the year ended December 31, 2012 increased than the ratio for the year ended December 31, 2011 because the increase in interest expense from borrowings.

Return on asset posted a lower ratio for December 31, 2012 compared to that on December 31, 2011 due to higher asset base in 2012 as a result of the consolidation of MC.

Return on equity is lower as a result of higher equity base with the capital increase and subscription to the capital increase.

**Material Changes to the Company's Balance Sheet as of December 31, 2012 compared to December 31, 2011 (increase/decrease of 5% or more)**

Cash and cash equivalents including short term cash investments increased by 1,687.0% from ₱83.5 million as of December 31, 2011 to ₱1.5 billion as of December 31, 2011 due to the sale of VLL shares, receipt of dividends from VLL and the securing of interest-bearing loans.

Net Receivables decreased by 2,234% from ₱22.7 million as of December 31, 2011 to ₱688.7 million as of December 31, 2012 mainly due to receivables from tenants of Starmall San Jose Del Monte and the consolidation of the receivables from tenants of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Due from related parties increased by 72% from ₱184.3 million as of December 31, 2011 to ₱316.6 million as of December 31, 2012 due to advances made to affiliates.

Real estate for sale and development increased by 88% from ₱381.2 million as of December 31, 2011 to ₱715.7 million as of December 31, 2012 due to the consolidation of real estate properties owned by MC primarily its real estate projects Augustine Grove and Manuelaville.

Prepayments and other current assets increased by 450% from ₱75.3 million as of December 31, 2011 to ₱414.2 million as of December 31, 2012 due mainly to the increase in increase in input taxes from the construction of Starmall San Jose del Monte, additional creditable withholding taxes from tenants of Starmall San Jose del Monte and consolidation of prepayments and other current assets of MC.

Available for sale financial assets increased by 49% from ₱19.6 million as of December 31, 2011 to ₱29.2 million as of December 31, 2012 due mainly to the increase in the fair values of investment in Dizon Copper Silver Mines Inc. shares in 2012.

Investment in associate decreased by 43% from ₱2.97 billion as of December 31, 2011 to ₱1.68 billion as of December 31, 2012 due to the net effect of the equity in net income of VLL, dividends received from VLL and the disposal of VLL shares in 2012.

Property and equipment increased by 612% from ₱33.6 million as of December 31, 2010 to ₱239.4 million as of December 31, 2012 due purchases of various furniture and equipments of Starmall San Jose del Monte and the consolidation of the furniture and equipments of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Investment properties increased by 407% from ₱3.2 billion as of December 31, 2010 to ₱16.0 billion as of December 31, 2012. The increase was due to completion of Starmall San Jose del Monte, purchase of a property for development in Mandaluyong City and the consolidation of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Other non-current assets increased by 2,092% from ₱4.9 million as of December 31, 2011 to ₱107.4 million as of December 31, 2011 due to the increase in long-term installment contracts receivable and refundable deposits with the consolidation of MC.

Current portion of liability for land acquisition increased by 128% from ₱9.7 million as of December 31, 2011 from ₱22.1 million as of December 31, 2011 due to the increase in currently amount due of the liability for the purchase of land in Bulacan.

Interest bearing loans and borrowings – current increased by 38% from ₱86.0 million as of December 31, 2011 from ₱118.8 million as of December 31, 2012 due to the additional interest bearing loans obtained in 2012.

Accounts and other payables increased by 475% from ₱144.8 million as of December 31, 2011 to ₱832.9 million as of December 31, 2012 due mainly to the increase in accounts payable to suppliers and contractors for the operations of Starmall San Jose del Monte and those of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Due to related parties decreased by 24% from ₱353.1 million as of December 31, 2011 to ₱270.0 million as of December 31, 2012 to due to payments made during the year and the consolidation of MC.

Income tax payable increased by 100% from nil as of December 31, 2011 to ₱30.9 million as of December 31, 2012 to due to the income tax payable of MC.

Other current liabilities increased by 89% from ₱7.1 million as of December 31, 2011 to ₱13.4 million as of December 31, 2012 to due to the consolidation of the payable of MC.

Non-current portion of liability for land acquisition decreased by 30% from ₱33.8 million as of December 31, 2011 to ₱23.6 million as of December 31, 2011 due to the increase in currently amount due of the liability for the purchase of land in Bulacan.

Interest bearing loans – non-current increased by 16,156% from ₱3.9 million as of December 31, 2011 from ₱634.0 million as of December 31, 2012 due to the additional interest bearing loans obtained in 2012.

Retirement benefit obligation increased by 108% from ₱11.8 million as of December 31, 2011 to ₱24.5 million as of December 31, 2012 due to the actuarial adjustments and the consolidation of the retirement benefit obligation of MC.

Deferred gross profit increased by 4,144% from ₱0.9 million as of December 31, 2011 to ₱38.2 million as of December 31, 2012 due to the consolidation of the deferred gross profit on the real estate sales of MC.

Deferred tax liabilities posted an increase of 265% from ₱11.3 million as of December 31, 2011 to ₱41.3 million as of December 31, 2012. The difference is due to the increased in temporary tax differences of MAPI and the consolidation of the deferred tax liabilities of MC.

Other non-current liabilities increased by 220,750% from ₱0.2 million as of December 31, 2011 to ₱441.7 million as of December 31, 2012 mainly due to the consolidation of the increase in security deposits from tenants of Starmall San Jose del Monte and the consolidation of security deposits from tenants of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Total stockholder's equity increased from ₱6.3 billion as of December 31, 2011 to ₱19.2 billion as of December 31, 2012 to due mainly to the net income for the year and capital increase and subscription to the capital increase.

**Material Changes to the Company's Statement of income for the year ended December 31, 2012 compared to the year ended December 31, 2011 (increase/decrease of 5% or more)**

Rental revenue increased from nil in the year ended December 31, 2011 to ₱1.2 billion in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Equity in net earnings of an associate increased from ₱337.1 million in the year ended December 31, 2011 to ₱344.6 million in the year ended December 31, 2012. The 2% increase was due to net effect of the increase in the net income of VLL in 2012 and the disposal of 4.4% shareholdings in VLL in 2012.

Common usage and service area (CUSA) charges increased from nil in the year ended December 31, 2011 to ₱76.0 million in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Parking fee revenue increased from nil in the year ended December 31, 2011 to ₱30.8 million in the year ended December 31, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012 and the consolidation of the rental income from Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

The Company recorded realized gross profit on real estate sales of ₱27.3 million in the year ended December 31, 2012, posting an increase of 1,265% from ₱2.0 million in same period last year. This was due to the collection on installment receivables from real estate sales in prior years from the real estate projects of MC namely Augustine Groove and Manuelaville.

Other operating income increased from ₱3.2 million in the year ended December 31, 2011 to ₱100.7 million in the year ended December 31, 2012. The 3,049% increase was due to various charges from tenants and customers of Starmall San Jose del Monte, Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center and the gain on derecognition of liabilities.
Finance income increased from ₱2.2 million in the year ended December 31, 2011 to ₱17.1 million in the year ended December 31, 2012. The 672.7% increase was due to the increase in savings and time deposit accounts and interest income from collections.

The Group recorded a one-time gain as a result of the negative goodwill amounting to ₱9.3 billion, representing the excess of the Company's share in the fair value of the identifiable net assets of Manuela at the date of the transaction over acquisition cost. This was recognized directly in profit or loss in the 2012 consolidated statement of comprehensive income under Other Income (Charges) as Income from acquisition of a subsidiary.

In the period July-August 2012, the Company sold 378.1 million shares of its investment in VLL, with a carrying amount of ₱1.57 billion for a total consideration of ₱1.54 million. The Group recognized a loss from this transaction amounting to ₱35 million.

Increase in depreciation and amortization by 14,210% from ₱3.1 million in the year ended December 31, 2011 to ₱443.6 million in the year ended December 31, 2012 due to the increase in buildings and equipment with the completion of Starmall San Jose del Monte and the consolidation of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in agency service fees by 100% from nil in the year ended December 31, 2011 to ₱118.4 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in salaries and employee benefits by 417% from ₱17.9 million in the year ended December 31, 2011 to ₱92.6 million in the year ended December 31, 2012 due to the increase in manpower for the operations and management of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in taxes and licenses by 7,743% from ₱0.7 million in the year ended December 31, 2011 to ₱54.9 million in the year ended December 31, 2012 due to the taxes paid for the increase in capitalization of STR, stock transaction tax for the sale of VLL shares, payment of real property taxes of the various investment properties, and business permits and other licenses for the operations of the malls and the corporate building.

Increase in professional fees by 215% from ₱11.6 million in the year ended December 31, 2011 to ₱36.5 million in the year ended December 31, 2012 due to the professional fees paid to design consultants during the year.

Increase in repairs and maintenance by 1,089% from ₱2.8 million in the year ended December 31, 2011 to ₱33.3 million in the year ended December 31, 2012 due to the repairs made to various equipments and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in advertising and promotion by 6,767% from ₱0.3 million in the year ended December 31, 2011 to ₱20.6 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in light and power by 962% from ₱1.7 million in the year ended December 31, 2011 to ₱17.0 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in security services by 249% from ₱3.9 million in the year ended December 31, 2011 to ₱13.6 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in insurance expense by 2,500% from ₱0.5 million in the year ended December 31, 2011 to ₱13.1 million in the year ended December 31, 2012 due to the increase in investment properties to be insured with the completion of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Increase in other operating expenses by 116% from ₱30.1 million in the year ended December 31, 2011 to ₱65.1 million in the year ended December 31, 2012 due to the operations of Starmall San Jose del Monte and the consolidation of the operations of Starmall Las Pinas, Starmall Las Pinas Annex, Starmall EDSA-Shaw, Starmall Alabang and Worldwide Corporate Center.

Interest and financing charges increased by 182% from ₱10.3 million in the year ended December 31, 2011 to ₱29.1 million in the year ended December 31, 2012. This was due increased borrowing costs to finance the completion of Starmall San Jose del Monte and further improvements in the existing investment assets.

Other charges increased by 100% from nil in the year ended December 31, 2011 to ₱61.7 million in the year ended December 31, 2012. This was due various expenses incurred by the group in relation to the issuance of additional shares and the company's future plans of offering additional shares to the public.

Tax expense for the year ended December 31, 2011 is ₱1.1 million and increased by 2,130% to ₱235.4 million for the year ended December 31, 2012. This is due to the payment of capital gains tax in relation to the share swap transaction for the acquisition of MC, regular income tax on MC and the increase in final tax and MCIT.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

## REVIEW OF YEAR END 2011 VS YEAR END 2010

### RESULTS OF OPERATIONS

### Revenues

***Equity in Net Earnings of an Associate***
Equity in net earnings of an associate increased from ₱256.8 million in the year ended December 31, 2010 to ₱337.1 million in the year ended December 31, 2011. The 31% increase was due to increase in the net income of VLL in 2011.

***Realized GP on Real Estate Sales***
The Company recorded realized gross profit on real estate sales of ₱2.0 million in the year ended December 31, 2011, posting an increase of 216% from ₱0.6 million in same period last year. This was due to the collection on installment receivables from real estate sales in prior years.

***Finance Income***
Finance income increased from ₱1.1 million in the year ended December 31, 2010 to ₱2.2 million in the year ended December 31, 2011. The 95% increase was due to the increase in interest income from deposits and collections.

### Costs and Expenses

***Operating Expenses***
Cost and expenses increased from ₱17.5 million in the year ended December 31, 2010 to ₱59.6 million in the year ended December 31, 2011. The 240% increase in the account was primarily attributable to the following:

- Increase in administrative expenses from ₱13.7 million in the year ended December 31, 2010 to ₱41.1 million in the year ended December 31, 2011 due to the increase in payments for salaries and employee benefits as well as professional and services fees.
- Selling and distribution costs decreased from ₱0.6 million in the year ended December 31, 2010 to ₱0.3 million in the year ended December 31, 2011. The 48% decrease was due to the decrease in commission and promotional expense.
- Other expenses increased from ₱3.2 million in the year ended December 31, 2010 to ₱17.8 million in the year ended December 31, 2011 due to write-off of receivables as well as increase in costs of transportation, utilities and other expenses.

***Interest and Financing Charges***
Interest and financing charges increased by 956% from ₱1.0 million in the year ended December 31, 2010 to ₱10.3 million in the year ended December 31, 2011. This was due increased borrowing costs to finance the construction of the commercial building in Bulacan.

**Provision for Income Tax**

Tax income for the year ended December 31, 2010 is ₱0.59 million while the provision for income tax for the year ended December 31, 2011 is ₱1.1 million. This is due to the increase in payment of final tax as well as deferral tax on temporary difference between financial income and taxable income.

**Net Income**

As a result of the foregoing, the Company's net income increased from ₱240.8 million in the year ended December 31, 2010 to ₱260.5 million in the year ended December 31, 2011.

For the year ended December 31, 2011, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Company is not aware of events that will cause a material change in the relationship between the costs and revenues.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

**FINANCIAL CONDITION**

***As of December 31, 2011 vs. December 31, 2010***

Total assets as of December 31, 2010 were ₱6,099.2 million compared to ₱6,943.5 million as of December 31, 2011, or a 14% increase. This was due to the following:

- Cash and cash equivalents including short term cash investments increased by 18.0% from ₱70.7 million as of December 31, 2010 to ₱83.5 million as of December 31, 2011 due to receipt of dividends from VLL and the securing of interest-bearing loans.

- Net Receivables decreased by 46% from ₱49.9 million as of December 31, 2010 to ₱25.0 million as of December 31, 2011 mainly due to the write-off of receivables of BEC.

- Due from related parties decreased by 23.5% from ₱240.9 as of December 31, 2010 to ₱184.3 million as of December 31, 2011 due to receipt of payments of advances to affiliates.

- Real estate for sale and development increased by 5.0% from ₱363.2 million as of December 31, 2010 to ₱381.2 million as of December 31, 2011 due to backed out sales of BEC.

- Available for sale financial assets increased by 142% from ₱8.1 million as of December 31, 2010 to ₱19.6 million as of December 31, 2011 due mainly to the increase in the fair values of the financial assets in 2011.

- Investment in associate increased by 9% from ₱2,716.1 million as of December 31, 2010 to ₱2,971.6 million as of December 31, 2011 due to the recognition of the Company's share in the net earnings of VLL.

- Investment properties increased from ₱2,602.6 as of December 31, 2010 to ₱3,166.7 million as of December 31, 2011. The 22% increase was due to improvements made in the parcel of land in Bacoor, acquisition of the parcel of land in Bulacan and construction of commercial buildings to be leased out in the future in the property in Dasmarinas, Cavite and Bulacan.

- Property and equipment increased from ₱0.04 as of December 31, 2010 to ₱33.6 million as of December 31, 2011 due purchases of construction equipment and office furniture and equipments during the year.

- Other assets increased by 61% from ₱47.7 million as of December 31, 2010 to ₱76.8 million as of December 31, 2011 due to the increase in input taxes and advances to contractors.

Total liabilities as of December 31, 2010 were ₱104.7 million compared to ₱677.1 million as of December 31, 2011, or a 546% increase. This was due to the following:

- Liability for land acquisition increased by 1,655% from ₱2.5 million as of December 31, 2010 from ₱43.5 million as of December 31, 2011 due to the liability for the purchase of land in Bulacan.

- Interest bearing loans and borrowings increased by 693% from ₱11.3 million as of December 31, 2010 from ₱89.9 million as of December 31, 2011 due to the additional interest bearing loans obtained in 2011.

- Accounts and other payables increased by 194% from ₱49.3 million as of December 31, 2010 to ₱144.8 million as of December 31, 2011 due mainly to the increase in accounts payable to suppliers and contractors.

- Estimated liability for property development decreased by 100% from ₱1.1 million as of December 31, 2010 to nil as of December 31, 2010 due to the completion of houses sold in prior years.

- Due to related parties increased by 2,004% from ₱16.8 million as of December 31, 2010 to ₱353.1 million as of December 31, 2011 to due to the additional advances made for the development of Bulacan and Cavite properties.

- Customers' advances and deposits decreased by 28% from ₱8.2 million as of December 31, 2010 to ₱6.0 million as of December 31, 2011 due to the payments of various customer miscellaneous charges.

- Pension liability increased by 589% from ₱1.7 million as of December 31, 2010 to ₱11.8 million as of December 31, 2011 due to the actuarial adjustments.

- Deferred gross profit decreased by 69% from ₱2.9 million as of December 31, 2010 to ₱0.9 million as of December 31, 2011 due to the recognition of gross profit on prior years' sales.

- Deferred tax liabilities posted an increase of 6% from ₱10.7 million as of December 31, 2010 to ₱11.3 million as of December 31, 2011. The difference is due to the increased in temporary tax differences in the current year.

Total stockholder's equity increased from ₱5,994.4 million as of December 31, 2010 to ₱6,266.4 million as of December 31, 2011 to due mainly to the net income for the year and revaluation increase of financial assets.

Considered as the top five key performance indicators of the Company as shown below:

| Key Performance Indicators | 12/31/2011 | 12/31/2010 |
|---|---|---|
| Current ratio [(a)] | 1.24:1 | 8.89:1 |
| Debt-to-equity ratio [(b)] | 0.099:1 | 0.012:1 |
| Interest expense/Income before Interest expense [(c)] | 3.7% | 0.4% |
| Return on assets [(d)] | 3.8% | 3.9% |
| Return on equity [(e)] | 4.2% | 4.0% |

*Notes:*

(a) *Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company s liquidity.*

(b) *Debt-to-equity ratio: This ratio is obtained by dividing the Company s Total Liabilities by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company s borrowing capacity.*

(c) *Interest expense/Income before interest expense: This ratio is obtained by dividing interest expense for the period by its income before interest expense. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably*

(d) *Return on assets: This ratio is obtained by dividing the Company s net income by its total assets. This measures the Company s earnings in relation to all of the resources it had at its disposal.*

(e) *Return on equity: This ratio is obtained by dividing the Company s net income by its total equity. This measures the rate of return on the ownership interest of the Company s stockholders.*

*Because there are various calculation methods for the performance indicators above, the Company s presentation of such may not be comparable to similarly titled measures used by other companies.*

Current ratio as of December 31, 2011 declined from that of December 31, 2010 due to the increase in interest-bearing loans and accounts payables.

The increase in debt-to-equity ratio was due to the increase in interest-bearing loans and accounts payable.

Interest expense as a percentage of income before interest expense increased in the year ended December 31, 2011 compared to the ratio for the year ended December 31, 2010 due to the significant increase in interest expense incurred by the Company.

