



3/L Starmall Las Piñas, CV Starr Avenue, Pamplona, Las Piñas City 1746  
UGF Worldwide Corporate Center, Shaw Boulevard, Mandaluyong City 1552  
Tel. No. (+632) 532 0605 / (+632) 871 4001 | Fax No. (+632) 872 4697  
Website: www.starmallsinc.com.ph

October 12, 2012

PHILIPPINE STOCK EXCHANGE  
3<sup>rd</sup> Floor Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosures Department

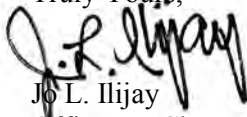
Subject: Starmalls Inc.: **Amended Quarterly Report Q2 2012**

Gentlemen:

Please see attached Amended SEC Form 17-Q for the 2<sup>nd</sup> Quarter 2012 filed today with the Securities and Exchange Commission.

We hope you find everything in order.

Truly Yours,

  
Jo L. Ilijay  
Officer-In-Charge

October 12, 2012

**Securities and Exchange Commission**  
SEC Building, EDSA  
Greenhills, Mandaluyong City  
Metro Manila

Attention: **Director Justina F. Callangan**  
*Corporation Finance Department*

Re: Starmalls, Inc.  
Amendment to 2<sup>nd</sup> Quarter 2012 Report (SEC Form 17-Q)  
filed August 14, 2012

Gentlemen:

This is in reference to the 2011 Annual Report (SEC Form 17-Q) of Starmalls, Inc. which was filed with the Securities and Exchange Commission ("SEC") on August 14, 2012.

Please find enclosed herewith the 2<sup>nd</sup> Quarter 2012 Report (SEC Form 17-Q), which was amended in accordance with the comment stated in the letter and the checklist thereto from the SEC dated September 11, 2012. More particularly, we had made the appropriate changes on the 2<sup>nd</sup> Quarter 2012 Report as follows:


1. On page 31, *Top Five (5) Key Performance Indicators*, we included the schedule showing the prescribed financial soundness indicators in two comparative periods.
2. On page 38, *Signatures*, we included the position of the principal Financial/Accounting Officer/Controller.

We trust that you will find the amended 2<sup>nd</sup> Quarter 2012 Report in order. Should you have further comments on the same or wish to clarify any of the foregoing, please do not hesitate to let us know.

Very truly yours,

**STARMALLS, INC.**

By:

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



110122012001251

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

**Barcode Page**

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**Company Information**

SEC Registration No. 0000039587

Company Name POLAR PROPERTY HOLDINGS CORP.

Industry Classification

Company Type Stock Corporation

**Document Information**

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Department CFD

Remarks Amended  
with letter.

# COVER SHEET

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(Company's Full Name)

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

<b>Jo L. Ilijay</b>									
Contact Person									

<b>532-9611/ 871-4001</b>									
Company Telephone Number									

1	2	3	1
Month		Day	
Calendar Year			

<b>Amended 17-Q</b>
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									

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To be accomplished by SEC Personnel concerned

File Number									
Document I.D.									

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER

1. For the quarter ended June 30, 2012

2. SEC Identification Number 39587

3. BIR Tax Identification No. 000-806-396

4. STARMALLS, INC.

Exact name of the registrant as specified in its charter

5. Metro Manila, Philippines

Province, country or other jurisdiction of incorporation

6. Industry Classification Code

(SEC Use Only)

7. 3<sup>rd</sup> Level Starmall Las Piñas, CV Starr Avenue, Philamlife Avenue, Pamplona, Las Piñas City  
Address of Principal Office

1746  
Postal Code

8. (02) 871-4001

Registrant's telephone number, including area code

9. Polar Property Holdings Corp.

Former name, former address and former fiscal year, if change since last report.

10. Securities registered pursuant to Sections 4 and 8 of the  
RSA

Title of each Class

**Common stock**

**Preferred stock**

Number of Shares of common stock outstanding

**8,425,911,155 shares**

**2,350,000,000 shares**

11. Are any of the registrant's securities listed on the Philippine Stock Exchange?

Yes ☒

No ☐

12. Check whether the registrant:

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

Yes ☒

No ☐

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

Yes ☒

No ☐

## **TABLE OF CONTENTS**

### **PART I - FINANCIAL STATEMENTS**

#### **Item 1. Financial Statements**

- Consolidated Statement of Financial Position as of June 30, 2012 and December 31, 2011
- Consolidated Statements of Income for the six months ended June 30, 2012 and 2011
- Consolidated Statement of Changes in Stockholders Equity for the six months ended June 30, 2012 and 2011
- Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011
- Notes to Consolidated Financial Statements

#### **Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations**

- (i) 1<sup>st</sup> Semester 2012 vs 1<sup>st</sup> Semester 2011
- (ii) Top Five (5) Key Performance Indicators
- (iii) Material Changes (5% or more)- Balance Sheet
- (iv) Material Changes (5% or more)- Income Statement
- (v) Financial Condition
- (vi) Commitments and Contingencies

### **PART II-OTHER INFORMATION**

#### **Item 3. 1<sup>st</sup> Semester 2012 Developments**

#### **Item 4. Other Notes to 1<sup>st</sup> Semester 2012 Operations and Financials**

**STARMALLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2012 AND DECEMBER 31, 2011**  
*(In Thousand Pesos)*

	<i>Unaudited</i> 06/30/2012	<i>Audited</i> 2011
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	278,117	83,515
Trade and other receivables - net	274,835	24,994
Due from related parties	184,795	184,295
Real estate properties for sale - net	710,089	381,181
Prepayments and other current assets	351,665	73,081
Total Current Assets	<u>1,799,501</u>	<u>747,066</u>
<b>NON-CURRENT ASSETS</b>		
Trade receivables - net	72,925	1,239
Available-for-sale financial assets	58,813	19,559
Investment in an associate	3,170,709	2,971,576
Property and equipment - net	47,242	33,636
Investment properties	6,605,684	3,166,717
Other non-current assets - net	38,534	3,696
Total Non-current Assets	<u>9,993,907</u>	<u>6,196,423</u>
<b>TOTAL ASSETS</b>	<u>11,793,408</u>	<u>6,943,490</u>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	913,906	144,827
Interest-bearing loans and borrowings	86,001	86,001
Due to related parties	56,094	353,081
Liability for purchased land	9,715	9,715
Income tax payable	61,816	15
Deferred gross profit on real estate sales	69,485	876
Customers' advances and deposits	5,956	5,956
Dividends payable	275	275
Total Current Liabilities	<u>1,203,248</u>	<u>600,747</u>
<b>NON-CURRENT LIABILITIES</b>		
Retirement benefit obligation	20,792	11,800
Bank loans	420,000	-
Interest-bearing loans and borrowings	211,897	3,883
Liability for purchased land	33,818	33,818
Customers' advances and deposits	28,222	15,476
Deferred tax liability- net	11,348	11,348
Other non-current liabilities	437,525	-
Total Non-current Liabilities	<u>1,163,602</u>	<u>76,326</u>
Total Liabilities	<u>2,366,850</u>	<u>677,073</u>
<b>EQUITY</b>		
Equity attributable to parent company's shareholders		
Capital stock	8,425,981	4,892,411
Treasury shares	(1,223,103)	-
Additional paid-in capital	391,103	20
Revaluation reserves	58,523	19,269
Retained earnings	1,533,626	1,354,716
Total equity attributable to parent company's shareholders	<u>9,186,131</u>	<u>6,266,417</u>
Non-controlling interest	240,427	-
Total Equity	<u>9,426,558</u>	<u>6,266,417</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>11,793,408</u>	<u>6,943,490</u>

**STARMALLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
*(In Thousand Pesos)*

	<i>Unaudited Apr - Jun Q2 - 2012</i>	<i>Unaudited Jan - Jun 2012</i>	<i>Unaudited Apr - Jun Q2 - 2011</i>	<i>Unaudited Jan - Jun 2011</i>
<b>REVENUES</b>				
Equity in net earnings of an associate	102,567	199,133	61,821	158,967
Rent revenue	19,504	19,504	-	-
Finance income	190	447	302	644
	<u>122,261</u>	<u>219,084</u>	<u>62,123</u>	<u>159,611</u>
<b>COSTS AND EXPENSES</b>				
Cost of real estate sold	-	-	-	-
Administrative expenses	(27,798)	(42,199)	(8,284)	(15,712)
Selling and distribution costs	(1,899)	(2,789)	(274)	(360)
Other expenses	(183)	(422)	(81)	(436)
	<u>(29,881)</u>	<u>(45,410)</u>	<u>(8,639)</u>	<u>(16,508)</u>
<b>OPERATING PROFIT</b>	<u>92,381</u>	<u>173,674</u>	<u>53,484</u>	<u>143,103</u>
<b>OTHER INCOME (CHARGES)</b>				
Finance costs - net	( 2,961 )	( 3,060 )	( 150 )	( 394 )
Miscellaneous income	5,136	8,296	-	-
	<u>2,175</u>	<u>5,236</u>	<u>( 150 )</u>	<u>( 394 )</u>
<b>PROFIT BEFORE TAX</b>	94,555	178,910	53,334	142,709
<b>TAX EXPENSE</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET INCOME</b>	94,555	178,910	53,334	142,709
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Fair value gain (loss) on Available for Sale Financial Assets	<u>(19,991)</u>	<u>39,254</u>	<u>2,802</u>	<u>2,200</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>74,564</u>	<u>218,164</u>	<u>56,135</u>	<u>144,909</u>
Attributable to:				
Parent company's shareholders	74,564	218,164	56,135	144,909
Minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>74,564</u>	<u>218,164</u>	<u>56,135</u>	<u>144,909</u>
<b>Earnings per Share</b>	<u>P 0.009</u>	<u>P 0.026</u>	<u>P 0.011</u>	<u>P 0.030</u>



**STARMALLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
*(In Thousand Pesos)*

	<i>Unaudited Apr - Jun Q2 - 2012</i>	<i>Unaudited Jan - Jun 2012</i>	<i>Unaudited Apr - Jun Q2 - 2011</i>	<i>Unaudited Jan - Jun 2011</i>
<b>EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS</b>				
<b>CAPITAL STOCK</b>				
Balance at beginning of period	4,892,411	4,892,411	4,892,411	4,892,411
Issuance of shares	3,533,570	3,533,570	-	-
Treasury shares	(1,223,103)	(1,223,103)	-	-
<b>Balance at end of period</b>	<u>7,202,878</u>	<u>7,202,878</u>	<u>4,892,411</u>	<u>4,892,411</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>	<u>391,103</u>	<u>391,103</u>	<u>20</u>	<u>20</u>
<b>REVALUATION RESERVES</b>				
Balance at beginning of period	78,515	19,269	7,187	7,788
Fair value gains (losses)	(19,991)	39,254	2,802	2,200
<b>Balance at end of period</b>	<u>58,523</u>	<u>58,523</u>	<u>9,988</u>	<u>9,988</u>
<b>RETAINED EARNINGS</b>				
Balance at beginning of period	1,439,071	1,354,716	1,183,597	1,094,221
Net income	94,555	178,910	53,334	142,709
<b>Balance at end of period</b>	<u>1,533,626</u>	<u>1,533,626</u>	<u>1,236,931</u>	<u>1,236,930</u>
<b>MINORITY INTEREST</b>	<u>240,427</u>	<u>240,427</u>	<u>-</u>	<u>-</u>
<b>TOTAL EQUITY</b>	<u><u>9,426,558</u></u>	<u><u>9,426,558</u></u>	<u><u>6,139,350</u></u>	<u><u>6,139,350</u></u>

