Keppel Philippines Properties

SHAPING THE FUTURE

Report to Shareholders 2012

To be a developer of choice, creating hallmark quality properties of enduring value for the community and achieving sustainable returns for our shareholders.

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FINANCIAL HIGHLIGHTS FOR 2012

Keppel Philippines Properties, Inc. and its subsidiaries	2012	2011
For the year (in ₱'000)		
Revenue	**45,823**	227,112
Profit before income tax	**22,838**	206,424
Net profit	**19,630**	203,443
At year-end (In ₱'000)		
Cash and cash equivalents	**164,575**	307,418
Total assets	**1,737,070**	1,895,972
Total Liabilities	**106,266**	284,799
Stockholders' equity	**1,630,804**	1,611,173
Per share		
Ernings (cents)	**0.07**	0.69
Net tangible assets (₱)	**3.53**	3.44

1,2 Keppel Philippines Properties is committed to deliver quality properties such as The Podium, which offers a first-class shopping and lifestyle experience for visitors.

CHAIRMAN'S STATEMENT

A robust Philippine economy will continue to support a stable and resilient property market that will sustain demand for quality residential, office and retail developments.

DEAR SHAREHOLDERS,
On behalf of the Board of Directors, I present the annual report of Keppel Philippines Properties, Inc. (KPP) for the year ended 31 December 2012.

FINANCIAL PERFORMANCE
The Company posted a profit of ₱22.8 million before income tax for the full year 2012. Overall performance for the year declined by ₱183.6 million or 89% compared to ₱206.4 million in 2011. This is attributed to lower profits from KPP's associates, which contributed ₱25.1 million in 2012 compared to ₱207.2 million in 2011. The higher contribution in 2011 was due to a one-time gain of ₱189.6 million by SM-Keppel Land, Inc for the assignment of development rights and sale of the entire basement carpark in Phase 1.

Interest income from bank deposits amounted to ₱11.8 million in 2012, an 8% decrease from ₱12.9 million in 2011 due to lower level of money market placements and a decrease in interest rates.

Net income for 2012 stood at ₱19.6 million, a decrease of 90.4% compared to ₱203.4 million in 2011. Earnings per share decreased correspondingly to ₱0.07, compared to ₱0.69 in 2011.

OVERVIEW
With robust economic growth in 2012, the Philippine property market enjoyed sustained demand in the residential, office and retail sectors. The favourable economic backdrop helped boost market confidence and the country continued to benefit from strong foreign investments.

This, coupled with low interest rates and flexible mortgage packages from banks, has contributed to support demand for homes in the middle-income sector.

With stable domestic demand buoyed by healthy consumption and accelerated government spending, the retail sector also maintained a steady pace of growth in 2012.

During the course of 2012, the Company focused its efforts on the two development projects in Metro Manila – Palmdale Heights and SMKL Towers.

Palmdale Heights, a quality condominium catered for the middle-income segment, was well-received, with 86% of its 828 units in Phases 1 and 2 sold as at 31 December 2012.

The increase in consumer spending also saw improvements in the retail sector. The Podium at SMKL Towers

Response to Palmdale Heights has been positive with 86% of its 828 units in Phases 1 and 2 sold as at end-December 2012.

houses over 152 specialty stores and restaurants and features two state-of-the-art cinemas. An upscale retail mall, The Podium offers a first-class shopping and lifestyle experience for visitors. With regular lifestyle events including performances, premium fashion showcases and art exhibits, The Podium recorded healthy tenancy during the year.

We are currently reviewing plans for the development of Phases 2 and 3 of SMKL to tap on the growing domestic demand, which is expected to propel the country's economic growth in 2013.

PROSPECTS

The economy is expected to remain steady, with a projected growth of 6-7% in 2013 further bolstered by the country's upgraded credit rating to investment-grade.

Across all sectors, the property market maintained steady growth in 2012. Demand is expected to remain robust in 2013.

The middle-income residential sector continued its upward momentum in 2012 with improved sales volume. However, with a strong supply pipeline for this sector, the supply of middle-income condominiums is expected to outpace demand.

The office sector posted strong growth in 2012 due to heavy demand for business process outsourcing spaces. This demand is expected to remain, and as such, growth in this sector is expected to reach record highs in 2013 and 2014.