Return on asset posted a lower ratio for December 31, 2011 compared to that on December 31, 2010 due primarily to the fact that the percentage increase in total assets was higher than the percentage increase in net income.

Return on equity increased due to the increased in net income as of December 31, 2011 compared to that of December 31, 2010.

**Material Changes to the Company's Balance Sheet as of December 31, 2011 compared to December 31, 2010 (increase/decrease of 5% or more)**

Cash and cash equivalents including short term cash investments increased by 18.0% from ₱70.7 million as of December 31, 2010 to ₱83.5 million as of December 31, 2011due to receipt of dividends from VLL and the securing of interest-bearing loans.

Net Receivables decreased by 46% from ₱49.9 million as of December 31, 2010 to ₱25.0 million as of December 31, 2011 mainly due to the write-off of receivables of BEC.

Due from related parties decreased by 23.5% from ₱240.9 as of December 31, 2010 to ₱184.3 million as of December 31, 2011 due to receipt of payments of advances to affiliates.

Real estate for sale and development increased by 5.0% from ₱363.2 million as of December 31, 2010 to ₱381.2 million as of December 31, 2011 due to backed out sales of BEC.

Available for sale financial assets increased by 142% from ₱8.1 million as of December 31, 2010 to ₱19.6 million as of December 31, 2011 due mainly to the increase in the fair values of the financial assets in 2011.

Investment in associate increased by 9% from ₱2,716.1 million as of December 31, 2010 to ₱2,971.6 million as of December 31, 2011 due to the recognition of the Company's share in the net earnings of VLL.

Investment properties increased from ₱2,602.6 as of December 31, 2010 to ₱3,166.7 million as of December 31, 2011. The 22% increase was due to improvements made in the parcel of land in Bacoor, acquisition of the parcel of land in Bulacan and construction of commercial buildings to be leased out in the future in the property in Dasmarinas, Cavite and Bulacan.

Property and equipment increased by 76376% from ₱0.04 as of December 31, 2010 to ₱33.6 million as of December 31, 2011 due purchases of construction equipment and office furniture and equipments during the year.

Other assets increased by 61% from ₱47.7 million as of December 31, 2010 to ₱76.8 million as of December 31, 2011 due to the increase in input taxes and advances to contractors.

Liability for land acquisition increased by 1,655% from ₱2.5 million as of December 31, 2010 from ₱43.5 million as of December 31, 2011 due to the liability for the purchase of land in Bulacan.

Interest bearing loans and borrowings increased by 693% from ₱11.3 million as of December 31, 2010 from ₱89.9 million as of December 31, 2011 due to the additional interest bearing loans obtained in 2011.

Accounts and other payables increased by 194% from ₱49.3 million as of December 31, 2010 to ₱144.8 million as of December 31, 2011 due mainly to the increase in accounts payable to suppliers and contractors.

Estimated liability for property development decreased by 100% from ₱1.1 million as of December 31, 2010 to nil as of December 31, 2010 due to the completion of houses sold in prior years.

Due to related parties increased by 2,004% from ₱16.8 million as of December 31, 2010 to ₱353.1 million as of December 31, 2011 to due to the additional advances made for the development of Bulacan and Cavite properties.

Customers' advances and deposits decreased by 28% from ₱8.2 million as of December 31, 2010 to ₱6.0 million as of December 31, 2011 due to the payments of various customer miscellaneous charges.

Pension liability increased by 589% from ₱1.7 million as of December 31, 2010 to ₱11.8 million as of December 31, 2011 due to the actuarial adjustments.

Deferred gross profit decreased by 69% from ₱2.9 million as of December 31, 2010 to ₱0.9 million as of December 31, 2011 due to the recognition of gross profit on prior years' sales.

Deferred tax liabilities posted an increase of 6% from ₱10.7 million as of December 31, 2010 to ₱11.3 million as of December 31, 2011. The difference is due to the increased in temporary tax differences in the current year.

Revaluation reserves increased by 147% from ₱7.8 million as of December 31, 2010 from ₱19.3 million as of December 31, 2011 to due to the increase in fair values of the available for sale financial assets.

Retained earnings increased from ₱1,094.2 million as of December 31, 2010 to ₱1,354.7 million as of December 31, 2011 to due mainly to the net income for the year.

**Material Changes to the Company's Statement of income for the year ended December 31, 2011 compared to the year ended December 31, 2010 (increase/decrease of 5% or more)**

Equity in net earnings of an associate increased from ₱256.8 million in the year ended December 31, 2010 to ₱337.1 million in the year ended December 31, 2011. The 31% increase was due to increase in the net income of VLL in 2011.

The Company recorded realized gross profit on real estate sales of ₱2.0 million in the year ended December 31, 2011, posting an increase of 216% from ₱0.6 million in same period last year. This was due to the collection on installment receivables from real estate sales in prior years.

Finance income increased from ₱1.1 million in the year ended December 31, 2010 to ₱2.2 million in the year ended December 31, 2011. The 95% increase was due to the increase in interest income from deposits and collections.

Increase in administrative expenses by 202% from ₱13.7 million in the year ended December 31, 2010 to ₱41.1 million in the year ended December 31, 2011 due to the increase in payments for salaries and employee benefits as well as professional and services fees.

Selling and distribution costs decreased from ₱0.6 million in the year ended December 31, 2010 to ₱0.3 million in the year ended December 31, 2011. The 48% decrease was due to the decrease in commission and promotional expense.

Other expenses increased by 451% from ₱3.2 million in the year ended December 31, 2010 to ₱17.8 million in the year ended December 31, 2011 due to write-off of receivables as well as increase in costs of transportation, utilities and other expenses.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

**Commitments and Contingencies**

The Group is contingently liable with respect to guarantees arising in the ordinary course of business, including surety bonds, letters of guarantee for performance and bonds for its entire real estate project.

The Philippines continues to experience economic difficulties relating to currency fluctuations, volatile stock markets and slowdown in growth. Management is of the opinion that losses, if any, from these events and conditions will not have material effects on the Group's financial statements.

**Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The registrant shall indicate balance sheet conditions or an income or cash flow item that it believes may be indicators of its liquidity condition.**

The Group sourced its capital requirements through a mix of bank borrowings, internally generated cash, and divestment of shares in VLL. The Group does not expect any material cash requirements beyond the normal course of the business.

**Any events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.**

None, except for those items disclosed in the 2012 Audited Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period except those disclosed in the 2012 Audited Financial Statements.

## Item 7. Financial Statements

The Consolidated Financial Statements of the Company as of and for the year ended December 31, 2012 are incorporated herein in the accompanying Index to Financial Statements and/Supplementary Schedules.

## Item 8. Information on Independent Accountant and Other Related Matters

**Independent Public Accountant**

From 2004 to 2012, the external auditor of the Company was the accounting firm of Punongbayan and Araullo.

Ms. Dalisay B. Duque has been the Partner In-charge since 2004. Pursuant to the General Requirements of SRC Rule 68, Par 3 (Qualifications and Reports of Independent Auditors), Ms. Mailene Sigue-Bisnar became the Partner In-charge for the year 2009.

Mr. Nelson J. Dinio has been the partner designated for the financial statements for the year ended December 31, 2010 to present.

**External Audit Fees and Services**

External Audit Fees

The following table sets out the aggregate fees billed for each of the last two years for professional services rendered by Punongbayan & Araullo.

| | 2012 | 2011 |
|---|---|---|
| | *(In ₱ Millions with VAT)* | |
| Audit and Audit-Related Fees: | | |
| Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements | ₱ 2.59 | ₱ 1.24 |
| All other fees | – | – |
| **Total** | **₱ 2.59** | **₱ 1.24** |

*Punongbayan & Araullo does not have any direct or indirect interest in the Company*

Tax Fees

Tax accounting, compliance, advice, planning and other form of tax services are not rendered by the appointed external auditor of the Company, but are secured from other entities.

All Other Fees

The appointed External Auditor of the Company does not render and/or provide product or service to the Company other than those provided under the caption “External Audit Fees”.

Audit Committee’s Approval Policies and Procedure for the Services of the External Auditor

The scope, extent and nature of the services to be referred to, and/or to be rendered by, the appointed External Auditor of the Company has to be unanimously approved by the Audit Committee in a meeting duly called for the purpose, including the fees to be paid for the services thus rendered and/or referred.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Group has adopted some revisions and annual improvements to the PFRS (Philippine Financial Reporting Standards) that are relevant to the Group and effective for the financial statements beginning on or after July 1, 2011 and January 1, 2012 as discussed in Note 2.2 of the Notes to Consolidated Financial Statements for the years ended December 31, 2012, 2011 and 2010.

As such, the comparative amounts contained in the audited financial statements may differ from those previously presented in the consolidated financial statements for the year ended December 31, 2011, 2010 and 2009.

There are no disagreements with auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to their satisfaction, would have caused the auditors to make reference thereto in their reports on the financial statements of the Company and its subsidiaries.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

**Board of Directors and Executive Officers**

The table below sets forth the members of the Company's Board as of December 31, 2012.

| NAME | AGE | POSITION | CITIZENSHIP |
|---|---|---|---|
| Manuel B. Villar Jr. | 63 | Chairman | Filipino |
| Jerry M. Navarrete | 58 | President | Filipino |
| Frances Rosalie T. Coloma | 50 | Director, Chief Financial Officer | Filipino |
| Manuel Paolo A. Villar | 36 | Director | Filipino |
| Anant Asavhabhokin | 62 | Director | Thai |
| Joel L. Bodegon | 64 | Independent Director | Filipino |
| Carolina C. Mejias | 57 | Independent Director | Filipino |
| Ma. Nalen Rosero-Galang | 41 | Corporate Secretary & Compliance Officer | Filipino |

** Business Experience of the named directors and officers covers the past five (5) years.*

**MANUEL B. VILLAR JR.**, *Chairman*, 62, is an incumbent Senator of the Philippines, having been elected in 2001 and re-elected in 2007. He served as Senate President from 2006 to 2008. He was a Congressman from 1992 to 2001 and served as Speaker of the House of Representatives from 1998 to 2000. A certified public accountant, Mr. Villar graduated from the University of the Philippines in 1970 with the degree of Bachelor of Science in Business Administration and in 1973 with the degree of Masters in Business Administration. In the early 1970's he founded Camella Homes and successfully managed the company to become the largest homebuilder in the Philippines now known as the Vista Land Group. Mr. Villar has been Chairman of the Board of the Company since 2012.

**JERRY M. NAVARRETE**, *President*, graduated from the Lyceum of the Philippines with a Bachelor's degree in Economics and from Ateneo de Manila University with a Master's degree in Business Administration. He previously worked as research analyst with Aguilar Shipping for one year. Mr. Navarrete has been with the Villar Family Companies for more than 35 years. Mr. Navarrete has been President and Chief Executive Officer of the Company since 2004.

**FRANCES ROSALIE T. COLOMA**, *Director and Chief Financial Officer*, graduated cum laude from the University of the Philippines with a Bachelor of Science degree in Business Administration and Accountancy. She is a Certified Public Accountant. She worked as Finance Manager of Alcatel Philippines Inc. and Intel Philippines, Inc., Country Controller of Ericsson Telecommunications Philippines Inc., and Deal Finance Manager of Accenture Delivery Center, Philippines. Before joining the Starmalls group in February, 2011, she was the Assistant General Manager of Maersk Global Services, Philippines. Ms. Coloma has been a Director of the Company since 2011.

**MANUEL PAOLO A. VILLAR**, *Director*, graduated from the Wharton School of the University of Pennsylvania with a dual degree of Bachelor of Science in Economics and bachelor of Applied Science. He worked as a research analyst at Clemente Capital Inc. in New York City prior to his graduation. He was a fixed income analyst at Goldman Sachs in Hong Kong and a consultant for McKinsey & Co. in the United States for two years before joining the Vista Land

Group in 2001. He is currently the President and Chief Executive Officer of Vista Land. Mr. Villar has been a Director of the Company since 2007.

**ANANT ASAVABHOKHIN**, *Director*, graduated from Chulalongkorn University with Bachelor's degree in Civil Engineering and from the Illinois Institute of Technology, IL, USA with an M.S. in Industrial Engineering. He obtained his M.B.A. degree from Thammasat University. Mr. Asavabhokhin is currently the President and Chief Executive Officer of Land and Houses Public Company Limited. Mr. Asavabhokhin has been a Director of the Company since 2012.

**JOEL L. BODEGON**, *Independent Director*, obtained his Bachelor of Arts degree and Bachelor of Laws, both from the University of the Philippines. He was admitted to the Bar in 1975. He worked in a private law firm and the Office of the Solicitor General before he joined Angara Abello Concepcion Regala and Cruz (ACCRA) in 1976, where he became a partner in 1982 until 1986. In 1987, he formed, together with some ACCRA partners, the Jardeleza Sobreviñ as Diaz Hayudini & Bodegon Law Offices, where he was managing partner for 12 years until his retirement in 2008. In 2010, he formed the Bodegon Estorninos Guerzon Borie & Bongco Law Offices. Mr. Bodegon has been a Director of the Company since 2010. Atty. Bodegon possesses all the qualifications and none of the disqualifications of an Independent Director under SRC Rule 38 since his election as such.

**CAROLINA C. MEJIAS**, *Independent Director*, is a Certified Public Accountant who graduated from the Philippine School of Business Administration with a Bachelor's Degree in Business Administration major in Accounting. Presently, she is the President and General Manager of CCM Accounting Firm rendering Accounting, Taxation, Auditing and Management Services to more than a hundred clients. She also manages her two other businesses – the JF Mejias Construction & Engineering Services as Office Manager-Corporate Treasurer and CICM Enterprises, Inc. (a garments business) as President and General Manager. Ms. Mejias possesses all the qualifications and none of the disqualifications of an Independent Director under SRC Rule 38 since her election as such.

**MA. NALEN SJ. ROSERO-GALANG**, *Compliance Officer and Corporate Secretary*, graduated salutatorian from the San Beda College of Law. She has been with Manuela since 2001. She was an associate of the Angara Abello Concepcion Regala & Cruz (ACCRA) Law Offices for three years. She is currently a director and Corporate Secretary of Masterpiece Asia Properties, Inc., Brittany Estates Corporation and Manuela Corporation. She is also the Corporate Secretary of the subsidiaries of Vista Land.

**Resignation of Directors**

Alma P, Villadolid resigned as director of the Company in June 2012. Manuel Villar was elected in her place.

To date, no director has resigned or declined to stand for re-election for the Board of Directors due to any disagreement with the Corporation relative to the Corporation's policies, practices and operations.

**Family relationships**

Manuel B. Villar, Jr., is the father of Manuel Paolo A. Villar. There are no other family relationships among the directors and executive officers.

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

None of the Directors and Executive Officers is involved in any material pending legal proceedings in any court or administrative agency of the government.

(a) None of them has been involved in any bankruptcy petition.

(b) None of them has been convicted by final judgment in a criminal proceeding or being subject to any pending criminal proceeding, both domestic and foreign.

(c) None of them has been subject to any order, judgment or decree of any court of competent jurisdiction (both domestic and foreign) permanently or temporarily enjoining, barring, suspending or likewise limiting their involvement in any type of business, securities, commodities or banking activities.

(d) None of them has been found by a domestic or foreign court of competent jurisdiction (in a civil action), by the Commission or comparable body, or by a domestic or foreign exchange or organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation.

**Item 10. Executive Compensation**

| Names | Position | Year | Salary | Bonus |
|---|---|---|---|---|
| Jerry Navarrete<br>Frances Rosalie T. Coloma<br>Manuel Paolo A. Villar<br>Ma. Nalen R. Galang<br>Joselito G. Orense | President<br>Chief Financial Officer<br>Director<br>Corporate Secretary<br>Mall operations | | | |
| **Aggregate executive compensation for above named officers** | | **Actual 2011** | **₱3.9M** | **₱1.0M** |
| | | **Actual 2012** | **₱5.0M** | **₱1.5M** |
| | | **Projected 2013** | **₱10.0M** | **₱3.0M** |
| **Aggregate executive compensation for all other officers and directors, unnamed** | | **Actual 2011** | **₱0.0M** | **₱0.0M** |
| | | **Actual 2012** | **₱0.5M** | **₱0.3M** |
| | | **Projected 2013** | **₱5.0M** | **₱1.5M** |

*The total annual compensation paid to the above-named officers and directors was paid in cash. The annual compensation includes the basic salary, the mid-year and 13$^{th}$ month bonus.*

**Standard arrangements**

Other than payment of reasonable per diem per non-executive director for every meeting, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly by the Company's subsidiaries, for any services provided as a director for 2012 and 2011.

## Other arrangements

There are no other arrangements pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly by the Company's subsidiaries, during 2011 and 2012 for any service provided as a director.

## Employment Contracts and Termination of Employment and Change in Control Arrangements

The Company has not entered into any contract or arrangement for payment of compensation other than what has been included above. Executive officers are considered employees of the Company, but their contracts with the Company are not in writing. The Company has no arrangement for termination of employment.

## Warrants and options held by the executive officers and directors

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

## Significant employee

The Company has high regard for its human resources. It expects each employee to do his part in achieving the Company's goals and objectives.

