COVER SHEET

AS094-004462

S.E.C. Registration Number

FIL-ESTATE LAND INC

(Company's Full Name)

7TH Floor Renaissance Towers

Meralco Avenue Pasig City

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

ROBERTO S. ROCO

Contact Person

637-20-48 OR 633-62-39

Company Telephone Number

0 9	3 0	SEC Form 17-A		
Month	Day	FORM TYPE	Month	Day
fiscal year			annual meeting	

Secondary License Type, If Appplicable

Dept. Requiring this Doc.

Amended Articles Number/ Section

Total Amount of Borrowings

Domestic

Foreign

****

To be accomplished by SEC Personnel concerned

File Number

LCU

Dociment I.D.

Cashier

STAMPS

SEC Number: AS 094-004462
File Number: _________

FIL-ESTATE LAND, INC.
(Company's Full Name)

7/F Renaissance Towers, Meralco Avenue
Pasig City
(Company's Address)

(632) 633-3947
(Telephone Number)

September 30, 2010
(Fiscal Year Ending)

SEC Form 17 - A Annual Report
(Form Type)

(Amendment Designation)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17 - A

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

1. For the fiscal year ended **September 30, 2010**
2. SEC Identification Number **AS 094-004462**
3. BIR Tax Identification No. **430-000-426-523**
4. Exact name of registrant as specified in its charter

Fil-Estate Land, Inc.

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

Pasig City, Philippines

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

7. Address of principal office Postal Code

7/F Renaissance Towers, Meralco Ave., Pasig City **1600**

8. Registrant's telephone number

Tel No. (632) 633-39-47

9. Former name, former address, former fiscal year

Not Applicable

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

Title of Each Class	Number of shares outstanding and amount of debt outstanding
Common shares	**8,350,000,000**
Outstanding debts (loans)	**₱ 1.6Billion**

11. Are any or all of these securities listed on the Philippine Stock Exchange

Yes **[X]** No [ ]

12. Check whether the issuer:

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

Yes **[X]** No [ ]

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

Yes **[X]** No [ ]

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

₱ 1.1 billion (as of September 30, 2010)

DOCUMENTS INCORPORATED BY REFERENCE

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

2010 Audited Consolidated Financial Statements
(incorporated as reference for Item 7 of SEC Form 17-A)

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PART I – BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

<u>Business Development</u>

Form and Date of Organization

Fil-Estate Land, Inc. (“FELI” or the “Company”) was incorporated on May 18, 1994 to consolidate the real estate interests and development activities of the Fil-Estate Group of Companies. FELI is also tasked to engage in land acquisitions and to maintain an inventory of raw land for future development by its subsidiaries. FELI went public in November 1995 when its common shares were listed in the Philippine Stock Exchange (PSE).

FELI has three (4) wholly owned subsidiaries:

Fil-Estate Properties, Inc. (“FEPI”), was incorporated and organized under the laws of the Philippines on February 13, 1990. FEPI is involved in the development/construction and sale of residential subdivisions and commercial lots, condominium buildings and townhouses and sale of golf and resort shares.

To date, FEPI has completed thirty-four (34) residential subdivisions and six (6) residential condominium projects. Other projects include the Sto. Domingo Tower, the Steps, Sta. Barbara Residential and Golf Estates, Holiday Homes, Parco Bello, Riverina, and Magnificat Executive Village.

Sta. Barbara Residential and Golf Estates is a 120-hectare project. Phase 1 consists of around 17 hectares and was launched in December 2008. This project is right beside the Iloilo Golf Club and will feature fairway lots overlooking the golf course.

Holiday Homes is a 15.7-hectare residential project located in Gen. Trias, Cavite, whose target is the lower middle market. A house and lot package here is in the range of P1million and below.

Parco Bello project is located in Muntinlupa and is accessible through daang hari road. It is also beside upscale projects, such as South Portofino and Amore. FEPI has already completed Phase 1 with an area of 1.4 hectares and is about to start Phase 2 consisting of 2.4 hectares.

The Riverina project, consisting of 43 hectares, is located in San Pablo City. FEPI has entered into a 50-year lease agreement with Shoemart for 5 hectares of the project. The southmall in front of the subdivision has already started its commercial operation. Phase 1 & 2 of the project have already been substantially completed. FEPI further expects to close additional areas up to 100 hectares for expansion.

Magnificat Executive Village is a 17-hectare project located along the old highway in Lipa City, Batangas. This project is diagonally across the old Fernando Airbase. Phase 1 is finished and Phase 2 is in the process of completion.

Fil-Estate Golf and Development, Inc. ("FEGDI"), was registered with the Securities and Exchange Commission (SEC) on March 6, 1990 to engage primarily in golf and leisure development. Notable projects that was undertaken/completed by FEGDI are The Manila Southwoods Golf Course in Carmona, Cavite, Forest Hills Golf Course in Antipolo City and the Fairways & Bluewaters Golf Course in Boracay.

Fil-Estate Urban Development Corporation ("FEUDC") was incorporated and organized under the laws of the Philippines on March 6, 2000. FEUDC's primary purpose is to acquire by purchase, lease, donation, or otherwise or to own, use, improve, develop, subdivide, sell, exchange, lease, hold for investment or otherwise, real estate of all kinds, including building, houses, apartments and other structures and to construct, improve, manage or otherwise dispose of buildings, condominiums and other structures of whatever kinds, together with their appurtenances; and to perform all and everything necessary and proper for the attainment of or in furtherance of this purpose, either alone or with other corporations or individuals. Its development projects include the Cathedral Heights Townhomes in Quezon City, the villas Maria & Margarita in Fairways & Bluewaters in Boracay and the Camp John Hay Suites and Forest Cabins in Camp John Hay, Baguio City.

Novo Sierra Holdings Corporation ("Novo Sierra") was incorporated and organized under the laws of the Philippines on March 4, 2010. Novo Sierra's primary purpose is to invest in, purchase or otherwise acquire and hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of personal property of every kind and description, including shares of stocks, bonds, debentures, notes, evidence of indebtedness, contracts and other securities and obligations of any corporation, partnership, company or association, whether domestic or foreign for whatever lawful purpose or purposes the same way have been organized; and to pay therefore in money or by exchanging therefore in stocks, bonds, debentures, notes or other evidences of indebtedness or securities, and while the owner or holder of such notes, evidence of indebtedness, contracts and other securities and obligations of any corporation; to receive, collect and dispose of the interest, dividends and income arising from such property and investments and to possess and exercise in respect thereof, all rights and powers and privileges of ownership to the extent authorized by law, without however engaging in any banking or quasi-banking activities, nor shall the corporation engage in the business of an investment company as defined in the Investment Company Act (R.A. 2629) without complying with the provisions of the said act; provided it shall not engage in stock brokerage and dealer in securities.

FELI also owns 20% of the equity of each of the following five (5) marketing companies;

Fil-Estate Realty Corporation ("FERC"), was incorporated on January 7, 1981 to engage in the business of realty brokerage &/or act as agents of any persons, firms or corporation, domestic or foreign, for & in transaction relative to the acquisition, sales, lease, mortgage, disposition of, administration & management of real estate &/or improvements thereon, etc.

Fil-Estate Marketing Associates, Inc. ("FEMAI"), was incorporated on February 7, 1990 to acquire by purchase, lease, donation, or otherwise, & to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop & hold for investment or otherwise, real estate of all kinds, whether improve, managed, or otherwise dispose of buildings, houses, apartments & other structures of whatever kind, etc.

Fil-Estate Network, Inc. ("FENI"), was incorporated on July 31, 1992 primarily to acquire by purchase, lease, donation, or otherwise, & to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop & hold for investment or otherwise, real estate of all kinds, whether improve, manage, or otherwise dispose of buildings, houses, apartments & other structures, etc.

Fil-Estate Sales, Inc. ("FESI"), was incorporated on January 7, 1993 primarily to acquire by purchase, lease, donation, or otherwise, & to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop & hold for investment or otherwise, real estate of all kinds, whether improve, manage, or otherwise dispose of buildings, houses, apartments & other structures of whatever kind, together with their appurtenances.

Fil-Estate Realty Sales Associates, Inc. ("FERSAI"), was incorporated on January 26, 1996 to hold, operate, dispose of by purchase, sale, exchange, mortgage, barter, lease, or in any other manner, conditionally or absolutely, real estate and/or improvement thereon or other properties for residential, commercial or recreational purposes or any interest therein, and to own, hold, improve develop & manage real estate, golf courses, buildings, etc.

All of the Company's properties are marketed through these marketing companies.

FELI is one of the leading property development and marketing companies in the Philippines and has operated through predecessor companies since 1981. The Company engages primarily in the horizontal development of residential subdivision lots, integrated residential, golf and other leisure-related properties, and vertical development of mixed-use towers in Metro Manila.

The Company reduces its capital exposure substantially by acquiring its landbank through joint ventures with landowners. These agreements generally provide that the Company will undertake the development and marketing of the project.

Bankruptcy, Receivership or Similar Proceedings

None for any of the companies above.

Material Reclassification, Merger, Consolidation or Purchase or Sale of a Significant Amount of Assets (not ordinary)

None for any of the companies above.

Products

The Company has a diversified portfolio of projects, including (i) horizontal residential subdivision lots and residential / commercial complexes, (ii) residential communities integrated with golf, marina, resort and other leisure related and commercial complexes, (iii) properties associated with resorts, (iv) residential, office and commercial high rise, (v) business and industrial park, and (vi) low cost housing.

Following are the product lines of the Company comprising the 2010 gross sales:

Sales from:

Residential subdivisions and commercial lots	20%
Golf and resort shares	1%

Condominium and townhouse units	34%
Service and Rental Income	45%
Total	100%

Distribution Methods of Products

The Company's products are distributed to a wide range of clients through its affiliated marketing companies which act as the exclusive marketing arms of the Company and its subsidiaries.

Suppliers

The Company has a broad base of local suppliers.

Customers

FELI has a broad market base including local and foreign individual and institutional clients.

The Company caters to all segments of the real estate market for its developments. Most of the Company's products such as residential lots and affordable housing units are focused on the B and C markets as these segments of the market offer the highest demand and thus will provide the biggest source of revenues for the Company. However, the Company also targets the A and B markets with special niche products such as integrated residential and leisure developments and condominium units.

Competition

The real estate business in the Philippines remains highly competitive. The most prominent of these competitors are Ayala Land, Inc., Robinsons Land, Filinvest, Megaworld, Empire East, Vista Land, Landco and Sta. Lucia Realty. The Company competes with other developers in entering into joint venture arrangement with strategic partners, locate and acquire highly marketable raw lands for development located in Metro Manila and in provinces.

The Company had focused on certain key markets that have continued to experience growth despite the difficult times. This is the socialized, low cost and affordable segments of the housing market. Demand in these segments remains strong and unmet. These markets enjoy the support of Pag-ibig financing facilities of up to 30 years. Developmental loans are also available as well as incentives from Board of Investments (BOI) for developers of projects for these segments.

The Company believes that its reputation as an experienced developer and effective marketer of innovative real estate products gives it a competitive advantage both in the acquisition of land and the sale of developments. In particular, its sales force, the largest real estate sales force in the Philippines remains a potent force in the industry.

Related Party Transactions

Transactions between related parties are based on terms similar to those offered to non-related parties. Parties are considered related if one party has the ability , directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Transactions with major stockholder, other subsidiaries and affiliates in the normal course of business follow:

a. Sale of golf club shares and real estate properties to a major stockholder.
b. Payment of commissions to affiliated marketing companies which act as the exclusive marketing arms of the subsidiaries.
c. Granting of interest and non-interest bearing advances to certain affiliates.

Please refer also to Part III Item 12 of this report ("Certain Relationships and Related Transactions")

Intellectual Property

The Company believes that its operations and of its subsidiaries are not dependent on any trademark, patent, copyright, license, franchise or royalty agreement.

Government Approvals / Regulations

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

Development Permit and License to Sell
Presidential Decree No. 957, as amended, requires landowners / developers to submit a registration statement and subdivision / condominium plan to the Housing and Land Use Regulatory Board ("HLURB"). Upon submission of the plan, the HLURB issues a development permit authorizing the development of the land, and upon filing of a performance bond as may be determined by the HLURB, the latter issues a License to Sell and a Certificate of Registration to the owner / developer.

Agrarian Reform Law
The Comprehensive Agrarian Reform Law covers: (a) alienable and disposable lands of the public domain devoted to or suitable for agriculture, (b) land owned by the Government devoted to or suitable for agriculture. No person may own or retain, directly or indirectly, any public or private agricultural land, in excess of five (5) hectares. A limit of three (3) hectares may be awarded to each child of the landowners, subject to certain qualifications. The law allows the conversion of agricultural lands to non-agricultural use when the land ceases to be economically feasible and sound for agricultural purposes. Furthermore, the Department of Agrarian Reform Administrative Order No. 01 s. 1990 provides that any such classification or re-classification made after June 15, 1988 shall be subject to Department of Agrarian Reform ("DAR") approval.

Environmental Compliance Certificate
As a general rule, developers of residential subdivisions have to submit project descriptions to regional offices of the Department of Environment and Natural Resources ("DENR"). Such descriptions set out the background of the proposed project and identify any significant environmental risk and possible measures to mitigate such environmental risks. In exceptional cases of environmentally critical projects (e.g., golf courses, beach resorts, developments adjacent to watershed areas, etc.), a detailed Environmental Impact Assessment may be required and the developer will be required to obtain Environmental Compliance Certificate ("ECC") from the DENR. Compliance with the terms and conditions of the ECC will be monitored by the appropriate DENR regional office and failure to comply may lead to penalties and sanctions being imposed, including fines and / or temporary cessation of project operation.

As a real estate developer, the Company is required to secure development permits and licenses to sell from the HLURB and land conversions from agricultural to non-agricultural use when applicable, from DAR and environmental compliance certificates from the DENR for environmentally critical projects.

In addition to compliance with said government regulations, the Company shares in the country's vision of attaining economic prosperity and stability through sustainable development. Recognizing its important role as a property developer in a growing nation, FELI pursues its mission of service - *sustainable property development* - by building communities dedicated to quality living, work and recreation, while protecting and enhancing the environment.

Effect of Existing and Probable Government Regulations

Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer; within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development.

The Company has benefited from providing low-income housing projects that have the support of the Government. Developmental loans for these projects are available as well as incentives from Board of Investments (BOI).

Tax Regulations

On May 24, 2005, the President of the Philippines signed into law Republic Act No. 9337 (RA 9337), which, effective November 1, 2005, introduces the following changes, among others:

a. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof beginning January 1, 2009;
b. Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, subject to compliance with certain economic conditions. The 12% VAT took effect on February 1, 2006; and
c. Sales of residential lots with gross selling price of P1,500,000.00 or less, and residential house and lots with gross selling price of P2,500,000.00 or less, are not subject to Value Added Tax(VAT)

The Maceda Law

The Maceda Law applies to all transactions or contracts involving the sale or financing or real estate on installment payments (including residential condominium units but excluding industrial and commercial lots). Under the provisions of the law, where a buyer of real estate has paid at least two years of installments, the buyer is entitled to the following rights in case he/she defaults in the payment of succeeding installments:

a. To pay, without additional interest, the unpaid installments due within to total grace period earned by him, which is fixed at the rate of one (1) month for every one (1) year of installment payments made. However, the buyer may exercise this right only once every five (5) years during the term of the contract and its extensions, if any.
b. If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to 50% of the total payments made, and in cases where five (5) years installments have been paid, an additional 5% every year (but with a total not to exceed 90% of the total payments).

The Company, in compliance to said enacted law, has granted buyers their rights under the law and in certain cases, made the appropriate refunds to the buyers.

Zoning and Land Use

The Department of Agrarian Reform(DAR) has issued regulations to effect the provisions of the Agrarian Reform Law in the Philippines. Under the law, all land classified for agricultural purposes as of or after June 1,1988, cannot be converted to no-agricultural use without the prior approval of the DAR.

Land use may also be limited by the zoning ordinances of Local Government Units. Lands may be classified as commercial, industrial, residential or agricultural. While a procedure for change of allowed land use is available, this process maybe lengthy and cumbersome.

The Company diligently adheres to the provision of the agrarian reform law and local ordinances in cases where a certain project requires the conversion of the land use.

Environmental Laws

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate (ECC) prior to commencement of development. The Department of Environment and Natural Resources (DENR) through its regional offices or through the Environmental Management Bureau (EMB), determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement (EIS) to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination (IEE) to the proper DENR regional office.

FELI believes that it has complied with all applicable Philippine environmental laws and regulations. Compliance with such laws, in FELI's opinion, is not expected to have a material effect on FELI's capital expenditures, earnings or competitive position in the property market.

Employees

As of September 30, 2010, FELI has a total of 159 employees (inclusive of three (4) wholly owned subsidiaries' workforce), divided into:

Top Management	–	25
Middle Management	-	21
Rank and File	-	113

The Company expects to further reduce its number of employees in the next 12 months.

There has been no employees union since the start of Company's operations. In addition to basic salary and 13th month pay, other supplemental benefits provided by FELI to its employees include: retirement benefits, vacation and sick leaves, rice subsidy, dental benefits and various loan facilities among others.

Risk Factors Relating to the Company

Highly Competitive Business Environment

The company faces increased competition from other developers who undertake residential subdivisions and vertical residential, commercial and office projects, particularly in key cities of the Philippines where several of the Company's present and future projects are located.

Notwithstanding increased competition in the industry, FELI intends to maintain and enhance its position as one of the leading property development and marketing companies in the Philippines. The Company's track record and marketing and sales force are perceived to be major advantages against this anticipated growth in competition. It has been a major player in the industry through predecessor companies since 1981.

Demand for Real Estate Project Developments Related to Leisure and Recreation

A portion of the Company's projected revenues and income comes from the sale of properties for secondary or vacation residences and golf and resort share club shares. Demand for such projects is perceived to be significantly affected by any major change in the economic and political conditions of the country.

The Company remains on the look-out for growth opportunities in different market segments and geographic areas in order that any negative impact on a particular market segment or geographic area by reason of political, economic or other factors will allow it to pursue its projects or other developments not affected thereby, thus providing it with a steady revenue base.