CORPORATE GOVERNANCE

We recognise that good governance is essential to the sustainability of our business in order to safeguard stakeholders' interests and maximise long-term shareholder value.

We are committed to uphold high standards of corporate governance in accordance with the requirements of the Securities and Exchange Commission and the Philippine Stock Exchange through detailed assessments and reporting of the Company's operations, strategies, business plans and prospects as well as full and timely disclosure of information to investors to ensure transparency and accountability.

The Company will also continue to improve on management practices, policies and procedures based on best practices. These include evaluating potential risks and implementing strategic measures to adapt to the changing business environment.

ACKNOWLEDGMENT

I would like to take this opportunity to extend my appreciation to our shareholders, customers, business partners, staff and my fellow Directors for your unwavering support and confidence. Thank you.

Yours sincerely,

LINSON LIM SOON KOOI
CHAIRMAN
2 April 2013

ORGANISATIONAL STRUCTURE AND MAJOR SHAREHOLDERS

BOARD OF DIRECTORS

SCREENING COMMITTEE

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

COMPENSATION COMMITTEE

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

AUDIT COMMITTEE

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

KEY PERSONNEL

Linson Lim Soon Kooi
Chairman

Lee Foo Tuck
President

Almira A Añonuevo
Treasurer

Ma Melva E Valdez
Corporate Secretary

Myla Gloria A Amboy
Assistant Corporate Secretary

Ten Major Shareholders (as at 31 December 2012)

No	Shareholder's Name	No. of shares	%
1	Keppel Land Limited	148,365,050	50.49
2	Kepwealth, Inc.	51,033,178	17.37
3	Keppel Corporation Limited	35,783,741	12.18
4	PCD Nominee Corporation (Filipino)	28,470,098	9.69
5	PCD Nominee Corporation (Foreign)	5,391,316	1.83
6	International Container Terminal Services, Inc.	4,265,171	1.45
7	George S. Dee, Jr.	3,442,891	1.17
8	PNOC Shipping and Transport Corporation	2,227,511	0.76
9	Visayan Surety & Insurance	1,671,664	0.57
10	Lee Foo Tuck	1,455,708	0.50

SHAPING THE FUTURE

We will strengthen our core and invest for growth to build a sustainable business.

Keppel Philippines Properties will continue to fortify our competencies as well as harness human capital and innovation to deliver quality homes of enduring value for our buyers.

We also strive to maintain high standards of governance to further grow our business and drive value for our shareholders.

BOARD OF DIRECTORS

LINSON LIM SOON KOOI
DIRECTOR
CHAIRMAN OF THE BOARD

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

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

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

LEE FOO TUCK
DIRECTOR
PRESIDENT

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

Mr Lee is a Certified Accountant and is a Fellow of the Association of Chartered Certified Accountants (UK). He has more than 30 years of experience in accounting and finance. He has held various managerial positions in several companies prior to joining the Company.

RAMON J ABEJUELA
INDEPENDENT DIRECTOR

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

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

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

CELSO P VIVAS
INDEPENDENT DIRECTOR

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

He was Risk Consulting Partner and Assurance Business Advisory Partner of SGV & Company until his retirement in 2001. Mr Vivas obtained his Bachelor's Degree in Business Administration (Cum Laude) from the University of the East. He also obtained a Master's Degree in Business Management from the Asian Institute of Management (SGV & Co. Scholar). He is also a graduate of Company Directors' Course from Australian Institute of Company Directors (ICD Scholar).

Mr Vivas has accumulated 45 years of experience in audit, finance, enterprise risk management and corporate governance.

BOARD OF DIRECTORS

CHOO CHIN TECK
DIRECTOR

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

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

LIM KEI HIN
DIRECTOR

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

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

STEFAN TONG WAI MUN
DIRECTOR

Mr Tong was elected as a Director of the company in June 2007. He is currently the President and Director of Keppel Philippines Holdings, Inc. He is also the Executive Vice President and Director of Keppel Philippines Marine, Inc. and Director of Keppel Subic Shipyard, Inc. He is also Director of various Keppel companies in the Philippines.

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

BUSINESS REVIEW

Stable economic growth, low interest rates and increasing home investment from overseas Filipino workers drove the steady demand in the local property market in 2012.