**STARMALLS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
*(In Thousand Pesos)*

	<i>Unaudited</i> <i>Apr - Jun</i> <u>Q2 - 2012</u>	<i>Unaudited</i> <i>Jan - Jun</i> <u>2012</u>	<i>Unaudited</i> <i>Apr - Jun</i> <u>Q2 - 2011</u>	<i>Unaudited</i> <i>Jan - Jun</i> <u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before tax	94,555	178,910	53,334	142,709
Adjustments for:				
Equity in net earnings of an associate	( 102,567 )	( 199,133 )	( 61,821 )	( 158,967 )
Finance costs	2,961	3,060	150	394
Depreciation and amortization	709	2,046	4	8
Interest income	( 190 )	( 447 )	( 302 )	( 644 )
<b>Operating income before changes in operating assets and liabilities</b>	( 4,532 )	( 15,564 )	( 8,635 )	( 16,500 )
Decrease (increase) in:				
Trade and other receivables	( 287,167 )	( 321,527 )	( 194 )	( 288 )
Real estate properties for sale	( 328,764 )	( 328,908 )	( 474 )	( 1,839 )
Prepayments and other current assets	( 247,859 )	( 278,584 )	( 577 )	( 1,107 )
Other non-current assets	( 34,687 )	( 34,837 )	( 549 )	( 549 )
Increase (decrease) in:				
Trade and other payables	619,081	754,411	3,936	4,155
Customers' deposits	12,746	12,746	( 0 )	( 274 )
Estimated liabilities for property development cost	-	-	( 533 )	( 533 )
Liabilities for purchased land	-	-	-	( 43 )
<b>Cash from (used in) operations</b>	( 271,181 )	( 212,263 )	( 7,026 )	( 16,978 )
Interest received	190	447	302	644
Interest paid	( 2,961 )	( 3,060 )	( 150 )	( 394 )
<b>Net Cash from (Used in) Operating Activities</b>	( 273,952 )	( 214,876 )	( 6,874 )	( 16,728 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Dividends received	-	-	27,212	27,212
Decrease (Increase) in amounts due from related parties	( 45,330 )	( 500 )	-	-
Increase in investment properties	( 3,294,006 )	( 3,438,967 )	-	-
Acquisitions of property and equipment	( 11,757 )	( 15,652 )	( 19,621 )	( 19,621 )
<b>Net Cash Provided by (Used in) Investing Activities</b>	( 3,351,094 )	( 3,455,119 )	7,591	7,591
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of new shares	3,533,570	3,533,570	-	-
Increase (decrease) in amounts due to related parties	(325,048 )	( 296,987 )	20,000	19,646
Proceeds from bank loans	420,000	420,000	-	-
Increase in borrowings	208,014	208,014	-	-
Payment of loans	( 2,924 )	-	( 81 )	( 372 )
<b>Net Cash From Financing Activities</b>	3,833,611	3,864,596	19,919	19,274
<b>NET INCREASE IN CASH</b>	208,565	194,602	20,637	10,138
<b>CASH AT BEGINNING OF PERIOD</b>	69,551	83,515	60,196	70,695
<b>CASH AT END OF PERIOD</b>	278,117	278,117	80,833	80,833

**STARMALLS, INC. AND SUBSIDIARIES**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2012**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

Starmalls, Inc. (the Company or parent company) was incorporated and was duly registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining SEC approval in November 10, 2004, the Company changed its primary business and is now presently engaged in investment and real estate business. In June 22, 2012, the SEC approved its capital increase and change in corporate name.

The Company is primarily owned by Fine Properties, Inc.<sup>1</sup> or FPI (31%), Hero Holdings Corp. or HHC (17%) Land and House Public Company Limited or LHPCL (10%), Manuel B. Villar Jr. (9%), Household Development Corp. or HDC (6%), Manuel Paolo A. Villar (4%) and Mark A. Villar (3%). The Company's shares of stock are listed at the Philippine Stock Exchange (PSE).

As of June 30, 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)	98.36%	-	-
Associate:				
Vista Land & Lifescapes, Inc. (VLL)	(b)	9.1%	9.1%	5.35%

- (a) Acquired in June 2012 through share swap.  
(b) Acquired in April 2007 through share swap.

In October 2009, the Company entered into a share swap agreement with VLL whereby it acquired additional interests in VLL in exchange for the shares of PMRVI held by the Company and its receivables from PMRVI as of the date of swap. This resulted in an increase in its percentage of ownership in VLL to 9.1%.

Despite the 9.1% 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.

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. *(Refer to Part II Item 3 for details)*

<sup>1</sup>The Securities and Exchange Commission approved the merger of Fine Properties Inc. and Adelfa Properties Inc. on March 30, 2010.

All subsidiaries and associate were incorporated in the Philippines and are primarily engaged in the development and sale of real estate properties. Since the Company and its subsidiaries (collectively referred herein as the Group) are engaged in the same primary business of real estate development and sale, no segment information or disclosure is presented in the consolidated financial statements.

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 results of operations of Manuela Corporation from June 22 – June 30, 2012 have not been included as the amounts are not material.

## **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. 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.

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 Financial Statements***

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expenses in a single 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 financial statements, or reclassifies items in the consolidated financial statements.

#### ***(a) Functional and Presentation Currency***

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, 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 Interpretations, Revisions and Amendments to PFRS

### (a) Effective in 2010 that are Relevant to the Group

In 2010, the Group adopted the following new revisions and annual improvements that are relevant to the Group and effective for financial statements for the annual period beginning on or after January 1, 2010.

PAS 27 (Revised)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation IFRIC 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Discussed below are the effects on the consolidated financial statements of the new and amended standards.

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the consolidated financial statements.
- (ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year; hence, the adoption of the revised standard has no effect on the 2010 consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the consolidated financial statements because the Group did not distribute non-cash assets to stockholders during the year and in prior years.
- (iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not also have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.
- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) *Effective in 2010 but not Relevant to the Group*

The following amendment and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2010 but are not relevant to the Group's consolidated financial statements:

PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemption for First-time Adopters
PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments to IFRIC 9 and PAS 39
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. 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.

- PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier adoption of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- Philippine Interpretation IFRIC 15 *Agreements for Construction of Real Estate* (effective from January 1, 2012). 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 Contract*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. It is likely to result in PAS 18 being applied to a wider range of transactions. IFRIC is not relevant to the Group's operations as all real estate revenue transactions are accounted for under PAS 18.



(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its consolidated financial statements as it does not normally extinguish financial liabilities through equity swap.

(iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

- Phase 1: Classification and Measurement
- Phase 2: Impairment Methodology
- Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being developed.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

(v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2010*. These amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The Group expects the amendments to the following standards to be relevant to the Group’s accounting policies but does not expect any material effect on its consolidated financial statements.

- PFRS 3, *Business Combinations* (effective from July 1, 2010). This clarifies that contingent consideration balances arising from business combinations that occurred before an entity’s date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.

It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, is now limited to non-controlling interest that are present ownership instruments and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation.

The guidance for the accounting of share-based payment transactions of the acquiree that were voluntarily replaced by the acquirer and acquiree awards that the acquirer chooses not to replace is clarified as well.

- PAS 1, *Presentation of Financial Statements – Clarification of Statement of Changes in Equity* (effective from July 1, 2010). This is a clarification that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the consolidated financial statements.
- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associates*, PAS 31, *Investments in Joint Ventures – Transition Requirements for Amendments Arising as a Result of PAS 27, Consolidated and Separate Financial Statements (Revised 2008)* (effective from July 1, 2010). This amends the transition requirements to apply certain consequential amendments arising from the 2008 PAS 27 amendments prospectively, to be consistent with the related PAS 27 transition requirements.

### **2.3 Basis for Consolidation**

The consolidated financial statements comprise the accounts of the Company and its subsidiaries (see Note 1), after the elimination of material intercompany transactions and balances. All intercompany balances and transactions with subsidiaries are eliminated in full. The financial statements of PMRVI were deconsolidated in 2009 upon the Company's disposal of its interests in such company.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, non-controlling interest (previously called minority 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.