Limitations on Land Acquisition

As other developers race to acquire choice locations, it may become more difficult to locate parcels of suitable size in location and at prices acceptable to the Company that will enhance its present land bank. In this regard, the Company continues to explore joint ventures as an alternative to building its land bank and continue identifying properties that can be developed under project agreements with landowners.

Legal Issues or Disputes on Projects

The implementation of projects entered into by the Company may be affected by any legal issues generally arising from the ownership of the real estate properties. Certain properties presently being developed or proposed for development in the immediate term are currently the subject of legal proceedings whose resolution is still indeterminate.

The Company is endeavoring to resolve such legal issues amicably at the shortest time possible, with results agreeable to both parties. Nevertheless, these disputed projects are not expected to negatively impact the Company's business or its financial condition.

Government Approvals, Licenses and Permits

The implementation of projects require various government permits, approval and clearances from various municipal, city, regional and national government authorities and offices, such as, among others, the Development Permit, Certificate of Registration, License to Sell and in certain instances, the Environment Compliance Certificate. Accordingly, any delays in obtaining such government permits, approvals and clearances may affect the Company's projects.

The Company is taking every effort to ensure that it will comply with all the requirements in a timely and orderly manner in securing the approval, permits and licenses. It intends to secure the necessary documentation within a reasonable period of time.

Political and Economic Factors

In general, the profitability of the Company depends on the overall demand for housing which in turn is affected by political and economic factors. Any political instability in the future may have a negative effect on the viability of real estate companies. Economic factors such as substantial increases in interest and financing costs may dampen the overall demand for housing in the future, thus affecting the Company's profitability.

Credit Risk

The investment of the Group's cash resources is managed so as to minimize risk while seeking to enhance yield. The Group's holding of cash and marketable securities expose the Group to credit risk of the counterparty if the counterparty is unwilling or unable to fulfill its obligations, and the Group consequently suffers financial loss. Credit risk management involves entering into financial instruments only with counterparties with acceptable credit standing. The treasury policy sets aggregate credit limits of any one counterparty and annually reviews the exposure limits and credit ratings of the counterparties.

The Group has credit management policies in place to ensure that rental contracts are entered into with customers who have sufficient financial capacity and good credit history.

The Group also has no significant concentrations of credit risk on its rental receivable. It has policies in place to ensure that rental contracts are made with customers with appropriate credit history.

Sales to buyers of real estate which are collectible on installment are relatively risk-free. Sales to real estate buyers are documented under Contract to Sell agreements which allow cancellation of the sale and forfeiture of payments made in the event of default by buyers.

Receivable balances are being monitored on a regular basis to ensure timely execution of necessary intervention efforts.

Liquidity Risk

The Group monitors its cash flow position, debt maturity profile and overall liquidity position in assessing its exposure to liquidity risk.

The Group has reduced bank debt and payables to suppliers, contractors and other creditors via asset swap arrangements utilizing the Group's real estate and golf and resort shares inventory. Agreements have been obtained from banks for the settlement of the remaining debt also via asset swap arrangements.

As a matter of policy, no new bank debt shall be secured unless for project development purposes which are expected to provide sufficient cash flows to ensure repayment.

Interest Rate Risk

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group follows prudent policies in managing its exposures to interest rate fluctuation, and constantly monitors its exposure to fluctuation in interest rates to estimate the impact of interest rate movements on its interest expense.

Borrowings of the Group are usually at fixed rates. Thus, no interest rate sensitivity analysis is presented.

Foreign Exchange Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. The currency exchange rates arise from Group's interest-bearing cash equivalents and loans denominated in US dollars.

The exchange rate exposure is mitigated by a provision in the loan agreement that allows prepayment of the US Dollar loan in whole or in part without penalty in the event of an exchange fluctuation. Moreover, the group seeks to manage the effect of its foreign exchange exposure by purchasing US dollars and generating revenues in foreign currency that will result to a natural hedge.

ITEM 2. PROPERTIES

The Company's land bank as of September 30, 2010 consisted of land holdings under joint venture and those wholly owned by the Company, 1,022 hectares of which is owned directly by the Company and valued at a cost of ₱ 2.2 billion. These land bank held for future development are strategically located in various parts of the country mainly the CALABARZON areas.

The total land area under joint venture is subject to various joint venture arrangements with their respective landowner partners. The average joint venture sharing for residential subdivision and golf course communities ranges from 55%-75% in favor of FELI while that for residential and office condominium projects ranges from 50%-70%.

On the other hand, the inventory portfolio of the Company consisted mainly of inventory strategically located in various parts of the country mainly the CALABARZON areas. Real estate and golf club and resort shares for sale and land held for future development are valued at the lower of cost or net realizable value in conformity with PAS 2 "Inventories". Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Company is the landowner, and includes actual development cost incurred up to balance sheet date for projects where the Company is the developer. Net realizable value is the selling price in the ordinary course of business less cost to complete and to market. A valuation allowance is provided for real estate and golf club and resort shares for sale and land held for future development when the net realizable values of the properties are less than the carrying costs.

A list of residential subdivisions, condominiums, condotels, townhouses and leisure development projects of the Company's subsidiaries are as follows:

LIST OF PROJECTS			
PROJECT NAME	**LOCATION**	**CONDITION**	**LIMITATIONS ON OWNERSHIP**
The Steps	Quezon City	Completed	None
8 Sto. Domingo Place	Quezon City	Under Development	None
Bentley Park	Antipolo City	Completed	None
Buenavida Village	Naga City	Completed	None
Buenavista Hills	Tagaytay	Substantially Completed	None
Caliraya Springs	Cavinti, Laguna	Substantially Completed	Joint Venture
Camp John Hay Suites	Cam John Hay, Baguio City	Completed	Limited Warranty Deeds
Camp John Hay Forest Cabins	Camp John Hay, Baguio City	Substantially Completed	Limited Warranty Deeds
Cardinal Hills	Tarlac City	Under Development	None
Cathedral Heights	Quezon City	Completed	None
Capitol Plaza	Quezon City	Substantially Completed	Joint Venture
Fairways & Bluewaters	Boracay, Aklan	Substantially Completed	None
Festival Villas	Iloilo	Under Development	None
Forest Hills	Antipolo City	Substantially Completed	None
Goldridge Estate	Guiguinto, Bulacan	Substantially Completed	None
Holiday Homes	Gen. Trias, Cavite	Substantially Completed	None

Isarog Hills	Isarog	Under Development	None
Kingsborough North	Malabon City	Under Development	None
Magnificat Executive Village	Lipa, Batangas	Substantially Completed	None
Mango Orchard Plantation	Naic, Cavite	Substantially Completed	None
Monte Cielo De Naga	Naga City	Completed	None
Monte Cielo De Penafrancia	Naga City	Substantially Completed	None
Mountain Meadows	Cagayan De Oro	Substantially Completed	None
Newport Hills	Lian, Batangas	Under Development	None
Nasugbu Harbour Town	Nasugbu, Batangas	Under Development	Joint Venture
Palacio Real	Calamba, Laguna	Completed	None
Palmridge Point	Talisay, Batangas	Completed	None
Parco Bello	Muntinlupa City	Completed	None
Parklane Square	Las Piñas City	Substantially Completed	Joint Venture
Parkridge Estate	Antipolo City	Completed	None
Paragon Plaza	Mandaluyong City	Completed	Joint Venture
Pines Royal Homes	Baguio City	Under Development	None
Plaridel Heights	Plaridel, Bulacan	Substantially Completed	None
Puerto Del Mar	Lucena City	Completed	None
Puerto Real De Iloilo	Iloilo	Substantially Completed	None
Queensborough North	Pampanga	Completed	None
Residencia Lipa	Lipa, Batangas	Substantially Completed	None
Renaissance 5000	Ortigas Ctr., Pasig City	Under Development	Joint Venture
Richgate Condominium	Baguio City	Completed	None
Richgate Square	Baguio City	Under Development	None
Richview Square Exp’n	Baguio City	Under Development	None
Riverina	San Pablo City	Substantially Completed	None
Sherwood Hills	Carmona, Cavite	Completed	None
Southlakes Garden	Laguna	Completed	None
Southwoods Peak	Carmona, Cavite	Substantially Completed	None
Suburbia North - Ph 2	Pampanga	Completed	None
Sta. Barbara Heights	Sta. Barbara, Iloilo	Substantially Completed	Joint Venture
Tagaytay Twin Lakes	Laurel, Batangas	Under Development	Joint Venture
Tierra Vista	Lipa, Batangas	Completed	None
Windsor Heights	Tagaytay	Completed	None
Woodsgate Expansion	Baguio City	Completed	None
West Tower	Makati City	Completed	Joint Venture
Villa Maria	Fairways & Bluewater, Boracay	Completed	None
Villa Margarita	Fairways & Bluewater, Boracay	Completed	None

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to certain lawsuits or claims arising from the ordinary course of business. The management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the consolidated financial statements, and thus, no provision has been made for these contingent liabilities.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On August 26, 2010 , FELI held its Annual Stockholders' Meeting. All the members of the Board of Directors were re-elected during the said meeting except for Mr. Michael Nacson who was replaced by Mr. Dominador T. Gregorio III as Independent Director.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS

Stock Prices

FELI common shares are listed in the PSE. Share prices have been retroactively adjusted to reflect the effects of stock dividends paid by the Company up to 2010.

	Philippine Stock Exchange Average Closing Price per Share (₱)	
	High	**Low**
2010		
First Quarter	0.35	0.33
Second Quarter	0.42	0.40
Third Quarter	0.51	0.48
Fourth Quarter	0.75	0.71
As of January 27, 2011	2.43	2.30
2009		
First Quarter	0.25	0.24
Second Quarter	0.24	0.18
Third Quarter	0.33	0.24
Fourth Quarter	0.37	0.29
2008		
First Quarter	1.07	1.03
Second Quarter	0.82	0.79
Third Quarter	0.55	0.53
Fourth Quarter	0.42	0.41

The market capitalization of FELI as of January 27, 2011, based on the closing price at ₱ 2.41 per share of FELI's shares at that date was approximately ₱ 8.073 billion.

Dividends

The retained earnings account as of September 30, 2010 is restricted from being declared as dividends to the extent of the undistributed net earnings of subsidiaries associates and joint ventures amounting to ₱ 4.1 billion in 2010 and ₱ 4.2 billion in 2009. No declaration of cash dividends was made in the last three (3) years.

Recent Sales of Unregistered or Exempt Securities (including recent issuance of securities constituting an exempt transaction)

On 13 February 2007, the Company filed with the Securities and Exchange Commission (SEC) the application for confirmation of availability of exemption for the issuance of 136,000,000 warrants. Issue price of warrants is nil. Exercise price is at P1.00 subject to adjustment of exercise price in accordance with Condition 6 of the terms and conditions of the warrant. Exercise date is not earlier than the 90^{th} day and not later than five (5) years from date of Warrant Instrument.

On August 13, 2007, the Company filed with the SEC the Notice of Exempt Transaction on the 577,000,000 underlying common shares to warrants exercise at P1.00 per share in favor of Lim Asia Arbitrage Fund and Lim Asia Alternative Real Estate Fund.

On September 17, 2007, the Company filed with the SEC the Notice of Exempt Transaction on the 772,266,667 underlying common shares of Convertible Bonds to be issued by the Company with a conversion price of P1.50 per share.

On January 23, 2008, the Company filed with the SEC the Notice of Exempt Transaction on the issuance of US$12,500,000.00 5-year fixed rate Convertible Bonds Due on 2012. The summary of other terms and conditions of the issuance of the bonds are as follows:

1. Convertible bonds have a maturity date of five (5) years and one (1) day from issue date.
2. Convertible bonds issued on a private placement basis to Lim Asia Special Situations Master Fund Limited with condition that it cannot be sold on a secondary basis to more than 19 bondholders who are not qualified buyers.
3. Conversion exchange rate is P46.336
4. Conversion rate initially set at 3,089,067 shares per $100,000 Convertible Bonds
5. Interest rate is 4.00% per year payable every six months
6. Yield to maturity equivalent to 14.0% per annum, inclusive of interest payment.

Description of Securities

Stockholders

FELI has a total of about 4,788 common shareholders as of September 30, 2010.

TOP 20 STOCKHOLDERS AS OF SEPTEMBER 30, 2010

No.	Stockholder	No. of Shares	% of Ownership
1	Fil-Estate Management, Inc.	1,883,378,007	56.220%
2	PCD Nominee Corporation (Filipino)	1,209,125,694	36.093%
3	PCD Nominee Corporation (Foreign)	89,258,285	2.664%
4	Dynaland Properties & Developers, Inc	11,700,002	0.349%
5	Angping & Associates Securities, Inc.	11,275,750	0.337%
6	CAP Pension Trust Fund	9,263,280	0.277%
7	Greenfield Development Corporation	8,640,000	0.258%
8	John T. Lao	7,035,100	0.210%
9	Jaime V. Borromeo	6,297,000	0.188%
10	Lucio W. Yan	5,755,000	0.172%
11	Richard L. Lao	4,617,990	0.138%
12	Southern Heights Land Dev't. Corporation	4,219,815	0.126%
13	Romeo Roxas	3,716,000	0.111%
14	AVESCO Marketing	3,512,106	0.105%
15	Catalina Pua Li Lao	3,452,670	0.103%
16	RBL Fishing Corporation	2,924,998	0.087%
17	Wilbur Chan	2,611,825	0.078%
18	Buenafortuna, Incorporated	2,262,992	0.068%
19	Jennifer C. Lee or Josephine C. Lim	2,000,000	0.060%
20	Federal Homes, Inc.	1,939,860	0.058%

PART III - FINANCIAL INFORMATION

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Key Performance Indicators

LEVERAGE OR LONG-RANGE SOLVENCY RATIOS

	September 30, 2010	September 30, 2009	Change Increase (Decrease)
Debt to Total Assets	42.82%	40.58%	2.24%
Equity to Total Assets	57.18%	59.42%	(2.24%)
Debt to Equity	74.90%	68.29%	6.61%

Debt to Total Assets
It shows the creditors' contribution to the total resources of the organization. The increase was due to additional loan by a subsidiary

Equity to Total Assets
It shows the extent of owners' contribution to the total resources of the organization. There is a slight decrease compared to last year.

Debt to Equity
It relates the exposure of the creditors to that of the owners. To date, the creditors' exposure is slightly higher than that of the owners.

ACTIVITY RATIOS

	September 30, 2010	**September 30, 2009**	**Change Increase (Decrease)**
Assets Turnover	3.08%	3.20%	(0.12%)
Equity Turnover	5.39%	5.38%	0.01%

Assets Turnover
It measures the level of capital investment relative to sales volume. There is a slight decrease as compared to last year.

Equity Turnover
It tests the productivity of the owners' investments. There is a slight increase as compared to last year.

PROFITABILITY RATIOS

	September 30, 2010	**September 30, 2009**	**Change Increase (Decrease)**
Earnings per Share	₱ (0.15)	₱ (0.05)	₱ (0.092)
Book Value per Share	₱ 2.705	₱ 2.761	₱ (0.056)

Earnings per Share (EPS)
It indicates the earnings for each of the common shares held. The EPS for the year decreased by ₱ 0.092 because of the net loss incurred during the year.

Book Value per Share
It shows the value of each common share based on the recorded net assets. The book value per share slightly decreased as compared to previous year.

Others

As of fiscal year ended September 30, 2010, there are no material events and uncertainties known to management that would have an impact on the future operations such as:

a. Known trends, demands, commitments, events or uncertainties that would have an impact on the Company;
b. Material commitments for capital expenditures, the general purpose of such commitment and the expected sources of funds for such expenditures;
c. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the net sales/revenues/income from continuing operations;
d. Significant elements of income or loss that did not arise from the Company's continuing operations;
e. Causes for any material changes from period to period in one or more line item of the Company's financial operations;
f. Seasonal aspects that had a material effect on the financial condition or results of the operations;

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

The Company, in line with its objective of raising funds via capital build up and other fund raising exercises entered into an Omnibus Agreement and Bonds Issuance Facility Agreement with a certain Lender;

Omnibus Agreement with LIM Asia Arbitrage:

On March 5, 2007, the Fil-Estate Urban Development Corporation (borrower), a subsidiary together with FELI (guarantor) entered into an Omnibus Agreement ("agreement") with LIM Asia Arbitrage Fund, Inc. (LIM Asia, lender) for a US$10.5 million loan facility (to be registered with Bangko Sentral ng Pilipinas) and a US$2 million loan facility. The facility is being extended for five (5) years from the signing date.

Under the agreement, the following are the conditions of the security for the drawdown under the facility:

1. The guarantor, pursuant to the agreement, shall execute a chattel mortgage over 100% of the total issued and outstanding shares of the capital stock of the borrower to be registered with the Chattel Mortgage Registry and delivered to the trustee (HSBC).

2. A signed and irrevocable proxy from the guarantor as the owner of the shares in favor of the lender to be held by the trustee. The proxy shall be delivered by the trustee to the lender upon the lender's notice to the trustee of there being an event of default. The proxy must provide for full voting rights over the 100% of the borrower's shares to be given to the lender.

3. Signed and undated irrevocable resignation notices of all borrower's directors to be held by the trustee and delivered to the lender upon the lender's notice to the trustee of there being an event of default which remains unremedied after the lapse of the applicable remedy period.

Each drawdown shall specify a project for which the fund shall be used.

Moreover, FEUDC, as the borrower, will not, unless the lender otherwise agrees in writing;

a. Merge or consolidate with any other entity or take any step with a view to dissolution, liquidation or winding up;
b. Purchase or redeem any of its issued shares or reduce its share capital;
c. Declare or pay any dividends or make any other income distribution to its stockholders;
d. Establish or acquire any subsidiary or affiliate;
e. Undertake any business activity other than transactions contemplated by the Finance documents;
f. Change the nature of its business;
g. Grant any loan or advance, guarantee;
h. Incur any other indebtedness;
i. Enter into any agreement or obligation which might mutually and adversely affect its financial consolidation.

<u>Drawdown Pursuant to the Omnibus Agreement</u>

The P230 million loans payable were obtained by FEUDC pursuant to Omnibus Agreement with LIM Asia Arbitrage Fund Ltd. (LIM Asia).