ECONOMY
CONTINUED GROWTH
The Philippine economy continued to grow in 2012, achieving a GDP growth rate of 6.6%. This is the country's fastest growth rate since its 2010 rebound following the global financial crisis. This growth was supported by the services sector and substantial improvements in manufacturing and construction segments.

Domestic consumption and government spending also contributed to healthy economic growth. Consumer spending increased by 6.1% supported by strong remittance inflows of US$21.4 billion. Government expenditure increased nearly 12% in 2012.

Philippine exports maintained a steady growth rate through 2012. Total exports amounted to US$49.7 billion, an increase of 7.6% as compared to 2011.

Inflation moderated to 2.9% in December 2012 to achieve an average rate of 3.2% for 2012, compared with 4.6% in 2011.

To support credit growth, the central bank maintained its key interest rates at 3.5% for overnight borrowing and 5.5% for overnight lending as at the end of 2012.

The Philippine economy is expected to remain sound. Supported by the upgrade in the country's credit rating to investment-grade, the government has projected an economic growth of 6-7% for 2013.

RESIDENTIAL
STABLE MARKET
In 2012, over 790 and 1,110 homes were completed in Makati and Ortigas respectively. This brought the total supply of residential condominiums to about 16,300 in Makati and 11,000 in Ortigas.

Occupancy rates in Makati increased marginally to 90% in 4Q 2012 compared with 89.7% in the previous quarter, with rental demand for luxury residential units remaining firm with an occupancy rate of 95%. In 2013, the level of new supply to be introduced in the CBD will hit a record high at 2,825 units, most of which are Grade A residential condominiums.

Rental rates of prime units in Makati increased marginally to ₱720 or US$17 psm per month in 4Q 2013 from ₱710 or US$16 psm per month in the previous quarter. Occupancy and rental rates of prime units are expected to remain stable in 2013.

In Ortigas, occupancy rates increased marginally to 88.1% in 4Q 2012 compared to 86.5% in the previous quarter. With limited supply coming onstream, occupancy rates are expected to improve to above 90% in 2013.

Prime rental rates for luxury developments remained unchanged at ₱590 or US$14 psm per month. Rentals for upper middle-income properties have also remained at ₱410 or US$10 psm per month. Rental rates for luxury and upper middle-income properties are expected to rise marginally by 4-5% in 2013.

Capital values in Makati remained at ₱116,000 or US$2,698 psm in

4Q 2012. Prices are expected to increase by 6% in the next 12 months. New luxury developments maintained their pricing at ₱135,000 or US$3,103 psm. In Ortigas, average capital values edged up to ₱62,000 or US$1,412 psm while prices of luxury condominiums remained at about ₱ 125,000 or US$ 2,907 psm. Capital values are expected to grow by 3% over the next 12 months.

OFFICE

GROWING DEMAND

Since the completion of Zuellig Building in 3Q 2012, the Makati office stock remained unchanged at 2.75 million sm. New office supply in 2013 includes Glorietta business process outsourcing (BPO) 1 & 2 offices (26,400 sm), which are expected to be completed by 2Q of this year.

Occupancy rates in 4Q 2012 remained unchanged at 96.5% and is expected to remain at the same level for the next 12 months.

In Ortigas CBD, total stock of office space remained at 1.18 million sm in 2012, with an estimated 75,127 sm expected to be completed in 2013. Occupancy rate remained at a healthy 97%, and is expected to remain steady over the next 12 months.

The strong office occupancy in both CBDs was due to heavy demand for BPO spaces used for either contact centres or back-office functions. Apart from this, Makati remains highly tenanted by the mix of traditional offices comprising banks, financial institutions and large local conglomerates.

Rental rates of prime office buildings in Makati reached ₱915 or US$21 psm per month in 4Q 2012 from ₱900 or US$21 psm per month in the previous quarter. In Ortigas, average rental rates remained at ₱560 or US$13 psm per month. Rates are expected to improve by 6-7% and 4-5% in Makati and Ortigas respectively within the next 12 months as demand for space in BPO sectors remains strong.

Currently, values of prime office buildings in Makati are at ₱124,000 or US$2,884 psm compared with the previous quarter at ₱123,050 or US$2,862 psm, and are expected to appreciate by 5-6% over the next 12 months. In Ortigas, capital values remained at ₱55,600 or US$1,295 psm and are expected to appreciate 3-4% over the next 12 months.