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

## Security Ownership of Record and Beneficial Owners

Security ownership of certain record and beneficial owners of more than 5.0% of the voting securities as of December 31, 2012:

| Title of Class of Securities | Name/Address of Record Owners and Relationship with Us | Name of Beneficial Owner /Relationship with Record Owner | Citizenship | No. of Shares Held | % of Ownership |
|---|---|---|---|---|---|
| Common | Adelfa Properties, Inc. (API) 3rd Floor Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City Shareholder | Record Owner is also beneficial Owner | Filipino | 2,573,507,156 | 30.542% |
| Common | PFD Nominee Corporation (Filipino) The Enterprise Center, Ayala Avenue, Makati City. Shareholder | Beneficial owner is Manuela Corp | Filipino | 1,223,102,790 | 14.516% |
| Common | PFD Nominee Corporation (Filipino) The Enterprise Center, Ayala Avenue, Makati City. Shareholder | Record Owner is not beneficial Owner | Filipino | 1,074,236,864 | 12.749% |
| Common | Hero Holdings Corp. Located at 3rd Floor Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City Shareholder | Record Owner is also beneficial Owner | Filipino | 1,402,278,726 | 16.642% |

| | | | | | |
|---|---|---|---|---|---|
| Common | Land & Houses Public Company Limited (L&H) Located at Q. House, Convent Building, 4th & 5th Floors, No. 38 Convent Road, Silom, Bangkok, Thailand. Shareholder | Record Owner is also beneficial Owner | Non-Filipino | 808,431,465 | 9.595% |
| Preferred | Fine Properties Inc. (FPI) 3rd Floor Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City Shareholder | Record Owner is also beneficial Owner | Filipino | 2,350,000,000 | 100.000% |

**Security Ownership of Management**

Security ownership of certain management as of December 31, 2012:

| Title of Class | Name of Beneficial Owner | Amount & Nature of Beneficial Ownership | Citizenship | Percent of Class |
|---|---|---|---|---|
| Common Shares | Manuel B. Villar Jr.<br><br>C. Masibay Street, BF Resort Village, Las Pinas City | 728,900,022 - Direct | Filipino | 8.6506% |
| Common Shares | Manuel Paolo A. Villar<br><br>C. Masibay Street, BF Resort Village, Las Pinas City | 361,945,243 - Direct | Filipino | 4.2956% |
| Common Shares | Jerry M. Navarrete<br><br>No. 333 Sineguelasan, Bacoor, Cavite | 25,000 - Direct | Filipino | .00030% |
| Common Shares | Frances Rosalie T. Coloma<br><br>Block 1 Lot 10 Granwood Villas, Quezon City | 3,500 - Direct | Filipino | .00000% |
| Common Shares | Anant Asavabhokhin<br><br>Q. House, Convent Building, 4th & 5th Floors, No. 38 Convent Road, Silom, Bangkok, Thailand | 1,000 - Direct | Thai | .00000% |
| Common Shares | Joel L. Bodegon<br><br>118 Lipa Street, Ayala Alabang Village, Muntinlupa City | 1,000 – Direct | Filipino | .00000% |
| Common Shares | Carolina C. Mejias<br><br>No. 50 Beverly Hills Avenue, Beverly Hills Subdivision, Antipolo City | 1,000 – Direct | Filipino | .00000% |
| **AGGREGATE SHAREHOLDINGS** | | | **1,090,876,765** | **12.9466%** |

## Voting Trust Holders of 5.0% or More

As of December 31, 2012, there is no party holding any voting trust for 5% or more of total shares outstanding.

## Changes In Control

As of December 31, 2012, there was no arrangement which may result in a change in control of the Company.

## Item 12. Certain Relationships and Related Transactions

The Company remains to be substantially controlled by Fine Properties, Inc. (“Fine”). It enters into transactions with associates and related parties, in its regular course of business, consisting mainly of advances and reimbursement of expenses and purchase and sell of real estate properties. These transactions to and from related parties are made on arm’s length basis and at current market prices at the time of the transactions.

No transaction, without proper disclosure, was undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of its immediate family was involved or had a direct or indirect material interest.

No single Director or Executive Officer, nominee for election as Director, or any member of their immediate family owns or holds more than 10% of the Company’s voting shares.

Please refer to Notes on Related Party Transactions of the Notes to Consolidated Financial Statements of the 2012 Audited Financial Statements, which is incorporated herein in the accompanying Index to Exhibits.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

(A) The Company has designated the Corporate Secretary as Acting Corporate Governance Compliance Officer whose duties include the monitoring of compliance by the Company, its directors, officers and employees with the Company's Manual on Corporate Governance (the "Manual") and adherence to sound corporate governance principles and best practices.

(B) The Company has adopted a corporate governance performance evaluation and self-rating system as approved by our Board of Directors, by which our Acting Corporate Governance Compliance Officer, in coordination with other officers of the Company, measures or determines the level of compliance by the Company, its directors, officers and employees with the provisions of the Manual and other laws, rules and regulations regarding corporate governance.

(C) The Company, its directors, officers and employees has not deviated in any manner from the provisions of the Manual.

(D) Pursuant to SEC Memorandum Circular No. 6, Series of 2009, the Company has revised the Manual to make it compliant with the Revised Code of Corporate Governance.

(E) In October 2012, In compliance with SEC Memo Circular No. 4 series of 2012, the Board approved and adopted the Audit Committee Charter.

(F) The Company shall continuously update the Manual in the form of Supplements to incorporate additional governance-related provisions required under the implementing rules and regulations that are released, from time to time, by the Philippine Stock Exchange and the Philippine SEC.

## PART V – EXHIBITS AND SCHEDULES

**Item 14. Exhibits and Reports on SEC Form 17 A**
**Exhibits**

See accompanying Index to Financial Statements and Supplementary Schedules.

The following exhibit is incorporated by reference in this report:

Consolidated Financial Statements of the Company as of and for the year ended December 31, 2012.

The other exhibits, as indicated in the Index to Financial Statements and Supplementary Schedules are either not applicable to the Company or require no answer.

**Reports on SEC Form 17-C**

The following current reports have been reported by Polar Holdings during the year 2012 through official disclosure letters dated:

***January 9, 2012***
In compliance with the Code of Corporate Governance, the Company submitted the Sworn Certification on the attendance of the members of the Board of Directors in the meetings for the year 2010.

***April 12, 2012***
The Board of Directors approved the Annual Report and Audited Financial Statements for the year 2011.

***May 15, 2012***
The Board of Directors approved the consolidation of Manuela Corporation into STR, increase in authorized capital stock, issuance of shares, change in name and the calling of the Annual Stockholders' Meeting on June 18, 2012.

***June 18, 2012***
During the Annual Stockholders' Meeting of the Company, the members of the Board Directors of the Company and members of the Nomination Committee, Audit Committee and Compensation and Remuneration Committee were elected. The shareholders approved the increase in authorized capital stock, the issuance of shares, change in corporate name and the waiver of the conduct of rights offering. The shareholders also approved the appointment of Punongbayan & Araullo as external auditor of the Company for 2012.

***July 9, 2012***
The Board of Directors approved the placing and subscription transaction, issuance of preferred shares to Fine Properties Inc., and the execution of agreements with VLL subsidiaries.

***October 8, 2012***
The Board of Directors approved and adopted the Company's Audit Committee Charter.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in MANDALUYONG CITY on APR 12 2013.

By:

**MANUEL B. VILLAR JR.**
Chairman

**JERRY M. NAVARRETE**
President and Chief Executive Officer

**FRANCES ROSALIE T. COLOMA**
Chief Financial Officer

**MA. NALEN ROSERO-GALANG**
Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 12 2013 at MANDALUYONG CITY, affiants exhibiting to me their respective Passports, to wit:

| Name | Valid ID No. | Valid Until |
|---|---|---|
| Manuel B. Villar Jr. | Passport EB1485840 | 11/30/2015 |
| Jerry M. Navarrete | Passport EB1908540 | 02/10/2016 |
| Ma. Nalen Rosero-Galang | Passport EB2116785 | 03/17/2016 |
| Frances Rosalie T. Coloma | Passport XX1008696 | 04/21/2013 |

Doc. No. 273
Page No. 56
Book No. I
Series of 2013.

ATTY. JO MARIE C. LAZARO-LIM
NOTARY PUBLIC
UNTIL DECEMBER 31, 2014
ROLL NO. 48438
PTR No. 1627121/08 Jan. 2013 / Mandaluyong City
IBP No. 914269 / 03 Jan. 2013, RSM

## STARMALLS, INC.

## INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
**Form 17-A, Item 7**

**Consolidated Financial Statements**



**Supplementary Schedules**

Punongbayan & Araullo

An instinct for growth™

# Consolidated Financial Statements and Independent Auditors' Report

## Starmalls, Inc. and Subsidiaries

December 31, 2012, 2011 and 2010

Member of Grant Thornton International Ltd

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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F +63 2 886 5506
www.punongbayan-araullo.com

**The Board of Directors and Stockholders**
**Starmalls, Inc. and Subsidiaries**
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
3rd Level Starmall Las Piñas
CV Starr Avenue, Pamplona
Las Piñas City

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

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

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

**PUNONGBAYAN & ARAULLO**

By: **Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 3671455, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 1036-A (until Sept. 29, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 10, 2013

STARMALLS, INC. AND SUBSIDIARIES
*(Formerly Polar Property Holdings Corporation and Subsidiaries)*
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011
*(Amounts in Philippine Pesos)*

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 4 | P 1,492,219,006 | P 83,514,811 |
| Trade and other receivables - net | 5 | 688,682,988 | 22,725,922 |
| Due from related parties | 20 | 316,578,569 | 184,295,271 |
| Real estate properties for sale | 6 | 715,764,450 | 381,180,924 |
| Prepayments and other current assets | 7 | 414,207,960 | 75,349,201 |
| Total Current Assets | | 3,627,452,973 | 747,066,129 |
| **NON-CURRENT ASSETS** | | | |
| Available-for-sale financial assets | 2 | 29,157,295 | 19,559,375 |
| Investment in an associate | 10 | 1,679,962,625 | 2,971,576,194 |
| Property and equipment - net | 8 | 239,454,389 | 33,635,578 |
| Investment property - net | 9 | 16,045,444,233 | 3,166,717,322 |
| Other non-current assets | 7 | 107,431,885 | 4,934,985 |
| Total Non-current Assets | | 18,101,450,427 | 6,196,423,454 |
| **TOTAL ASSETS** | | P 21,728,903,400 | P 6,943,489,583 |
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Liability for land acquisition | 12 | P 22,076,150 | P 9,715,206 |
| Interest-bearing loans and borrowings | 14 | 118,751,102 | 86,000,794 |
| Trade and other payables | 13 | 832,850,158 | 144,842,424 |
| Due to related parties | 20 | 269,896,937 | 353,081,322 |
| Income tax payable | | 30,929,997 | - |
| Other current liabilities | | 13,432,415 | 7,107,169 |
| Total Current Liabilities | | 1,287,936,759 | 600,746,915 |
| **NON-CURRENT LIABILITIES** | | | |
| Liability for land acquisition | 12 | 23,632,276 | 33,817,836 |
| Interest-bearing loans | 14 | 634,032,691 | 3,883,300 |
| Retirement benefit obligation | 18 | 24,541,314 | 11,800,400 |
| Deferred gross profit on real estate sales | 2 | 38,214,910 | 876,373 |
| Deferred tax liabilities - net | 19 | 41,287,680 | 11,348,236 |
| Refundable deposits | | 38,878,624 | 14,439,147 |
| Other non-current liabilities | 15 | 441,727,940 | 160,627 |
| Total Non-current Liabilities | | 1,242,315,435 | 76,325,919 |
| Total Liabilities | | 2,530,252,194 | 677,072,834 |
| **EQUITY** | | | |
| Equity attributable to parent company's stockholders | | | |
| Capital stock | 21 | 8,449,481,155 | 4,892,411,158 |
| Additional paid-in capital | | 976,058,769 | 20,000 |
| Treasury stock - at cost | 21 | ( 1,578,227,989 ) | - |
| Revaluation reserves | 2 | 25,663,239 | 19,269,489 |
| Retained earnings | 21 | 10,934,739,794 | 1,354,716,102 |
| | | 18,807,714,968 | 6,266,416,749 |
| Non-controlling interest | | 390,936,238 | - |
| Total Equity | | 19,198,651,206 | 6,266,416,749 |
| **TOTAL LIABILITIES AND EQUITY** | | P 21,728,903,400 | P 6,943,489,583 |

*See Notes to Consolidated Financial Statements.*

**STARMALLS, INC. AND SUBSIDIARIES**
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**
***(Amounts in Philippine Pesos)***

| | Notes | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **REVENUES AND INCOME** | | | | |
| Rental income | 9, 20 | P 1,192,765,075 | P - | P - |
| Equity in net earnings of an associate | 10 | 344,633,001 | 337,098,488 | 256,756,695 |
| Common usage and service area charges | | 76,004,183 | - | - |
| Parking fees | | 30,835,323 | - | - |
| Other operating income | 16 | 127,968,190 | 5,195,756 | 4,158,486 |
| | | 1,772,205,772 | 342,294,244 | 260,915,181 |
| **COSTS AND EXPENSES** | | | | |
| Depreciation and amortization | 8, 9 | 443,592,597 | 3,146,199 | 4,939 |
| Outside services | | 118,420,599 | - | - |
| Salaries and employee benefits | 18 | 92,621,988 | 17,912,958 | 2,427,913 |
| Rentals | 23 | 68,965,566 | 28,000 | - |
| Taxes and licenses | 9 | 54,901,401 | 690,000 | 884,623 |
| Professional fees | | 36,491,259 | 11,574,543 | 1,967,158 |
| Repairs and maintenance | | 33,323,381 | 2,788,424 | 2,835,789 |
| Advertising and promotions | | 20,582,034 | 309,661 | 131,600 |
| Light and power | | 16,960,749 | 1,661,093 | 1,793,524 |
| Security services | | 13,609,605 | 3,901,303 | 2,282,800 |
| Insurance | | 13,097,215 | 509,315 | - |
| Other operating expenses | 16 | 65,142,900 | 30,075,895 | 8,534,853 |
| | | 977,709,294 | 72,597,391 | 20,863,199 |
| **PROFIT FROM OPERATIONS** | | 794,496,478 | 269,696,853 | 240,051,982 |
| **OTHER INCOME (CHARGES)** - Net | | | | |
| Income from acquisition of a subsidiary | 11 | 9,317,886,860 | - | - |
| Loss on disposal of a portion of investment in an associate | 10 | ( 35,159,199 ) | - | - |
| Finance costs | 17 | ( 32,752,774 ) | ( 10,280,496 ) | ( 974,004 ) |
| Finance income | 17 | 17,011,663 | 2,208,686 | 1,134,172 |
| Other charges | 17 | ( 61,692,134 ) | - | - |
| | | 9,205,294,416 | ( 8,071,810 ) | 160,168 |
| **PROFIT BEFORE TAX** | | 9,999,790,894 | 261,625,043 | 240,212,150 |
| **TAX INCOME (EXPENSE)** | 19 | ( 235,184,797 ) | ( 1,130,436 ) | 594,531 |
| **PROFIT BEFORE PREACQUISITION INCOME** | | 9,764,606,097 | 260,494,607 | 240,806,681 |
| **PREACQUISITION INCOME OF A NEWLY ACQUIRED SUBSIDIARY** | | ( 24,494,733 ) | - | - |
| **NET PROFIT** | | 9,740,111,364 | 260,494,607 | 240,806,681 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Unrealized fair value gain on available-for-sale financial assets | 3 | 6,393,750 | 11,481,250 | 1,375,000 |
| **TOTAL COMPREHENSIVE INCOME** | | P 9,746,505,114 | P 271,975,857 | P 242,181,681 |
| Attributable to: | | | | |
| Parent company's stockholders | | P 9,586,417,442 | P 271,975,857 | P 242,181,681 |
| Non-controlling interest | | 160,087,672 | - | - |
| | | P 9,746,505,114 | P 271,975,857 | P 242,181,681 |
| **Earnings per Share** | 22 | P 1.721 | P 0.053 | P 0.049 |

***See Notes to Consolidated Financial Statements.***

**STARMALLS, INC. AND SUBSIDIARIES**
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**
***(Amounts in Philippine Pesos)***

| | Attributable to Parent Company's Stockholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Capital Stock | Additional Paid-up Capital | Treasury Stock | Revaluation Reserve | Retained Earnings | Total | Non-controlling Interest | Total |
| Balance at January 1, 2012 | P 4,892,411,158 | P 20,000 | P - | P 19,269,489 | P 1,354,716,102 | P 6,266,416,749 | P - | P 6,266,416,749 |
| Additions during the year | 3,557,069,997 | 976,038,769 | ( 1,578,227,989 ) | - | - | 2,954,880,777 | 230,848,566 | 3,185,729,343 |
| Total comprehensive income for the year | - | - | - | 6,393,750 | 9,580,023,692 | 9,586,417,442 | 160,087,672 | 9,746,505,114 |
| Balance at December 31, 2012 | **P 8,449,481,155** | **P 976,058,769** | **( P 1,578,227,989 )** | **P 25,663,239** | **P 10,934,739,794** | **P 18,807,714,968** | **P 390,936,238** | **P 19,198,651,206** |
| Balance at January 1, 2011 | P 4,892,411,158 | P 20,000 | P - | P 7,788,239 | P 1,094,221,495 | P 5,994,440,892 | P - | P 5,994,440,892 |
| Total comprehensive income for the year | - | - | - | 11,481,250 | 260,494,607 | 271,975,857 | - | 271,975,857 |
| Balance at December 31, 2011 | P 4,892,411,158 | P 20,000 | P - | P 19,269,489 | P 1,354,716,102 | P 6,266,416,749 | P - | P 6,266,416,749 |
| Balance at January 1, 2010 | P 4,892,411,158 | P 20,000 | P - | P 6,413,239 | P 853,414,814 | P 5,752,259,211 | P - | P 5,752,259,211 |
| Total comprehensive income for the year | - | - | - | 1,375,000 | 240,806,681 | 242,181,681 | - | 242,181,681 |
| Balance at December 31, 2010 | P 4,892,411,158 | P 20,000 | P - | P 7,788,239 | P 1,094,221,495 | P 5,994,440,892 | P - | P 5,994,440,892 |