The P100 million loan was coursed through loan line facility provided by Hongkong and Shanghai Bank Corporation (HSBC). The loan was obtained on May 25, 2007 and is due for payment on November 25, 2008, with interest rate at 10% per annum for 18-month term payable in four equal installments quarterly in advance from the date of drawdown with a six month initial grace period. The loan is secured by a security deed and cash deposits amounting to USD$2.5 million held under lien with HSBC Institutional Trust Services Asia Limited Hong Kong placed by LIM Asia. The said loan was secured to fund Cathedral Heights Townhouse Project (CHTP). The peso loan was renewed for another 12 months upon maturity and is due for payment in October 2009. In 2009, the maturity was further extended up to May 2010.

The P130 million loan was obtained on August 3, 2007 and is due for payment 24 months from date of drawdown, with interest at 10% per annum payable in four equal installments, quarterly in advance from the date of drawdown with a six month initial grace period. The said loan was secured to fund Boracay Villas project. The drawdown was made in US Dollars and is likewise payable in US Dollars.

Drawdown security in favor of Lim Asia is as follows:

1. Real estate mortgage and security interest over townhouse units of the Project;
2. Assignment by way of security of all the rights, title, interest and benefits (but not the obligations) of FEUDC in or arising from the following:
   a. Facility account of the drawdown;
   b. Project documents (Assigned contracts);
   c. Insurance claims and proceeds;
   d. Receivables due on previous sales of CHTP amounting to ₱37.1 million shall be assigned to the secured account;

   e. All receipts, sales revenue, receivables and all existing and future revenues generated from sale of all other units which are not subject to encumbrance constituted as core security under the Omnibus Agreement;

f. All licenses, approvals, consents and contracts relating to the Project to the full extent allowed under applicable laws and regulations.

Fixed Rate Convertible Bonds

On September 14, 2007, the Company (Issuer) entered into Bonds Issuance Facility Agreement (facility agreement) with Lim Asia Arbitrage Fund, Inc. (LAAF,original bondholder), The Hongkong and Shanghai Banking Corporation Limited (trustee), Banco De Oro-EPCI, Inc. –Trust Banking Group (paying agent,transfer agent or conversion agent) and Lim Advisors Limited (arranger) wherin the Company intends to issue a five (5)-year and one day fixed rate convertible bonds with a total face value of up to US$25million, convertible to common shares of the capital stock of the issuer on terms and conditions provided. As of September 30, 2008, the Company fully issued the US$25million convertible bonds.

Repayment Agreement

On January 12, 2011, the Company and its subsidiary, FEUDC, entered into a Repayment Agreement with Lim Asia Multi Strategy Fund, Lim Asia Special Situations Master Fund Limited and the Lim Marketing Services Limited in relation to the Structured Loans obligations of FEUDC and the outstanding Convertible Bonds issued by the Company.

The salient features of the Agreement are as follows:

Payment of the Structured Loans Obligations:

On or before 28 January 2011, FEUDC or FELI will repay LAMS and/or LIM Marketing all amounts owing to:

a. The structured Loan Facility for the Boracay Project granted under the Omnibus Agreement, in accordance with the terms of the Boracay 6th Extension Letter dated 15th December 2010 as attached in Appendix 1 of the Agreement.

b. The structured Loan Facility for the Cathedral Heights Project granted under the Omnibus Agreement in accordance with the terms of the Cathedral Heights Extension Letter dated 25th May 2010 as attached in Appendix 2 of the Agreement.

c. On or before the Loans Repayment Date, FEUDC or FELI will also pay all other amounts payable to LAMS and LIM Marketing in connection with the Omnibus Agreement, the Advisory Agreement and the Extension Letters, including all advisory fees and consent fees.

Early Redemption of the Convertible Bonds (CB):

On or before 31 March 2011, FELI will redeem all the CBs issued under the Convertible Bond Facility Agreement at a premium to provide a Yield to Maturity of 16% per annum inclusive of all coupon payments, calculated to the CB redemption date, (the aggregate amount required to be paid for the redemption of the CBs as provided in Section 2.1 of the Agreement) shall be computed based on the sample computations attached as Exhibit 3 as of March 31, 2011 and January 28, 2011.

On or before the CB redemption date, FELI will pay the Redemption Amount payable to the Bondholders in connection with the Convertible Bond Facility Agreement, directors' fees payable to the nominee director of the Creditors in FELI, and fees and costs incurred in connection with the report prepared by FTI Consulting (Hongkong) Ltd, which have remained unpaid as of the CB Redemption Date.

Extension of the Exercise Period for the Warrants

As part of the consideration for the Creditors to agree to enter into the Repayment Agreement, FELI has agreed to, and does hereby, extended the period for exercising the existing warrants issued by FELI and held by the Creditors pursuant to the Warrant Instrument dated 8 February 2007 for an additional period of one year from the lapse of the original exercise period as set forth in the Warrant Instrument, or up to 8 February 2013, subject to securing the required regulatory approvals for such extension.

Not later than 15 Business Days after the date of this Agreement, FELI will:

a. Do any all acts and deeds necessary, including the execution of a supplemental Warrant Instrument for the extension of the exercise period of the Warrants as herein provided, and

b. Submit to the Creditors evidence satisfactory to the Creditors that it has taken all necessary action to secure, any and all corporate and regulatory consents or approvals, and has made any and all filings, necessary for the extension of the exercise period of the Warrants as provided in the Agreement.

RESULTS OF OPERATIONS

2010 vs 2009

Consolidated revenues slightly decreased to **P 488 million**, down by 2**%** from the previous year's revenues.

The Company incurred a **Net Loss** of **P493 Million** in 2010. Losses were incurred mainly due to accruals made for the additional 12% interest on the US$25 million Convertible Bonds which the company intends to redeem before maturity.

Cost of Sales and Services increased by **156 million or 66%** as compared to the previous year due to adjustments made by the company on the manner of calculation of the cost of sales from real estate sales.

Other Revenues increased by **P22 million or 9%** as compared the previous year mainly due to interest income **(P59 million)** on the accrual of additional interest on the Convertible Bonds which in turn is being charged to the subsidiary that utilized the CB Fund . The balance of other revenues came from amortization of receivables carried at amortized cost **(P63 million),** unrealized foreign exchange gains on the dollar denominated loans **(P110 million)**, dividend income **(P1.7 million),** miscellaneous income **(P32.3 million).**

Equity in Net Losses of Associates and Joints Ventures of **P7.2 million** was recognized during the year.

General & Administrative Expenses went down by **P20 million (5.8%)** to **P341 million** from **P361 million** the previous year.

Marketing Expenses went down by **P18.8 million** from previous year as lesser commissions and advertising expenses were paid and incurred during the year.

Other Expenses/Losses of **P26.7 million** incurred during the year was **74%** lower than the previous year mainly due to minimal foreign exchange losses incurred during the year as a result of the appreciation of the peso and reduced losses incurred on refund to buyers.

Finance Costs amounting to **P382 million** incurred during the year is **264%** higher than the previous year mainly due to accrual of the additional 12% interest on Convertible Bonds as provided in the Convertible Bonds Facility Agreement.

Income Tax Expense increased by **P25 million** from previous year due to effects of deferred tax liability on deferred income from real estate sales, accrued interest income and unrealized foreign exchange gains.

2009 vs 2008

Consolidated revenues decreased to **P642 million**, down by 29**%** from the previous year's revenues primarily due to the effect of the non-recurring guarantee income received from CJH DevCo as guarantor for its wholly owned subsidiary, FEUDC, for the completion of the CJH Suites and Forest Cabins which was recognized the previous year.

The Company incurred a **Net Loss** of **P134 Million** in 2009. Losses were incurred as a result of a decrease in service and rental income, gain on sale of assets, guarantee income and an increase in operating and financial expenses. The company has developed strategies to recover from losses incurred. Several projects were completed or is near completion during the year and is expected to bear fruit the coming years like the Cathedral Heights Townhouse Project in Quezon City, the Villas Maria & Margarita Condotel Project in Boracay, Camp John Hay Suites & Forest Cabins in Camp John Hay, Baguio City.

Service and Rental Income went down by **P45 Million** to **P121 Million** due to reduced income from golf course maintenance contracts.

Interest income from the amortization of due from other realty and development companies, temporary investment of unutilized funds and unrealized foreign exchange gains were the major contributors of increased **Financial Income** of the Company which accounted for **P200 million** of the total consolidated revenues or an increase of 69**%** from previous year's level of **P131 million**.

Equity in Net Earnings of Associates and Joints Ventures of **P15 million** was recognized during the year compared to Net Loss of Associates and Joint Ventures of **P11 million** the previous year.

Other income generated by the company increased by **P52 million** to **P129 million** primarily due to gain on dacion en pago transactions.

Financial expenses went up to **P281 million** from **P244 million** the previous year due to unrealized and realized foreign exchange losses, interest expense on convertible bonds and increase in amortization of due to other realty and development companies.

Cost of services is at **P73 million**, with a **30%** reduction from previous year's level of **P105 million** due to decrease in maintenance contracts.

2008 vs 2007

Consolidated revenues increased to **P906 million**, up by **35%** from the previous year largely due to guarantee income received from CJH DevCo as guarantor for its wholly owned subsidiary, FEUDC, for providing funds for the completion of the CJH Suites and Forest Cabins.

The Company performed better in 2008 as it posted a **Net Income** of **P92.5 Million, 59% higher** than the **P58.3 Million** level the year before. The increased in income was primarily due to guarantee income, and increase in financial income and service and rental income.

Service and Rental Income went up by **P21 Million** to **P167 Million** due to increase in income generated from golf course maintenance contracts.

Gross profit on Sale of Real Estate went down to **P202 Million** from **P280 Million** the previous year despite an increase in **Sales of Real Estate** by **10%** or **P39 million**. The decline was due to adjustments on realization of profit related to the sales during the period

Interest income from temporary investment of unutilized funds and unrealized foreign exchange gains were the major contributors of increased **Financial Income** of the Company which accounted for **P131 million** of the total consolidated revenues or an increase of **35%** from previous year's level of **P97 million**.

Operating expenses increased slightly, up by **3% or 12.5 million** to **P405 million**.

Financial expenses went up to **P244 million** from **P75 million** the previous year due to unrealized and realized foreign exchange losses, interest payments in relation on outstanding loans and increase in discount charges in valuation of payables.

Cost of services is at **P105 million**, with a **14%** reduction from previous year's level of **P122 million**. The decrease is due to reduction in the purchase of materials and labor for golf course maintenance.

Equity in Net Losses of Associates and Joints Ventures decreased by **6%** at **P10.9 million** as compared to **P11.6 million** level last fiscal year due to net income realized for the period by Associates and Joint Ventures.

FINANCIAL CONDITION

2010

Consolidated Assets as of September 30, 2010 totaled **P15.8 billion**, increased by 2**%** from the **P15.5 billion** level the previous year.

Cash and Cash Equivalents decreased by **58%** from **P193 million** to **P82 million** due to utilization of funds for the completion of various projects and operating expenses.

Trade and Other Receivables went down by **P988 million** to **P3.4 billion** from previous year's level of **P2.5 billion**.

Inventory went down by **8%** to **P5.9 billion** from **P6.5 billion** the previous year mainly due to sales during the period and the effects of recalculation made by the company on the manner of recognizing cost of sales of real estate.

Other Current Assets increased by **6% (P25 million)** mainly due to increase in input tax, creditable withholding tax and prepayments.

Property and Equipment stood at **P556 million,** a decrease by **5%** from previous year due to depreciation and amortization.

Noncurrent Receivables increased by **24%** to **P377 million** from **P304 million** the previous year mainly due to increase in advances to other realty and development companies as a result of the amortization of receivables carried at amortized cost.

Deferred Assets stood at **P405 million**, a decrease by **P35 million** from the previous year.

Other noncurrent assets which consists of deposits decreased by **P6.9 million** to **P16 million** from **P22.9 million** the previous year.

Trade and other payables increased by **15%** to **P2.6 billion** from the **P2.3 billion** level the previous year.

Bonds Payable amounted to **P1.097 billion,** a decrease by **8% (92 million)** as a result of the movement in foreign exchange rate due to the appreciation of peso.

Loans payable increased by **P32.8 million** from **P468 million** the previous year to **P501 million.** Loan availed by a subsidiary (FEUDC) from LIM Asia in the amount of **P226 million** was retired during the year. Another subsidiary, (Novo Sierra) acquired a **P275 million** loan package from a local bank.

Deferred Tax Liability increased by **13% (P38 million)** to **P325 million** primarily due to tax effects on deferred income from real estate sales and unrealized foreign exchange gains.

2009

Consolidated Assets as of September 30, 2009 totaled **P15.1 billion**, slightly lower than the **P15.3 billion** the previous year.

Cash and Cash Equivalents decreased by **41%** from **P329 million** to **P193 million** due to utilization of funds for the completion of various projects and operating expenses.

Receivables-net went up by **P293 million** to **P1.038 billion** from previous year's level of **P745 million**. The increase in Installment Contract Receivables and advances to contractors and suppliers contributed to the **39%** increase in receivables as of end September 2009.

Due from related parties decreased from **P1.011 billion** to **P868 million** due to payments and or offsetting arrangements made by related parties.

Due from other realty and development companies decreased from **P674 million** to **P525 million** primarily due to receivables which were carried at amortized cost and is therefore subjected to yearly amortization**.**

Landheld for future development amounted to **P1.8 billion**.

Investment Properties held for lease were up by **P2.8 million** to **P48.3 million**.

Deferred Tax Assets decreased by 6**%** or **29 million** on account of realized gross profit on sale of Real Estate and Golf Club and Resort Shares during the year.

Deferred charges and other non current assets stood at **P53 million,** up from previous year's level of **P46 million**.

Bonds Payable amounted to **P1.17 billion** on account of the issuance of a five (5)-year and one day fixed rate convertible bonds with a total face value of **US$25 million**. Proceeds from the issuance of the convertible bonds were received in November 2007 and January 2008.

Loans in the amount of **P234 million** was availed by a subsidiary for the completion of projects in Camp John Hay, Baguio City.

Accounts payable and other current liabilities decreased by **23%** or **P380 million** from **P1.6 billion** in 2008 to **P1.3 billion** in 2009. Payment to contractors and suppliers for various ongoing projects attributed to the decrease in accounts payable.

Due to related parties stood at **P451 million**, as compared to **P323 million** the previous year mainly due advances made by related parties on behalf of the company.

Due to other realty and development companies decreased by **P81 million** from the **P374 million** level due to retirement of some payables.

Other Non-current Liabilities amounted to **P69 million**, up from the **P57 million** level the previous year.

<u>2008</u>

The Company maintains a prudent financial strategy as it faces a more competitive and challenging environment. The Company's consolidated balance sheet reflects a stable financial growth. **Consolidated**

Assets as of September 30, 2008 totaled **P15.2 billion** compared from **P14 billion** the previous year, registering an **8%** increase.

Cash and Cash Equivalents increased by **62%** from **P203 million** to **P329 million** due to remaining unutilized proceeds of convertible bonds that was temporarily invested in money market placements.

Receivables-net went up by **P144 million** to **P1.031 billion** from previous year's level of **P887 million**. Increase in Installment Contract Receivables and various advances to contractors and suppliers contributed to the **16%** increase in receivables as of end September 2008.

Due from related parties increased from **P912 million** to **P1.33 billion** largely due to **45%** increase in due from various joint venture partners.

Due from other realty and development companies amounted to **P881 million** or an increase of **19%** from previous year of **P739 million.** The increase is due to advances made to these related parties on certain transactions.

Landheld for future development amounted to **P1.9 billion**.

Investment Properties went down by **P6.5 million** due to depreciation and amortization.

Deferred Tax Assets decreased by **16%** or **88 million** on account of realized gross profit on sale of Real Estate and Golf Club and Resort Shares during the year.

Bonds Payable amounted to **P1.17 billion** on account of the issuance of a five (5)-year and one day fixed rate convertible bonds with a total face value of **US$25 million**. Proceeds from the issuance of the convertible bonds were received in November 2007 and January 2008.

Loans in the amount of **P134 million** was availed from a stockholder and a **P100 million** peso loan was renewed for another 12 months to mature on October 2009.

Accounts payable and other current liabilities increased by **6%** or **P87 million** from **P1.43 billion** in 2007 to **P1.51 billion** in 2008 due to various supplies and services made by suppliers and contractors.

Due to related parties stood at **P296 million**, with an increase of **27%** as compared to **P234 million** from previous year. The increase can be traced on various sales of inventories and payment to third parties on behalf of the related parties.

Deposit on real estate sales went down by **P148 million** or **9%** as recognition of real estate sales were made during the year.

Due to other realty and development companies decreased by **P55 million** from the **P516 million** level the previous year due to remittance of share on sale of real estate to various joint venture partners.

Deferred Tax Liabilities went down by **16%** or **P51 million** as tax effects on capitalized interest and deferred commissions were reduced.

Other Non-current Liabilities amounted to **P57 million**, an **11% (6.9 million)** decrease from the **P64 million** last year.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements of the Company are incorporated herein duly signed by the external auditors.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2008, and amendments to existing standards that become effective in 2008 as stated.

3.5 Impact of New Amendments and Interpretations to Existing Standards

(a) Effective in 2008

The following are effects of the new interpretation and amended standards which are mandatory in 2008.

- Philippine Interpretation IFRIC 11, PFRS 2, *Group and Treasury Share Transactions* – This Philippine Interpretation took effect March 1, 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent.

  Adoption of this amendment to Philippine Interpretation did not have any impact on the group's financial statements since the Group has no group and treasury share transactions.

- Philippine Interpretation IFRIC 14, Philippine Accounting Standards (PAS) 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction* – This Philippine Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, Employee Benefits.

  Adoption of this amendment to Philippine Interpretation did not have any impact on the Group's financial statements since, even though the Group provides for post-employment benefits, it does not maintain fund assets to cover these provisions. The Group will apply this amendment prospectively when it becomes applicable.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* –This Philippine Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not involve in the provision of public sector infrastructure assets and services. The Group will apply this amendment prospectively when it becomes applicable and relevant to its operation.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) – This Philippine Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or has expired.

  Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not provide their customer incentives to buy goods or services by providing awards as a part of sale transaction.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation (effective from October 1, 2008).* This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment, and how an entity should determine the amount of foreign currency gain or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

  Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not have any foreign operations.