RETAIL

ROBUST MARKET

Retail space in Metro Manila increased marginally to 5.27 million sm as at 4Q 2012. The new retail supply of over 60,000 sm is from the completion of Magnolia Town Center in Quezon City and the partial re-launch of Glorietta 1 and 2 in Ayala Center, Makati CBD.

New supply in 2013 is estimated at 284,000 sm with five retail developments in the pipeline. Average occupancy rate in Metro Manila declined to 97.4% in 4Q 2012, from 98.6% in the previous quarter.

Effective rental rates in Makati increased marginally to ₱1,280 or US$30 psm per month while in Ortigas, rental rates remained steady at ₱1,095 or US$25 psm per month. Rental rates in both districts are projected to grow by 3-4% in the next twelve months supported by robust consumer spending.

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

PALMDALE HEIGHTS

This suburban middle-income residential development is conveniently located between the major commercial districts of Makati and Ortigas. Palmdale Heights offers homeowners an escape from the hustle and bustle of city life into elegantly designed living spaces with beautiful landscaping, and fully equipped with recreational facilities including a swimming pool, clubhouse and children's playground.

The first two phases of the development comprising 828 units have been completed and 86% or 706 units have been sold as at end-December 2012.

In August 2011, Keppel Philippines Properties entered into a Memorandum of Agreement (MOA) with Phinma Property Holdings Corporation (PPHC) to jointly develop the remaining five-ha land at Palmdale Heights into a residential condominium project. The MOA, among others, provides that PPHC shall fund the project, as well as be responsible for the master planning, construction, management, and marketing of the project.

Three buildings are currently under construction, with completion expected by the middle of 2013.

SMKL TOWERS

SMKL Towers is a mixed-use development strategically located on a two-ha site in the heart of Ortigas CBD.

The first phase of the retail component, The Podium, is an upscale shopping and lifestyle destination. The Podium features a good mix of 150 specialty stores featuring well-known international and local labels. With a wide selection of fine restaurants and service outlets, it offers its customers a fully integrated shopping, dining and entertainment experience.

As one of the preferred lifestyle malls in the city, The Podium continues to be a choice venue for hosting events, performances and exhibits showcasing premium fashion and arts.

In April 2011, the Group assigned the development rights to JV partner Banco de Oro (BDO) to construct an office tower on top of The Podium for its own use. The office tower will house BDO's business units and is expected to be completed in 2015. BDO has also purchased from SMKL the entire basement carpark in Phase 1.

Plans are also underway to expand the retail mall with an additional 25,400 sm of retail space. This will bring the total leasable retail space at The Podium to about 43,000 sm.

Directory

BOARD REGISTERED OFFICE

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

AUDITORS

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

LEGAL COUNSELS

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

TEMPORARY OFFICE

Keppel Philippines Properties, Inc.
22nd Floor, Unit 2203 & 2204
Raffles Corporate Center
F. Ortigas Jr. Road, Ortigas Center
1605 Pasig City
Philippines
Telephone: (632) 584 6170
Facsimile: (632) 584 3915
Email: keppel.prop@kepland.com.ph

TRANSFER AGENT

Securities Transfer Services, Inc.
Ground Floor, Benpres Building
Meralco Avenue corner Exchange Road
Ortigas Center, 1605 Pasig City
Philippines
Telephone: (632) 490 0060
Facsimile: (632) 631 7148
Email: stsi@fphc.com

SHARE LISTING

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

Financial Statements

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Statement of Management's Responsibility for Financial Statements

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong City

The management of Keppel Philippines Properties, Inc. and Subsidiaries is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Linson Lim Soon Kooi
Chairman

Lee Foo Tuck
President

Almira A. Añonuevo
Treasurer

Signed this 2nd day of April 2013

Independent Auditors' Report

The Stockholders and the Board of Directors
Keppel Philippines Properties, Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669666, January 2, 2013, Makati City

April 2, 2013

Independent Auditors' Report on Supplementary Schedules

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Keppel Philippines Properties, Inc. and Subsidiaries (the Group) as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated April 2, 2013. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 102-082-365
BIR Accreditation No. 08-001998-10-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3669666, January 2, 2013, Makati City