*See Notes to Consolidated Financial Statements.*

**STARMALLS, INC. AND SUBSIDIARIES**
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**
***(Amounts in Philippine Pesos)***

| | Notes | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax | | P 9,999,790,894 | P 261,625,043 | P 240,212,150 |
| Adjustments for: | | | | |
| Income from acquisition of a subsidiary | 11 | ( 9,317,886,860 ) | - | - |
| Depreciation and amortization | 8, 9 | 443,474,816 | 3,146,199 | 4,939 |
| Equity in net earnings of an associate | 10 | ( 344,633,001 ) | ( 337,098,488 ) | ( 256,756,695 ) |
| Loss on sale of investment | 10 | 35,159,199 | - | - |
| Realized gross profit on real estate sales | 16 | ( 27,291,650 ) | ( 1,989,560 ) | ( 628,714 ) |
| Impairment losses on trade and other receivables | 5 | 24,612,969 | 9,722,978 | - |
| Finance income | 4, 5, 17 | ( 17,011,663 ) | ( 2,208,686 ) | ( 1,134,172 ) |
| Impairment loss on investment property | 9, 16 | 6,059,967 | - | - |
| Interest expense | 17 | 4,135,341 | 557,518 | - |
| Unrealized foreign currency losses (gains) - net | | 186,043 | ( 36,778 ) | 974,004 |
| Loss on write-off of assets | 7 | - | 4,362,312 | - |
| Operating profit (loss) before working capital changes | | 806,596,055 | ( 61,919,462 ) | ( 17,328,488 ) |
| Decrease (increase) in amounts due from related parties | 20 | 132,283,298 | ( 439,807 ) | 17,725,965 |
| Decrease (increase) in trade and other receivables | | ( 545,461,628 ) | 17,143,063 | ( 10,655,908 ) |
| Increase in real estate properties for sale | | ( 6,397,374 ) | ( 17,959,006 ) | ( 3,740,305 ) |
| Increase in prepayments and other current assets | | ( 182,069,950 ) | ( 33,584,591 ) | ( 1,262,444 ) |
| Decrease (increase) in other non-current assets | | 9,077,518 | ( 2,678,541 ) | - |
| Decrease in liability for land acquisition | | - | ( 43,370 ) | - |
| Increase in trade and other payables | | 157,983,398 | 95,032,028 | 3,977,654 |
| Decrease other current liabilities | | ( 467,015 ) | ( 1,989,560 ) | ( 282,284 ) |
| Increase in retirement benefit obligation | | 3,799,460 | 10,088,800 | 518,200 |
| Increase (decrease) in estimated liability for property development | | - | ( 1,079,132 ) | 352,368 |
| Increase in other non-current liabilities | | 14,824,420 | 15,476,147 | - |
| Cash generated from (used in) operations | | 390,168,182 | 18,046,569 | ( 10,695,242 ) |
| Cash paid for taxes | | ( 135,699,003 ) | ( 371,596 ) | ( 120,558 ) |
| Net Cash From (Used in) Operating Activities | | 254,469,179 | 17,674,973 | ( 10,815,800 ) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Proceeds from disposal of a portion of investment in an associate | 10 | 1,536,478,845 | - | - |
| Additions to investment property | 9 | ( 1,059,895,980 ) | ( 523,471,015 ) | ( 10,010,000 ) |
| Acquisitions of property and equipment | 8 | ( 75,566,551 ) | ( 36,310,464 ) | ( 48,921 ) |
| Dividends received | 10 | 64,608,526 | 81,637,185 | 67,642,239 |
| Interest received | | 12,826,265 | 1,771,545 | 603,585 |
| Payment for transaction cost on available-for-sale financial assets | | ( 11,623,800 ) | - | - |
| Net Cash From (Used in) Investing Activities | | 466,827,305 | ( 476,372,749 ) | 58,186,903 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from availments of interest-bearing loans and borrowings | 14 | 728,000,000 | 81,000,000 | 11,334,891 |
| Increase (decrease) in amounts due to related parties | 20 | ( 83,184,385 ) | 393,302,586 | ( 1,148,229 ) |
| Repayments of interest-bearing loans and borrowings | 14 | ( 65,100,301 ) | ( 2,450,797 ) | - |
| Proceeds from issuance of preferred shares | 21 | 23,500,000 | - | - |
| Interest paid | | ( 23,220,984 ) | ( 371,367 ) | ( 974,004 ) |
| Payment of stock issuance cost | | ( 17,787,875 ) | - | - |
| Net Cash From Financing Activities | | 562,206,455 | 471,480,422 | 9,212,658 |
| **Effect of Exchange Rates Changes on Cash and Cash Equivalents** | | ( 186,043 ) | 36,778 | - |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | 1,283,316,896 | 12,819,424 | 56,583,761 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 83,514,811 | 70,695,387 | 14,111,626 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF A NEWLY ACQUIRED SUBSIDIARY** | | 125,387,299 | - | - |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | P 1,492,219,006 | P 83,514,811 | P 70,695,387 |

**Supplemental Information on Non-cash Investing and Financing Activities:**

1. In 2012 and 2011, the Company capitalized borrowing costs amounting to P41.2 million and P0.9 million, respectively, representing the actual borrowing costs incurred on loans obtained to fund the development of the Company's investment property (see Note 9).

2. In 2011, the Group acquired a parcel of land located in Bulacan amounting to P46.3 million to be developed as commercial property in the future. Out of which, P5.3 million was paid at the date of acquisition and the balance payable in quarterly payments over a period of five years commencing on January 15, 2012 (see Note 8).

***See Notes to Consolidated Financial Statements***

# STARMALLS, INC. AND SUBSIDIARIES
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2012, 2011 AND 2010**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

Starmalls, Inc., formerly Polar Property Holdings Corporation, (the Company or parent company) was incorporated in the Philippines and duly registered with the Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining SEC approval, the Company later changed its primary business and is now presently engaged in investment and real estate business.

On May 14, 2012, the Company's BOD authorized the change in name of the Company from Polar Property Holdings Corporation to Starmalls, Inc. The SEC approved the Company's application for the change in its corporate name on June 22, 2012.

The Company is owned by Adelfa Properties, Inc. or API (30.5%), PCD Nominee Corporation or PCDNC (27.3%), Hero Holdings Corporation or HHC (16.6%), Land and House Public Company Limited or LHPCL (9.6%), and other entities and individuals (16.0%) (see also Note 21). The Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

As of December 31, 2012 and 2011, the Company has ownership interests in the following entities:

| Subsidiaries/Associate | Percentage of Ownership | |
|---|---|---|
| | 2012 | 2011 |
| Subsidiaries: | | |
| Brittany Estate Corporation (BEC) | 100.0% | 100.0% |
| Masterpiece Asia Properties, Inc. (MAPI) | 100.0% | 100.0% |
| Manuela Corporation (Manuela) | 98.4% | - |
| Associate – | | |
| Vista Land & Lifescapes, Inc. (VLL) – See Note 10 | 4.7% | 9.1% |

Despite the decrease in ownership interest in VLL from 9.1% to 4.2%, the Company still considers VLL as an associate due to the presence of significant influence but not control over VLL's operations since one of the Company's Board of Directors (BOD) is also one of the eight directors of VLL.

All subsidiaries and the associate were incorporated in the Philippines and are primarily engaged in the development, sale of real estate properties and leasing of commercial spaces.

The Company's registered office and principal place of business is located at 3rd Level Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City.

The consolidated financial statements of the Group for the year ended December 31, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Company's BOD on April 10, 2013.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below and in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

### *2.1 Basis of Preparation of Consolidated Financial Statements*

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single consolidated statement of comprehensive income.

Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

*(c) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the functional and presentation currency of the Company and its subsidiaries, and all values represent absolute amounts except when otherwise indicated.

Items included in the consolidated financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

### *2.2 Adoption of New and Amended PFRS*

*(a) Effective in 2012 that are Relevant to the Group*

The following amendments to PFRS are mandatory for accounting periods beginning on or after July 1, 2011 and January 1, 2012 but are not relevant to the Group's consolidated financial statements:

| | | |
|---|---|---|
| PFRS 7 (Amendment) | : | Financial Instruments: Disclosures – Transfers of Financial Assets |
| PAS 12 (Amendment) | : | Income Taxes – Deferred Taxes: Recovery of Underlying Assets |

Discussed below are relevant information about these amended standards.

(i) PFRS 7, (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*, The amendment requires additional disclosures that will allow users of consolidated financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its consolidated financial statements.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements as the Group's investment properties are not measured using the fair value model.

(b) *Effective in 2012 that is not Relevant to the Group*

PFRS 1, *First-time Adoption of PFRS* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 1(Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not significantly change the current presentation as there is only one item that may affect other comprehensive income and this is the revaluation reserve on available-for-sale (AFS).

(ii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation.* The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the consolidated statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

(iii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and does not expect this amendment to have a significant impact on its consolidated financial statements.

(iv) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Currently, the Group is using the corridor approach and any unrecognized actuarial gains or losses will be retrospectively recognized as losses in other comprehensive income in 2013.

(v) Consolidation Standards

The Group is currently reviewing the impact on its consolidated financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Amendment), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Amendment), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement.*

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(vi) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(vii) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and it plans to conduct a comprehensive study in 2014 of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(viii) Philippine IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine Securities and Exchange Commission after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. IFRIC 15 is not relevant to the Group's operations as all real estate revenue are accounted for under PAS 18.

(ix) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual periods beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third consolidated statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of consolidated financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

### *2.3 Basis of Consolidation*

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company, and its subsidiaries, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, noncontrolling interest and investment in an associate as follows:

*(a) Investments in Subsidiaries*

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.

The acquisition method is applied to account for acquired subsidiaries.
This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Company, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the identifiable net assets of the subsidiaries acquired, in the case of a bargain purchase, the difference is recognized directly as income in profit or loss (see Note 11).

*(b) Transactions with Noncontrolling Interests*

The Group's transactions with noncontrolling interests that do not result in loss of control are accounted for as equity transactions - that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to noncontrolling interests result in gains and losses for the Group that are also recognized in equity.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

*(c) Investment in an Associate*

An associate is an entity over which the Group is able to exert significant influence but which is neither a subsidiary nor interest in a joint venture. Investment in an associate is initially recognized at cost and subsequently accounted for using the equity method.

Acquired investment in an associate is also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in an associate. All subsequent changes to the share in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are charged/credited against Equity in Net Earnings/Losses of an Associate in the Group's consolidated profit or loss and therefore affect the net results of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for AFS financial assets, are recognized in the consolidated equity of the Group. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

In computing the Group's share in net earnings or losses of associates, unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

### *2.4 Financial Assets*

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and AFS financial asset. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transactions related to it are recognized in profit or loss.

The Group's financial assets are currently classified as follows:

*(a) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. These are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in the consolidated profit or loss. Impairment loss is provided when there is an objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows, discounted at the effective interest rate.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Receivables from contractors, suppliers, brokers and others), Due from Related Parties, Installment Contract Receivable (classified under Prepayments and Others) and Refundable Deposits (classified under Other Current and Non-current Assets) in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Trade and Other Receivables account includes receivables from tenants and installment contract receivables, which generally have 1 to 10-year terms and are noninterest-bearing instruments. These are recognized initially at fair value and subsequently stated at face value, less accumulated impairment loss, if any. An impairment loss is provided when there is an objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of impairment loss is recognized in the consolidated profit or loss.

These receivables represent buyers' unpaid balances arising from sale of real estate properties. The title to the real estate properties remains with the Group until such time that the Group fully collects its receivable from the buyers.

*(b) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Available-for-Sale Financial Assets in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All AFS financial assets are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of Revaluation Reserves account in equity. When financial asset is disposed of or is determined to be impaired, the cumulative fair value gain or loss recognized in the consolidated other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in consolidated profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

The Group's AFS financial asset as of December 31, 2012 and 2011 represent investment in shares of stock of Dizon Copper Silver Mines, Inc., a mining company with shares listed in the PSE and Manuela Metropolis Corporation, company that operates the cinemas and theme park which shares are non-listed and therefore carried at cost.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Costs or Finance Income in the consolidated statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in consolidated profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all the risks and rewards of ownership have been substantially transferred.

### *2.5 Real Estate Properties for Sale*

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to Real Estate Properties for Sale. Related property development costs are then accumulated in this account.

Except for repossessed residential units, raw land and related development costs including units for sale are carried at the lower of cost and net realizable value. The cost of real estate inventories is based on specific identification method. Cost is defined as purchase price or consideration paid for the land plus capitalizable development and other costs. Considering the pricing policies of the Group, cost is considerably lower than the net realizable value. Repossessed residential units are recorded at the lower of the balance of related receivables (net of deferred gross profit) less allowance for impairment losses, if any, and net realizable value.

Cost includes acquisition costs of the land plus the costs incurred for its development, improvement and construction, including borrowing costs capitalized (see Note 2.15). Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Real estate properties for sale are written down to their net realizable values when such amounts are less than their carrying values.

Real estate properties for sale represent real estate subdivision projects for which the Group has already obtained licenses to sell from the Housing and Land Use Regulatory Board (HLURB) of the Philippines.

### *2.6 Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Building and improvements | 10 to 40 years |
| Office and other equipment | 3 to 5 years |
| Construction equipment | 5 years |
| Transportation equipment | 3 years |

The estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.15). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in consolidated profit or loss in the year the item is derecognized.

### *2.7 Investment Property*

Investment property which includes land, building and improvements and commercial building under construction are accounted for under the cost model.

Land and building and improvements are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. The cost of the land and building improvements comprises its purchase price or exchange price and directly attributable costs of acquiring the asset, less any impairment in value.

Commercial building under construction represents property that is being constructed or developed for future use as investment property. This includes cost of construction, applicable borrowing costs (see Note 2.15) and other directly attributable costs of bringing the asset to working condition for its intended use. The account is not depreciated until such time that the asset is completed and available for use.

Depreciation and amortization of investment property under building and improvements are computed using the straight-line method over the estimated useful lives ranging from 5 to 40 years. The estimated useful life of the asset is reviewed, and adjusted if appropriate, at the end of each reporting period.

The Group's investment property is subject to impairment testing. The asset is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable (see Note 2.16).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated profit or loss in the year of retirement or disposal.

### *2.8 Prepayments and Other Assets*

Prepayments and other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

### *2.9 Financial Liabilities*

Financial liabilities, which include Interest-bearing Loans and Borrowings, Liability for Land Acquisition, Trade and Other Payables [except Deferred Output Value-added Tax (VAT) payable and other tax-related payables], Due to Related Parties, Security Deposits (portion of which is also presented under Other Non-current Liabilities account) from lessees that are expected to be refunded in cash, are recognized when the Group becomes a party to the contractual terms of the instruments. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of comprehensive income.

Interest-bearing loans and borrowings are availed to finance the construction of the commercial building and for working capital requirements. They are recognized at proceeds received, net of direct issue costs.

Trade and other payables, liability for land acquisition, due to related parties, refundable deposits are initially recognized at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payment.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period, or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

### *2.10 Offsetting Financial Instruments*

Financial assets and liabilities are offset and the resulting net amount is report in the consolidated statements of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability.

### *2.11 Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### *2.12 Revenue and Expense Recognition*

Revenue comprises revenue from the sale of residential house and lot, sale of goods and rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding VAT.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

*(i)* *Rental income* - Rental income is recognized on a straight-line basis over the term of the operating lease. For tax purposes, rental income is recognized based on the contractual terms of the lease (see Note 2.13).

*(ii)* *Real estate sales* - For financial reporting purposes, revenue from sale of real estate property is generally accounted for using the full accrual method. Under the full accrual method, gross profit on sale is recognized when: (a) the collectability of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial, at least 20%, portion of the contract price is received, and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

When a sale does not meet the requirements for revenue recognition under the full accrual method, the total gross profit is deferred until those requirements are met. The deferred gross profit relating to the sale of residential house and lots that meet certain level of collection but still under construction is presented as Deferred Gross Profit on Real Estate Sales under the liabilities section of the consolidated statements of financial position.

The Group recognizes sale of real estate when at least 15% (for the parent company and BEC) and 20% (for Manuela) of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all the conditions for recording a sale are met. Pending the recognition of sale, payments received from buyers are presented as Customers' Deposits under the liabilities section of the consolidated statements of financial position.

Subsequent cancellations of prior years' real estate sales are deducted from revenues and costs of real estate sold in the year in which such cancellations are made.

Revenues and costs relative to the forfeited or backed-out sales are reversed in the current year as they occur.

For tax purposes, revenue on sale of residential house and lot is recognized in full in the year of sale when more than 25% of the net selling price is collected. Otherwise, the taxable income for the year is computed based on collections from the sales.

*(iii)* *Rendering of services* - Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered. Revenue from rendering of services include common usage and service area charges, income from parking fees and others.

*(iv)* *Interest income* - Revenue is recognized as the interest accrues taking into account the effective yield on the related asset.

Costs and expenses are recognized in the consolidated profit or loss upon utilization of goods and services or at the date they are incurred. Real estate costs that relate to the acquisition, development, improvement and construction of house and lot are capitalized. The capitalized costs of real estate properties are charged to earnings when the related revenues are recognized. The costs of residential house and lots sold before the completion of the contemplated construction are determined based on actual costs incurred plus estimated costs to complete the real estate property.

The estimated costs to complete the real estate property are presented as Estimated Liability for Property Development account under Trade and Other Payables in the consolidated statement of financial position. Additional costs incurred in connection with developed land and completed real estate properties and other selling and administrative costs are charged to profit or loss when incurred.

Other operating expenses are recognized in the consolidated statement of comprehensive income upon utilization of goods or services or at the date they are incurred. All finance costs are reported in the consolidated profit or loss, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.15).

### *2.13 Leases*

*(a) Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

*(b) Group as Lessor*

Operating lease income is recognized as income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred by the Group in negotiating and arranging operating lease are recognized in profit or loss when incurred.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### *2.14 Employee Benefits*

The Group does not have a formal retirement plan but it accrues for retirement benefit costs based on the provisions of Republic Act No. 7641 (RA 7641), *Retirement Pay Law*. RA 7641 relates to a defined benefit plan.

*(a) Defined Benefit Plan*

A defined benefit plan is a pension plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit post-employment plan covers all regular full-time employees.

The liability recognized in the consolidated statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately.

Past service costs are recognized immediately in the consolidated profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

*(b) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

### *2.15 Borrowing Costs*

For financial reporting purposes, borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For tax purposes, interests and other borrowing costs are charged to expense when incurred.

### *2.16 Impairment of Non-financial Assets*

The Group's investment in an associate, property and equipment, investment property and other non-financial assets are subject to impairment testing. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell and value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### *2.17 Income Taxes*

Tax expense (income) recognized in consolidated profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss.

Deferred tax is accounted for using the liability method, on all temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in the consolidated other comprehensive income or directly in equity, respectively.

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

### *2.18 Related Party Relationships and Transactions*

Related party transactions are transfer of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; and, (c) individuals owning directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### *2.19 Equity*

Capital stock represents the nominal value of shares that have been issued.

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

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets.

Retained earnings represent all current and prior period results as reported in the profit or loss section of the consolidated statement of comprehensive income.

### *2.20 Earnings Per Share*

Earnings per share (EPS) is determined by dividing net profit attributable to equity stockholders of the Company by the weighted average number of shares issued and outstanding during the year, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

The Group has no dilutive potential common shares that would require disclosure of diluted earnings per share in the consolidated profit or loss.

### *2.21 Events After the End of the Reporting Period*

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

### *3.1 Critical Management Judgments in Applying Accounting Policies*

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

*(a) Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the AFS financial assets are not impaired as of December 31, 2012 and 2011. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(b) *Distinction Among Investment Property, Real Estate Properties for Sale and Owner-managed Properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its operation. Real estate properties for sale are those held by the company for sale in the ordinary course of business.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(c) *Distinction between Operating and Finance Leases*

The Group has entered into various lease agreements either as a lessee or a lessor. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management judgment, such leases were determined to be operating leases.