Goodwill represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill represents the excess of Company's share in the fair value of identifiable net assets of a subsidiary at date of acquisition over acquisition cost.

*(b) Transactions with Non-controlling Interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Purchases of equity shares from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of net assets of the subsidiary. Disposals of equity investments to non-controlling interests result in gains and losses for the Group that are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, 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.

Upon adoption in 2010 of PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*, the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence. It has applied the new policy prospectively as required by the standard beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the consolidated financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the Group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

*(c) Investment in an Associate*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests 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 available-for-sale 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, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, include cash and cash equivalents and other financial instruments. Financial assets other than those designated hedging instruments are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. 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 fair value through profit or loss are initially recognized at fair value, plus any directly attributable transaction costs.

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. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables and Due from Related Parties in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments 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 installment contract receivables, which generally have 1 to 10-year terms and 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 according to 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 the 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) Available-for-Sale (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 account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in consolidated other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative 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 consolidated other comprehensive income.

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

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.

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

## ***2.5 Real Estate Properties for Sale***

At the end of reporting period, real estate properties for sale are valued at the lower of cost and net realizable value. Cost includes acquisition costs of the land plus the costs incurred for its development, improvement and construction, including capitalized borrowing costs, if any. 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 Investment Properties***

Investment property, stated at cost less any impairment in value, is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

The cost of the investment property comprises its purchase price or exchange price and directly attributable costs of acquiring the asset, less any impairment in value.

Investment properties are derecognized when disposed of 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 properties are recognized in the consolidated profit or loss in the year of retirement or disposal.

## ***2.7 Financial Liabilities***

Financial liabilities include Trade and Other Payables, Interest-bearing Loans, Due to Related Parties, Liability for Purchased Land, portion of Customers' Advances and Deposits that will be refunded in cash, and Dividends Payable.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the financial instrument. All interest related charges are recognized as an expense in the consolidated statement of comprehensive income as Finance Costs.

Trade and other payables and due to related parties are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders.

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

## ***2.8 Provisions***

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. Provisions are reviewed at 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.

## ***2.9 Revenue and Cost Recognition***

Revenue comprises revenue from the sale of house and lot units measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (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) Sale of House and Lot***

Revenue from sale of house and lot is generally accounted for using the full accrual method. Under the full accrual method, gross profit on sale is recognized when: (a) the collectibility 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 full accrual method, the total gross profit is deferred until those requirements are met. The deferred gross profit relating to the sale of house and lot units 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% 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 under the Customers' Advances and Deposits account 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 in the year in which such cancellations are made.

For income tax purposes, revenue on sale of house and lot units 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.

*(ii) Interest*

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 house and lot are charged to income when the related revenues are recognized. The costs of unsold units and of units sold before the completion of the contemplated construction are determined based on actual costs incurred plus estimated costs to complete the housing units. The estimated costs to complete of the unsold units are presented as deduction from the determined total costs of those assets to arrive at their carrying values. On the other hand, the estimated costs to complete sold units are presented as Estimated Liability for Property Development under the liabilities section of the consolidated statement of financial position. Additional costs incurred in connection with developed land and completed units and other selling and administrative costs are charged to profit or loss when incurred. All finance cost are reported in the consolidated profit or loss, except capitalized cost of the related qualifying asset on accrual basis.

**2.10 Leases – 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 are recognized as expense in the consolidated 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.

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.

**2.11 Employee Benefits**

*(a) Post-employment 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 Law*. RA 7641 relates to 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 post-employment defined benefit pension plan covers all regular full-time employees.

The liability recognized in the consolidated statement of financial position for post-employment defined benefit pension plan is the present value of the defined benefit obligation (DBO) at 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 interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to 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.

**2.12 Borrowing Costs**

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 are being incurred, 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.

**2.13 Impairment of Non-financial Assets**

The Group's investment in an associate and investment properties are 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.

An 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, based on an internal evaluation of discounted cash flow.

The asset is 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. The increased carrying amount of an asset due to the reversal of an impairment loss is recognized only to the extent that it does not exceed the carrying amount that would have been determined had impairment loss not been recognized for that asset in prior years.

**2.14 Income Taxes**

Tax expense 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 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 provided using the liability method on temporary differences at the reporting period between the tax bases 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 carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at 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.

### ***2.15 Related Party 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. This includes (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 Company that gives them significant influence over the Company 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.

### ***2.16 Equity***

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

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

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

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

## **2.17 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 Company has no dilutive potential common shares that would require disclosure of diluted earnings per share in the consolidated profit or loss.

## **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 Available-for-sale 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 June 30, 2012 and December 31, 2011. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

#### *(b) Distinction Between Investment Properties and Real Estate Property for Sale*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generated cash flows largely independently of the other assets held by an entity. The investment property of the Group is held for capital appreciation and for future lease.

#### *(c) Operating and Finance Lease*

In 2009 and 2008, the Group has a lease agreement with a certain lessor. Critical judgment was exercised by management to distinguish the 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 agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. The Group has no existing lease agreement in 2012, 2011 and 2010.

*(d) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on the recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.8.

**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) Net Realizable Value of Real Estate Properties for Sale*

In determining the net realizable value of real estate properties for sale, management takes into account the most reliable evidence available at the time the estimates are made. 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 June 30, 2012 and December 31, 2011.

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

Allowance is made for specific 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, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of Trade and Other Receivables amounted to ₱347.8 million and ₱26.2 million as of June 30, 2012 and December 31, 2011, respectively (see Note 5). Allowance for impairment on trade and other receivables as of the end of the reporting periods amounted to ₱115.4 million and ₱13.8 million as of June 30, 2012 and December 31, 2011, respectively. Based on management's evaluation, no additional impairment loss is necessary to be recognized on trade and other receivables as of June 30, 2012 and December 31, 2011.

*(c) 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.

No deferred tax assets were recognized as of June 30, 2012 and December 31, 2011 since management believes that the benefits from the assets may not be utilized in the future.

*(d) Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.13. 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 are no impairment losses recognized on investment in an associate and investment properties as of June 30, 2012 and December 31, 2011, based on managements' evaluation.



(e) *Principal Assumptions for Estimation of Fair Value of Investment Property*

Investment property is measured using the cost model. The fair value disclosed in Note 8 was determined by independent appraisers.