(b) Effective in 2009

The following new standards, effective for annual periods beginning on or after January 1, 2009, have been adopted:

- Amendment of PAS 1 (Revised 2007)*: Presentation of Financial Statements).* The amendment requires an entity to present all items of income and expense recognized in the period in a single Statement of Comprehensive Income or in two statements: a separate Income Statement and a Statement of Comprehensive Income. The Statement of Comprehensive Income shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The Statement of Comprehensive Income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the Statement of Comprehensive Income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group applied the presentation requirement of this standard as at reporting date and had no significant impact on the financial statements.

- *PAS 23 (Revised 2007), Borrowing Costs (effective from January 1, 2009).* Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

  The Group has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2010, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets. The transitional provision provide for a prospective application of change.

- Amendments to PAS 32, *Financial Instruments: Presentation and PAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation –* These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to required the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Equity or Associate* – The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment – Vesting Condition and Cancellations* – The Standard has been revised to clarify the definition of a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, a failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*. Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that: (a) change in ownership interest of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interest.

The Group initially determined that early adoption of this amendment will not have any effect on its 2010 financial statements.

- PFRS 7, *Financial Statements: Disclosures (effective for annual periods beginning on or after January 1, 2009)* requires additional disclosures about the fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of inputs using three (3) level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level three (3) fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

- PFRS 8, *Operating Segments* – PFRS 8 will replace PAS 14, Segment Reporting, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. PFRS 8 is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Securities and Exchange Commission (SEC) for the purpose of issuing any class of instruments in a public market.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* **-** When an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with PAS 39 (rather than at cost), such investments will continue to be measured using PAS 39 even if classified as held for sale in accordance with PFRS 5. Investment measured at cost will continue to be re-measured in accordance with PFRS 5 when classified as held for sale.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged items*. Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

- Philippine IFRIC 18, *Transfer of Assets from Customers*. This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

(c) Effective in 2010

- Amendment to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions,* (effective for financial years beginning on or after January 1, 2010) clarifies the scope and the accounting for the Company cash-settled share based payment transactions.

  The Group initially determined that adoption of this amendment will not have any effect on its 2010 financial statements as the Group is not involved in any similar transactions.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010), addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability (debt for equity exchanges or swaps).

  The Group believes that if its financial liability (convertible bond) was extinguished as at reporting date, it would affect the Group's statements of income by realizing a loss equivalent to P489,608,000 computed as the difference of the fair value of P1,587,008,000 less fair value of financial liability amounting to P1,097,400,000. Due to the events after reporting date, the Group foresees that it would be liquid enough to pay out its financial liability when it falls due.

Future Changes in Accounting Policies

The Group will adopt the amendments to the existing accounting standards and Philippine Interpretations enumerated below when become effective.

(a) Effective in 2011

- Philippine Interpretation IFRIC 14, *Prepayment of Minimum Funding Requirement,* addresses the unintended consequences that can arise from pervious requirement when an entity prepays future contributions into define benefit pension plan. It sets outs guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for define benefit plans that are subject to minimum funding requirement.

(b) Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts,* or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the

construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

After assessing the effect of this amendment, the group expects that this will not have a significant effect on the Group's financial statements since it has been the Group's policy to recognize income based on the stage of completion method accounted under PAS 11. The Group believes that this amendment will not require any retrospective adjustment or result to the restatement of prior period financial statements as disclosed in the prior year notes.

(c) Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement of Financial Assets,* addresses the emerging issues, classification and measurement of financial assets. The standard sets out criteria for debt instrument whether to measure at amortized cost or at fair value through profit or loss. A Debt instruments that does not qualify for amortized cost or not managed on a "hold to collect" basis shall be measured at fair value with changes in fair value are taken through profit or loss.

  The Group does not expect any significant effect on the Group's financial statements from this amendment since the Group does not hold any debt instrument.

Improvements to Existing Accounting Standards

In May 2008 and April 2009, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The group expects the amendments to the following standards did not have significant effects on the financial statements. There are separate transitional provisions for each standard which become effective January 1, 2010.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PFRS 7, *Financial Instruments: Disclosures,* removes the reference to "total interest income" as a component of finance cost.

- PAS 1, *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied.

- PAS 7, *Statements of Cash Flows,* provides expenditure that result in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 8, *Accounting Policies,* Changes in Accounting Estimates and Errors, clarifies that only the implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.

- PAS 10, *Events after the Balance Sheet Date,* clarifies dividends declared after the end of reporting periods are not obligations.

- PAS 16, *Property, Plant and Equipment*. The amendment replaces the term 'net selling price' with fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 18, *Revenue,* replaces the term "direct costs" with "transaction costs" as defined in PAS 39, *Financial Instruments: Recognition and Measurement.*

- PAS 19, *Employee Benefits*. The Amendment revises the definition of 'past service cost' to include reductions in benefits related to past services ('negative past service cost') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailments.

  It also revises the definition of return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

  It also revised the definition of 'short term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant.

- PAS 23, *Borrowing Costs*. This Amendment revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e. components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investment in Associates*. If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loan applies.

  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 27, *Consolidated and Separate Financial Statements,* states that when a parent entity accounts for a subsidiary in accordance with PAS 39, Financial Instruments: Recognition and

Measurement, in its separate financial statements, this treatment continues when the subsidiary is subsequent classified as held for sale.

- PAS 29, *Financial Reporting in Hyperinflationary Economies.* This Amendment revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*. If a joint venture is accounted for at fair value in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expense, will apply.

- PAS 36, *Impairment of Assets*. When discounted cash flows are used to estimate 'fair value less costs to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*. The amendment that have been made in the standard are primarily concerned with clarifying the notion of "identifiability" as it relates to intangible assets, the useful life and amortization of intangible assets, and the accounting for in-process research and development projects acquired in business combination.

- PAS 39, *Financial Instruments: Recognition and Measurement.* The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

- PAS 40, *Investment Property*. The amendment to the standard is to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

- PAS 41, *Agriculture*. This Amendment removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either pre-tax or post-tax discount rate depending on the valuation methodology used.

  It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

3.6 Financial Instruments

Date of Recognition

The Group recognizes a financial asset or a financial liability in the GRoupy Statements 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 settlement date accounting.

Initial recognition of financial instruments
Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss, includes transaction cost.

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 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 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 market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' Profit
Where the transaction price in a non-active market is different to the fair value from other observable current market transactions of 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 the company statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the Group Statements of Comprehensive Income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial assets or financial liabilities at FVPL
This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivatives instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative, unless the embedded derivative does

not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the Group Statements of Financial Position at fair value, with changes in the fair value recorded in the Group Statements of Comprehensive Income. Interest earned or incurred is recorded in investment income or interest expense, respectively, while dividend income is recorded when shareholders' right to receive the payment has been established under the investment income account.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the Group Statements 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.

I. Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Date of recognition
Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the income statement.

Initial recognition of financial assets
Financial assets are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The group classifies financial assets in the following categories: Current Trade and Other Receivables and Non-current Receivables. 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 the investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The foregoing categories of financial instruments are more fully described below.

(a) Financial Assets at Fair Value through Profit or Loss

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the reporting date.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group does not have financial assets recognized as at fair value through profit or loss as at September 30, 2010 and 2009.

(b) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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

The Group's loans and receivables are presented as Trade and Other Receivables and Noncurrent Receivables in the Group's Statements of Financial Position.

Installment Contract Receivables
The Group recognizes installment contract receivables, using the installment method of accounting, at the time of sale of real estate/condominium unit and presented net of unrealized gross profit *(see Note 5)* which is viewed as a valuation account that represents the deferred profit recognized over the period of the installment contract.

Under the installment method of accounting, cash collections are regarded as partial recovery of cost and partial realization of profit in the same proportion that these two elements are present in the original selling price.

(c) Held-to-maturity Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. The Group currently has no Held-to-maturity investments as of reporting date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

The Group has not designated any financial assets as held-to-maturity as at September 30, 2010 and 2009.

(d) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group does not have any Available-for-sale financial assets as of reporting date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the Group Statement of Comprehensive Income when they are sold or when the investment is impaired. In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the Group Statement of Comprehensive Income. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the Group Statement Comprehensive Income. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in Group Statement of Comprehensive Income, the impairment loss is reversed through the Group Statement of Comprehensive Income.

Impairment losses recognized on financial assets (if any) are presented as part of Other Income (Expenses/Losses) in the Group Statement of Comprehensive Income.

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

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss if any are presented in the Group Statement of Comprehensive Income line item Interest Income (expense) or Other Income (Expenses/Losses).

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivable carried at amortized cost has been incurred, the amount of 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 rates (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss, if any, is recognized in the Group Statements of Comprehensive Income.

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. Objective evidence includes observance data that comes to the attention of management about loss events such as, but not limited to significant financial difficulty of the counterparty, a breach of contract, such as default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. 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 the group of financial assets with similar credit risk and 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 recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Group Statements of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the Group Statements of Comprehensive Income under “Other income” account. Any subsequent reversal of an impairment loss is recognized in the Group Statements of Comprehensive Income under “Provision for (reversal of) impairment losses” account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

Impairment of Financial Assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

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

Derecognition of Financial Assets

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

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- The Group has transferred its 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.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized directly in equity shall be recognized in Group Statement of Comprehensive Income.

II. Financial Liabilities

Financial liabilities include interest-bearing loans and borrowing, trade and other payables and finance lease liabilities, due to related parties and other non-current liabilities, which are measured at amortized cost using the effective interest rate method.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognized as an expense in the Group Statements of Comprehensive Income under the caption Finance Cost. Interest-bearing loans and borrowings are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs.

Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the Group Statement of Comprehensive Income.

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

Financial liabilities are derecognized from the Group Statements of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Group Statement of Comprehensive Income.

Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group owes money, goods or services directly to a creditor with no intention of trading the payables. Other liabilities are carried at cost or amortized cost in the Group Statement of Financial Position. Amortization is determined using the effective interest rate method. Other liabilities are included in current liabilities if maturity is within 12 months from the reporting date.

The Group's other liabilities consist of Accrued Interest, Taxes Payable, Security Deposits, Offsetting Payables etc.

III. Treasury Shares

IAS 32 incorporates the conclusion previously 32 in SIC-32 *Share Capital – Reacquired Own Equity Instrument* that the acquisition or subsequent resale by an entity of its own equity instruments does not result in a gain or loss for the entity. Rather it represents a transfer between those holders of equity instruments who have given up their equity interest and those who continue to hold an equity instrument.

3.7 Inventory

Inventory represents real estate and resort shares for sale and is valued at the lower of cost or net realizable value. Cost includes the acquisition cost of the land plus all costs directly attributable to the development of the projects where the Group is the landowner, and includes actual development cost incurred up to reporting date for projects where the Group is the developer. Founder shares, assigned to the Group by virtue of the Articles of Incorporation are valued at its par value. Interest on loans (borrowing costs) incurred during the development phase is also capitalized as part of the development cost of real estate properties.

Net realizable value is the selling price in the ordinary course of business less cost to complete and to market. Real estate and resort shares for sale are written down when the net realizable values of the properties are less than the carrying amounts.

3.8 Property and equipment

Property and equipment consists of buildings, computer and office equipment and office furniture and fixture and communication equipment. Buildings are held for use or for rental to others.

Property and equipment are stated at historical cost less accumulated depreciation and impairment value if any.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is calculated on the straight-line basis over the estimated useful life of the property and equipment as follows:

Land Improvements	20 years
Buildings and improvements	10-20 years
Slides, pools and improvements	10 years
Computer and office equipment	3-5 years
Office furniture and fixtures, and communication equipment	3-5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Group Statement of Comprehensive Income in the year the item is derecognized.

3.9 Investment Properties

The Group's investments on land held for future development are accounted for using the cost model in accordance with the provisions of PAS 40, *"Investment Property".* Investment Property refers to properties held to earn rentals or for capital appreciation or both.

Investment property is stated at cost less accumulated depreciation less and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized. Directly attributable expenditure includes professional fees for legal services, property transfer taxes and other transaction costs. Investment property shall be recognized as an asset when it is probable that the future economic benefit that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably.

A transfer from investment property to inventories is made after completion of development with a view to sell the same. When the Group decides to dispose on the investment property without development, it continues to treat the property as an investment property until it is derecognized and does not treat it as inventory.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

With the entry of Alliance Global Group, Inc. into the Parent Company, the Group is optimistic that development of these properties located in prime tourist spots such as Tagaytay, Nasugbu and Boracay will soon commence.

3.10 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the Group financial statements.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the Group financial statements but disclosed when an inflow of economic benefits is probable.

As of reporting date, no provision for retirement liability was recognized in the financial statement *(see Note 3.2, Retirement Liability)*

3.11 Revenue and Cost Recognition

Sale of Real Estate and Resort Shares
Revenues on sale of real estate and resort share are recognized upon receipt of sufficient payment (at least 24%).

Gain from sale of completed residential and commercial lots and resort share where a sufficient down payment has been received, the collectability of sales price is reasonably assured, the refund period has expired, the receivables are not subordinated and the seller is not obligated to complete improvements, is accounted for under the full accrual method.

Percentage of completion is used to recognize income from sale of residential/commercial condominium buildings, townhouses, and golf club and resort shares if the Group has material obligations under the sales contract, to complete or provide improvements after the property is sold. Under this method, the gain on sale is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of the physical portion of the contract work. Any excess of collections over the receivables are included in the "deferred income on real estate sales" account in the statements of financial position.

Contract costs include all direct materials and labor costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Cost of resort shares sold, where the Group is the landowner, is determined on the basis of the cost of the land.

The Group recognized the effect of revisions in the total project cost estimates of the real estate projects in the year in which these changes become known. Any impairment losses from the projects are charged to operations in the period in which the losses are determined.

Related commission is recognized as expense in the same period when the gain on sale of real estate and resort shares is realized. The amount of commission pertaining to deposit on real estate sales is shown as part of other current assets account in the consolidated statements of financial position.

As at reporting date, the Group's revenues generated came from rental income on buildings leased out.

Rental Income
Revenue is recognized as accrued on a straight-line basis over the term of the lease agreements.

Other Revenue

- *Interest* – revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- *Dividend* – revenue is recognized when the Group's right to receive the payment is established.
- *Other Income* – other income is recorded when earned.
- *Unrealized Foreign Exchange Gain* – revenue is recognized from the translation of one account from foreign currency to the operational currency of the Group as at reporting period.
- *Realized Foreign Exchange Gain* – revenue is recognized as a result of exchange differences arising from the settlement of transactions reported at foreign currency and settled in the operational currency of the Group.

Cost and Expense Recognition
Costs and expenses are recognized in the Group's Statements of Comprehensive Income upon utilization of the service or at the date they are incurred. Cost and Expenses are presented as Cost of Sales and Services, General and Administrative Expenses *(Note 16)*, Other Expenses/Losses *(Note 15.2)* and Finance Cost *(Note 15.3)* in the Group Statements of Comprehensive Income.

Finance Cost
Finance Cost relate to the share of the Group in the interest cost of a US Dollar convertible Bonds obtained from LIM ASIA Arbitrage Fund obtained last September 14, 2007

It is customary for the Parent Company to obtain a loan for use by the Parent and its subsidiaries and affiliates. The Finance Cost related to this loan is allocated to the Parent Company's subsidiaries and affiliates based on a weighted average of the loans availed by each subsidiary and affiliate including the Parent Company over total loan multiplied by the Finance Cost incurred.

Cost of Sales and Services
As at reporting date, the Cost of Sales and Services pertain to Depreciation Cost on the buildings leased out and there are no repairs and maintenance cost incurred on the buildings.

3.12 Functional Currency and Foreign Currency Transactions

- *Functional and Presentation Currency*

  Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Philippine pesos, which is the Group's functional currency.

- *Transaction and Balances*

  The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions are recorded on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency on transaction dates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Group Statement of Comprehensive Income.

The Effects of Changes in Foreign Exchange Rates

Provides certain restrictions in allowing the capitalization of foreign exchange differentials. The Group has US Dollar denominated bonds payable with Lim Asia Arbitrage Fund, Inc. which are translated into Philippine pesos at prevailing exchange rates at transaction dates and recognizes foreign exchange gains and losses at settlement dates and at year-end exchange rates. The resulting gains or losses from these translations are recognized in the Statements of Income. As at September 30, 2010 the Group recognized a net unrealized and realized foreign exchange gain amounting to P P93,879,192 and a net foreign exchange loss of P14,924,146 in 2009. *(See Note 15.1 and 15.2)*

3.13 Impairment of Non-financial Assets

The Parent Company's property, plant and equipment are subject to impairment testing. These assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are 4tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

2.14 Employee Benefits

(a) Short term Employee Benefits

In accordance with the provisions of the Labor Code, the Group provides basic salaries, 13^{th} month Pay, Social Security contributions, Pag-ibig Membership constributions, Home Mutal Development Fund Membership contributions and Philhealth Membership contributions to all employees *(See Note 14).*

(b) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(c) *Retirement Benefits Obligations*

Pension benefits are provided to Group employees through an unfunded, non-contributory defined benefit plan. The normal retirement consists of an eligible employee's attainment of age sixty (60) and upon completion of five (5) years of faithful and continuous service. Based on the years of service, the normal retirement benefit provides for lump-sum benefits equivalent to a range of 85% to 150% of the employee's monthly salary per year of service depending on the service tenure. The plan also provides for early retirement benefit for employees attaining the age of fifty with the completion of no less than ten (10) years of service.

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

The liability recognized in the consolidated statement of financial position for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

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

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

(d) *Other short-term employee benefits*

Other short-term benefits includes special benefits program of clothing benefit, savings and loans benefit program, transportation benefits, funeral benefit, and rice subsidy.

3.15 Borrowing Costs

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

To the extent that the Group borrows funds generally and used them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining the qualifying asset. The amount of borrowing costs that the Group capitalizes does not exceed the amount of borrowing costs applicable to its own borrowings.

3.16 Related Party Transactions and Relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise and its key management personnel, directors, or its stockholders.

Related party relationships are a normal feature of commerce and business. The Group sometimes grants/secures interest-bearing and non-interest bearing advances to/from its affiliates and/or shareholders. Interest-bearing advances are covered by promissory notes renewable annually. Advances to/from affiliates and/or shareholders are presented as part of Trade and Other Receivables/Trade Trade and Other Payables in the Group statement of financial position.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

3.17 Income Taxes

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

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

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset to be utilized.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the Group's Statements of Comprehensive Income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

3.18 Earnings Per Share

Basic earnings per share is computed by dividing the net income for the year attributable to equity holders of the Group by the weighted average number of ordinary shares issued and outstanding during the year after considering the retroactive effect, if any, of stock dividends declared during the year, excluding treasury shares.