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant provisions and contingencies are presented in Note 23.

### *3.2 Key Sources of Estimation Uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) *Allowance for Impairment of Trade and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where an objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, average age of accounts, collection experience and historical loss experience.

The carrying amounts of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5.

(b) *Determining Net Realizable Value of Real Estate Properties for Sale*

In determining the net realizable value of real estate inventories, management takes into account the most reliable evidence available at the time the estimates are made. The future realization of the carrying amounts of real estate inventories as presented in Note 6 is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's real estate inventories within the next financial year.

Management determined that the net carrying values of its real estate properties for sale are lower than their net realizable values based on the present market rates. Accordingly, management did not recognize any valuation allowance on these assets as of December 31, 2012 and 2011.

(c) *Estimating Useful Lives of Investment Property and Property and Equipment*

The Group estimates the useful lives of certain investment property and property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of investment property and property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amount of property and equipment and investment property is analyzed in Notes 8 and 9, respectively.

Based on management's assessment as at December 31, 2012 and 2011, there is no change in estimated useful lives of investment property and property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Fair Value Measurement for Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 9 is determined by the Group based on the appraisal report prepared by professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying value of deferred tax assets, which management assessed to be fully utilized in the subsequent periods, as of December 31, 2012 and 2011 is disclosed in Note 19.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There is no impairment losses recognized on investments in an associate and property and equipment based on management's evaluation as of December 31, 2012, 2011 and 2010 (see Note 10). Impairment loss recognized on investment property is discussed in Note 9.

(g) *Estimated Liability on Property Development Costs*

The Group estimated that its liability for property development cost for uncompleted cost for uncompleted residential house and lot sold based on updated budgets and available information and circumstances, as well as previous experience. The Estimated Liability for Property Development is presented as part of Trade and Other Payables in the consolidated statement of financial position (see Note 13).

(h) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include, among others, discount rates, salary increase rate and employee turnover rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 18.2.

(i) *Fair Value Measurement of AFS Financial Asset*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

| | 2012 | 2011 |
|---|---|---|
| Cash on hand and in banks | **P 427,967,977** | P 33,025,622 |
| Short-term placements | **1,064,251,029** | 50,489,189 |
| | **P1,492,219,006** | P 83,514,811 |

Cash in banks generally earn interest at rates based on daily bank deposit rates.

Short-term placements are made for varying periods of between 30 to 90 days and earn effective interest ranging from 1.6% to 3.9% in 2012 and 1.5% to 3.6% in 2011. Interest from cash in banks and short-term placements is included as part of Finance Income account under Other Income (Charges) in the consolidated statements of comprehensive income (see Note 17.2).

## 5. TRADE AND OTHER RECEIVABLES

The balance of this account is composed of the following as of December 31:

| | Note | 2012 | 2011 |
|---|---|---|---|
| Trade receivables from tenants: | | | |
| Third party | | **P 146,463,126** | P - |
| Related parties under common ownership | 20.4 | **471,713,754** | - |
| | | **618,176,880** | - |
| Advances to officers and employees | | **12,904,486** | - |
| Receivables from contractors, suppliers, brokers and others | | **45,826,776** | 33,232,465 |
| Other receivables | | **50,838,991** | 3,313,036 |
| | | **727,747,133** | 36,545,501 |
| Allowance for impairment | | **( 39,064,145)** | ( 13,819,579) |
| | | **P 688,682,988** | P 22,725,922 |

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables from tenants, contractors, suppliers, brokers, and others were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

A reconciliation of the allowance for impairment at the beginning and end of 2012 and 2011 is shown below.

| | Note | 2012 | 2011 |
|---|---|---|---|
| Balance at beginning of year | | **P 13,819,579** | P 4,096,601 |
| Balance carried from a new subsidiary | | **101,541,604** | - |
| Impairment loss during the year | 17.1 | **24,612,969** | 9,722,978 |
| Write-off of receivables previously provided with allowance | | **( 100,910,007)** | - |
| Balance at end of year | | **P 39,064,145** | P 13,819,579 |

Receivable from tenants represent to the outstanding receivables arising from the lease of commercial spaces relating to the Group's mall operations and is collectible within 12 months.

Management believes that the carrying amounts of these trade and other receivables as of December 31, 2012 and 2011 to be a reasonable approximation of their respective fair values.

## 6. REAL ESTATE PROPERTIES FOR SALE

Real estate properties for sale at the end of 2012 and 2011 are stated at cost, the details of which are shown below.

| | 2012 | 2011 |
|---|---|---|
| Residential units for sale | **P 296,757,433** | P 130,715,279 |
| Land for future development | **166,467,235** | - |
| Property development costs | **252,539,782** | 250,465,645 |
| | **P 715,764,450** | P 381,180,924 |

Residential units for sale represent houses and lots in completed subdivision projects for which the Group has already obtained license to sell from Housing and Land Use Regulatory Board of the Philippines. Residential units include units that are ready for occupancy, house models and units under construction.

Property development costs represent the accumulated costs incurred in developing the real estate properties for sale.

## 7. PREPAYMENTS AND OTHER ASSETS

The composition of this account is composed of the following as of December 31:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Current: | | | | |
| Input VAT | P | 310,264,320 | P | 40,104,346 |
| Short-term installment contract receivable | | 28,420,485 | | 14,975,660 |
| Creditable withholding taxes | | 25,986,841 | | 19,932,084 |
| Prepayments | | 23,273,484 | | 337,111 |
| Others | | 26,262,830 | | - |
| | | 414,207,960 | | 75,349,201 |
| Non-current: | | | | |
| Long-term installment contract receivable | | 68,912,107 | | 1,238,767 |
| Refundable deposits | | 38,519,778 | | 3,696,218 |
| | | 107,431,885 | | 4,934,985 |
| | P | 521,639,845 | P | 80,284,186 |

Others mainly pertain to deferred input VAT which the Company expects to be utilized in the succeeding periods.

### *7.1 Short-term Installment Contracts Receivable*

Short-term installment contracts receivable represents the current portion of the Group's installment contracts receivable. The balance of the account as of December 31, 2012 and 2011 also includes receivables arising from the sale of residential house and lots that are internally financed by the Group under a deferred cash payment arrangement.

The fair value of these short-term financial assets is not individually determined as the carrying value is a reasonable approximation of fair value.

Portion of the short-term installment contracts receivable with a total amount of P11.3 million is used as collaterals for the Group's interest-bearing loans (see Note 14.1).

### *7.2 Long-term Installment Contracts Receivable*

This account principally consists of amounts arising from the sale of residential house and lots that are noninterest-bearing and collectible within 2 to 10 years. These receivables are remeasured at amortized cost using the effective interest equivalent to prevailing market rates. Also included in this account are those arising from the internal financing arrangement of the Group for the sale of its residential house and lots.

The corresponding titles to the real estate properties sold under installment contracts (both short-term and long-term) are transferred to the buyers only upon full payment of the contract price, effectively using the sold units as security for the installment contracts receivables.

The Group recognized interest income in 2012, 2011 and 2010 amounting to P4.2 million, P0.3 million and P0.5 million, respectively, representing the amortization of discounts on these long-term installment contract receivables; the amounts are shown as part of Finance Income under Other Income (Charges) in the consolidated statements of comprehensive income (see Note 17.2). The balance of the non-current portions of the installment contracts receivables is presented as Long-term installment contract receivable under the Other Non-current Assets account in consolidated statements of financial position.

## 8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of 2012 and 2011 are shown below.

| | Building and Improvements | Office and Other Equipment | Transportation Equipment | Construction Equipment | Total |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Cost | P 143,876,896 | P 80,886,302 | P 1,895,036 | P 37,962,714 | P 264,620,948 |
| Accumulated depreciation | ( 4 350 147) | ( 9 742 891) | ( 1 240 789) | ( 9 832 732) | ( 25 166 559) |
| Net carrying amount | **P 139,526,749** | **P 71,143,411** | **P 654,247** | **P 28,129,982** | **P 239,454,389** |
| December 31, 2011 | | | | | |
| Cost | P - | P 404,806 | P 982,936 | P 34,971,643 | P 36,359,385 |
| Accumulated depreciation | - | ( 91 014) | ( 300 342) | ( 2 332 451) | ( 2 723 807) |
| Net carrying amount | P - | P 313 792 | P 682 594 | P 32 639 192 | P 33 635 578 |

The Group's property and equipment as of December 31, 2010 comprise of furniture and other office equipment with a total cost of P48,921 and related accumulated depreciation of P4,939.

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2012 and 2011 is shown below and in the succeeding page.

| | Building and Improvements | Office and Other Equipment | Transportation Equipment | Construction Equipment | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2012, net of accumulated depreciation | P - | P 313,792 | P 682,594 | P 32,639,192 | P 33,635,578 |
| Balance carried from a new subsidiary | 140,730,564 | 11,964,448 | - | - | 152,695,012 |
| Additions | 3,146,332 | 68,517,048 | 912,100 | 2,991,071 | 75,566,551 |
| Depreciation charges for the year | ( 4 350 147 ) | ( 9 651 877) | ( 940 447) | ( 7 500 281) | ( 22 442 752) |
| Balance at December 31, 2012, net of accumulated depreciation | **P 139,526,749** | **P 71,143,411** | **P 654,247** | **P 28,129,982** | **P 239,454,389** |

| | Building and Improvements | Office and Other Equipment | Transportation Equipment | Construction Equipment | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2011, net of accumulated depreciation | P - | P 43,982 | P - | P - | P 43,982 |
| Additions | - | 355,885 | 982,936 | 34,971,643 | 36,310,464 |
| Depreciation charges for the year | - | ( 86,075) | ( 300,342) | ( 2,332,451) | ( 2,718,868) |
| Balance at December 31, 2011, net of accumulated depreciation | P - | P 313,792 | P 682,594 | P 32,639,192 | P 33,635,578 |

## 9. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land and building and improvements, which are owned and held for capital appreciation and rental purposes. Direct costs incurred generally pertain to depreciation charges and real property taxes. Real property tax related to investment property amounting to P44.0 million and P0.6 million were recognized as part of Taxes and Licenses account in the consolidated statements of comprehensive income. Depreciation charges amounted to P421.1 million in 2012 and P0.4 million in 2011 and are presented as part of Depreciation and Amortization in the consolidated statements of comprehensive income.

The Group's investment property generates rental income under various operating lease agreements. Rental income from the investment property amounting to P1,192.8 million in 2012 is presented as Rental income under Revenue and Income in the 2012 consolidated statement of comprehensive income.

The composition of this account is shown below.

| | **2012** | 2011 |
|---|---|---|
| Land | **P 8,175,526,800** | P 2,656,025,838 |
| Building and improvements, net of accumulated depreciation | **7,600,904,648** | 2,421,540 |
| Commercial building under construction | **269,012,785** | 508,269,944 |
| | **P16,045,444,233** | P 3,166,717,322 |

The changes in the carrying amounts of investment property presented in the consolidated statements of financial position are summarized below.

| | Land | Building and Improvements | Commercial Building Under Construction | Total |
|---|---|---|---|---|
| Balance at January 1, 2012, net of accumulated depreciation | P 2,656,025,838 | P 2,421,540 | P 508,269,944 | P 3,166,717,322 |
| Balance carried from new subsidiary | 5,281,400,000 | 6,615,556,741 | 349,084,002 | 12,246,040,743 |
| Additions | 244,160,929 | 247,036,851 | 568,698,200 | 1,059,895,980 |
| Reclassification | - | 1,157,039,361 | ( 1,157,039,361) | - |
| Impairment | ( 6,059,967) | - | - | ( 6,059,967) |
| Depreciation charges for the year | - | ( 421 149 845) | - | ( 421 149 845) |
| Balance at December 31, 2012, net of accumulated depreciation and impairment | **P 8,175,526,800** | **P 7,600,904,648** | **P 269,012,785** | **P16,045,444,233** |
| Balance at January 1, 2011, net of accumulated depreciation | P 2,602,577,227 | P - | P - | P 2,602,577,227 |
| Additions | - | 2,848,871 | 508,269,944 | 511,118,815 |
| Acquisition of land | 46,348,611 | - | - | 46,348,611 |
| Land development costs | 7,100,000 | - | - | 7,100,000 |
| Depreciation charges for the year | - | ( 427 331) | - | ( 427 331) |
| Balance at December 31, 2011, net of accumulated depreciation | P 2 656 025 838 | P 2 421 540 | P 508 269 944 | P 3 166 717 322 |

Commercial building under construction pertains to accumulated costs incurred in the development of certain commercial buildings. Capitalized borrowing costs amounting to P41.2 million in 2012 and P0.9 million in 2011 representing the actual borrowing costs incurred on loans obtained to fund the construction project are included as part of the costs of Investment Property (see Note 14.1).

Investment property with total carrying amounts of P1,150.0 million December 31, 2012 are used as collaterals for loans obtained from local creditor banks (see Note 14.1). There was no investment property used as collateral in 2011.

### *9.1 Investment Property Owned by the Company*

The Company's investment property has carrying amount of P5.1 million and P11.1 million as of December 31, 2012 and 2011, respectively. This consists of parcels of land located in Valenzuela and Caloocan City with a total land area of 40,628 square meters. The investment property is held for capital appreciation.

In 2012, the Company recognized an impairment loss on a parcel of land located in Caloocan City as the Company's management has assessed that no future cash flows are expected to be generated from such asset. The impairment loss amounting to P6.1 million, which is equal to the carrying amount of the impaired asset, is presented as Impairment Loss on Investment Property under Operating Expenses in the 2012 consolidated statement of comprehensive income (see Note 16.2).

### *9.2 Investment Property Owned by MAPI*

The investment property of MAPI represents parcels of land located in Bacoor, Cavite and a parcel of land and a commercial building under construction located in San Jose, Bulacan which are held for future lease.

The land located in Bacoor, Cavite was contributed to MAPI by two of its former major stockholders as consideration for their subscription to MAPI's shares of stock. The cost of acquisition and development of approximately 177,746 square meters of MAPI's properties amounting to P2,600.0 million as of December 31, 2012 and 2011 are presented as Investment Property since these were held solely for lease once these properties are fully developed. In three to five years, the management of MAPI plans to construct on the said property a commercial center that will be available for lease.

The land located in San Jose, Bulacan amounting to P52.5 million, was acquired from Household Development Corporation (HDC), a related party under common ownership, in 2011 and represents its purchase price (see Note 12).

The commercial building under construction on the land located in Bulacan will be held for future lease. The accumulated costs amounting to P1,426.0 million and P508.3 million as of December 31, 2012 and 2011, respectively, include borrowing costs of P21.1 million in 2012 and P0.9 million in 2011 representing the actual borrowing costs incurred on interest bearing-loans and short-term borrowings obtained to fund the construction (see Note 14).

In 2012, the Group reclassified portion of commercial building under construction to building and improvements amounting to P1,157.0 million representing the completion of Phase 1 of the commercial building which is already available for lease.

Land development costs incurred in 2012 and 2011 amounting to P79.9 million and P7.1 million, respectively, pertains to earthworks, backfilling, compaction of the property, relocation and topographic surveys and various soil studies such as geotechnical, hydrological and georestivity sounding study.

Also, in 2012, MAPI acquired a certain parcel of land located in Mandaluyong City at a cost of P163.2 million for future establishment of a commercial property. As of December 31, 2012, the fair value of this property amounted to P175.7 million.

### *9.3 Investment Property owned by BEC*

The investment property owned by BEC includes building and building improvements which are held primarily to earn rental income which have a carrying amount of P1.9 million and P2.4 million as of December 31, 2012 and 2011, respectively. Presently, BEC is actively looking for additional prospective lessees for the said property.

Management assessed that the carrying amount of the property as of December 31, 2012 approximates its fair value.

### *9.4 Investment Property Owned by Manuela*

The investment property of Manuela, with a carrying value of P10.1 billion as of December 31, 2012, includes several parcels of land and buildings and improvements located in Mandaluyong City (Starmall EDSA – Shaw and Worldwide Corporate Center), Las Piñas City (Starmall Las Piñas and Starmall Las Piñas – Annex) and Muntinlupa City (Starmall Alabang). Part of the cost of buildings and improvements is the capitalized borrowing cost amounting to P20.1 million (see Note 14). These properties are owned and held primarily to earn rental income.

### *9.5 Fair Value of Investment Property*

Fair market value of investment property is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

The results of the appraisal below showed that the fair market values of investment property exceeded the related carrying amounts as of December 31, 2012.

| | Land | Buildings and Improvements | Total |
|---|---|---|---|
| Starmall Alabang | P 2,178,000,000 | P 3,629,039,000 | P 5,807,039,000 |
| Starmall EDSA-Shaw | 2,797,000,000 | 1,200,562,000 | 3,997,562,000 |
| Starmall Las Piñas | 254,500,000 | 335,003,000 | 589,503,000 |
| Starmall Las Piñas-Annex | 106,000,000 | 94,472,000 | 200,472,000 |
| Worldwide Corporate Center | - | 1,873,394,000 | 1,873,394,000 |
| Land in Valenzuela City | 59,536,000 | - | 59,536,000 |
| Land in Bacoor, Cavite | 3,057,230,000 | - | 3,057,230,000 |
| Land in San Jose del Monte, Bulacan | 257,358,000 | - | 257,358,000 |
| Land in Mandaluyong City | 175 679 000 | - | 175 679 000 |
| | P 8 885 303 000 | P 7 132 470 000 | P 16 017 773 000 |

Management believes that the accumulated costs of the commercial building under construction of MAPI (see Note 9.2) as of December 31, 2012 approximate its fair value.

## 10. INVESTMENT IN AN ASSOCIATE

The details of the investment account as of December 31 are shown below.

| | 2012 | 2011 |
|---|---|---|
| Investment in VLL: | | |
| Acquisition cost | **P 1,906,228,900** | P 1,906,228,900 |
| Unrealized gain on share swap | **( 286,374,372)** | ( 286,374,372) |
| Excess of fair value over cost | **516,508,944** | 516,508,944 |
| | **2,136,363,472** | 2,136,363,472 |
| Accumulated equity in net earnings: | | |
| Balance at beginning of year | **835,212,722** | 579,751,419 |
| Equity in net earnings | **344,633,001** | 337,098,488 |
| Dividends received | **( 64,608,526)** | ( 81,637,185) |
| Balance at end of year | **1,115,237,197** | 835,212,722 |
| | **3,251,600,669** | 2,971,576,194 |
| Disposals during the year | **( 1,571,638,044)** | - |
| | **P 1,679,962,625** | P 2,971,576,194 |

In September 2012, the Company sold 378,100,000 shares of its investment in VLL, with a carrying amount of P1,571,638,044, for a total consideration of P1,536,478,845. The Group recognized a loss from this transaction amounting to P35,159,199 and is presented as Loss on Disposal of a Portion of Investment in an Associate under Other Income (Charges) in the 2012 consolidated statement of comprehensive income.