The independent appraiser's estimation of fair values is based on study and evaluation of all the physical economic and other value factors relative to the appraised property. Local market conditions were investigated and were given careful consideration. Among these factors are the following: extent, character and utility of the property; government assessment of real property; local government zoning system; sales and holding prices of similar land; "highest and best use" of the property and all adverse internal and external factors that may tend to affect or influence the value of the property. Further, the appraisal method was performed in accordance with established and accepted appraisal techniques and methodology as practiced in the Philippines under the present economic, social and political condition.

(f) *Estimated Costs to Complete the Real Estate Projects*

The Group is required to estimate the costs to complete of its real estate projects and recognize a related estimated liability for the development of the property (pertaining to sold but uncompleted units) as the difference between the total estimated cost of the project and the estimated completed portion of the project as of year-end.

The Group estimates its liability for property development for uncompleted housing units sold based on available facts and circumstances, as well as its previous experience. As of June 30, 2012 and December 31, 2011, there are no uncompleted housing units.

(g) *Retirement and Other Benefits*

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 and salary increase 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 retirement benefit obligation amounted to ₱20.8 million as of June 30, 2012 and December 31, 2011, while unrecognized actuarial gain amounted to ₱2.1 and ₱1.2 million in 2011 and 2010, respectively.

#### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of June 30, 2012 and December 31, 2011:

	<u>30 Jun 2012</u>	<u>31 Dec 2011</u>
Cash on hand and in banks	P 248,141,027	P 33,025,622
Short-term placements	<u>29,975,619</u>	<u>50,489,189</u>
	<u>P 278,116,646</u>	<u>P 83,514,811</u>

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 35 days and earn effective interest ranging from 3.25% to 4.25% in 2012 and 2011.

## 5. TRADE AND OTHER RECEIVABLES

The balance of this account is composed of the following:

	<u>30 Jun 2012</u>	<u>31 Dec 2011</u>
Current:		
Receivable from tenants	P 289,394,468	P -
Short-term installment contracts receivable	29,191,691	14,975,660
Receivables from contractors, suppliers, brokers, and others	68,376,609	20,524,736
Other receivables	<u>3,313,036</u>	<u>3,313,036</u>
	390,275,804	50,491,074
Allowance for impairment	( <u>115,440,708</u> )	( <u>13,819,579</u> )
	274,835,096	24,993,853
Non-current:		
Long-term installment contracts receivable	<u>72,924,748</u>	<u>1,238,767</u>
	<u>P 347,759,844</u>	<u>P 26,232,620</u>

The following presents the breakdown of Receivables as of June 30, 2012 by maturity date:

Due within 1 yr	
Receivable from tenants	P 289,394,468
Installment receivable	29,191,691
Receivables from Contractors suppliers, brokers and others	<u>71,689,645</u>
	<u>390,275,804</u>
Due over 1 yr	
Installment receivable	72,924,748
Receivables from Contractors suppliers, brokers and others	<u>-</u>
	<u>72,924,748</u>
<b>Total Receivables, gross</b>	<b><u>P 463,200,552</u></b>

### 5.1 Short-term Installment Contracts Receivable

Short-term installment contracts receivable represents the current portion of the Group's long-term installment contracts receivable (see Note 5.2). The balance of the account as of June 30, 2012 and December 31, 2011 includes receivables arising from the sale of subdivision units 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 P6.2 million is used as collaterals for the Group's interest-bearing loans.

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

This account principally consists of amounts arising from the sale of real estate subdivision units which are collectible within 2 to 10 years. These receivables are noninterest-bearing and 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 Company for the sale of its subdivision units.

The Group recognizes interest income representing the amortization of discounts on these installment contract receivables; the amounts are shown as part of Finance Income under Other Operating Income (Expenses).

The corresponding titles to the subdivision units sold under the 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 related receivables.

## **6. REAL ESTATE PROPERTIES FOR SALE**

Real estate properties-for-sale as of June 30, 2012 and December 31, 2011 are stated at cost, the details of which are shown below.

	<u>30 Jun 2012</u>	<u>31 Dec 2011</u>
Subdivision lots	<b>P 258,144,431</b>	P 95,890,050
Subdivision houses	<b>34,825,229</b>	34,825,229
Land in process of development	<b><u>417,118,984</u></b>	<u>250,465,645</u>
	<b><u>P 710,088,644</u></b>	<b><u>P 381,180,924</u></b>

Subdivision houses and lots represent houses and lots in completed subdivision projects for which the Group has already obtained license to sell from HLURB. The subdivision houses include houses that are ready for occupancy, house models and units under construction. Land in process of development represents the actual cost incurred in developing this category of this real estate property for sale.

On the other hand, the estimated costs to complete of the already sold but uncompleted house and lot units are shown as Estimated Liability for Property Development in the liabilities section of the consolidated statements of financial position. The related costs of these units are no longer included in the balance of the Real Estate Properties for Sale account.

## **7. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The Company carries its AFS financial assets at fair value. This instrument is included in level 1 of the fair value hierarchy wherein fair value is determined using quoted prices (unadjusted) in active markets for identical assets and liabilities. The Company's AFS financial asset pertains to an investment in shares of stock of a mining company listed in the PSE. The fair value of this AFS financial asset has been determined directly by reference to published prices in the PSE as of June 30, 2012 and December 31, 2011.

In 2011 the fair value of these shares increased by P11.5 million while in 2012 the fair value of these shares increased by P39.30 million and is presented as part of other comprehensive income (loss) in the consolidated statements of comprehensive income.

## 8. INVESTMENT PROPERTIES

The changes in the carrying amounts of investment properties as of June 30, 2012 and December 31, 2011 presented in the consolidated statements of financial position are summarized as follows:

	<u>30 Jun 2012</u>	<u>31 Dec 2011</u>
Land	<b>P 3,085,523,104</b>	P 2,656,025,838
Buildings and improvements	<b>3,520,160,818</b>	2,421,540
Commercial building under construction	<u>-</u>	<u>508,269,944</u>
Balance at end of period	<b><u>P 6,605,683,922</u></b>	<b><u>P 3,166,717,322</u></b>

### 8.1 *Investment Property owned by the Company*

The Company's investment property with carrying value of P11.1 million as of June 30, 2012 and December 31, 2011 consists of parcels of land located in Valenzuela City and Caloocan City with a total land area of 33,233 square meters. These properties are held for capital appreciation.

The fair value of the investment property located in Valenzuela as of June 30, 2012 amounted to P59.5 million based on the latest appraisal report dated October 11, 2011 as determined by an independent firm of appraisers while the fair value of the investment property located in Caloocan City as of December 31, 2011 amounted to P9.6 million.