April 2, 2013

Supplementary Schedule of Retained Earnings Available for Dividend Declaration

As at 31 December 2012

Consolidated retained earnings, beginning	₱654,851,524
Adjustments:	
Accumulated share in net earnings of subsidiary and associate	(459,389,514)
Deferred tax asset - net, beginning	(166,509)
Unappropriated retained earnings, as adjusted, beginning	195,295,501
Net income during the period closed to retained earnings	19,630,518
Non-actual losses (Unrealized income):	
Equity in net income of associate/joint venture	(25,079,338)
Provision for deferred tax	522,406
Net income realized	190,369,087
Treasury shares	(2,667,645)
Unappropriated retained earnings, as adjusted, ending	₱187,701,442

Consolidated Statements of Financial Position

As at 31 December 2012

	December 31	
	2012	**2011**
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 22)	**₱ 164,575,329**	₱ 307,418,255
Receivables (Notes 7 and 22)	**226,470**	1,034,637
Due from related parties (Notes 15 and 22)	**184,367,232**	224,382,613
Other current assets (Notes 8 and 21)	**16,560,993**	15,833,539
Total Current Assets	**365,730,024**	548,669,044
Non-current Assets		
Available-for-sale financial assets (Notes 9 and 22)	**79,512,230**	225,000
Investments in associates and a joint venture (Note 10)	**1,290,790,295**	1,344,998,187
Investment properties - net (Note 11)	**–**	1
Property and equipment - net (Note 12)	**981,819**	1,857,519
Refundable deposits (Note 22)	**56,108**	56,108
Deferred tax assets - net (Note 18)	**–**	166,509
Total Non-current Assets	**1,371,340,452**	1,347,303,324
	₱1,737,070,476	₱1,895,972,368
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 15 and 22)	**₱ 3,377,156**	₱ 3,014,631
Due to related parties (Notes 15 and 22)	**100,288,500**	279,078,006
Income tax payable (Note 18)	**149,742**	143,971
Provisions (Note 19)	**2,095,267**	2,562,364
Total Current Liabilities	**105,910,665**	284,798,972
Non-current Liability		
Deferred tax liability (Note 18)	**355,897**	–
Total Liabilities	**106,266,562**	284,798,972
Equity (Note 14)		
Capital stock	**356,104,000**	356,104,000
Additional paid-in capital	**602,885,517**	602,885,517
Retained earnings	**674,482,042**	654,851,524
	1,633,471,559	1,613,841,041
Less treasury stock	**2,667,645**	2,667,645
Total Equity	**1,630,803,914**	1,611,173,396
	₱1,737,070,476	₱1,895,972,368

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Comprehensive Income

For the year ended 31 December 2012

	Years Ended December 31		
	2012	2011	2010
REVENUE			
Equity in net earnings of associates and a joint venture (Note 10)	**₱25,079,338**	₱207,223,718	₱11,669,845
Interest income (Notes 6 and 15)	**11,836,292**	12,869,219	13,942,720
Management consultancy and franchise fees (Note 15)	**8,907,185**	7,019,136	6,994,920
	45,822,815	227,112,073	32,607,485
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**(23,319,332)**	(20,969,859)	(19,958,659)
OTHER INCOME (CHARGES)			
Commission income (Note 15)	**712,553**	–	–
Rental income (Note 11)	**51,711**	–	–
Dividend income	**–**	–	1,400
Gain on sale of available-for-sale financial assets (Note 9)	**–**	–	461,320
Reversal of accrued expenses and accounts payable	**–**	–	7,266
Gain on sale of property and equipment (Note 12)	**–**	195,000	–
Foreign exchange gain (loss) – net	**(430,465)**	76,913	(262,486)
Others	**1,000**	9,744	–
	334,799	281,657	207,500
INCOME BEFORE TAX	**22,838,282**	206,423,871	12,856,326
PROVISION FOR INCOME TAX (Note 18)			
Current	**2,685,358**	2,734,867	2,785,887
Deferred	**522,406**	245,522	(94,881)
	3,207,764	2,980,389	2,691,006
NET INCOME	**19,630,518**	203,443,482	10,165,320
OTHER COMPREHENSIVE LOSS			
Net fair value loss on available-for-sale financial assets (Note 9)	**–**	–	(236,413)
TOTAL COMPREHENSIVE INCOME	**₱19,630,518**	₱203,443,482	₱ 9,928,907
Earnings Per Share (Note 20)	**₱ 0.07**	₱ 0.69	₱ 0.03