Consequently, the Company now holds 399,397,000 shares or 4.7% ownership interest in VLL as of December 31, 2012 compared to the 777,497,000 shares or 9.1% ownership interest in VLL as of December 31, 2011.

VLL is a listed company in the PSE. As of December 31, 2012 and 2011, the total fair value of the investment in VLL amounted to P1.9 billion and P2.2 billion, respectively. As of December 31, 2012, the fair value of the investment in VLL of P1.9 billion is higher than its carrying amount of P1.68 billion, hence, no impairment loss was recognized. As of December 31, 2011, although the market value of the investment in VLL is below the investment's carrying value, no impairment loss was recognized since management believes that the decline is only temporary as the associate continues to show improvements in its results of operations and generates positive cash flow operations.

The book value of VLL amounted to P4.36 and P4.82 per share as of December 31, 2012 and 2011, respectively, while its shares are traded at P4.86 and P2.84 per share as at December 31, 2012 and 2011, respectively.

In 2012, 2011 and 2010, the Group earned cash dividend from its investment in VLL amounting to P64.6 million, P81.6 million and P42.0 million, respectively. There is no outstanding balance from this transaction as of December 31, 2012 and 2011.

The aggregated amounts of assets, liabilities and net profit (in millions) of the associate are as follows:

| | | **2012** | | 2011 |
|---|---|---|---|---|
| Assets: | | | | |
| Current | **P** | **35,040** | P | 32,213 |
| Non-current | | **39,290** | | 35,359 |
| | **P** | **74,330** | P | 67,572 |
| Liabilities: | | | | |
| Current | **P** | **18,914** | P | 12,747 |
| Non-current | | **11,783** | | 14,137 |
| | **P** | **30,697** | P | 26,884 |
| Revenue | **P** | **17,397** | P | 14,529 |
| Net profit | **P** | **4,376** | P | 3,528 |

## 11. GOODWILL

The Company's acquisitions of equity interests in its subsidiaries gave rise to goodwill or negative goodwill. The goodwill amounts were treated as adjustments to the net assets of the acquired subsidiaries, or as adjustment to the subsidiaries' undivided land deemed to be overvalued at the date of acquisition. Negative goodwill, on the other hand, is recognized directly in profit or loss in the statement of comprehensive income.

The excess (deficiency) of the acquisition costs over the Company's share in the fair value of the identifiable net assets of the following subsidiaries is summarized as follows:

| | Year Acquired | Excess (Deficiency) of Cost Over Net Assets (Negative Goodwill) | Treated as Adjustment to Assets | Recognized directly in profit or loss |
|---|---|---|---|---|
| Manuela | 2012 | (P 9,317,886,860) | P - | P 9,317,886,860 |
| BEC | 2004 | 79,084,617 | 79,084,617 | - |
| MAPI | 2004 | 24,879,081 | 24,879,081 | - |

In 2012, the Company acquired 98.4% ownership interest in Manuela through a share swap with Manuela's former stockholders in exchange for 3,533,569,997 of its own shares at a total subscription price of P4,527,396,641 (see Note 21).

For purposes of computing the corresponding negative goodwill arising from the acquisition of 98.4% ownership interest in Manuela, the Company obtained the fair value of the identifiable net assets of the Manuela as of June 30, 2012 even though the Company acquired Manuela on June 22, 2012 since there was no available financial data at the time of acquisition. Management believes that the June 30, 2012 data used will not materially differ had the Company used financial data at the date of acquisition.

Negative goodwill amounting to P9.3 billion, representing the excess of the Company's share in the fair value of the identifiable net assets of Manuela at the date of acquisition over the acquisition cost, was recognized directly in profit or loss in the 2012 consolidated statement of comprehensive income under Other Income (Charges) as Income from Acquisition of a Subsidiary.

## 12. LIABILITY FOR LAND ACQUISITION

Liability for land acquisition represents the outstanding payable as of December 31, 2012 and 2011 relating to the Group's acquisition of certain parcels of land.

In 2011, the Group entered into a Contract to Sell (CTS) with HDC to purchase a parcel of land located in Bulacan to be developed by the Group as a commercial property (see Note 9.2). Total contract price amounted to P52.5 million, out of which P5.3 million was paid upon execution of the CTS and the balance payable in quarterly payments over a period of five years commencing on January 15, 2012. The liability for land acquisition is noninterest-bearing and measured at amortized cost using the effective interest rate method. The discount rate of 4.98% was used and determined by reference to published market interest rates prevailing on the transaction date. The title to the land remains with HDC and will be transferred to the Group upon full payment of the liability. As of December 31, 2012, the Group has not paid any amount pertaining to this liability.

The breakdown of the noninterest-bearing Liability for land acquisition follows:

| | Current | Non-current | Total |
|---|---|---|---|
| December 31, 2012 | | | |
| Principal amount | P 21,344,550 | P 25,925,249 | P 47,269,799 |
| Unamortized discount | ( 1,705,031 ) | ( 2,292,973 ) | ( 3,998,004 ) |
| Balance at end of year | P 19,639,519 | P 23,632,276 | P 43,271,795 |
| December 31, 2011 | | | |
| Principal amount | P 9,453,960 | P 37,815,840 | P 47,269,800 |
| Unamortized discount | ( 2,175,385 ) | ( 3,998,004 ) | ( 6,173,389 ) |
| Balance at end of year | P 7,278,575 | P 33,817,836 | P 41,096,411 |

Moreover, in 2005, the Group purchased a parcel of land located in Dasmariñas, Cavite to be developed as a residential community. The parcel of land is presented as part of Real Estate Properties for Sale in the consolidated statements of financial position. The outstanding liability arising from this transaction as of December 31, 2012 and 2011 amounted to P2.4 million.

The total liabilities for land acquisition arising from the above mentioned transaction are classified in the consolidated statements of financial position as follows:

| | 2012 | 2011 |
|---|---|---|
| Current | P 22,076,150 | P 9,715,206 |
| Non-current | 23,632,276 | 33,817,836 |
| | P 45,708,426 | P 43,533,042 |

## 13. TRADE AND OTHER PAYABLES

This account consists of:

| | Note | 2012 | 2011 |
|---|---|---|---|
| Trade payables | | P 214,001,507 | P 91,406,359 |
| Accrued rentals | | 274,589,040 | - |
| Deferred output VAT | | 107,614,528 | 5,460,959 |
| Retention payable | | 75,701,971 | 39,276,488 |
| Construction payable | | 64,370,459 | - |
| Estimated liability on property development cost | | 45,907,516 | - |
| Accrued expenses | 14 | 40,499,972 | 3,806,481 |
| Other payables | | 10,165,165 | 4,892,137 |
| | | P 832,850,158 | P 144,842,424 |

Accrued rentals pertain to the effect of straight-line recognition of contractual rent expense as prescribed by PAS 17, *Leases*.

Accrued expenses represent the accrual for security, building maintenance and janitorial services, salaries and employee benefits, professional fees, interest on interest- bearing loans and borrowings and other administrative expenses as well as marketing and advertising expenses.

Due to their short duration, management considers the carrying amounts of Trade and Other Payables recognized in the consolidated statements of financial position to be a reasonable approximation of their fair values.

## 14. INTEREST-BEARING LOANS AND BORROWINGS

The details of the interest-bearing loans and borrowings are as follows:

| | Note | **2012** | 2011 |
|---|---|---|---|
| Current: | | | |
| Regular loans: | 14.1 | | |
| Asia United Bank (AUB) | (b) | **P 52,500,000** | P - |
| BDO Unibank, Inc. (BDO) | (a) | **44,444,444** | - |
| Planters Development Bank (PDB) | (c) | **3,641,705** | 3,641,705 |
| RCBC | (c) | **1,451,774** | 938,115 |
| Union Bank | (c) | **713,179** | 420,974 |
| | | **102,751,102** | 5,000,794 |
| Short-term borrowing – Various individuals | 14.2 | **16,000,000** | 81,000,000 |
| | | **118,751,102** | 86,000,794 |
| Non-current: | | | |
| Regular loans: | 14.1 | | |
| AUB | (b) | **367,500,000** | - |
| PDB | (a) | **208,000,000** | - |
| BDO | (a) | **55,555,556** | - |
| RCBC | (c) | **1,506,102** | 2,019,763 |
| Union Bank | (c) | **1,471,033** | 1,863,537 |
| | | **634,032,691** | 3,883,300 |
| | | **P 752,783,793** | P 89,884,094 |

### *14.1 Regular Loans*

*(a) Loans of Manuela*

In 2012, Manuela obtained various loans from BDO and PDB totalling P308.0 million to finance the upgrade of the air conditioning systems of Starmall EDSA-Shaw and Starmall Alabang and the expansion of the business process outsourcing area of Worldwide Corporate Center. The loans have maturities from October 2014 to November 2017 and bear an annual interest rates ranging from 7.0% to 7.25%. The current portion of the outstanding balance amounting to P44.4 million and the non-current portion amounting to P263.6 million are presented as current and non-current portion of Interest bearing-Loans and Borrowings account, respectively, in the 2012 consolidated statement of financial position.

Certain properties registered under the name of MAPI with carrying value of P793.6 million are used as third party real estate mortgage for the secured long-term loan obtained from PDB. The loans payable to BDO are unsecured.

*(b)* *Loans of MAPI*

In 2012, MAPI obtained a loan from AUB amounting to P420.0 million to finance the construction of Starmall San Jose del Monte. The loan is due to be settled until 2017 and bear an annual interest of 8%. The current portion of the outstanding balance amounting to P52.5 million and the non-current portion amounting to P367.5 million are presented as current and non-current portion of Interest-bearing Loans and Borrowings account, respectively, in the 2012 consolidated statement of financial position.

Certain investment property registered under the name Manuela with carrying amount of P356.4 million is used as collateral for the secured long-term loan of MAPI.

*(c)* *Loans of BEC*

Certain bank loans represent secured loans obtained from various commercial banks using the credit line of Brittany Corporation (BC), a related party under common ownership (see Note 20.3). These loans were obtained in 2010 exclusively to finance the on-going projects of BEC. It is payable up to 2019 and bear annual interest ranging from 10.25% to 13.00%.

Certain short-term installment contracts receivable amounting to P11.3 million are used as collaterals for the bank loans (see Note 7.1).

*(d)* *Interest Expense from Regular Loans*

Interest expense recognized in 2012 and 2011 amounting to P2.0 million and P0.6 million, respectively, are presented as part of Finance Costs under Other Income (Charges) account in the consolidated statements of comprehensive income (see Note 17.1). The outstanding interest payable as of December 31, 2012 and 2011 amounting to P0.2 million and P0.4 million, respectively, are presented as part of Accrued Expenses under Trade and Other Payables account in the consolidated statements of financial position (see Note 13).

### *14.2 Short-term Borrowings*

In 2011, the Group obtained unsecured short-term promissory notes from various third parties amounting to P81.0 million which bear an annual interest of 9%. These are raised primarily to finance the construction of the Group's commercial building which will be held for future lease. As of December 31, 2012, P16.0 million of the balance of these short-term borrowings remains unpaid. Total interest expense incurred amounted to P1.3 million in 2012 and P0.9 million in 2011, which was capitalized as part of cost of commercial building (see Note 9).

## 15. OTHER NON-CURRENT LIABILITIES

The composition of this account as of is shown below.

| | 2012 | 2011 |
|---|---|---|
| Security deposits | **P 411,486,575** | P - |
| Customer deposits | **4,671,480** | - |
| Miscellaneous | **25,569,885** | 160,627 |
| | **P 441,727,940** | P 160,627 |

Security deposits pertain to the three-month advance rental deposits paid by the lessees as required under the lease contracts, which will be refunded upon termination of the lease term or applied to unpaid rentals and damages.

Customer deposits represent the initial payments received from buyers of residential units. The Group initially records the amounts received from the buyers as such until the total deposits reach15% to 20% of the contract price, at which point, the revenue and related installment contract receivables arising from such sale are recognized and the deposits are treated as partial collections of the unit contract price (see Note 2.12).

Miscellaneous liabilities include those relating to transfer taxes, registrations and other expenses required to be settled by the Group upon full payment of the houses and lots.

## 16. OTHER OPERATING INCOME AND EXPENSES

Presented below are the details of other income and expenses for the years ended December 31:

### *16.1 Other Operating Income*

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Realized gross profit on real estate sales | **P 27,291,650** | P 1,989,560 | P 628,714 |
| Penalties and interest charges to tenants | **16,852,237** | - | - |
| Hauling services | **16,227,754** | - | - |
| Gain on derecognition of liabilities | **13,483,023** | - | - |
| Advertising | **10,149,347** | - | - |
| Gain on reversal of allowance for impairment on creditable withholding taxes | **8,561,700** | - | |
| Waterbill recharges | **7,636,445** | - | - |
| Liquified petroleum gas sale | **5,567,437** | - | - |
| Pest control fees | **5,078,692** | - | - |
| Restroom fee | **4,487,100** | - | - |
| Security postings | **2,345,620** | - | - |
| Sale of beverages | **1,076,981** | - | - |
| Scrap sales | **668,315** | - | - |
| Service income | **897,051** | 3,206,196 | 3,529,772 |
| Miscellaneous | **7,644,838** | - | - |
| | **P 127,968,190** | P 5,195,756 | P 4,158,486 |

### *16.2 Other Operating Expenses*

| | Note | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| Rehabilitation expense | | **P 17,245,866** | P - | P - |
| Representation and entertainment | | **8,554,217** | 2,478,790 | 1,349,108 |
| Transportation and travel | | **7,638,956** | 3,022,143 | 200,396 |
| Impairment loss on investment property | 9.1 | **6,059,967** | - | - |
| Communication | | **5,808,485** | - | - |
| Mortgage fee | | **4,143,241** | - | - |
| Supplies | | **3,822,918** | - | - |
| Documentation fee | | **1,164,797** | - | - |
| Listing fee | | **1,035,280** | 2,240,000 | - |
| Registration fees | | **1,033,332** | - | - |
| Commission | | **535,454** | - | 462,835 |
| Garbage fee | | **964,107** | - | - |
| Loss on backout sales | | **-** | 13,011,003 | - |
| Miscellaneous | | **7,136,280** | 9,323,959 | 6,522,514 |
| | | **P 65,142,900** | P 30,075,895 | P 8,534,853 |

Miscellaneous expenses include commission expense, bank charges and postage and telegram expenses.

## 17. OTHER INCOME (CHARGES)

Presented below are the details of other charges and income.

### *17.1 Finance Costs*

| | Notes | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| Impairment loss on trade receivables | 5 | **P 24,612,969** | P 9,722,978 | P - |
| Interest expense on regular loans and short-term borrowings | 14 | **4,290,431** | 557,518 | - |
| Foreign currency losses – net | | **3,849,374** | - | 974,004 |
| | | **P 32,752,774** | P 10,280,496 | P 974,004 |

### *17.2 Finance Income*

| | Notes | 2012 | 2011 | 2010 |
|---|---|---|---|---|
| Interest income from bank deposits and short-term placements | 4 | **P 12,826,265** | P 1,829,281 | P 603,585 |
| Amortization of discount on long-term installment contract receivables | 7.2 | **4,185,398** | 342,913 | 530,587 |
| Foreign currency gains – net | | **-** | 36,492 | - |
| | | **P 17,011,663** | P 2,208,686 | P 1,134,172 |

### *17.3 Other Charges*

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Assessment and listing fee | **P 28,301,164** | P - | P - |
| Legal fees | **24,348,667** | - | - |
| Taxes and licenses | **9,042,303** | - | - |
| | **P 61,692,134** | P - | P - |

Other charges account in the 2012 consolidated statement of comprehensive income pertains to costs incurred by the Group from transactions entered into other than the Group's normal operations.

In 2012, the Group incurred P23.2 million SEC assessment fee for the execution of the Company's increase in authorized capital stock. The Group incurred an additional PSE listing fee of P5.1 million representing its newly issued shares of stock. These expenses are presented as Assessment and Listing Fees under Other Charges accountin the 2012 statement comprehensive income.

Professional fees compose mainly of the cost of legal services in relation to the Group's future plan of offering new shares of stock to the public.

Taxes and licenses pertain to stock transaction tax from the sale of VLL shares amounting to P6.2 million and documentary stamp taxes incurred from the registration of Manuela's shares in the name of the Company which amounted to P2.9 million.

## 18. EMPLOYEE BENEFITS

### *18.1 Salaries and Employee Benefits*

The expenses recognized for salaries and employee benefits are summarized below.

| | | **2012** | | 2011 | | 2010 |
|---|---|---|---|---|---|---|
| Shor-term benefits | **P** | **88,822,528** | P | 7,824,158 | P | 1,909,713 |
| Post-employment expense (income) | | **3,799,460** | | 10,088,800 | | 518,200 |
| | **P** | **92,621,988** | P | 17,912,958 | P | 2,427,913 |

### *18.2 Retirement Benefit Obligation*

The Group is yet to establish a tax-qualified, noncontributory post-employment benefit plan covering all regular and full-time employees. Nevertheless, the Group obtained an actuarial valuation for its retirement benefit obligation to determine and recognize its post-employment benefit obligation and related post-employment benefit expense. The Group's post-employment benefit obligation is based on the projected amount determined by an independent actuary. The most recent actuarial valuation report of the Group is dated March 14, 2013.