### 8.2 *Investment Property owned by MAPI*

The investment properties of MAPI represents parcels of land located in Bacoor, Cavite which was contributed to MAPI by two of its original major shareholders as consideration for their subscription to the MAPI's shares of stock. In 2009, MAPI reclassified its real estate property for sale amounting to P2.0 billion as addition to its investment properties because its management intends to develop and lease out such property in the future instead of its original plan to develop and sell such property.

The total cost of acquisition and development of approximately 177,746 square meters of MAPI's properties amounting to P2.6 billion as of June 30, 2012 and December 31, 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 properties a commercial center that will be available for lease.

The land located in San Jose, San Jose del Monte, Bulacan amounting to P46.3 million, was acquired from HDC, a related party under common ownership, in 2011 and represents its purchase price. The commercial building, which was launched in April 2012 as Starmall San Jose del Monte, accumulated costs on the construction amounting to P852.0 million as of June 30, 2012, including borrowing costs of P3.5 million in 2011 up to present representing the actual borrowing costs incurred on short-term borrowings obtained to fund the construction.

The fair value of the land located in Bacoar, Cavite amounted to P3.1 billion while the fair value of land located in San Jose, San Jose del Monte, Bulacan amounted to P142.0 million both as of June 30, 2012. The fair values were determined based on the appraisal report obtained by MAPI on September 29, 2011 and August 5, 2011, respectively. Management believes that the accumulated costs of the commercial building under construction as of June 30, 2012 approximate its fair value.

### ***8.3 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 P2.4 million as of June 30, 2012. Presently, BEC is actively looking for a potential lessee for the said property. As the construction of the building and building improvements was recently completed in 2011, management assessed that the carrying amount of the property as of June 30, 2012 approximates its fair value.

### ***8.4 Investment Property owned by MC***

The investment property owned by MC includes several parcels of land and building and improvements, which are owned and held for rental purposes under various lease agreements and have a carrying value of P3.05 million as of June 30, 2012. The fair value of the investment properties based on the latest appraisal report dated July 2011 as determined by an independent firm of appraisers are as follows:

	<b>Land</b>	<b>Buildings &amp; Improvements</b>	<b>Total</b>
Starmall Alabang	2,128,000,000	3,613,061,500	5,741,061,500
Starmall EDSA-Shaw	2,979,000,000	1,016,897,200	3,995,897,200
Starmall Las Pinas 1	101,990,000	95,216,000	197,116,000
Starmall Las Pinas 2	254,500,000	330,448,000	584,948,000
Worldwide Corporate Center	-	1,832,425,000	1,832,425,000
<b>Total</b>	<b>5,463,400,000</b>	<b>6,888,047,700</b>	<b>12,351,447,700</b>

## **9. TRADE AND OTHER PAYABLES**

This account consists of:

	<u><b>30 Jun 2012</b></u>	<u><b>31 Dec 2011</b></u>
Trade payables	<b>P 562,542,932</b>	P 91,406,359
Retention payable	<b>74,292,125</b>	39,276,488
Deferred output VAT	<b>7,539,750</b>	5,460,959
Accrued expenses	<b>682,812,806</b>	3,806,481
Other payables	<b><u>65,907,509</u></b>	<u>4,892,137</u>
	<b><u>P 1,393,095,122</u></b>	<b><u>P 144,842,424</u></b>

Accrued expenses represent the accrual for salaries and employee benefits, professional fees, taxes and other administrative expenses as well as marketing and advertising expenses.

The fair values of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the consolidated statements of financial position to be a reasonable approximation of their fair values.

## 10. EQUITY

### 10.1 Capital Stock

The Company has 17.0 billion shares of authorized capital stock divided into 16.9 Billion common shares with par value of P1.00 per share and 10 Billion voting, cumulative, non-participating, non-convertible and non-redeemable preferred shares with par value of P0.01 per share, of which 8,425,981,155 shares are issued and outstanding for a total paid-up capital of P8,425,981,155 and as P4,892,411,158 of June 30, 2012 and December 31, 2011 respectively.

The list of equity holders of the Company is shown below with their respective number of shares held:

	Number of Shares Issued	Percentage Ownership
FPI <sup>1</sup>	2,573,507,156	31%
PCD Nominee Corporation	1,805,742,249	21%
HHC	1,402,278,726	17%
LHPCL	808,431,465	10%
Manuel B. Villar, Jr.	728,900,022	9%
Others	<u>1,107,121,537</u>	<u>12%</u>
	<u><u>8,425,981,155</u></u>	<u><u>100%</u></u>

### 10.2 Retained Earnings

The Company's BOD approved the declaration of cash dividends of P0.20 per share (or a total of P978,482,232) on November 20, 2007, payable on December 28, 2007, to stockholders of record as of December 5, 2007. As of June 30, 2012 and December 31, 2011, unpaid portion of these dividends amounting to P0.3 million is presented as Dividends Payable in the consolidated statements of financial position. There were no dividends declared for the period ended June 30, 2012 and the years ended December 31, 2011, 2010 and 2009.

## 11. EARNINGS PER SHARE

Earnings per share were computed as follows:

	<u>30 Jun 2012</u>	<u>30 June 2011</u>
Net profit attributable to parent company's shareholders	<b>P 202,939,305</b>	P 144,908,866
Divided by outstanding common shares	<u><b>8,425,981,155</b></u>	<u>4,892,411,158</u>
Earnings per share	<u><b>P 0.024</b></u>	<u>P 0.030</u>

Diluted earnings per share was not determined since the Group does not have dilutive shares as of June 30, 2012 and June 30, 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Results of operations covering six months ended June 30, 2012 vs. six months ended June 30, 2011*

#### **Revenues**

##### ***Equity in Net Earnings of an Associate***

Equity in net earnings of an associate increased from ₱159.0 million in the six months ended June 30, 2011 to ₱199.0 million in the period ended June 30, 2012. The 25% increase was due to increase in the net income of VLL for the six months ended June 30, 2012.

##### ***Rental Revenue***

Starmall San Jose del Monte started operations on April 15, 2012 and registered rental revenue of ₱19.5 million for the 3 months ended June 30, 2012.

##### ***Finance Income***

Finance income decreased from ₱0.64 million in the six months ended June 30, 2011 to ₱0.45 million in the period ended June 30, 2012. The decrease was due to the decline in the savings and time deposit accounts of the Company.