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Equity

For the year ended 31 December 2012

	Capital Stock	
	Common (Note 14)	**Preferred** (Note 14)
At January 1, 2012	**₱296,629,900**	**₱59,474,100**
Net income	**–**	**–**
At December 31, 2012	**₱296,629,900**	**₱59,474,100**
At January 1, 2011	₱296,629,900	₱59,474,100
Net income	–	–
At December 31, 2011	₱296,629,900	₱59,474,100
At January 1, 2010	₱296,629,900	₱73,074,100
Other comprehensive loss	–	–
Net income	–	–
Total comprehensive income	–	–
Redemption of preferred shares (Note 14)	–	(13,600,000)
At December 31, 2010	₱296,629,900	₱59,474,100

The accompanying notes are an integral part of the financial statements.

Additional Paid-in Capital (Note 14)	Unrealized Gain on Available-for-Sale Financial Assets	Retained Earnings (Note 14)	Treasury Stock (Note 14)	Total Equity
₱602,885,517	**₱–**	**₱654,851,524**	**(₱2,667,645)**	**₱1,611,173,396**
–	**–**	**19,630,518**	**–**	**19,630,518**
₱602,885,517	**₱–**	**₱674,482,042**	**₱2,667,645)**	**₱1,630,803,914**
₱602,885,517	₱–	₱451,408,042	(₱2,667,645)	₱1,407,729,914
–	–	203,443,482	–	203,443,482
₱602,885,517	₱–	₱654,851,524	(₱2,667,645)	₱1,611,173,396
₱725,285,517	₱236,413	₱584,042,722	(₱2,667,645)	₱1,676,601,007
–	(236,413)	–	–	(236,413)
–	–	10,165,320	–	10,165,320
–	(236,413)	10,165,320	–	9,928,907
(122,400,000)	–	(142,800,000)	–	(278,800,000)
₱602,885,517	₱–	₱451,408,042	(₱2,667,645)	₱1,407,729,914

Consolidated Statements of Cash Flows

For the year ended 31 December 2012

	Years Ended December 31		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱ 22,838,282**	₱206,423,871	₱ 12,856,326
Adjustments for:			
Depreciation (Notes 16)	**990,136**	1,033,576	490,100
Bad debs (Notes 7 and 16)	**625,542**	–	–
Unrealized foreign exchange losses	**62,816**	17,813	247,318
Gain on sale of property and equipment (Note 12)	**–**	(195,000)	–
Gain on sale of available-for-sale financial assets	**–**	–	(461,320)
Dividend income	**–**	–	(1,400)
Interest income (Notes 6 and 15)	**(11,836,292)**	(12,869,219)	(13,942,720)
Equity in net earnings of associates and joint ventures (Note 10)	**(25,079,338)**	(207,223,718)	(11,669,845)
Loss before changes in working capital	**(12,398,854)**	(12,812,677)	(12,481,541)
Decrease (increase) in:			
Receivables	**(100,341)**	(39,634)	104,509
Amounts due from related parties	**(2,601,603)**	(637,899)	(619,972)
Other current assets	**(727,454)**	(921,502)	(2,415,480)
Increase (decrease) in:			
Accounts payable and other current liabilities	**362,525**	(1,542,191)	(17,226)
Amounts due to related parties	**288,500**	278,006	321,665
Provisions	**(467,097)**	(378,451)	378,451
Net cash used in operations	**(15,644,324)**	(16,054,348)	(14,729,594)
Interest received	**12,119,258**	12,973,836	13,962,713
Income tax paid	**(2,679,587)**	(2,590,896)	(2,785,887)
Net cash provided by (used in) operating activities	**(6,204,653)**	(5,671,408)	(3,552,768)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in refundable deposits	**–**	304,280	(81,732)
Proceeds from sale of:			
Property and equipment (Note 12)	**–**	195,000	–
Available-for-sale financial assets	**–**	–	570,171
Acquisition of property and equipment (Note 12)	**(114,435)**	(339,339)	(2,216,315)
Dividends received	**–**	–	8,694
Net cash provided by (used in) investing activities	**(114,435)**	159,941	(1,719,182)
CASH FLOWS FROM FINANCING ACTIVITY			
Increase (decrease) in amounts due from related parties	**42,616,984**	(1,911,091)	5,242,998
Decrease in amounts due to related parties	**(179,078,006)**	(10,878,861)	(59,872,461)
Net cash used in financing activities	**(136,461,022)**	(12,789,952)	(54,629,463)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(62,816)**	(17,813)	(247,318)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(142,842,926)**	(18,319,232)	(60,148,731)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**307,418,255**	325,737,487	385,886,218
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱164,575,329**	₱307,418,255	₱325,737,487