Diluted earnings per share is calculated by dividing the net income or loss for the year by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and adjusted for the effects of all dilutive potential common shares, if any.

For purposes of calculating diluted earnings per share, the Group adjusts profit and loss attributable to ordinary equity holders of the Group by the tax effect of:

(a) any dividends or other items related to dilutive potential ordinary shares

(b) any interest recognized in the period related to dilutive potential ordinary shares
(c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

Warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the warrant.

3.19 Equity

Share Capital is determined using the nominal value of shares that have been issued *(See Note 20)*.

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

Retained earnings include all current and prior period results as disclosed in the Group's Statements of Comprehensive Income.

3.20 Events after the Balance Sheet Date

Events after the balance sheet date are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue *(See Note 25).*

The Group adjusts the amounts recognized in the financial statements to reflect adjusting events after the financial position date. Non-adjusting events are not recognized in the financial but are disclosed in the notes to financial statements.

The revised disclosures on the financial statements required by the above standards and interpretations will be included in the Group's consolidated financial statements when these are adopted.

The Group has engaged the services of KL Siy & Associates during the fiscal year. There were no disagreements with KL Siy & Associates on any matter of accounting and financial disclosure.

<u>Information on Independent Accountant and Other Related Matters</u>

For the audit of the registrant's financial statements provided by the external auditors in connection with statutory and regulatory filings for the last two fiscal years, the aggregate audit fee was approximately ₱ 1 million in 2009 and ₱ 2.7 million in 2009.

No other assurance and related services have been rendered by the external auditors to the registrant other than the items discussed above.

PART IV – MANAGEMENT AND CERTAIN SECURITY HOLDER

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

Position	Name	Citizenship	Director or Officer Since	Years of Service up to present
Chairman of the Board and CEO	Robert John L. Sobrepeña	Filipino	1994	16 yrs.
Co-Chairman, President and Chief Operating Officer	Ferdinand T. Santos	Filipino	1994	16 yrs.
Vice-Chairman	Noel M. Cariño	Filipino	1994	16 yrs.
Director	Enrique A. Sobrepeña, Jr.	Filipino	1994	16 yrs.
Independent Director	Dominador Gregorio III	Filipino	2010	0 yr.
Independent Director	Francisco Gonzalez	Filipino	2010	0 yr.
Director and SVP for Business Development	Rafael P. Perez de Tagle Jr.	Filipino	1994	16 yrs.
SVP and Chief Finance Officer	Roberto S. Roco	Filipino	1995	15 yrs.
VP for Government Compliance	Nicholas A. Aquino	Filipino	1994	16 yrs.
VP for Labor and Litigation	Roy V. Movido	Filipino	2001	9 yrs.
VP for Good Governance	Alice Odchigue Bondoc	Filipino	2003	7 yrs.

**Updated as of 2010 Annual Stockholders Meeting held last August 26, 2010.*

Board of Directors

ROBERT JOHN L. SOBREPEÑA, Filipino, 55 years old, has been the Chairman of the Board of Fil-Estate Land, Inc. since 1999 and the Chief Executive Officer since 1994. He is one of the three founding members of the Fil-Estate Group of Companies. Currently, he is also the Chairman of the Board of various companies such as Fil-Estate Management Inc., Fil-Estate Corporation, Fil-Estate Properties Inc., Fil-Estate Ecocentrum Corp., Fil-Estate Golf & Development Inc., Fil-Estate Urban & Development Corporation, Fil-Estate Realty Corporation, Fil-Estate Marketing Association, Inc., Fil-Estate Network, Inc., Camp John Hay Development Corporation, Camp John Hay Hotel, Inc., Sherwood Hills Development, Inc., Club Leisure Management, Inc., Manila Southwoods Golf & Country Club, Sherwood Hills Golf & Country Club, Camp John Hay Golf Club, Summit Estate Realty & Development Corporation, Pacific Touch Group Ltd., Metro Rail Transit Holdings, Inc., Metro Rail Transit Holdings II, Inc., Metro Rail Transit Corporation, MRT Development Corporation, and Monumento Rail Transit Corporation. He also serves as Vice Chairman of Fil-Estate Sales, Inc., Fairways & Bluewaters Development Corporation, and the Fairways and Bluewaters Resort Golf & Country Club. A member of the American Chamber of Commerce and the Rotary Club of Manila, he earned his Bachelor's Degree in Psychology and Marketing from the De La Salle University in 1978.

FERDINAND T. SANTOS, Filipino, 59 years old, is currently the Co-Chairman of the Board of the company since 1999. He has been with Fil-Estate Land, Inc. since its incorporation in 1994. He is one of the three founding members of the Fil-Estate Group of Companies. He serves as the Vice Chairman of Fil-Estate Properties Inc., Fil-Estate Marketing Association, Inc., and Fil_Estate Network Inc. He is also the President of Fil-Estate Management Inc., Fil-Estate Development Inc., Fil-Estate Properties Inc., Fil-Estate Golf & Development Inc., MRT Development Corporation, St. Benedict Realty & Development Inc., Royal Jade Memorial Inc., and Mt. Zion Memorial Inc. He graduated from Arellano University with Bachelor of Arts degree in 1970 and took his Bachelor of Laws at San Beda College where he graduated Valedictorian and Magna Cum Laude in 1974. He was a topnotcher in the 1974 Philippine Bar (2nd Place).

NOEL M. CARIÑO, Filipino, 55 years old, has more than 35 years of experience in sales and marketing. He's a marketing man par excellence. He became the youngest Branch Manager of V.V. Soliven, the top real estate marketing company during the 70's era for breaking sales records a few months after he joined the said company. Co-Founded the Fil-Estate Realty Corporation in 1981 which earned its first P15 million during its first 15 days of operation. Currently the Chairman of Fil-Estate Realty Sales Associates Inc., Fairways and Bluewaters Resort Golf & Country Club and the Caliraya Springs Golf & Country Club. He served as Vice-Chairman of the Company since 1994 and is one of the three founders of the Fil-Estate Group of Companies. He is also the Chairman of the Board of the War Against Poverty Foundation, the founder and adviser of several non-government organizations including Bangon Lakas Pilipino, Makapinay, Kumpas and Makabago.

ENRIQUE A. SOBREPEÑA, Filipino, 84 years old, has served as Director of the Company since 1994. He is also President and Chief Executive Officer of College Assurance Plan Phils, Inc., Comprehensive Annuity Plans and Pension Corporation, CAP Life Insurance Corporation, CAP Technologies, Inc., CAP Realty, Inc., and CAP General Insurance Corporation. His other significant positions include: Director of Bank of Commerce, BANCommerce Investment Corporation, Camp John Hay Development Corporation, Metro Rail Transit Development Corporation and CAP Foundation for Socio-Economic Cooperation, Inc. He graduated with Bachelor of Arts at Siliman University in 1949 and Bachelor of Laws at University of Manila in 1952. He was awarded Doctor of Humanities, Honoris Causa by University of the City of Manila in 2001 and Doctor of Business Administration, Honoris Causa by University of Baguio in 2002.

FRANCISCO GONZALES, Filipino, 67 years old, with business experience for the past five (5) years as the President of Romago Incorporated, Asia Pacific Golf Corporation, Fabriduct & Metal Systems, Inc., Electro Mechanical Products International and G&P of Marula, Inc. He is also a Director and Membership Committee Chairman of The Manila Southwoods Golf & Country Club, Inc., Forest Hills Golf & Country Club Inc., and Sherwood Hills Golf Club Inc. Mr. Gonzales replaced Mr. Van Drasek as the Chairman of the Audit, Nomination and Executive Compensation Committee.

DOMINADOR T. GREGORIO III, Filipino, 51 years old, is currently an Executive Director at FS Asia Advisory Inc. (formerly Ferrier Hodgson Philippines), since 2009. Just prior to that, "Butch" was a Partner and Head of the Financial Advisory Services Group of Deloitte, in Almaty in Kazakhstan. From 2003 til 2007, he was Chief Operating Officer and Managing Director of Ernst & Young Transaction Advisory Services Inc., Philippines. Butch had also previously spent seven (7) years with Citicorp Real Estate Inc., in the U.S. He was former Chairman of the Corporate Finance Committee of FINEX, and is also a member of MAP, PICPA and SIRCRO. He has a MBA from the Wharton School and an MA in International Studies, from the Lauder Institute of Management and International Studies, University of Pennsylvania. He graduated from the University of the Philippines with a BS in Business Administration and Accountancy, Cum Laude in 1983. He is a CPA.

RAFAEL PEREZ DE TAGLE, JR., Filipino, 55 years old, is currently the President and Chief Operating Officer of Fil-Estate Urban Development Corporation, a wholly owned subsidiary of the company. He is also a member of the Board of the company and of various companies such as MRT Development Corporation, Fil-Estate Corporation, Fil-Estate Ecocentrum Corporation, Camp John Hay Development Corporation, CAP General Insurance, Sherwwod Hills Golf Club, Camp John Hay Golf Club, Warbird Security & Investigation Agency, Inc., Magna Ready Mix Concrete Corporation and the Manila Southwoods Golf & Country Club. Has a degree in Arts major in Economics from De La Salle University in 1976

Key Executive Officers

ROBERTO S. ROCO, Filipino, 57 years old, is Senior Vice President and Chief Finance Officer and is a Director of the Fil-Estate Ecocentrum Corporation. Mr. Roco was formerly the Executive Vice President and Chief Operating Officer of Smith Bell & Co., Inc. He also held concurrent positions in various Smith Bell companies.

ALICE ODCHIGUE-BONDOC, Filipino, 42 years old, is the Vice President for Good Governance, Compliance Officer and Assistant Corporate Secretary of the Company. She is also a Director of Fil-Estate Corporation and Camp John Hay Leisure, Inc. She concurrently holds various positions in the Fil-Estate Group of Companies. She took her Bachelor of Science in Business Management major in Legal Management at Ateneo de Manila University and graduated Honorable Mention and Departmental Awardee of the Department of Legal Management in 1987. She holds a Doctor of Jurisprudence degree from the Ateneo de Manila University School of Law and graduated Second Honors-Silver Medal Awardee in 1992.

NICHOLAS A. AQUINO, Filipino, 60 years old, is Vice President for Licensing and Permits. Prior to joining the Company, he was an associate lawyer of the Salvador, Manguera, Gofio Law Offices and also the Director for Legal Affairs of the National Food Authority.

ROY V. MOVIDO, Filipino, 42 years old, is Vice President for Legal Affairs-Litigation and Labor. He is likewise the Corporate Secretary and Legal Counsel of Fairways and Bluewater Resort Golf and Country Club, Inc. and Caliraya Spring Golf Club, Inc. He graduated from the Ateneo de Manila University School of Law with a degree of Doctor of Jurisprudence.

GILBERT RAYMUND T. REYES, Filipino, 52 years old, has been the Corporate Secretary of the Corporation since 2003. He is a founding partner of the Poblador Bautista & Reyes Law Offices. He graduated Bachelor of Science in Biology at the University of the Philippines. He finished his Bachelor of Laws (magna cum laude) at the University of the Philippines in 1983.

Significant Employees

The Corporation considers its entire workforce as significant employees. The Corporation relies on the contribution of all employees to achieve its corporate objectives.

Involvement in Certain Legal Proceedings (over the past 5 years)

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

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

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

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

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

ITEM 10. EXECUTIVE COMPENSATION

KEY EXECUTIVE OFFICERS

NAME	POSITION	SALARY	BONUS	TOTAL
Robert John L. Sobrepeña	Chairman of the Board and CEO			
Ferdinand T. Santos	Co-Chairman, President & COO			
Noel M. Cariño	Vice Chairman			

Roberto S. Roco	SVP and Chief Finance Officer			
Nicholas A. Aquino	Vice President			
Alice Odchigue-Bondoc	Vice President			
Roy V. Movido	Vice President			
Total Group Compensation	Year 2010 2009 2008	P4.8M P4.8M P4.8M	**-** - -	P4.8M P4.8M P4.8M

Officers for the rank of AVP and up (including key executive officers)

Position	YEAR		
	2010	**2009**	**2008**
AVP and up (Gross Salary of FELI, FEPI, FEGDI) Directors	P 20.6M -	P 20.6M -	P20.6M -
Total	**P 20.6M**	**P 20.6M**	**P20.8M**

The total annual compensation paid to all senior personnel from AVP and up are all payable in cash. The total annual compensation includes the basic salary and 13th month pay. The Company has no other arrangement with regard to the remuneration of its existing officers aside from the compensation received as herein stated.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS
The Directors receive a per diem of ₱ 20,000 per attendance at board meetings.

The Company since 1995 has not accrued or provided for certain executive compensation as this matter is still subject to study and will be implemented upon approval of the Board of Directors.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Record and Beneficial Owners

Security ownership of certain record and beneficial owners owning more than 5% of any class of the Corporation's voting securities as of 30 September 2010 are as follows:

Title of Class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held ("r"or"b")	Percent (Based in total shares)
Common shares	Fil-Estate Management, Inc. 6/F Renaissance Tower, Meralco Avenue, Pasig City	Robert John L. Sobrepeña – Chairman (Direct and Indirect)	Filipino	1,883,378,007 ®	56.22%
Common shares	PCD Nominee Corporation (Filipino) 6/F MKSE Bldg. Ayala Avenue, Makati City	Various shareholders (Direct)	Filipino	1,209,125,694 ®	36.09%
Common shares	PCD Nominee Corporation (Foreign) 6/F MKSE Bldg. Ayala Avenue, Makati City	Various shareholders (Direct)	Foreign	899,258,285 ®	2.66%

Mr. Robert John L. Sobrepeña is one of the controlling stockholders of Fil-Estate Management, Inc. He is also the Chairman of the Board of the Corporation.

Fil-Estate Management, Inc. appoints the Chairman of the Board to represent and vote on all matters.

Based on information provided by PCD, there are no beneficial owners owning more than 5% of the outstanding capital stock of the Company.

There are no securities placed under voting trust or similar agreement.

Security Ownership of Management

As of September 30, 20010 common shares owned by all directors and executive officers of FELI, representing original issues and stock dividends are as follows:

Title of Class	Name of Beneficial Owner	Amount and nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Robert John L. Sobrepeña	1,617,485 ® (direct)	Filipino	0.048%
	Ferdinand T. Santos	30,019 ® (direct)	Filipino	0.001%
	Noel M. Cariño	23 ® (direct)	Filipino	0.000%
	Enrique A. Sobrepeña, Jr.	10 ® (direct)	Filipino	0.000%
	Francisco Gonzalez	1 ® (direct) 5,849,597®(indirect)	Filipino	0.000% 0.175%
	Alice Odchigue-Bondoc	4,001 ® (direct)	Filipino	0.000%
	Roberto S. Roco	266,448 ® (direct)	Filipino	0.008%
	Rafael P. Perez de Tagle Jr.	46,800 ® (direct)	Filipino	0.001%
	Dominador Gregorio III	1 ® (direct)	Filipino	0.000%
Total		**7,814,385**		**0.233%**

Voting Trust Holders of 5% or more

The Company knows of no persons holding more than 5% of common shares under voting trust or similar agreement.

Changes in Control

There has been no change in the controlling majority stockholder of the Corporation nor there has been any arrangement with any party which may result in a change of control since the last fiscal year.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Atty. Enrique A. Sobrepeña, Jr. is the father of Robert John L. Sobrepeña and Joel M. Cariño, a former Director, is the brother of Noel M. Cariño.

No transaction was undertaken or to be undertaken by the Company in which any Director or Executive Officer, nominee for election as Director, or any member of their immediate family was or to be involved or had or will have a direct or indirect material interest.

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

The Company, in its regular course of trade or business, enters into transactions with its majority stockholders, subsidiaries and affiliated companies involving mainly the sale of real estate and golf club shares, interest and non-interest bearing advances, commissions and rentals.

PART V – CORPORATE GOVERNANCE

The Corporation had adopted the Self-Rating System on Corporate Governance being implemented by the Securities and Exchange Commission through SEC Memorandum Circular No. 5, Series of 2003 to assess compliance with leading practices on corporate governance. The Compliance Officer meets with the directors and top-level management from time to time to evaluate compliance with the Corporation's Manual on Corporate Governance.

In order to comply fully with the adopted leading practice on good corporate governance, the Compliance Officer is present at all meetings of the Board of Directors and closely coordinates with the Chairman and the President to ensure full compliance with the adopted leading practices on good corporate governance. The Compliance Officer furnishes the Board of Directors and top-level management with copies of new rules, regulations, circulars and orders of the Securities and Exchange Commission and the Philippine Stock Exchange to continuously update its Directors and top-level management with new requirements for compliance with leading practices on corporate governance. In addition, the Compliance Officer requires and encourages its Directors and top-level management to attend seminars on good corporate governance.

There are no material deviations to date from the Corporation's Manual of Corporate Governance. The Board has no immediate plans to adopt new policies for corporate governance.

PART VI – EXHIBITS AND SCHEDULES

a. Exhibits
The following exhibits are filed as a separate section of this report:

- Subsidiaries and Affiliates of the Registrant

- The other exhibits, as indicated in the Index to Exhibits (page 35) are either not applicable to the Company or require no answer.

b. Reports on SEC Form 17-C

The following reports on SEC Form 17-C were among those filed during the last six month period covered by this report:

- Annual Stockholders' Meeting and record date (filed on June 21, 2010)
- Report of FELI regarding Subscription Agreement with Alliance Global Group Inc. (filed on December 23, 2010)

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized in Pasig City on January 28, 2011.