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

| | | **2012** | | 2011 |
|---|---|---|---|---|
| Present value of the obligation | **P** | **18,985,868** | P | 13,797,700 |
| Unrecognized actuarial loss (gain) | | **5,555,446** | | (1,997,300) |
| | **P** | **24,541,314** | P | 11,800,400 |

The movements in present value of the retirement benefit obligation are as follows:

| | | **2012** | | 2011 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **13,797,700** | P | 2,923,000 |
| Balance carried from new subsidiary | | **5,960,070** | | - |
| Current service and interest costs | | **3,890,185** | | 10,052,000 |
| Actuarial losses (gains) | | **(4,662,087)** | | 822,700 |
| Balance at end of year | **P** | **18,985,868** | P | 13,797,700 |

The amounts of post-employment benefit expense recognized in the consolidated profit or loss as part of Salaries and Employee Benefits are as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Current service cost | **P 2,464,480** | P 9,775,800 | P 235,100 |
| Interest cost | **1,425,705** | 276,200 | 251,400 |
| Net actuarial losses (gains) recognized during the year | **( 90,725)** | 36,800 | 31,700 |
| | **P 3,799,460** | P 10,088,800 | P 518,200 |

The movements of the Retirement Benefit Obligation as shown in the same account description in the consolidated statements of financial position are as follows:

| | Note | **2012** | 2011 | 2010 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 11,800,400** | P 1,711,600 | P 1,193,400 |
| Balance carried from new subsidiary | | **8,941,454** | - | - |
| Expense recognized | 18.1 | **3,799,460** | 10,088,800 | 518,200 |
| Balance at end of year | | **P 24,541,314** | P 11,800,400 | P 1,711,600 |

Presented below are the historical information related to the present value of the retirement benefit obligation and fair value of plan assets.

| | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Present value of the obligation | **P18,985,868** | P 13 797 700 | P 2 923 000 | P 2 242 700 | P 7 129 400 |
| Experience adjustments on plan liabilities | **(P 5,432,222)** | (P 854 800) | (P 629 300) | (P 5 500) | P 272 100 |

The Group's retirement plan is unfunded as of December 31, 2012 and 2011. The Group has no plans yet on contributing to the retirement fund in the near future.

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Discount rates | **6.20%** | 6.80% | 9.45% |
| Expected rate of salary increases | **11.00%** | 11.00% | 11.00% |

## 19. TAXES

The components of tax expense (income) follow for the years ended December 31:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Current tax expense: | | | |
| Capital gains tax | **P 122,937,666** | P - | P - |
| Regular corporate income tax (RCIT) at 2% | **78,137,190** | - | - |
| Final tax at 20% | **2,492,629** | 365,857 | 120,558 |
| Minimum corporate income tax (MCIT) at 2% | **1,677,868** | 76,214 | 69,179 |
| | **205,245,353** | 442,071 | 189,737 |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **29,939,444** | 688,365 | ( 784,268) |
| | **P 235,184,797** | P 1,130,436 | (P 594,531) |

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense (income) reported in the consolidated profit or loss is shown below.

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Tax on pretax profit at 30% | **P 2,992,588,848** | P 78,487,513 | P 72,063,645 |
| Adjustments for income subjected to lower tax rates | **( 20,737,808)** | ( 182,928) | ( 60,518 ) |
| Tax effects of: | | | |
| Income from acquisition of a subsidiary | **( 2,795,366,058)** | - | - |
| Loss on sale of investment in an associate | **193,389,319** | - | - |
| Capital gains tax | **122,937,666** | - | - |
| Equity in net earnings of an associate | **( 103,389,900)** | ( 101,129,546) | ( 77,027,009) |
| Unrecognized deferred tax assets on temporary differences during the year | **37,208,219** | 23,296,383 | 4,187,338 |
| Unrecognized net operating loss carryover (NOLCO), MCIT and other temporary differences | **4,282,610** | - | - |
| Recognition of deferred tax liability in excess of deferred tax asset | **23,622,960** | - | - |
| Nondeductible interest and other expenses | **46,497,525** | 761,888 | 401,187 |
| Rental income adjustment in accordance with PAS 17 | **( 63,979,516)** | - | - |
| Nontaxable revenues | **( 201,869,068)** | ( 102,874) | ( 159,174 ) |
| Tax expense (income) reported in consolidated profit or loss | **P 235,184,797** | P 1,130,436 | (P 594,531) |

The net deferred tax liabilities relate to the following as of December 31:

| | Consolidated Statements of Financial Position | | Consolidated Statements of Comprehensive Income | | |
|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | 2010 |
| Deferred tax assets: | | | | | |
| Accrued rent expense | **P 22,235,678** | P - | **(P 22,235,678)** | P - | P - |
| Deferred gross profit | **13,502,151** | - | **( 13,502,151)** | - | - |
| Allowance for impairment losses | **6,048,963** | - | **( 6,048,963)** | - | - |
| Retirement benefit obligation | **808,609** | - | **( 808,609)** | - | - |
| | **42,595,401** | - | | | |
| Deferred tax liabilities: | | | | | |
| Capitalized borrowing cost | **( 18,789,203)** | ( 10,611,569) | **8,177,634** | 261,811 | - |
| Accrued rent income | **( 65,082,845)** | ( 725,634) | **64,357,211** | 415,521 | ( 784,268) |
| Unrealized foreign currency gains | **( 11,033)** | ( 11 033) | **-** | 11 033 | - |
| | **( 83,883,081)** | ( 11 348 236) | | | |
| Deferred tax expense (income) | | | **P 29,939,444** | P 688 365 | **(**P 784 268) |
| Net deferred tax liabilities | **(P 41,287,680)** | (P 11 348 236) | | | |

No deferred tax liability is recognized on revaluation reserves relating to AFS financial assets as the sale of listed securities through the stock exchange is subject to the stock transaction tax.

The amount of NOLCO and other deductible temporary differences as of the end of each reporting period for which the related deferred tax assets have not been recognized are shown below.

| | Amount | | Tax Effect | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| NOLCO | **P 197,322,194** | P 84,003,558 | **P 59,196,658** | P 25,201,067 |
| Allowance for impairment | **49,363,417** | 13,819,579 | **14,809,025** | 4,145,874 |
| Retirement benefit obligation | **14,175,200** | 11,800,400 | **4,047,240** | 3,540,120 |
| MCIT | **1,783,261** | 273,915 | **1,783,261** | 273,915 |
| | **P 262,644,072** | P 109 897 452 | **P 79,836,184** | P 33 160 976 |

Presented below are the details of the Group's remaining NOLCO, which can be claimed as deduction from future taxable income of the respective entities within three years from the year the taxable loss was incurred.

| Entity | Year Incurred | Amount | Valid Until |
|---|---|---|---|
| BEC | 2012 | P 16,381,794 | 2015 |
| | 2011 | 26,066,001 | 2014 |
| | 2010 | 6,004,373 | 2013 |
| Starmall | 2012 | 101,400,345 | 2015 |
| | 2011 | 13,948,501 | 2014 |
| | 2010 | 3,864,625 | 2013 |
| MAPI | 2012 | 8,742,275 | 2015 |
| | 2011 | 17,574,281 | 2014 |
| | 2010 | 3,339,999 | 2013 |
| | | P 197,322,194 | |

NOLCO incurred by BEC, Starmall and MAPI in 2009 amounting to P7,180,515, P4,111,774 and P1,913,488, respectively, expired in 2012.

The entities in the Group are subject to MCIT equivalent to 2% of gross income, as defined under the tax regulations. The details of MCIT for the Group which are available for offset against the respective entities' future income tax due are as follows:

| Entity | Year Incurred | Amount | Until |
|---|---|---|---|
| BEC | 2012 | P 17,941 | 2015 |
| | 2011 | 55,272 | 2014 |
| | 2010 | 29,179 | 2013 |
| MAPI | 2012 | 1,659,927 | 2015 |
| | 2011 | 20,942 | 2014 |
| | | P 1,783,261 | |

In 2012, 2011 and 2010, the Group opted to claim itemized deductions in computing for its income tax due.

## 20. RELATED PARTY TRANSACTIONS

The related parties of the Group include the companies related to the Group by common ownership, subsidiaries of such companies, the Group's stockholders and key management personnel. The significant transactions of the Group in the normal course of business with related parties and related balances as of December 31, 2012 and 2011 and for the years then ended December 31, 2012, 2011 and 2010 are discussed in the succeeding paragraphs.

| | | **2012** | | 2011 | |
|---|---|---|---|---|---|
| **Related Party Category** | Notes | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance |
| **Related Parties Under Common Ownership:** | | | | | |
| Cash advances granted | 20.2 | **(P 96,578,898)** | **P 232,543,718** | (P 439,807) | P 135,964,821 |
| Cash advances received | 20.2 | **( 83,184,385)** | **269,896,937** | 336,302,586 | 353,081,322 |
| Rental income | 20.4 | **256,734,115** | **471,222,953** | - | - |
| Purchase of land | 9.2 | **2,175,384** | **45,708,426** | 43,533,042 | 43,533,042 |
| **Stockholder –** | | | | | |
| Cash advances granted | 20.2 | **(P 35,704,400)** | **P 84,034,851** | P 57,000,000 | P 48,330,451 |
| **Key Management –** | | | | | |
| Compensation | 20.5 | **P 19,753,614** | **P -** | P 14,441,500 | P - |

### *20.1 Assignment of Receivables*

The balance of Due from Related Parties as of December 31, 2012 and 2011 includes the accounts receivable from Communities Philippines, Inc. (CPI), related party under common ownership, of P122.9 million and from API of P51.6 million (see Note 20.2). These receivables arose in prior years from the foreclosure by the Bangko Sentral ng Pilipinas (BSP) of the Group's real estate property (Bellefonte) to pay off the loan of Optimum Development Bank (ODB). In view of the foreclosure, the Group derecognized the asset and recognized a receivable from CPI amounting to P122.9 million representing the amount of estimated development costs which were paid in advance by the Group to CPI upon acquisition of Bellefonte but with a provision that CPI will shoulder the development costs of the project. The Group also recognized a receivable from API since ODB assigned its receivables from API to the Group to pay off ODB's share of the cost of the asset foreclosed by the BSP. These receivables are unsecured, noninterest-bearing and have no repayment terms.

Management believes that these receivables are fully recoverable from the related parties.

### *20.2 Due from/to Related Parties (Summary)*

The Group obtains from and grants and/or receives advances from its associates and other related parties for working capital requirements and other purposes in which the related outstanding balances are shown as part of Due from Related Parties and Due to Related Parties in the consolidated statements of financial position. These advances are unsecured, noninterest-bearing and repayable in cash on demand. The details of these accounts, including those discussed in Note 20.1 above, are as follows:

| | 2011 | Net Additions (Reductions) | 2012 |
|---|---|---|---|
| Due from related parties: | | | |
| Stockholder – | | | |
| API | P 48,330,451 | P 35,704,400 | P 84,034,851 |
| Under common control: | | | |
| CPI | 135,324,013 | - | 135,324,013 |
| PAVI | - | 70,000,000 | 70,000,000 |
| Family Shoppers Inc. | - | 20,764,741 | 20,764,741 |
| VLL | - | 4,031,588 | 4,031,588 |
| BC | 124,117 | ( 88,161) | 35,956 |
| CAPI | 315,690 | 1,870,730 | 2,186,420 |
| PMRVI | 201,000 | - | 201,000 |
| | 135,964,820 | 96,578,898 | 232,543,718 |
| | P 184 295 271 | P 132 283 298 | P 316 578 569 |
| Due to related parties: | | | |
| Under common control: | | | |
| Hero Holdings, Inc. | P 197,819,416 | (P 12,911,913) | P 184,907,503 |
| Manuela Corporation | 101,167,589 | ( 101,167,589) | - |
| CAPI | 31,691,440 | 37,500,000 | 69,191,440 |
| BC | 13,393,877 | ( 6,152,007) | 7,241,870 |
| HDC | 9,009,000 | ( 452,876) | 8,556,124 |
| | P 353,081,322 | (P 83,184,385) | P 269,896,937 |

This compares to the Due from Related Parties and Due to Related Parties as of December 31, 2011 as follows:

| | 2010 | Net Additions (Reductions) | 2011 |
|---|---|---|---|
| Due from related parties: | | | |
| Stockholder – | | | |
| API | P 105,330,451 | (P 57,000,000) | P 48,330,451 |
| Under common control: | | | |
| CPI | 135,324,013 | - | 135,324,013 |
| Others | 201,000 | 439,807 | 640,807 |
| | 135,525,013 | 439,807 | 135,964,821 |
| | P 240,855,464 | (P 56,560,193) | P 184,295,271 |

| | | 2010 | | Net Additions (Reductions) | | 2011 |
|---|---|---|---|---|---|---|
| Due to related parties: | | | | | | |
| Under common control: | | | | | | |
| Hero Holdings, Inc. | P | - | P | 197,819,416 | P | 197,819,416 |
| Manuela Corporation | | - | | 101,167,589 | | 101,167,589 |
| CAPI | | 4,000,000 | | 27,691,440 | | 31,691,440 |
| BC | | 2,739,939 | | 10,653,938 | | 13,393,877 |
| HDC | | 9,386,880 | ( | 377,880) | | 9,009,000 |
| Others | | 651,917 | ( | 651,917) | | - |
| | P | 16,778,736 | P | 336,302,586 | P | 353,081,322 |

### *20.3 Transactions with BC*

In 2010, the Group obtained secured loans from various commercial banks using BC's credit line. The loans, which are payable up to 2019 and bear annual interest ranging from 10.25% to 13.00%, were obtained exclusively to finance the Group's on-going projects (see Note 14).

### *20.4 Rental Income*

The Group has rental agreement with certain related parties under common ownership for the lease of the Group's investment property (see Note 9). The lease agreements have a term of one year and are renewable annually. The rentals earned from related parties are presented as part of Rental Income in the consolidated statements of comprehensive income. The outstanding receivables arising from these transactions are shown as part of Trade and Other Receivables in the 2012 statement of financial position (see Note 5).

### *20.5 Key Management Personnel Compensation*

Compensation provided to key management personnel in 2012 and 2011 consists of short-term and post-employment benefits amounting to P19,753,614 and P14,441,500, respectively.

In 2010, the Group has no key management personnel as the Group was previously managed by API at no cost to the Group. The Group's salaries and wages in such year pertain only to its rank and file employees.

## 21. EQUITY

### *21.1 Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| Preferred – voting, cumulative, non-participating, non- convertible, non-redeemable – P0 01 par value | | | | |
| Authorized | **10,000,000,000** | - | **P 100,000,000** | P - |
| Issued and outstanding | **2,350,000,000** | - | **P 23,500,000** | P - |
| Common shares – P1 00 par value | | | | |
| Authorized | **16,900,000,000** | 5 500 000 000 | **P 16,900,000,000** | P 5 500 000 000 |
| Issued and outstanding: | | | | |
| Balance at beginning of year | **4,892,411,158** | 4,892,411,158 | **P 4,892,411,158** | P 4,892,411,158 |
| Issuance during the year | **3,533,569,997** | - | **3,533,569,997** | - |
| Balance at end of year | **8,425,981,155** | 4 892 411 158 | **8,425,981,155** | 4 892 411 158 |
| Capital stock | | | **P 8,449,481,155** | P 4 892 411 158 |

**At the consolidation level, the shares of stock of the Company held by Manuela resulted in the recognition of Treasury Stock amounting to P1.6 billion, which is equal to the cost of acquisition by Manuela of the said shares.*

On May 14, 2012, the BOD approved the increase in the Company's authorized capital stock from P5.5 billion divided into 5.5 billion shares with P1 par value to P17.0 billion divided into 16.9 billion common shares with P1 par value and 10.0 billion preferred shares with P0.01 par value. The application for increase in authorized capital stock was approved by the SEC on June 22, 2012.

Each preferred share is a voting, cumulative, non-participating, non-convertible and non-redeemable share.

The list of common shareholders of the Company is shown below with their respective number of shares held:

| | Number of Shares Issued | Percentage Ownership |
|---|---|---|
| API | 2,573,507,156 | 30.5% |
| PCDNC | 2,297,339,654 | 27.3% |
| HHC | 1,402,278,726 | 16.6% |
| LHPCL | 808,431,465 | 9.6% |
| Others | 1,344,424,154 | 16.0% |
| | 8,425,981,155 | 100% |

The following also illustrates the additional listings made by the Company:

On November 13, 1970, the SEC approved the listing of the Company's common shares totaling 1,000,000,000. The shares were initially issued at an offer price of P0.01 per share. As of December 31, 2012, there are 452 holders of the listed shares, which closed at P3.98 per share as of that date.

On November 10, 2004, the SEC approved the increase in the authorized capital stock of the Company to P4.5 billion divided into 4.5 billion shares with a par value of P1 each, as authorized by the Company's Board of Directors.

In 2005, the Company applied for another increase in its authorized capital stock to P5.5 billion divided into 5.5 billion shares with a par value of P1 each, as authorized by the Company's Board of Directors. On November 23, 2005, the SEC approved the increase in the authorized capital stock of the Company.

### *21.2 Retained Earnings*

The Company's unrestricted retained earnings available for distribution amounted to P743,866,384, which excludes unrealized gains.

## 22. EARNINGS PER SHARE

Earnings per share were computed as follows:

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| Net profit attributable to parent company's stockholders | **P 9,580,023,692** | P 260,494,607 | P 240,806,681 |
| Divided by weighted average number of outstanding common shares | **5,566,787,051** | 4,892,411,158 | 4,892,411,158 |
| Earnings per share | **P 1.721** | P 0.053 | P 0.049 |

Diluted earnings per share was not determined since the Group does not have potential dilutive shares as of December 31, 2012, 2011 and 2010.

Earnings per share before the effect of income from acquisition of a subsidiary is P0.047.

## 23. COMMITMENTS AND CONTINGENCIES

The Group is contingently liable with respect to sales contracts and other transactions arising in the ordinary course of business.

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations that are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, from these items will not have a material effect on the Group's consolidated financial statements.

### *23.1 Operating Lease Commitments – Manuela as Lessee*

Manuela leases a parcel of land from LECA Properties, Inc. (LECA) where the Worldwide Corporate Center is situated for an original period of 25 years commencing on August 1, 1995 until July 31, 2020 with rental escalation every year at an agreed rate ranging from P44.20 to P44.89 per square meter. The lease contract includes a clause that the lessee shall be responsible for all real property taxes, assessments or charges on the improvements on the leased property. In 2003, the approval of the Rehabilitation Plan filed by Manuela changed the rates of rental payments to LECA. Since then, Manuela made periodic lease payments to LECA in accordance with the provisions of the Rehabilitation Plan.

In relation to the Supreme Court (the Court) decision dated September 25, 2007, Manuela made payments during the year to LECA in accordance with the Approved Rehabilitation Plan (the ARP). The Court ordered the Receiver to alter and modify within 30 days from the receipt of the court order the ARP relative to the subject rentals, conformably with and according to the judgment of the Court. The Receiver submitted the ARP with modifications on October 1, 2009. Manuela adjusted the rental payments based on the provision of the lease contract to incorporate the payments due on rentals and arrearages to LECA at the rates stipulated in the lease contract with interest at 6% to 12%.