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

1 Corporate Information

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

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

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

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

On December 6, 2010, the Group submitted its application to SEC to temporarily change its business address to Units 2203 and 2204, Raffles Corporate Center, F. Ortigas Jr. Road (formerly Emerald Avenue), Ortigas Center, Pasig City due to the ongoing reconstruction of the Group's principal office. The Group's principal office address is Penthouse, Benguet Centre Building, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The consolidated financial statements of the Group have been authorized for issue by the Board of Directors (BOD) on April 2, 2013.

2. Basis of Preparation and Statement of Compliance

<u>Basis of Preparation</u>

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

<u>Statement of Compliance</u>

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

<u>Basis of Consolidation</u>

The accompanying consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as of December 31, 2012 and 2011 and for each of the three years ended December 31, 2012. The financial statements of the subsidiaries are prepared for the same reporting year as the parent, using consistent accounting policies.

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

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

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

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended Philippine Accounting Standard (PAS) and PFRSs, which were adopted as of January 1, 2012.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets*
The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments have no impact on the Group's consolidated financial position or performance since the Group does not engage in these types of transfers of financial assets.

- Amendment to PAS 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets*
This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, Investment Property, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* always be measured on a sale basis of the asset. The amendment did not have an impact on the Group's financial position or performance since the Group does not have investment properties measured at fair value.

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

Effective 2013

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

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

  The amendments are to be retrospectively applied.

- PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements,* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, *Consolidation - Special Purpose Entities.* PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The Group does not anticipate that the adoption of this standard will have a significant impact on the accounting treatment of its associates, Buena Homes (Sandoval), Inc. (BHSI), Opon-KE Properties, Inc. (OKEP), Opon Ventures, Inc. (OVI) and Opon Realty and Development Corporation (ORDC) in the consolidated financial statements. Based on management assessment, the Parent Company has no control over BHSI, OKEP, OVI and ORDC. As such, BHSI, OKEP, OVI and ORDC will continue to be accounted for as associates once PFRS 10 becomes effective.

- PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures,* and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers.* PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The adoption of this standard will have no impact on the Group's consolidated financial position and performance since the Group already accounts for its investment in SMKL using the equity method.

- PFRS 12, *Disclosure of Interest in Other Entities*
PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates.* These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Additional disclosures required by this standard aside from the disclosures currently reflected in Note 15 include the following:

  a) Nature of the Group's interest in BHSI, OKEP, ORDC, SMKL and OVI; and,
  b) Nature and extent of financial effects arising from the Group's interest in BHSI, OKEP, ORDC, SMKL and OVI.

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

  The Group does not anticipate that the adoption of this standard to have a significant impact on its consolidated financial position and performance since the Group has no assets or liabilities carried at fair value.

- Amendments to PAS 1, *Financial Statement Presentation, Presentation of Items of Other Comprehensive Income (OCI)*
The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendment will not have an impact on the Group's consolidated financial position or performance since the Group holds only AFS financial asset at cost.

- Amendment to PAS 19, *Employee Benefits (Revised)*
The revised amendments to PAS 19 range from fundamental changes such as removal of the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retrospectively to the earliest period presented.