By:

Atty. Ferdinand T. Santos **President**	**Roberto S. Roco** **Chief Finance Officer**

Atty. Dominic V. Isberto
Corporate Secretary

SUBSCRIBED AND SWORN to before me this ________day of 28 JAN 2011, 2010 affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	C. T. Cert. No.	Date of Issue	Place of Issue
Atty. Ferdinand T. Santos	14072284	1/26/11	Cainta, Rizal
Roberto S. Roco	18240642	2/11/10	Quezon City
Atty. Dominic V. Isberto	Passport # 22223532	3/22/07	Manila

Doc. No. : 66
Page No. : 15
Book No. : XIII
Series of 2011

ALAN B. QUINTANA
NOTARY PUBLIC
PASIG, SAN JUAN, PATEROS, TAGUIG
APPT. NO. [illegible]
2F RENAISSANCE/ MERALCO [illegible], PASIG
ATTORNEY'S ROLL NO. [illegible]
IBP NO. [illegible], PASIG 1-3-11
PTR NO. 6615045, PASIG 1-3-11
MCLE COMPLIANCE NO. III - 0004804

FIL-ESTATE LAND, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended September 30, 2010

NA: Not Applicable or already disclosed in the Notes to Financial Statements.

FIL-ESTATE LAND, INC. AND SUBSIDIARIES
INDEX TO EXHIBITS
Form 17 - A

No.		
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	n.a.
(5)	Instruments Defining the Rights of Security Holders, Including Indentures	n.a.
(8)	Voting Trust Agreement	n.a.
(9)	Material Contracts	n.a.
(10)	Annual Report to Security Holders, FORM 17 – Q or Quarterly Report to Security Holders	n.a
(13)	Letter re: Change in Certifying Accountant	n.a.
(16)	Report Furnished to Security Holders	n.a.
(18)	Subsidiaries of the Registrant	Attached
(19)	Published Report Regarding Matters Submitted to a Vote of Security Holders	n.a.
(20)	Consents of Experts and Independent Counsel	n.a.
(21)	Power of Attorney	n.a.
(22)	Additional Exhibits	n.a.

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n. a. Not applicable or require no answer.

FIL-ESTATE LAND, INC.
SUBSIDIARIES AND AFFILIATES
As of September 30, 2010

SUBSIDIARIES	OWNERSHIP % By FELI	By the Subsidiary/ Affiliate	NATURE OF PROJECTS
Fil-Estate Properties, Inc.	100%		Integrated residential and high rise residential and commercial condominium development
Fil-Estate Subic Development Corporation		100%	Integrated residential and leisure development
Golden Sun Airways, Inc.		100%	Aircraft leasing
Blue Sky Airways, Inc.		100%	-do-
Prime Airways, Inc.		100%	-do-
Fil-Power Construction Equipment Leasing Corp.		100%	Leasing company
Fil-Power Concrete Block Corporation		100%	Manufacturing and selling of concrete products or other goods of similar nature
La Compaña De Sta. Barbara Inc.		100%	Integrated residential and golf development
Sto. Domingo Development Place Corp.		100%	High rise residential development
Fil-Estate Industrial Park, Inc.		78.9%	Industrial Park development
Sherwood Hills Development (SHDI), Inc.		55%	Integrated residential and golf development
Metro Rail Transit Development Corp.		30.9%	Property development
Caliraya Springs Golf Club, Inc.		29%	Golf Club operator
Fil-Estate Golf & Development, Inc.	100%		Integrated golf and leisure development
Golforce, Inc.		100%	Golf course maintenance
Forest Hills Golf & Country Club, Inc.		65%	Golf Club operator
Newport Hills Golf Club, Inc.		62%	- do-
Mountain Meadows Golf Club, Inc.		60%	- do -
Fil-Estate Ecocentrum Corp.		56%	Leisure development
Fairways & Bluewater Resort Golf & Country Club, Inc.	100%		Golf Club operator
Fil-Estate Marketing Associates, Inc.	20%		Marketing real estate projects
Fil-Estate Network, Inc.	20%		- do -
Fil-Estate Sales, Inc.	20%		- do-
Fil-Estate Realty Corporation	20%		- do -
Fil-Estate Realty Sales Associates, Inc.	20%		- do-

FIL-ESTATE LAND, INC. AND SUBSIDIARIES
SCHEDULE D - INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES
AS OF SEPTEMBER 30, 2010
(amounts in thousands)

Name of Affiliate		Beginning Balance			Ending Balance
Joint Venture Projects	₱	104,898		₱	111,633
Golf Clubs		238,653			155,529
Fil-Estate Marketing Companies		141,793			147,067
Fil-Estate Management Inc.		47,156			63,181
Fil-Estate Development Inc.		142,816			93,438
Others - Net		192,243			1,128,965
	₱	867,559		₱	1,699,814

FIL-ESTATE LAND, INC. AND SUBSIDIARIES
SCHEDULE I - INDEBTEDNESS TO AFFILIATES AND RELATED PARTIES
AS OF SEPTEMBER 30, 2010
(amounts in thousands)

Name of Affiliate		Beginning Balance		Ending Balance
Joint Venture Projects	₱	132,631	₱	342,499
Golf Clubs		1,744		1,188
Fil-Estate Marketing Companies		17,988		22,886
Fil-Estate Management Inc.		-		-
Fil-Estate Development Inc.		-		-
Others – Net		298,706		477,808
	₱	451,069	₱	844,383

FIL-ESTATE LAND, INC. AND SUBSIDIARIES
SCHEDULE K – CAPITAL STOCK
AS OF SEPTEMBER 30, 2010

Title of Issue	Number of shares authorized	Number of shares outstanding	Number of shares reserved for options, warrants, conversions and other rights	Affiliates	Number of shares held by Directors, officers and employees	Others
Capital Stock	5,000,000,000	3,350,000,000	-	1,883,378,007	7,814,385	1,458,807,608

KL Siy & Associates
Outsourceit

The Board of Directors
Fil-Estate Land, Inc. and subsidiaries
7th Floor Renaissance Tower,
Meralco Avenue, Pasig City

We have audited the accompanying consolidated financial statements of Fil-Estate Land, Inc. and subsidiaries as of and for the fiscal year ended September 30, 2010, on which we have rendered our report dated January 28, 2011.

1. In compliance with Revenue Regulation V-20, we are stating that we are not related by consanguinity nor affinity to the president, manager or principal stockholder of the Company.

KL SIY & ASSOCIATES

By:

Kathleen Siy

KATHLEEN L. SIY
Managing Partner
CPA Registration No. 45337
BOA Accreditation No. 0668
 Effective until December 31, 2012
Sec Accreditation No. 1004-A
 Effective until July 14, 2013
IC Accreditation No. SP-0067-O
 Effective until September 30, 2013
TIN No. 105-814-362
PTR No.6647019
 Issued on January 11, 2011 Pasig City

January 28, 2011
Ortigas Center, Pasig City

COVER SHEET

A S 0 9 4 - 0 0 4 4 6 2

S.E.C. Registration Number

F I L - E S T A T E L A N D I N C

(Company's Full Name)

7 T H F l o o r R e n a i s s a n c e T o w e r s

M e r a l c o A v e n u e P a s i g C i t y

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

ROBERTO S. ROCO	637-20-48 OR 633-62-39
Contact Person	Company Telephone Number

0 9	3 0	**AAFS**		
Month	Day	FORM TYPE	Month	Day
fiscal year			annual meeting	

Secondary License Type, If Appplicable

Dept. Requiring this Doc.

Amended Articles Number/ Section

Total Amount of Borrowings

Domestic

Foreign

****

To be accomplished by SEC Personnel concerned

File Number

LCU

Dociment I.D.

Cashier

STAMPS

Tower F, Renaissance Towers
Meralco Avenue, Ortigas Center
Pasig City, 1600, Philippines

Fil-Estate Land, Inc.

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Fil –Estate Land, Inc.** and Subsidiaries is responsible for all information and representations contained in the financial statements for the year ended September 30, 2010 and 2009. The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

KL Siy & Associates represented by Kathleen L. Siy, the independent auditors and appointed by the stockholders, has examined the financial statements of the company in accordance with the Philippine Auditing Standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

Robert John L. Sobrepeña
Co-Chairman of the Board

Ferdinand T. Santos
President

Roberto S. Roco
Chief Finance Officer

28 JAN 2011

SUBSCRIBED AND SWORN to before me this ____ day of ______________ affiants exhibited to me their respective Community Tax Certificates, as follows:

Name	CTC No:	Date/Place Issued
Robert John L. Sobrepeña	01296845	Jan. 19, 2011 / Manila
Ferdinand T. Santos	29650141	Feb. 11, 2010 / Cainta, Rizal
Roberto S. Roco	18240642	Feb. 11, 2010 / Quezon City

ALAN B. QUINTANA
NOTARY PUBLIC
PASIG, SAN JUAN, PATEROS, TAGUIG
APPT. NO. 92 UNTIL DEC. 31, 2012
2F RENAISSANCE/ MERALCO AVE., PASIG
ATTORNEY'S ROLL NO. [illegible]
IBP NO. 841[illegible]3, PASIG 1-[illegible]-11
PTR NO. 6615045, PASIG 1-3-11
MCLE COMPLIANCE NO. III - 0004802

Doc. No. 67;
Page No. 15;
Book No. XIII;
Series of 2011.

KL Siy & Associates

Outsourceit

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Fil-Estate Land, Inc. and subsidiaries

7th Floor Renaissance Tower,
Meralco Avenue, Pasig City

Report on Financial Statements

We have audited the accompanying consolidated statement of financial condition of Fil-Estate Land, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009 the related consolidated statements of comprehensive income, consolidated changes in stockholders' equity and consolidated cash flow for the years then ended. The Consolidated Statement of Financial Position and the related Consolidated Statements of Comprehensive Income, and Consolidated Cash Flow for the year ended September 30, 2009 were audited by a previous auditor whose opinion dated February 5, 2010 expressed an unqualified opinion on those statements. The prior year's balances were presented only for comparative purpose and were never part of the audit procedures.

These financial statements are the responsibility of the Company's management.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Fil-Estate Land, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

KL SIY & ASSOCIATES
SEC Accreditation No. 0117-F

By:

KATHLEEN L. SIY
Managing Partner
CPA Registration No. 45337
BOA Accreditation No. 0668
Effective until December 31, 2012
Sec Accreditation No. 1004-A
Effective until July 14, 2013
IC Accreditation No. SP-0067-O
Effective until September 30, 2013
TIN No. 105-814-362
PTR No.6647019
Issued on January 11, 2011 Pasig City

January 28, 2011
Ortigas Center, Pasig City

KL Siy & Associates

Outsourceit

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors
Fil-Estate Land, Inc. and subsidiaries

7th Floor Renaissance Tower,
Meralco Avenue, Pasig City

Report on Financial Statements

We have audited the accompanying consolidated statement of financial condition of Fil-Estate Land, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009 the related consolidated statements of comprehensive income, consolidated changes in stockholders' equity and consolidated cash flow for the years then ended. The Consolidated Statement of Financial Position and the related Consolidated Statements of Comprehensive Income, and Consolidated Cash Flow for the year ended September 30, 2009 were audited by a previous auditor whose opinion dated February 5, 2010 expressed an unqualified opinion on those statements. The prior year's balances were presented only for comparative purpose and were never part of the audit procedures.

These financial statements are the responsibility of the Company's management.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Fil-Estate Land, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009, and of its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

KL SIY & ASSOCIATES
SEC Accreditation No. 0117-F

By:

KATHLEEN L. SIY
Managing Partner
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KL Siy & Associates
Outsourceit

The Board of Directors
Fil-Estate Land, Inc. and subsidiaries
7th Floor Renaissance Tower,
Meralco Avenue, Pasig City

We have audited the accompanying consolidated financial statements of Fil-Estate Land, Inc. and subsidiaries as of and for the fiscal year ended September 30, 2010, on which we have rendered our report dated January 28, 2011.

1. In compliance with Revenue Regulation V-20, we are stating that we are not related by consanguinity nor affinity to the president, manager or principal stockholder of the Company.

KL SIY & ASSOCIATES

By:

Kathleen L. Siy

KATHLEEN L. SIY
Managing Partner
CPA Registration No. 45337
BOA Accreditation No. 0668
Effective until December 31, 2012
Sec Accreditation No. 1004-A
Effective until July 14, 2013
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Issued on January 11, 2011 Pasig City

January 28, 2011
Ortigas Center, Pasig City

Unit 1409, Prestige Tower Condominium, Emerald Ave., Ortigas Center, Pasig City 1600 Tel: 634-6972 Telefax: 634-7685 E-mail: klsiy_associates@yahoo.com

FIL - ESTATE LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2010 and 2009
(Amounts in Philippine Pesos)

	Notes	2010	As Re-stated 2009
A S S E T S			
Current Assets			
Cash	5	P 81,957,165	P 192,967,796
Trade and other receivables	6	3,495,831,237	2,507,389,161
Inventory	7	5,986,924,869	6,511,024,764
Other current assets	9	495,062,334	469,108,767
Total Current Asset		10,059,775,605	9,680,490,488
Noncurrent Assets			
Property and equipment	10	556,656,559	584,881,005
Investment in associates, affiliates and joint ventures	11	2,231,706,422	2,324,760,646
Investment properties	12	2,202,743,396	2,205,431,735
Noncurrent receivables	5	377,137,830	304,815,310
Deferred assets	25	405,122,128	440,735,959
Other noncurrent assets	13	16,007,692	22,923,168
Total Noncurrent Assets		5,789,374,026	5,883,547,822
TOTAL ASSETS		P 15,849,149,631	P 15,564,038,310
LIABILITIES AND EQUITY			
LIABILITIES			
Current Liabilities			
Trade and other payables	14	P 2,689,298,785	P 2,332,203,488
Loans Payable	17	4,100,000	
Other current liabilites	15	1,669,615,222	1,551,918,476
Total Current Liabilities		4,363,014,006	3,884,121,965
Noncurrent Liabilities			
Bonds payable	16	1,097,400,000	1,189,800,000
Loans Payable	17	501,001,457	468,157,174
Deferred tax liability	25	325,167,823	286,614,528
Other noncurrent liabilities	18	500,619,373	487,086,623
Total Noncurrent Liabilities		2,424,188,653	2,431,658,324
TOTAL LIABILITIES		6,787,202,659	6,315,780,289

(Forward)

EQUITY		
Share capital	3,066,877,964	3,066,877,964
Share premium	1,597,739,274	1,597,739,274
Deposit for future stock subscription	-	-
Revaluation reserve	(891,027)	(748,108)
Retained earnings	4,137,061,683	4,298,746,306
	8,800,787,894	8,962,615,436
Non-controlling interests	261,159,078	285,642,585
TOTAL EQUITY	9,061,946,972	9,248,258,021
TOTAL LIABILITIES AND EQUITY	P 15,849,149,631	P 15,564,038,310

See Notes to Financial Statements.

FIL - ESTATE LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009
(Amounts in Philippine Peso)

	Notes	2010	2009
Revenues	*19*	P 488,461,580	P 497,688,934
Cost of sales and services	*20*	(392,091,329)	(235,645,892)
Gross profit		96,370,251	262,043,042
Other revenues	*21.1*	268,362,883	246,167,186
Equity in net earnings (loss)of affiliates	*11*	(7,201,752)	(29,359,139)
General and administrative expenses	*22*	(341,858,773)	(361,696,368)
Marketing expenses	*23*	(20,704,100)	(39,598,242)
Other expenses/losses	*21.2*	(26,774,648)	(103,312,593)
Finance costs	*21.3*	(382,413,456)	(104,967,683)
Profit before tax		(414,219,595)	(130,723,798)
Income tax expense (benefit)		78,813,246	53,305,134
Profit after tax		(P 493,032,841)	(P 184,028,931)
Other comprehensive income			
Net Unrealized Gain(Loss) on AFS		(255,000)	(114,274)
Total comprehensive income (loss)		(493,287,841)	(184,143,205)
Profit attributable to:			
Owners of the Company		(480,597,056)	(152,025,713)
Non-controlling interest		(12,435,785)	(32,003,218)
		(493,032,841)	(184,028,931)
Total comprehensive income attributable to:			
Owners of the Company		(480,739,977)	(152,089,760)
Non-controlling interest		(12,547,865)	(32,053,445)
		(P 493,287,841)	(P 184,143,205)
Earnings per share	*26*	(P 0.16)	(P 0.06)

See Notes to Financial Statements.

FIL - ESTATE LAND, INC. AND SUBSIDIARIES
PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2010 and 2009
(Amounts in Philippine Pesos)

	Notes	Share Capital		Additional	Revaluation	Retained Earnings		Minority	
		No. of Shares	Paid-up	Paid -up	Reserves	Approprited	Unappropriated	Interest	Total
Balance at October 1, 2008		3,066,877,964.00	3,066,877,964.00	1,597,739,274.09	(684,059.48)	3,680,000,000.00	832,042,859.60	317,696,029.43	9,493,672,067.64
Prior period adjustment		-	-	-	-	-	(37,583,405.47)	-	(37,583,405.47)
Re-stated October 1, 2008		3,066,877,964.00	3,066,877,964.00	1,597,739,274.09	(684,059.48)	3,680,000,000.00	794,459,454.12	317,696,029.43	9,456,088,662.17
Net income		-	-	-	-	-	(175,713,148)	(32,003,218)	(207,716,366)
Comprehensive income		-	-	-	(64,047)	-	-	(50,227)	(114,274)
Balance at September 30, 2009		3,066,877,964.00	3,066,877,964.00	1,597,739,274.09	(748,106.65)	3,680,000,000.00	618,746,306.18	285,642,584.93	9,248,258,022.56
Prior period adjustment		-	-	-	-	-	(206,013,330.10)	(11,935,641.27)	(217,948,971.37)
Re-stated October 1, 2009		3,066,877,964.00	3,066,877,964.00	1,597,739,274.09	(748,106.65)	3,680,000,000.00	937,658,740.19	273,706,943.66	9,555,234,815.29
Net income		-	-	-	-	-	(480,597,056.44)	(12,435,784.97)	(493,032,841.41)
Comprehensive income		-	-	-	(142,920.20)	-	-	(112,079.80)	(255,000.00)
Balance at September 30, 2010		3,066,877,964.00	3,066,877,964.00	1,597,739,274.09	(891,026.85)	3,680,000,000.00	457,061,683.75	261,159,078.90	9,061,946,973.88

See Notes to Financial Statements.