#### **Costs and Expenses**

##### ***Operating Costs and Expenses***

Cost and expenses increased from ₱16.5 million in the six months ended June 30, 2011 to ₱45.4 million in the period ended June 30, 2012. The increase in the account was primarily attributable to the following:

- an increase in administrative expenses from ₱15.7 million in the period ended June 30, 2011 to ₱42.2 million in the six months ended June 30, 2012 primarily due to the increase in expenses related to the operations of Starmall San Jose del Monte; and
- selling and distribution costs increased from ₱0.4 million in the six months ended June 30, 2011 to ₱2.8 million in the period ended June 30, 2012 due to increase in promotional activities for the launching of the commercial building in San Jose del Monte, Bulacan.

Interest and financing charges increased from ₱0.39 million in the period ended June 30, 2011 to ₱3.1 million in the period ended June 30, 2012. This was due to additional interest-bearing loans obtained in 2012.

##### ***Net Income***

As a result of the foregoing, the Company's net income increased from ₱142.7 million in the six months ended June 30, 2011 to ₱163.7 million in the six months ended June 30, 2012.

For the six months ended June 30, 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 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 June 30, 2012 vs. December 31, 2011***

Total assets as of June 30, 2012 were ₱11,793.4 million compared to ₱6,943.5 million as of December 31, 2011 posting a 70% increase. This was due to the following:

- Cash and cash equivalents posted an increase of 233%, from ₱83.5 million as of December 31, 2011 to ₱278.1 million as of June 30, 2012 due to borrowings made in the 2<sup>nd</sup> quarter of 2012 and the consolidation of Manuela Corporation.
- Trade and other receivables posted an increase of 1,226%, from ₱26.2 million as of December 31, 2011 to ₱347.8 million as of June 30, 2012 due to advances made to contractors and suppliers in the 1<sup>st</sup> semester 2012 and the consolidation of the Manuela Corporation.
- Available-for-sale financial assets increased by 201% from ₱19.6 million as of December 31, 2011 to ₱58.8 million as of June 30, 2012 due to primarily due to the increase in the fair market value of the investment.
- Investment in associate increased by 7% from ₱2,971.6 million as of December 31, 2011 to ₱3,170.7 million as of June 30, 2012 due to take-up of equity in the net income of VLL for the six months ended June 30, 2012.
- Investment properties increased by 109% from ₱3,166.7 million as of December 31, 2011 to ₱6,605.7 million as of June 30, 2012 due to improvements made on the parcels of land and construction costs of Starmall San Jose del Monte, Bulacan and the consolidation of Manuela Corporation.
- Prepayments and other current assets increased by 381% from ₱73.1 million as of December 31, 2011 to ₱351.7 million as of June 30, 2012 due to increase in input taxes resulting from expenditures for the construction of the commercial building in San Jose del Monte, Bulacan and the consolidation of Manuela Corporation.

Total Liabilities as of June 30, 2012 were ₱2,366.9 million compared to ₱677.1 million as of December 31, 2011, or a 250% increase. This was due to the following:

- Trade and other payables increased by 517% from ₱144.8 million as of December 31, 2011 to ₱893.8 million as of June 30, 2012 due to expenditures for operations as well as the construction of Starmall San Jose del Monte, Bulacan, accrual of taxes and professional fees in relation to the capital increase of the Company during the 2<sup>nd</sup> quarter 2012 and the consolidation of Manuela Corporation.
- Due to affiliates decreased by 84% from ₱353 million as of December 31, 2011 to ₱56.1 million as of June 30, 2012 due to additional advances made during the 1<sup>st</sup> semester 2012 and the consolidation of Manuela Corporation.
- The Company availed of a bank loan in the 2<sup>nd</sup> quarter of 2012 to finance completion of the development Starmall San Jose del Monte and initial development of another planned commercial property.

Total stockholder's equity increased by 50% from ₱6,266.4 million as of December 31, 2011 to ₱9,426.6 million as of June 30, 2012 due to the net profit realized for the first semester 2012 and the increase in capitalization during the 2<sup>nd</sup> quarter 2012.

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

Following are the comparative top 5 key performance indicators of the Company as shown below

Indicator	Jan-Jun 2012	Jan-Jun 2011
Current Ratio	0.55	3.8
Debt-to-Equity	0.08	0.00
Asset-to-Equity	1.25	1.02
Interest Rate Coverage	31	356
Return on Equity	1.9%	2.3%

- 1 Current Ratio= Current Assets(Cash/Short-term Receivables over Short-term Bank loans/AP and Accrued Expenses
- 2 Debt-to-Equity=(Bank Loans+Interest-Bearing Loans & Borrowings)/Equity
- 3 Asset-to-Equity=Total Assets/Total Equity
- 4 Interest Rate Coverage = Operating Profit /Interest Expense
- 5 Return on Equity= (Net Loss) or Income/Stockholders' equity (beg. of the year)

### **Material Changes to the Company's Balance Sheet as of June 30, 2012 compared to December 31, 2011 (increase/decrease of 5% or more)**

Cash and cash equivalents posted an increase of 233%, from ₱83.5 million as of December 31, 2011 to ₱278.1 million as of June 30, 2012 due to borrowings made in the 2<sup>nd</sup> quarter of 2012 and the consolidation of Manuela Corporation.

Trade and other receivables posted an increase of 1,226%, from ₱26.2 million as of December 31, 2011 to ₱347.8 million as of June 30, 2012 due to advances made to contractors and suppliers in the 1<sup>st</sup> semester 2012 and the consolidation of the Manuela Corporation.

Available-for-sale financial assets increased by 201% from ₱19.6 million as of December 31, 2011 to ₱58.8 million as of June 30, 2012 due to primarily due to the increase in the fair market value of the investment.

Investment in associate increased by 7% from ₱2,971.6 million as of December 31, 2011 to ₱3,170.7 million as of June 30, 2012 due to take-up of equity in the net income of VLL for the six months ended June 30, 2012.

Investment properties increased by 109% from ₱3,166.7 million as of December 31, 2011 to ₱6,605.7 million as of June 30, 2012 due to improvements made on the parcels of land and construction costs of Starmall San Jose del Monte, Bulacan and the consolidation of Manuela Corporation.

Prepayments and other current assets increased by 381% from ₱73.1 million as of December 31, 2011 to ₱351.7 million as of June 30, 2012 due to increase in input taxes resulting from expenditures for the construction of the commercial building in San Jose del Monte, Bulacan and the consolidation of Manuela Corporation.

Trade and other payables increased by 517% from ₱144.8 million as of December 31, 2011 to ₱893.8 million as of June 30, 2012 due to expenditures for operations as well as the construction of Starmall San

Jose del Monte, Bulacan, accrual of taxes and professional fees in relation to the capital increase of the Company during the 2<sup>nd</sup> quarter 2012 and the consolidation of Manuela Corporation.