The Group reviewed its existing employee benefits and determined that the revised standard will not have significant impact on its accounting for retirement benefits. The Group obtained the services of an external actuary to compute the impact to the consolidated financial statements upon adoption of the standard. The effects are detailed below:

Consolidated Statement of Financial Position

	As at December 31, 2012	As at January 1, 2012
Increase (decrease) in:		
Net defined benefit asset	₱522,743	₱607,861
Deferred tax liability	156,823	182,358
Other comprehensive income	(76,702)	(63,005)
Retained earnings	111,189	1,662

Consolidated Statement of Comprehensive Income

	2012
Pension expense	₱150,607
Income tax expense	45,182

- Revised PAS 27, *Separate Financial Statements (as revised in 2011)*
  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities,* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group since the Group's accounting policy is already consistent with the revised PAS 27.

- Revised PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)
  As a consequence of the issuance of the new PFRS 11 and PFRS 12, PAS 28 has been renamed PAS 28, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the amended PAS 28 will not have an impact on the Group's financial statements since the Group is already accounting for its investments in a joint venture and associates using the equity method.

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
  This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation did not have an impact on the Group's financial position or performance since the Group is not involved in mining activities.

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

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

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*
  The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete

set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

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

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*
  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, Income Taxes. The Group will assess the impact of this amendment when they enter into specific transactions involving distributions to equity holders.

- PAS 34, *Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities*
  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment will not have significant impact on the Group's consolidated financial statements since disclosures on interim reports and segment information are consistent with the improvements.

Effective in 2014

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
  The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

Effective in 2015

- PFRS 9, *Financial Instruments*
  PFRS 9 is effective for annual periods beginning on or after January 1, 2015. PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by

the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

4. Summary of Significant Accounting Policies

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

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

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

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

The Group has no financial assets and liabilities at FVPL and HTM investments as of December 31, 2012 and 2011.

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

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable current market prices exist, option pricing models, and other relevant valuation models.

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

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

The Group has no financial assets carried at fair value as of December 31, 2012 and 2011. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement. The Group's AFS financial assets pertain to unquoted club shares and carried at cost.

Day 1 profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit) in profit or loss. In cases where no observable data is used, the difference between the transaction price and model values is recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit amount.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

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

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

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

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

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

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

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

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

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

AFS financial assets carried at cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Derecognition of Financial Assets and Liabilities</u>
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Group could be required to repay.

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

<u>Offsetting of Financial Instruments</u>
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

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

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

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

Investment Properties

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

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

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

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

Property and Equipment

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

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

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

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

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

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

Impairment of Non-financial Assets
The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase in the consolidated statement of other comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

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

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

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

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

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

Commission income. Commission income is recognized when earned.

Rental income. Rental income is recognized in profit or loss when earned.

General and Administrative Expenses
General and administrative expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. General and administrative expenses are recognized in profit or loss in the period these are incurred.

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

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

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

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

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

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

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

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

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

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

The net pension liability recognized by the Group in respect of the defined benefit pension plan is the present value of the defined benefit obligation less fair value of the plan assets at the reporting date, together with the adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods. The present value of the defined benefit obligation is calculated by an independent actuary using the projected unit credit method and is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments. A portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

Income Tax

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

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

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

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

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

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

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

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

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

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

Basic/Diluted Earnings Per Share (EPS)

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

Contingencies

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

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

5. Significant Accounting Judgments, Estimates and Assumptions

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

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

Provisions and contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Provisions for estimated losses on claims by a third party amounted to ₱2.1 million and ₱2.6 million as of December 31, 2012 and 2011, respectively (see Note 19).

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

Operating leases - Group as lessee. The Group has entered into commercial property leases related to its office spaces. Substantially, all the risks and benefits incidental to ownership of the leased items are not transferred to the Group. Total rent expense charged to operations amounted to ₱1.3 million, ₱1.2 million and ₱0.8 million in 2012, 2011 and 2010, respectively (see Notes 16 and 21).

Financial assets not quoted in an active market. The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. The carrying values of AFS financial assets not quoted in an active market amounted to ₱0.2 million as of December 31, 2012 and 2011. No allowance for impairment was provided for AFS equity investments in 2012 and 2011 (see Note 9).

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

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Please refer to Note 22 for the related balances.

Allowance for doubtful accounts. The Group maintains allowance for doubtful accounts on its receivables at a level adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Group. The Group assesses whether objective impairment exists for the receivable by considering the financial condition and credit history of the counterparty. Moreover, the Group also considers its historical loss experience in assessing collective impairment of receivables. The Group reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses

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