FIL - ESTATE LAND, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
SEPTEMBER 30, 2010 and 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss) before tax		(P 414,219,595)	(P 184,028,931)
Adjustments for:			
Finance costs	21.3	382,413,456	104,967,683
Interest income	21.1	(122,227,242)	(190,026,000)
Depreciation and amortization	10	33,548,817	25,827,486
Provision for impairment loss		-	17,704,000
Provision for retirement benefits		-	9,544,219
Unrealized foreign exchange loss (gains) - net		(107,430,818)	-
Equity in net losses (earnings) of associates and joint ventures	11	7,201,752	29,359,139
Loss on refunds		23,241,102	88,435,994
Dividend income		(1,756,690)	(79,289)
Gain on sale of assets		-	(14,413,000)
Operating income (loss) before working capital changes		(199,229,219)	(112,708,699)
Decrease (Increase) in:			
Receivables - net		(156,186,755)	(148,443,394)
Real estate and golf club and resort shares for sale		543,578,430	(18,236,000)
Prepaid and other current expenses		(25,953,567)	(1,396,312)
Increase (Decrease) in accounts payables and other current liabilities		202,523,200	(400,268,809)
Cash generated from operation		364,732,090	(681,053,214)
Cash paid for income taxes		(76,735,124)	(7,752,000)
Net cash generated from (used in) operations		287,996,966	(688,805,214)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest paid		(167,367,468)	(25,735,000)
Inrerest received		122,227,242	9,514,000
Diviedend income		1,756,690	79,289
Net proceeds (acquisition) from sale of assets		3,186,910	15,017,000
Decrease (Increase) in:			
Due from other realty and development companies		(72,322,520)	(74,312,279)
Investments in associates and joint ventures		85,852,472	(14,047,000)
Land held for future development		-	9,118,000
Other noncurrent assets		1,092,537	(3,424,000)
Net cash provided by (used in) investing activities		(25,574,138)	(83,789,990)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (Decrease) in:			
Due to/from related parties		(438,941,317)	255,299,000
Due to other realty and development companies			88,559,000
Deposits on real estates and other noncurrent liabilities		13,810,587	58,242,000
Proceeds from loans payables	17	36,666,453	232,463,000
Net cash provided by financing activities		(388,464,277)	634,563,000

(Forward)

EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**15,030,818**	**2,080,000**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(111,010,631)**	**(135,952,204)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**192,967,796**	**328,920,000**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**P 81,957,165**	**P 192,967,796**

See Notes to Financial Statements.

Note 1 - CORPORATE INFORMATION

Fil-Estate Land, Inc. (the Parent Company) was incorporated under the laws of the Philippines and registered with the Securities and Exchange Commission (SEC) on May 18, 1994, with SEC registration number ASO94-004462, primarily to acquire by purchase, lease, donation, or otherwise, and/or to own, use, improve, subdivide, manage, sell, mortgage, exchange, lease, engage in high-rise development and construction and hold for investment or otherwise, and otherwise deal in or dispose of real estate of all kinds, classes, description and purpose, and/or any improvements thereon or any interest and right therein, whether as principal, agent, or broker; and/or to manage, operate, equip, furnish, alter and otherwise deal in, or dispose of buildings, houses, apartments and other structures and immovable of whatever kind, class description or purpose, together with their appurtenances, whether as principal, agent or broker.

The Company's Ultimate Parent Company is Fil-Estate Management, Inc. (FEMI), also incorporated in the Philippines.

The Parent Company's registered office which is also its principal place of business is located at 6th Floor Renaissance Tower, Meralco Avenue, Pasig City. The Parent Company has only 2 employees for both fiscal years ended of September 30, 2010 and 2009.

The consolidated financial statements of the Parent Company for the years ended September 30, 2010 (including the comparatives for the year ended September 30, 2009) were authorized for issue by the Board of Directors on January 27, 2011. The Board of Directors is empowered to make revisions even after the date of issue

Note 2 – OPERATING CONDITION

The 1997 Asian financial crisis brought about a setback in the economic condition and lead to a downturn in the real estate industry which affected the operations of the Parent Company and its subsidiaries (Group). In 2007, together with a subsidiary, the Parent Company entered into an Omnibus Agreement for a loan facility to fund selected major projects in prime locations. The company also adopted a strategy that entailed the sale of non-core assets and partnerships with other property developers and investors to fund its other big-ticket projects. The continuous development of these projects and eventual sales thereof which the Group believes can be successfully implemented is necessary for the Group to be able to repay the loans and recover its real estate development costs. The financial statements do not include adjustments relating to these uncertainties.

Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of Preparation and Presentation of Financial Statements

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the respective accounting policies that follow.

The Parent Company prepares the separate financial statements, aside from the consolidated financial statements, in compliance with Philippine Financial Reporting Standards. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company except for Fil-Estate Urban Development Corporation whose financial statements are prepared as of December 31, 2009.

Presentation
The preparation of the financial statements in conformity with PFRS requires the use of critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

These financial statements are presented in Philippine Pesos (₱), the Group's functional currency, and all values are rounded to the nearest peso except when otherwise indicated. Assets and liabilities are presented in the Group Statements of Financial Position in current/noncurrent presentation.

The Group Statements of Income presents an analysis of expenses using a classification based on their functions. A detailed breakdown of the aggregated expenses is shown in the Notes to Consolidated Financial Statements according to the nature of the expenses. *(See Notes 22 and 23)*

3.2 Statement of Compliance

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

i. PFRS – corresponding to International Financial Reporting Standards;
ii. Philippine Accounting Standards (PAS) – corresponding to International Accounting Standards; and,
iii. Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FSRC.

3.3 Basis of consolidation

The consolidated financial statements consist of the financial statements of the Group as of September 30, 2010 and 2009.

a) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Company, its subsidiary. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date on which control ceases.

The Parent Company uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at fair value of the assets given, the equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of the minority interest. The excess of cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the acquisition is less than fair value of the net assets of the subsidiary acquired, the difference, or negative goodwill, is recognized as Income from Acquisition directly in the Group consolidated statement of comprehensive income as part of Revenues (See also Note 19).

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

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

The results of subsidiaries disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of disposal.

Intra group transactions, gains and losses on intra-group transactions are eliminated.

The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same date except for one subsidiary,

Fil-Estate Urban Development Corp., whose financial statements are prepared as of December 31, 2010. However, for consolidation purposes, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements.

Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Parent Company.

Non-controlling interests in subsidiaries are identified separately from the Parent Company's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Parent Company's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Parent Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Parent Company.

When the Parent Company loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

b) Associates

Associates are all entities over which the Parent Company has significant influence but not control, generally accompanying shareholding of between 20% and 50% of the voting rights. Associates are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Investments in Associates are presented as part of Investment in Subsidiaries, Affiliates and Joint ventures in the Group's Consolidated Statement of Financial Position. *(See Note 11)*

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the carrying amount recognized as investments in associates. Because goodwill is included in the carrying amount of the investment and not separately recognized, it is not tested for impairment. Instead, the entire carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying amount.

The carrying amount of the investment is increased or decreased to recognize the Parent Company's share of the profit or loss of the associate after the date of acquisition. The Parent Company's share of the profit or loss of the associate is recognized in the consolidated statement of comprehensive income. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be made arising from changes in the associate's equity such as from revaluation of property, plant and equipment. The Parent Company's share of those changes is recognized directly in the consolidated statement of changes in equity.

The carrying amount of the investment at the date the Parent Company ceases to have significant influence over the affiliate is regarded as its cost of initial measurement as a financial asset in accordance with PAS 39.

The most recent available financial statements of the associate are used by the Parent Company in applying the equity method. Associate's accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Parent Company.

If the Parent Company's share of losses in an associate equals or exceeds its investment thereof, the Parent Company discontinues recognizing its further losses. After the Parent Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Parent Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Parent Company resumes recognizing its share of those profits only after its share of the profits equal the share of losses not recognized.

The Parent Company applies the requirements of PAS 39 in determining whether it is necessary to recognize any additional impairment loss with respect to its investment in the associate.

The Parent Company's investments in subsidiaries and affiliates and their percentage of ownership are as follows:

Name of Subsidiary	Activity	Effective FELI Ownership Interest
Subsidiaries		
Fil-Estate Golf and Development Inc.	Integrated golf & leisure development	100%
Golforce, Inc.	Golf course maintenance	100%
Fil-Estate Ecocentrum Corp.	Leisure development	56%
Phil. Aquatic Leisure Corp.**	No information	100%
Fil-Estate Urban Development, Inc.	Development of certain residential projects	100%
Fil-Estate Properties, Inc.	Inegrated residential and leisure and commercial condominium development	100%
Blue Sky Airways, Inc.**	Aircraft leasing	100%
Golden Sun Airways**	Aircraft leasing	100%
Fil-Estate Industrial Park, Inc.*	Industrial park development	78.9%
Fil-Estate Subic Development Corp.*	Integrated residential and leisure development	100%
Fil-Estate Concrete Block Corp.*	Manufacturing and sellingof concrete products or other goods	100%
Fil-Power Construction Equipment Leasing Corp.	Leasing company	100%
Prime Airways, Inc.**	Aircraft leasing	100%
Sherwood Hills Devlopment Inc.	Integrated residential and golf development	55%
Aklan Holdings Corp.*	Aqcuire, hold real estate property	100%
La Compana De Sta. Barbara, Inc.	Integrated residenital and golf development	100%
MCX Corporation*	Acquire, hold real estate proportion in shares of stock	100%
Pioneer L-5 Realty Corp.**	Aqcuire, hold real estate property	100%
Sto. Domingo Development Place Corp.	High rise residential development	100%
Novo Sierra Holdings	Acquire and hold investments	100%
Associates		
Metro Rail Transit Development Corp.	Property development	30.9%
Nasugbu Properties, Inc. *	Aqcuire, hold real estate property	36.2%
Fil-Estate Marketing Companies		
Fil-Estate Marketing Associate, Inc.	Marketing of real estate projects	20%
Fil-Estate Network. Inc.	Marketing of real estate projects	20%
Fil-Estate Realty Corp.	Marketing of real estate projects	20%
Fil-Estate Realty Sales Associate, Inc.	Marketing of real estate projects	20%
Fil-Estate Sale, Inc.	Marketing of real estate projects	20%

*Pre-operating stage

**Dormant companies

Note: All subsidiaries and associates were incorporated and reside in the Philippines.

Impairment Testing of Investment in Subsidiaries

The recoverable amount of investment in subsidiaries by the Parent Company has been determined using the value in use approach. Value in use was based on the cash flow projections on the most recent financial forecasts approved by senior management, which are management's best estimate of the ranges of economic conditions that will exist over the remaining useful life of the asset. The Group's investment in Metro Rail Transit Development Corporation is impaired.

Investments in Joint Ventures

The Parent Company follows the cost method in accounting for its investments in joint ventures. Dividends, if any, are recognized as Other Revenues in the Statements of Comprehensive Income of these separate financial statements when the right to receive the dividend is established.

The Parent Company's investments in joint ventures and their percentages of ownership are as follows:

Joint ventures		Ownership Interest
R5000	High-rise projects	20% of 50%
Laurel, Batangas Project		15.38% 0f 46.25%
R3000		80%
Capitol Plaza		70%
Paragon Plaza		50%
West Tower		50%
Belvedere		50%

3.4 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2008, and amendments to existing standards that become effective in 2008 as stated.

3.5 Impact of New Amendments and Interpretations to Existing Standards

(a) Effective in 2008

The following are effects of the new interpretation and amended standards which are mandatory in 2008.

- Philippine Interpretation IFRIC 11, PFRS 2, *Group and Treasury Share Transactions* – This Philippine Interpretation took effect March 1, 2007 and requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g. treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent.

  Adoption of this amendment to Philippine Interpretation did not have any impact on the group's financial statements since the Group has no group and treasury share transactions.

- Philippine Interpretation IFRIC 14, Philippine Accounting Standards (PAS) 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction* – This Philippine Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit plan that can be recognized as an asset under PAS 19, Employee Benefits.

Adoption of this amendment to Philippine Interpretation did not have any impact on the Group's financial statements since, even though the Group provides for post-employment benefits, it does not maintain fund assets to cover these provisions. The Group will apply this amendment prospectively when it becomes applicable.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* –This Philippine Interpretation covers contractual arrangements arising from public-to-private service concession arrangements if control of the assets remains in public hands but the private operator is responsible for construction activities as well as for operating and maintaining the public sector infrastructure.

  Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not involve in the provision of public sector infrastructure assets and services. The Group will apply this amendment prospectively when it becomes applicable and relevant to its operation.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) – This Philippine Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or has expired.

  Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not provide their customer incentives to buy goods or services by providing awards as a part of sale transaction.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation (effective from October 1, 2008).* This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment, and how an entity should determine the amount of foreign currency gain or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

  Adoption of this Philippine Interpretation did not have an impact on the Group's financial statements since the Group does not have any foreign operations.

(b) Effective in 2009

The following new standards, effective for annual periods beginning on or after January 1, 2009, have been adopted:

- Amendment of PAS 1 (Revised 2007)*: Presentation of Financial Statements).* The amendment requires an entity to present all items of income and expense recognized in the period in a single Statement of Comprehensive Income or in two statements: a separate Income Statement and a Statement of Comprehensive Income. The Statement of Comprehensive Income shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The Statement of Comprehensive Income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the Statement of Comprehensive Income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group applied the presentation requirement of this standard as at reporting date and had no significant impact on the financial statements.

- *PAS 23 (Revised 2007), Borrowing Costs (effective from January 1, 2009).* Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

  The Group has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2010, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets. The transitional provision provide for a prospective application of change.

- Amendments to PAS 32, *Financial Instruments: Presentation and PAS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* – These Amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to required the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

- Amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Equity or Associate* – The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

- Amendment to PFRS 2, *Share-based Payment – Vesting Condition and Cancellations* – The Standard has been revised to clarify the definition of a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, a failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*. Revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised PAS 27 requires, among others, that: (a) change in ownership interest of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be re-measured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by revised PAS 27 must be applied retrospectively with a few exceptions. The changes will affect future acquisitions and transactions with non-controlling interest.

  The Group initially determined that early adoption of this amendment will not have any effect on its 2010 financial statements.

- PFRS 7, *Financial Statements: Disclosures (effective for annual periods beginning on or after January 1, 2009)* requires additional disclosures about the fair value measurement and liquidity risk. Fair value measurement related to items recorded at fair value are to be disclosed by source of inputs using three (3) level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level three (3) fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

- PFRS 8, *Operating Segments* – PFRS 8 will replace PAS 14, Segment Reporting, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. PFRS 8 is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Securities and Exchange Commission (SEC) for the purpose of issuing any class of instruments in a public market.

- Amendments to PAS 27, *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* - When an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with PAS 39 (rather than at cost), such investments will continue to be measured using PAS 39 even if classified as held for sale in accordance with PFRS 5. Investment measured at cost will continue to be re-measured in accordance with PFRS 5 when classified as held for sale.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement – Eligible Hedged items*. Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

- Philippine IFRIC 18, *Transfer of Assets from Customers*. This Interpretation applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. It also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

(c) Effective in 2010

- Amendment to PFRS 2, *Share-based Payment: Group Cash-settled Share-based Payment Transactions,* (effective for financial years beginning on or after January 1, 2010) clarifies the scope and the accounting for the Company cash-settled share based payment transactions.

  The Group initially determined that adoption of this amendment will not have any effect on its 2010 financial statements as the Group is not involved in any similar transactions.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective on or after July 1, 2010), addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability (debt for equity exchanges or swaps).

  The Group believes that if its financial liability (convertible bond) was extinguished as at reporting date, it would affect the Group's statements of income by realizing a loss equivalent to P489,608,000 computed as the difference of the fair value of P1,587,008,000 less fair value of financial liability amounting to P1,097,400,000 *(see Note 29.2).* Due to the events after reporting date *(see Note 30)*, the Group foresees that it would be liquid enough to pay out its financial liability when it falls due.

<u>Future Changes in Accounting Policies</u>

The Group will adopt the amendments to the existing accounting standards and Philippine Interpretations enumerated below when become effective.

(a) Effective in 2011

- Philippine Interpretation IFRIC 14, *Prepayment of Minimum Funding Requirement,* addresses the unintended consequences that can arise from pervious requirement when an entity prepays future contributions into define benefit pension plan. It sets outs guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for define benefit plans that are subject to minimum funding requirement.

(b) Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This Philippine Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

  After assessing the effect of this amendment, the group expects that this will not have a significant effect on the Group's financial statements since it has been the Group's policy to recognize income based on the stage of completion method accounted under PAS 11. The Group believes that this amendment will not require any retrospective adjustment or result to the restatement of prior period financial statements as disclosed in the prior year notes.

(c) Effective in 2013

- PFRS 9, *Financial Instruments: Classification and Measurement of Financial Assets,* addresses the emerging issues, classification and measurement of financial assets. The standard sets out criteria for debt instrument whether to measure at amortized cost or at fair value through profit or loss. A Debt instruments that does not qualify for amortized cost or not managed on a "hold to collect" basis shall be measured at fair value with changes in fair value are taken through profit or loss.

  The Group does not expect any significant effect on the Group's financial statements from this amendment since the Group does not hold any debt instrument.

<u>Improvements to Existing Accounting Standards</u>

In May 2008 and April 2009, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. The group expects the amendments to the following standards did not have significant effects on the financial statements. There are separate transitional provisions for each standard which become effective January 1, 2010.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*. When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PFRS 7, *Financial Instruments: Disclosures,* removes the reference to "total interest income" as a component of finance cost.

- PAS 1, *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied.

- PAS 7, *Statements of Cash Flows,* provides expenditure that result in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 8, *Accounting Policies*, Changes in Accounting Estimates and Errors, clarifies that only the implementation guidance that is an integral part of a PFRS is mandatory when selecting accounting policies.

- PAS 10, *Events after the Balance Sheet Date,* clarifies dividends declared after the end of reporting periods are not obligations.

- PAS 16, *Property, Plant and Equipment*. The amendment replaces the term 'net selling price' with fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 18, *Revenue,* replaces the term "direct costs" with "transaction costs" as defined in PAS 39, *Financial Instruments: Recognition and Measurement.*

- PAS 19, *Employee Benefits*. The Amendment revises the definition of 'past service cost' to include reductions in benefits related to past services ('negative past service cost') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailments.

  It also revises the definition of return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

  It also revised the definition of 'short term' and 'other long term' employee benefits to focus on the point in time at which the liability is due to be settled and it deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.*

- PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* provides that loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant.