Due to affiliates decreased by 84% from ₱353 million as of December 31, 2011 to ₱56.1 million as of June 30, 2012 due to additional advances made during the 1<sup>st</sup> semester 2012 and the consolidation of Manuela Corporation.

Bank loans increased by 100% from nil in December 31, 2011 to ₱420.0 million as of June 30, 2012 due to loan availments made during the 2<sup>nd</sup> quarter 2012.

**Material Changes to the Company's Statement of income for the six months ended June 30, 2011 compared to the six months ended June 30, 2012 (increase/decrease of 5% or more)**

Equity in net earnings of an associate increased from ₱159.0 million in the six months ended June 30, 2011 to ₱199.0 million in the period ended June 30, 2012. The 25% increase was due to increase in the net income of VLL for the six months ended June 30, 2012.

Rental revenue increased from nil in the six months ended June 30, 2011 to ₱19.5 million in the period ended June 30, 2012. The 100% increase was due to opening of Starmall San Jose del Monte in April 2012.

Cost and expenses increased from ₱16.5 million in the six months ended June 30, 2011 to ₱45.4 million in the period ended June 30, 2012 due to increase in operational and administrative and the construction of Starmall San Jose del Monte, Bulacan.

**COMMITMENTS AND CONTINGENCIES**

The Parent Company's subsidiaries are contingently liable for 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 Company is contingently liable with respect to certain lawsuits and other claims which are being contested by the subsidiaries and their legal counsels. Management and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way. The Company sourced its capital requirements through a mix of internally generated cash, sale of liquid assets like installment contracts receivables, pre-selling and joint venture undertakings. The Company does not expect any material cash requirements beyond the normal course of the business. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation except for those items disclosed in the 1<sup>st</sup> Semester 2012 Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligation (including contingent obligations), or other relationships of the Company with unconsolidated entities or other persons created during the reporting period except those disclosed in the 1<sup>st</sup> Quarter of 2012 Financial Statements.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. There are no explanatory comments on the seasonality of the operations. There are no material events subsequent to the end of the fiscal period that have not been reflected in the financial statements.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature; neither are there changes in estimates of amounts reported in a prior period of the current financial year.

## **PART II - OTHER INFORMATION**

### **Item 3. 1st Semester Developments**

#### **A. New Projects or Investments in another line of business or corporation.**

*In April 2012, the Company opened its mall in San Jose del Monte, Bulacan which is managed by Manuela Corporation.*

*At the Annual Stockholders' Meeting of the Company held on June 18, 2012, The Stockholders of the Company 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 corresponding amendment to the Articles of Incorporation of the Company.*

*The Stockholders also approved 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). MC owns and operates several other shopping malls and one BPO commercial center: Starmall Las Piñas 1 & 2, Starmall EDSA in Mandaluyong, Starmall Alabang in Muntinlupa and Worldwide Corporate Center in Shaw Boulevard, Mandaluyong.*

*In said meeting, the Stockholders also approved the change in name of the company to Starmalls, Inc.*

*On June 22, 2012, the SEC approved the increase in capital of the Company and the change in its corporate name.*

*On July 9, 2012, the Board authorized the issuance of a total of 2,350,000,000 preferred shares to Fine Properties Inc. at the issue price equivalent to the par value of the same preferred shares of P0.01 per share, which are voting, cumulative, non-participating, non-convertible and non-redeemable.*

#### **B. Composition of Board of Directors**

Manuel B. Villar Jr.	Chairman of the Board
Jerry M. Navarrete	Director, President and CEO
Frances Rosalie T. Coloma	Director, Treasurer and CFO
Manuel Paolo A. Villar	Director
Anant Asavabhokin	Director
Joel L. Bodegon	Independent Director
Carolina C. Mejias	Independent Director

#### **C. Performance of the corporation or result/progress of operations.**

*Please see unaudited Financial Statements and Management's Discussion and Analysis.*

#### **D. Declaration of Dividends.**

*None.*

- E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.

*On July 9, 2012, the Board of Directors approved the execution of the following agreements with the subsidiaries of Vista Land & Lifescapes, Inc. ("VLL Subsidiaries"):*

- a) Project Management Services Agreement, whereby the Company was appointed as the Project Manager of the commercial projects of VLL Subsidiaries; and*
- b) Memorandum of Agreement whereby the Company was granted by VLL subsidiaries the right of first offer and right of first refusal over the latter's commercial properties.*

- F. Offering of rights, granting of Stock Options and corresponding plans therefore.

*None.*

- G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate.

*None.*

- H. Other information, material events or happenings that may have affected or may affect market price of security.

*None.*

- I. Transferring of assets, except in normal course of business.

*None.*

**Item 4. Other Notes as of the 1st Semester of 2012 Operations and Financials.**

- J. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.

*None.*

- K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period.

*There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.*

- L. New financing through loans/ issuances, repurchases and repayments of debt and equity securities.

*See Notes to Financial Statements and Management Discussion and Analysis.*

- M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

*On July 9, 2012, The Board of Directors approved the issuance of 2,350,000,000 preferred shares to Fine Properties, Inc. at the issue price equivalent to the par value of the same preferred shares of P0.01 per shares which shall be payable in full upon subscription. These preferred shares have the following terms and features: (i) voting; (ii) entitled to cumulative preferential dividends at the rate of 1% per annum based on the issue price thereof; (iii) non-participating; (iv) non-convertible; (v) non-redeemable; and (vi) without pre-emptive right to subscribe to any issue or disposition of any class of share of the Company.*

- N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.

*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.*

- O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

*None*

- P. Existence of material contingencies and other material events or transactions during the interim period.

*None.*

- Q. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

*None.*

- R. 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.

*None.*

- S. Material commitments for capital expenditures, general purpose and expected sources of funds.

*The movement of capital expenditures being contracted arose from the regular land development, commercial building construction and requirements which are well within the regular cash flow budget coming from internally generated funds.*

- T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.

*As of June 30, 2012, no known trends, events or uncertainties that are reasonably expected to have impact on sales/revenues/income from continuing operations except for those being disclosed in the 1<sup>st</sup> Semester 2012 financial statements*



U. Significant elements of income or loss that did not arise from continuing operations.

*None.*

V. Causes for any material change/s from period to period in one or more line items of the financial statements.

*None.*

W. Seasonal aspects that had material effect on the financial condition or results of operations.

*None.*

X. Disclosures not made under SEC Form 17-C.

*None.*


## SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

**STARMALLS, INC.**

Issuer

By:

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

Date: October 12, 2012