On September 8, 2010, LECA with conformity from Manuela, filed separate motions to the Court and Regional Trial Court (RTC) of Las Piñas. The motion to the Court seeks the approval of the compromise agreement between the two parties. The motion to the RTC requests for the following: 1) to set aside its Order dated March 29, 2010 approving the Amended Rehabilitation Plan; 2) to withdraw its motion to reconsider dated May 25, 2010 and set aside its Order dated March 29, 2010; and, 3) to approve the implementation of the parties' settlement agreement.

The compromise agreement with Manuela was executed through a Memorandum of Agreement (MOA) dated August 25, 2010. Under the MOA, LECA agreed to a reduction of the amount of outstanding rentals and arrearages and set a schedule of payment of the agreed amount. Furthermore, on the same MOA, LECA agreed for an extension of the term of the original lease, for an additional 10 years from the expiration of the original lease period, under the same terms and conditions, except as to the rate of rentals which the parties shall agree prior to the expiration of the original lease term.

On August 1, 2012, on a Resolution issued by the Third Division of the Supreme Court, the motion filed by LECA on March 29, 2010 for the approval of the MOA was granted. Accordingly, the case between Manuela and LECA had been closed and terminated.

Rental expense from this operating lease amounted to P63.1 million in 2012, respectively, and is presented as part of Rentals in the statements of comprehensive income.

The future minimum rental commitments arising from their agreement as of December 31, 2012 are as follows:

| | |
|---|---|
| Less than one year | P 135,313,146 |
| Between one and five years | 511,743,140 |
| More than five years | 422,847,328 |
| | P 1,069,903,614 |

### *23.2 Operating Lease Commitments – Group as Lessor*

The Group leases out properties under various operating leases with various escalation clause and renewal rights. Rental income from these operating leases in 2012 amounted to P1,204.8 million and presented as Rental income in the 2012 consolidated statement of comprehensive income. The future minimum lease receivables under these non-cancelable leases as of December 31, 2012 are as follows:

| | |
|---|---|
| Less than one year | P 770,022,148 |
| Between one and five years | 1,653,033,424 |
| More than five years | 1,014,004,823 |
| | P 3,437,060,395 |

### *23.3 Credit Line*

As at December 31, 2012, the Group has unused letters of credit with two local banks amounting to P267.0 million.

### *23.4 Legal Matters*

As of December 31, 2012 and 2011, certain lawsuits and claims filed by or against the Group are still pending. Management and its legal counsels believe that the ultimate outcome of these lawsuits and claims will not have a material adverse effect on the Group's consolidated financial statements.

### *23.5 Others*

The Group in the normal course of business makes various commitments and incurs certain contingent liabilities which are not reflected as at December 31, 2012 in the consolidated financial statements. Management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effects on the consolidated financial statements.

## 24. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is in close cooperation with the Company's BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

### *24.1 Interest Rate Risk*

At December 31, 2012 and 2011, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 4). All other financial assets and liabilities have fixed rates in 2012 and 2011.

The sensitivity of the profit before tax for the year is analyzed based on reasonably possible change in interest rates of +/-0.49% and +/-0.72% in 2012 and 2011, respectively, with effect from the beginning of the year. This percentage has been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at the end of each reporting period.

### *24.2 Credit Risk*

Credit risk, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of creditworthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales of products are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has made provisions, where necessary, for potential losses on credits extended. Where appropriate, the Group obtains collateral.

Generally, the maximum credit risk exposure of financial assets is the total carrying amount of the financial assets as shown on the face of the consolidated statements of financial position as of December 31, 2012 and 2011 (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below.

| | Notes | **2012** | 2011 |
|---|---|---|---|
| Cash and cash equivalents | 4 | **P 1,492,219,006** | P 83,514,811 |
| Trade and other receivables – net | 5 | **688,682,988** | 22,725,922 |
| Due from related parties | 20.2 | **316,578,569** | 184,295,271 |
| Installment contract receivable* | 7 | **97,332,592** | 16,214,427 |
| Refundable deposits* | 7 | **38,519,778** | 3,696,218 |
| | | **P 2,633,332,933** | P 310,446,649 |

** Presented as part of Prepayment and Other Assets in the consolidated statements of financial position.*

None of the financial assets are secured by collateral or other credit enhancements.

Trade and other receivables which are past due but not impaired as of December 31, 2012 amounted to P0.9 million and have average age of not more than three months. The Group's management considers that all financial assets that are not impaired or past due for each reporting dates are of good credit quality.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

With respect to installment contract receivables, the Group has no significant concentration of credit risk as its customer base is comprised of individuals, each of which usually acquires a unit on a one-time basis. The Group's receivables are actively monitored to avoid significant concentrations of credit risk. Further, the titles to the residential house and lots sold are transferred only to the buyers upon full payment of the installment contract receivables, effectively using the sold units as collaterals. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk. The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

In relation to the Group's due from related parties, it does not identify credit risk with such amounts as these represent advances to related parties which are normally settled through offsetting of accounts.

### *24.3 Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term financial liabilities as well as cash outflows due in a day-to-day business.

The Group maintains cash and obtains financing from its parent company and other related parties to meet its liquidity requirements for up to a 30-day period. Excess cash are invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured if needed.

As at December 31, 2012, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current |
|---|---|---|---|
| | 1 - 6 months | 6 - 12 months | 1 to 9 years |
| Interest-bearing loans and borrowings | P - | P 118,751,002 | P 634,032,691 |
| Trade and other payables | 832,850,158 | - | - |
| Due to related parties | 269,896,937 | - | - |
| Liability for land acquisition | 16,617,571 | 4,726,980 | 28,361,880 |
| Refundable deposits | - | - | 38,878,622 |
| | **P 1 119 364 666** | **P 123 477 982** | **P 701 273 193** |

As at December 31, 2011, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | | Non-current |
|---|---|---|---|
| | 1 - 6 months | 6 - 12 months | 1 to 9 years |
| Interest-bearing loans and borrowings | P 5,223,228 | P 87,417,295 | P 4,286,387 |
| Trade and other payables | 139,381,465 | - | - |
| Due to related parties | 353,081,322 | - | - |
| Liability for land acquisition | 7,206,980 | 4,726,980 | 37,815,840 |
| Customer advances and deposits | 2,205,634 | - | - |
| Dividends payable | 275,118 | - | - |
| Refundable deposits | - | - | 14,439,147 |
| | P 507,373,747 | P 92,144,275 | P 56,541,374 |

The liabilities' contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the reporting period.

### *24.4 Other Market Price Risk*

The Group's market price risk arises from its AFS financial asset which is carried at fair value. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investment. The observed volatility rate of the fair values of the Group's AFS financial asset is 35%, 43% and 29% for the years ended December 31, 2012, 2011 and 2010, respectively. These percentages have been determined based on the volatility of the index of mining companies, using standard deviation, in the previous 12 months, estimated at 95% level of confidence. If quoted prices for these securities increased or decreased by that rate, equity would have changed by P3.0 million, P8.4 million and P2.3 million in 2012, 2011 and 2010, respectively.

## 25. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the consolidated statements of financial position are shown below.

| | Notes | **2012** | | 2011 | |
|---|---|---|---|---|---|
| | | **Carrying Values** | **Fair Values** | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 4 | **P1,492,219,006** | **P1,492,219,006** | P 83,514,811 | P 83,514,811 |
| Trade and other receivables – net | 5 | **688,682,988** | **688,682,988** | 22,725,922 | 22,725,922 |
| Due from related parties | 20 2 | **316,578,569** | **316,578,569** | 184,295,271 | 184,295,271 |
| Installment contract receivable | 7 | **97,332,592** | **97,332,592** | 16,214,427 | 16,214,427 |
| Refundable deposits | 7 | **38,519,778** | **38,519,778** | 3 696 218 | 3 696 218 |
| | | **P2,633,332,933** | **P2,633,332,933** | P 310 446 649 | P 310 446 649 |
| AFS financial asset – | | | | | |
| Investment in shares of stock | 2 | **P 29,157,295** | **P 29,157,295** | P 19 559 375 | P 19 559 375 |

| | Notes | 2012 Carrying Values | 2012 Fair Values | 2011 Carrying Values | 2011 Fair Values |
|---|---|---|---|---|---|
| ***Financial Liabilities*** | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Liability for land acquisition | 12 | **P 45,708,426** | **P 47,269,800** | P 43,533,042 | P 44,485,877 |
| Interest bearing-loans and borrowings | 14 | **752,783,793** | **752,783,793** | 89,884,094 | 89,884,094 |
| Trade and other payables | 13 | **832,850,158** | **832,850,158** | 144,842,424 | 144,842,424 |
| Due to related parties | 20 2 | **269,896,937** | **269,896,937** | 353,081,322 | 353,081,322 |
| Refundable deposits | | **38,878,622** | **38,878,622** | 14,439,147 | 14,439,147 |
| | | **P1,940,117,936** | **P1,941,679,310** | P 645 780 029 | P 646 732 864 |

See Notes 2.4 and 2.9 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 24.

## 26. CAPITAL MANAGEMENT OBJECTIVE POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximize shareholders' value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Relevant information is shown below.

| | 2012 | 2011 |
|---|---|---|
| Total liabilities | **P 2,530,252,194** | P 677,072,834 |
| Total equity | **19,198,651,206** | 6,266,416,749 |
| Debt-to-equity ratio | **0.132 : 1:00** | 0.108 : 1:00 |

The Group's Controller has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

Punongbayan & Araullo

An instinct for growth™

# Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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**The Board of Directors and Stockholders**
**Starmalls, Inc. and Subsidiaries**
***(Formerly Polar Property Holdings Corporation and Subsidiaries)***
3rd Level Starmall Las Piñas
CV Starr Avenue, Pamplona
Las Piñas City

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of Starmalls, Inc. (the Company) and subsidiaries (collectively referred to as the Group) for the year ended December 31, 2012 on which we have rendered our report dated April 10, 2013. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements under the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

By: **Nelson J. Dinio**
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 3174906, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 1036-A (until Sept. 29, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 10, 2013

**STARMALLS, INC. AND SUBSIDIARIES**
***Supplementary Information and Disclosure required on SRC Rule 68 and 68.1 as amended***
***December 31, 2012***

**Schedule A – Financial Assets in Equity Securities**

| Name of Issuing Entity and Association of Each Issue | Number of Shares or principal amount of bonds and notes | Amount shown in the Balance Sheet | Value based on market quotation at end of reporting period | Income received and accrued |
|---|---|---|---|---|
| Dizon Silver Copper Mines Inc. | 1,718,750 | 25,953,125 | 25,953,125 | - |
| Manuela Metropolis Corp. | 2,432,000 | 3,204,170 | 3,204,170 | - |
| **Total** | | **29,157,295** | **29,157,295** | **-** |

**Schedule B – Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Shareholders (other than related parties)**

The Group does not have any receivable from directors, officers, employees, related parties and principal shareholders (other than related parties) as of December 31, 2012.

**Schedule C – Accounts Receivable from related parties which were eliminated during the consolidation of financial statements**

Below is the schedule of receivables and payables from related parties which were eliminated during the consolidation of financial statements of the Group as of December 31, 2012:

| Name of debtor | Balance at beginning of period | Additions | Amount Collected | Amounts written off | Current | Non-current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| STR | (119,790,576) | (122,322,814) | | | (242,113,390) | - | (242,113,390) |
| MAPI | 127,952,274 | 629,390,396 | | | 757,342,670 | - | 757,342,670 |
| MC | (8,161,698) | | 388,000 | | (7,773,698) | - | (7,773,698) |
| BEC | - | (507,455,582) | | | (507,455,582) | - | (507,455,582) |

**Schedule D – Intangible Assets**

The Group does not have any intangible asset as of December 31, 2012.

**Schedule E – Long Term Debt**

Below is the schedule of long term debt of the Group as of December 31, 2012:

| Creditor | Debtor | Amount | Current | Non-current |
|---|---|---|---|---|
| Asia United Bank | MAPI | 420,000,000 | 52,500,000 | 367,5000,000 |
| Banco De Oro | MC | 100,000,000 | 44,444,444 | 55,555,556 |
| Planters Development Bank | MC | 208,000,000 | - | 208,000,000 |
| **Total** | | **728,000,000** | **96,944,444** | **631,055,556** |

**Schedule F – Indebtedness to Related Parties**

Below is the list of outstanding payables to related parties of the group presented in the consolidated statement of financial position as of December 31, 2012:

| Entity | Relationship | Balance at beginning of reporting period | Balance at end of reporting period |
|---|---|---|---|
| Crown Asia Properties Inc. | Under common control | 31,691,440 | 69,191,440 |
| Brittany Corporation | Under common control | 13,393,877 | 7,241,870 |
| Household Development Corp. | Under common control | 9,009,000 | 8,556,124 |
| **Total** | | **54,084,317** | **84,989,434** |

**Schedule G – Guarantees of Securities of Other Issuers**

The Group does not have guarantees of securities of other issuers as of December 31, 2012.

**Schedule H – Capital Stock**

| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption* | Number of shares held by related parties | Number of shares held by directors and officers | Other |
|---|---|---|---|---|---|
| Common, ₽1.00 par | 16,900,000,000 | 7,202,878,365 | 4,533,064,590 | 1,090,876,765 | 1,578,937,010 |
| Preferred, ₽0.01 par value | 10,000,000,000 | 2,350,000,000 | 2,350,000,000 | - | - |

**net of 1,223,102,790 shares held by Manuela Corporation (refer to Note 21 of Notes to Financial Statements)*

Starmalls, Inc. and Subsidiaries
*(Formerly Polar Property Holdings Corporation and Subsidiaries)*

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2012

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| **Conceptual Framework Phase A: Objectives and Qualitative Characteristics** | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Government Loans* *(effective January 1, 2013)* | | | ✓ |
| **PFRS 2** | Share-based Payment | ✓ | | |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | ✓ | | |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | ✓ | | |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)* | | | ✓ |
| **PFRS 8** | Operating Segments | | | ✓ |
| **PFRS 9** | Financial Instruments* *(effective January 1, 2015)* | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)* | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 10: Transition Guidance* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 10: Investment Entities* *(effective January 1, 2013)* | | | ✓ |
| **PFRS 11** | Joint Arrangements* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 11: Transition Guidance* *(effective January 1, 2013)* | | | ✓ |
| **PFRS 12** | Disclosure of Interests in Other Entities* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 12: Transition Guidance* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PFRS 12: Investment Entities* *(effective January 1, 2013)* | | | ✓ |
| **PFRS 13** | Fair Value Measurement* *(effective January 1, 2013)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events after the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19** | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits* *(effective January 1, 2013)* | | | ✓ |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| **PAS 27** | Consolidated and Separate Financial Statements | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate | ✓ | | |
| **PAS 27 (Amended)** | Separate Financial Statements* *(effective January 1, 2013)* | | | ✓ |
| | Amendments to PAS 27 (Amended): Investment Entities* *(effective January 1, 2013)* | | | ✓ |
| **PAS 28** | Investments in Associates | ✓ | | |
| **PAS 28 (Amended)** | Investments in Associates and Joint Ventures* *(effective January 1, 2013)* | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **PAS 31** | Interests in Joint Ventures | | | ✓ |
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | | | ✓ |
| PAS 36 | Impairment of Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | | | ✓ |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| PAS 40 | Investment Property | ✓ | | |
| PAS 41 | Agriculture | | | ✓ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities** | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** | | | ✓ |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives** | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives** | | | ✓ |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction | ✓ | | |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners** | ✓ | | |
| IFRIC 18 | Transfers of Assets from Customers** | ✓ | | |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments** | ✓ | | |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine* *(effective January 1, 2013)* | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| *Philippine Interpretations - Standing Interpretations Committee (SIC)* | | | | |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-12 | Consolidation - Special Purpose Entities | | | ✓ |
| | Amendment to SIC - 12: Scope of SIC 12 | | | ✓ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| SIC-15 | Operating Leases - Incentives | ✓ | | |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ✓ | | |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| SIC-29 | Service Concession Arrangements: Disclosures | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services** | | | ✓ |
| SIC-32 | Intangible Assets - Web Site Costs** | | | ✓ |

* These standards will be effective for periods subsequent to 2012 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

**STARMALLS, INC.**
***(Formerly Polar Properties Holdings Corporation)***
**3rd Level, Starmall Las Piñas CV Starr Avenue, Pamplona, Las Piñas City**

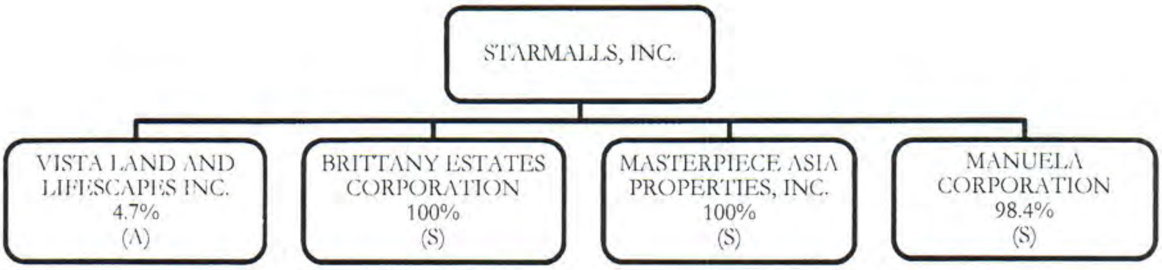
**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2012**

| | | |
|---|---|---|
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year** | P | 295,225,962 |
| **Net Profit Realized during the Year** | | |
| Net profit per audited financial statements | | 448,640,422 |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | **P** | **743,866,384** |

STARMALLS INC. AND SUBSIDIARIES

*(Formerly Polar Property Holdings Corporation and Subsidiaries)*

**Map Showing the Relationships between the Company and its Related Entities**
**December 31, 2012**




**S – Subsidiaries**

**A – Associate**

**STARMALLS, INC. AND SUBSIDIARIES**
FINANCIAL INDICATORS
DECEMBER 31, 2012

| | **2012** | **2011** |
|---|---|---|
| Quick Ratio | 2.2280 | 0.4874 |
| Current Ratio | 2.816 | 1.2436 |
| Debt-to-equity ratio | 0.1317 | 0.0987 |
| Asset-to-equity ratio | 1.1318 | 1.1080 |
| Return on Assets | 0.0194 | 0.0375 |
| Return on Equity | 0.0220 | 0.0416 |