- PAS 23, *Borrowing Costs*. This Amendment revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e. components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investment in Associates*. If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loan applies.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 27, *Consolidated and Separate Financial Statements,* states that when a parent entity accounts for a subsidiary in accordance with PAS 39, Financial Instruments: Recognition and Measurement, in its separate financial statements, this treatment continues when the subsidiary is subsequent classified as held for sale.

- PAS 29, *Financial Reporting in Hyperinflationary Economies.* This Amendment revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*. If a joint venture is accounted for at fair value in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venture and the joint venture, as well as summary financial information about the assets, liabilities, income and expense, will apply.

- PAS 36, *Impairment of Assets*. When discounted cash flows are used to estimate 'fair value less costs to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- PAS 38, *Intangible Assets*. The amendment that have been made in the standard are primarily concerned with clarifying the notion of "identifiability" as it relates to intangible assets, the useful life and amortization of intangible assets, and the accounting for in-process research and development projects acquired in business combination.

- PAS 39, *Financial Instruments: Recognition and Measurement.* The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

- PAS 40, *Investment Property*. The amendment to the standard is to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

- PAS 41, *Agriculture*. This Amendment removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either pre-tax or post-tax discount rate depending on the valuation methodology used.

It also removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

3.6 Financial Instruments

Date of Recognition

The Group recognizes a financial asset or a financial liability in the Group Statements 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 settlement date accounting.

Initial recognition of financial instruments

Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss, includes transaction cost.

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 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 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 market observable prices exist, option pricing models, and other relevant valuation models.

'Day 1' Profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions of 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 the company statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the Group Statements of Comprehensive Income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

Financial assets or financial liabilities at FVPL

This category consists of financial assets or financial liabilities that are held for trading or designated by management as at FVPL on initial recognition. Derivatives instruments, except those covered by hedge accounting relationships, are classified under this category.

Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the Group Statements of Financial Position at fair value, with changes in the fair value recorded in the Group Statements of Comprehensive Income. Interest earned or incurred is recorded in investment income or interest expense, respectively, while dividend income is recorded when shareholders' right to receive the payment has been established under the investment income account.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the Group Statements 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.

I. Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Date of recognition
Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss is initially recognized at fair value and transaction costs are expensed in the income statement.

Initial recognition of financial assets
Financial assets are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The group classifies financial assets in the following categories: Current Trade and Other Receivables and Non-current Receivables. 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 the investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The foregoing categories of financial instruments are more fully described below.

(a) Financial Assets at Fair Value through Profit or Loss

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the reporting date.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

The Group does not have financial assets recognized as at fair value through profit or loss as at September 30, 2010 and 2009.

(b) 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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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

The Group's loans and receivables are presented as Trade and Other Receivables and Noncurrent Receivables in the Group's Statements of Financial Position.

<u>*Installment Contract Receivables*</u>
The Group recognizes installment contract receivables, using the installment method of accounting, at the time of sale of real estate/condominium unit and presented net of unrealized gross profit *(see Note 6)* which is viewed as a valuation account that represents the deferred profit recognized over the period of the installment contract.

Under the installment method of accounting, cash collections are regarded as partial recovery of cost and partial realization of profit in the same proportion that these two elements are present in the original selling price.

(c) Held-to-maturity Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. The Group currently has no Held-to-maturity investments as of reporting date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

The Group has not designated any financial assets as held-to-maturity as at September 30, 2010 and 2009.

(d) Available-for-sale Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group does not have any Available-for-sale financial assets as of reporting date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the Group Statement of Comprehensive Income when they are sold or when the investment is impaired. In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the Group Statement of Comprehensive Income. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the Group Statement Comprehensive Income. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in Group Statement of Comprehensive Income, the impairment loss is reversed through the Group Statement of Comprehensive Income.

Impairment losses recognized on financial assets (if any) are presented as part of Other Income (Expenses/Losses) in the Group Statement of Comprehensive Income.

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

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss if any are presented in the Group Statement of Comprehensive Income line item Interest Income (expense) or Other Income (Expenses/Losses).

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivable carried at amortized cost has been incurred, the amount of 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 rates (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss, if any, is recognized in the Group Statements of Comprehensive Income.

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. Objective evidence includes observance data that comes to the attention of management about loss events such as, but not limited to significant financial difficulty of the counterparty, a breach of contract, such as default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. 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 the group of financial assets with similar credit risk and 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 recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

If, in a subsequent period, the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Group Statements of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the Group Statements of Comprehensive Income under “Other income” account. Any subsequent reversal of an impairment loss is recognized in the Group Statements of Comprehensive Income under “Provision for (reversal of) impairment losses” account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

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

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

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

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its 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.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognized directly in equity shall be recognized in Group Statement of Comprehensive Income.

II. Financial Liabilities

Financial liabilities include interest-bearing loans and borrowing, trade and other payables and finance lease liabilities, due to related parties and other non-current liabilities, which are measured at amortized cost using the effective interest rate method.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges are recognized as an expense in the Group Statements of Comprehensive Income under the caption Finance Cost. Interest-bearing loans and borrowings are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs.

Financial liabilities are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the Group Statement of Comprehensive Income.

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

Financial liabilities are derecognized from the Group Statements of Financial Position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Group Statement of Comprehensive Income.

Other Financial Liabilities

Other financial liabilities are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. They arise when the Group owes money, goods or services directly to a creditor with no intention of trading the payables. Other liabilities are carried at cost or amortized cost in the Group Statement of Financial Position. Amortization is determined using the effective interest rate method. Other liabilities are included in current liabilities if maturity is within 12 months from the reporting date.

The Group's other liabilities consist of Interest Payable, Taxes Payable, Security Deposits, Offsetting Payables, Deferred Income etc. (*See Note 15)*

III. Treasury Shares

IAS 32 incorporates the conclusion previously 32 in SIC-32 *Share Capital – Reacquired Own Equity Instrument* that the acquisition or subsequent resale by an entity of its own equity instruments does not result in a gain or loss for the entity. Rather it represents a transfer between those holders of equity instruments who have given up their equity interest and those who continue to hold an equity instrument.

3.7 Inventory

Inventory represents real estate and resort shares for sale and is valued at the lower of cost or net realizable value. Cost includes the acquisition cost of the land plus all costs directly attributable to the development of the projects where the Group is the landowner, and includes actual development cost incurred up to reporting date for projects where the Group is the developer. Founder shares, assigned to the Group by virtue of the Articles of Incorporation are valued at its par value. Interest on loans (borrowing costs) incurred during the development phase is also capitalized as part of the development cost of real estate properties.

Net realizable value is the selling price in the ordinary course of business less cost to complete and to market. Real estate and resort shares for sale are written down when the net realizable values of the properties are less than the carrying amounts.

3.8 Property and equipment

Property and equipment consists of buildings, computer and office equipment and office furniture and fixture and communication equipment. Buildings are held for use or for rental to others.

Property and equipment are stated at historical cost less accumulated depreciation and impairment value if any. *(See Note 10)*

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is calculated on the straight-line basis over the estimated useful life of the property and equipment as follows:

Land Improvements	20 years
Buildings and improvements	10-20 years
Slides, pools and improvements	10 years
Computer and office equipment	3-5 years
Office furniture and fixtures, and communication equipment	3-5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Group Statement of Comprehensive Income in the year the item is derecognized.

3.9 Investment Properties

The Group's investments on land held for future development are accounted for using the cost model in accordance with the provisions of PAS 40, *"Investment Property"*. Investment Property refers to properties held to earn rentals or for capital appreciation or both *(See Note 12)*.

Investment property is stated at cost less accumulated depreciation less and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognized. Directly attributable expenditure includes professional fees for legal services, property transfer taxes and other transaction costs. Investment property shall be recognized as an asset when it is probable that the future economic benefit that are associated with the investment property will flow to the entity and the cost of the investment property can be measured reliably.

A transfer from investment property to inventories is made after completion of development with a view to sell the same. When the Group decides to dispose on the investment property without development, it continues to treat the property as an investment property until it is derecognized and does not treat it as inventory.

Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period of the retirement or disposal.

With the entry of Alliance Global Group, Inc. into the Parent Company, the Group is optimistic that development of these properties located in prime tourist spots such as Tagaytay, Nasugbu and Boracay will soon commence *(See Note 30)*.

3.10 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the Group financial statements.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the Group financial statements but disclosed when an inflow of economic benefits is probable.

As of reporting date, no provision for retirement liability was recognized in the financial statement *(see Note 3.2, Retirement Liability)*

3.11 Revenue and Cost Recognition

Sale of Real Estate and Resort Shares
Revenues on sale of real estate and resort share are recognized upon receipt of sufficient payment (at least 24%).

Gain from sale of completed residential and commercial lots and resort share where a sufficient down payment has been received, the collectability of sales price is reasonably assured, the refund period has expired, the receivables are not subordinated and the seller is not obligated to complete improvements, is accounted for under the full accrual method.

Percentage of completion is used to recognize income from sale of residential/commercial condominium buildings, townhouses, and golf club and resort shares if the Group has material obligations under the sales contract, to complete or provide improvements after the property is sold. Under this method, the gain on sale is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of the physical portion of the contract work. Any excess of collections over the receivables are included in the "deferred income on real estate sales" account in the statements of financial position.

Contract costs include all direct materials and labor costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenue. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated costs and gross margins are recognized in the year in which the changes are determined.

Cost of resort shares sold, where the Group is the landowner, is determined on the basis of the cost of the land.

The Group recognized the effect of revisions in the total project cost estimates of the real estate projects in the year in which these changes become known. Any impairment losses from the projects are charged to operations in the period in which the losses are determined.

Related commission is recognized as expense in the same period when the gain on sale of real estate and resort shares is realized. The amount of commission pertaining to deposit on real estate sales is shown as part of other current assets account in the consolidated statements of financial position.

As at reporting date, the Group's revenues generated came from rental income on buildings leased out *(Note 12 and 21.1).*

Rental Income
Revenue is recognized as accrued on a straight-line basis over the term of the lease agreements.

Other Revenue

- *Interest* – revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- *Dividend* – revenue is recognized when the Group's right to receive the payment is established.
- *Other Income* – other income is recorded when earned. *(See Note 21.1)*
- *Unrealized Foreign Exchange Gain* – revenue is recognized from the translation of one account from foreign currency to the operational currency of the Group as at reporting period.
- *Realized Foreign Exchange Gain* – revenue is recognized as a result of exchange differences arising from the settlement of transactions reported at foreign currency and settled in the operational currency of the Group.

Cost and Expense Recognition
Costs and expenses are recognized in the Group's Statements of Comprehensive Income upon utilization of the service or at the date they are incurred. Cost and Expenses are presented as Cost of Sales and Services, General and Administrative Expenses *(Note 22),* Other Expenses/Losses *(Note 21.2)* and Finance Cost *(Note 21.3)* in the Group Statements of Comprehensive Income.

Finance Cost
Finance Cost relate to the share of the Group in the interest cost of a US Dollar convertible Bonds obtained from LIM ASIA Arbitrage Fund obtained last September 14, 2007 *(See Note 21.3).*

It is customary for the Parent Company to obtain a loan for use by the Parent and its subsidiaries and affiliates. The Finance Cost related to this loan is allocated to the Parent

Company’s subsidiaries and affiliates based on a weighted average of the loans availed by each subsidiary and affiliate including the Parent Company over total loan multiplied by the Finance Cost incurred.

Early redemption of convertible bonds
In view of the happening of the event after reporting date, where approximately 60% of the ownership of the Parent Company was agreed to be bought by Alliance Global Group, Inc. (AGI) by infusing around P5 Billion representing the latter’s subscription to be paid in cash, it is certain that that the issuer will opt for an early redemption of the convertible bonds *(Note 30).*

Cost of Sales and Services
As at reporting date, the Cost of Sales and Services pertain to Depreciation Cost on the buildings leased out and there are no repairs and maintenance cost incurred on the buildings.

3.12 Functional Currency and Foreign Currency Transactions

- *Functional and Presentation Currency*

  Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Philippine pesos, which is the Group’s functional currency.

- *Transaction and Balances*

  The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions are recorded on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency on transaction dates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Group Statement of Comprehensive Income.

<u>*The Effects of Changes in Foreign Exchange Rates*</u>
Provides certain restrictions in allowing the capitalization of foreign exchange differentials. The Group has US Dollar denominated bonds payable with Lim Asia Arbitrage Fund, Inc. which are translated into Philippine pesos at prevailing exchange rates at transaction dates and recognizes foreign exchange gains and losses at settlement dates and at year-end exchange rates. The resulting gains or losses from these translations are recognized in the Statements of Income. As at September 30, 2010 the Group recognized a net unrealized and realized foreign exchange gain amounting to P P108,196,166 and a net foreign exchange loss of P14,325,731 in 2009. *(See Note 21.1 and 21.2)*

3.13 Impairment of Non-financial Assets

The Parent Company’s property, plant and equipment are subject to impairment testing. These assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are 4tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

3.14 Employee Benefits

(a) Short term Employee Benefits

In accordance with the provisions of the Labor Code, the Group provides basic salaries, 13th month Pay, Social Security contributions, Pag-ibig Membership constributions, Home Mutal Development Fund Membership contributions and Philhealth Membership contributions to all employees *(See Note 22).*

(b) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(c) *Retirement Benefits Obligations*

Pension benefits are provided to Group employees through an unfunded, non-contributory defined benefit plan. The normal retirement consists of an eligible employee's attainment of age sixty (60) and upon completion of five (5) years of faithful and continuous service. Based on the years of service, the normal retirement benefit provides for lump-sum benefits equivalent to a range of 85% to 150% of the employee's monthly salary per year of service depending on the service tenure. The plan also provides for early retirement benefit for employees attaining the age of fifty with the completion of no less than ten (10) years of service.

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

The liability recognized in the consolidated statement of financial position for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

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

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

Based on the latest actuarial valuation dated February 4, 2010, the Group's total actuarial accrued liability computed using the projected unit credit method, amounted to P 53,377,923 as of September 30, 2009. Total liability set up as of September 30, 2010 amounted to P 63,239,394 (Note 15, Other Current Liability)

(d) *Other short-term employee benefits*

Other short-term benefits includes special benefits program of clothing benefit, savings and loans benefit program, transportation benefits, funeral benefit, and rice subsidy.

3.15 Borrowing Costs

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

To the extent that the Group borrows funds generally and used them for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining the qualifying asset. The amount of borrowing costs that the Group capitalizes does not exceed the amount of borrowing costs applicable to its own borrowings.

3.16 Related Party Transactions and Relationships

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise and its key management personnel, directors, or its stockholders. *(See Note 8)*

Related party relationships are a normal feature of commerce and business. The Group sometimes grants/secures interest-bearing and non-interest bearing advances to/from its affiliates and/or shareholders. Interest-bearing advances are covered by promissory notes renewable annually. Advances to/from affiliates and/or shareholders are presented as part of Trade and Other Receivables/Trade Trade and Other Payables in the Group statement of financial position.

Transactions between related parties are accounted for at arms' length prices or on terms similar to those offered to non-related entities in an economically comparable market.

3.17 Income Taxes

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

Deferred tax is provided, using the balance sheet liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. *(See Note 25.2)*

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset to be utilized.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the Group's Statements of Comprehensive Income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

3.18 Earnings Per Share

Basic earnings per share is computed by dividing the net income for the year attributable to equity holders of the Group by the weighted average number of ordinary shares issued and outstanding during the year after considering the retroactive effect, if any, of stock dividends declared during the year, excluding treasury shares *(See Note 26).*

Diluted earnings per share is calculated by dividing the net income or loss for the year by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and adjusted for the effects of all dilutive potential common shares, if any.

For purposes of calculating diluted earnings per share, the Group adjusts profit and loss attributable to ordinary equity holders of the Group by the tax effect of:

(a) any dividends or other items related to dilutive potential ordinary shares
(b) any interest recognized in the period related to dilutive potential ordinary shares
(c) any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

Warrants to purchase convertible instruments are assumed to be exercised to purchase the convertible instrument whenever the average prices of both the convertible instrument and the ordinary shares obtainable upon conversion are above the exercise price of the warrant.

3.19 Equity

Share Capital is determined using the nominal value of shares that have been issued *(See Note 27)*.

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

Retained earnings include all current and prior period results as disclosed in the Group's Statements of Comprehensive Income.

3.20 Events after the Balance Sheet Date

Events after the balance sheet date are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue *(See Note 30).*

The Group adjusts the amounts recognized in the financial statements to reflect adjusting events after the financial position date. Non-adjusting events are not recognized in the financial but are disclosed in the notes to financial statements.

Note 4 – MANAGEMENT'S SIGNIFICANT JUDGEMENTS AND ACCOUNTING ESTIMATES

The Group's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes.

The estimates and assumptions used in the Group's financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Group's financial statements. Actual results could differ from such estimates, judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical Management Judgments in Applying Accounting Policies

Distinction between Investment Properties and Owner-managed Properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

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

Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 3.10 and relevant disclosures are presented in *Notes 31*.

4.2 Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following represents a summary of the significant estimates and judgments and related impact and associated risks in the Group's financial statements.

Allowance for Impairment of Trade and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based third party credit reports and on known market forces, average age of accounts, collection experience and historical loss experience.

Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. It is the Group's policy to group similar or related items of inventory so that each group could be practically evaluated separately from other groups/items in the inventory. The Group believes that the carrying amount of the inventory P 5,986,924,869 and P 6,511,024,764 as at September 30, 2010 and 2009 would not exceed its net realizable value as at reporting date. *(See Note 7)*

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in *Note 10*. Actual results however may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in estimated useful lives of property, plant and equipment during the year. *(See Note 3.8)*

Impairment of Non-financial Assets

The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Group is required to make estimates and assumptions that may materially affect the financial statements.

Realized Gross Profit

The Group recognized gross profit from installment contact receivables in the same proportion that profit is present in the original selling price (installment method of accounting). The Group uses the engineers' reports to identify the percentage of completion of the projects that would be used to estimate the realized gross profit for the year. Gross profit related to the installment sale is spread over the life of the contract and anticipates the possible failure to realize the full amount of gross profit in the event of defaults and repossessions.

Realizable Amount of Deferred Tax Assets

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

Retirement Liability

The Group's post-retirement benefit plan is currently in the planning stage. However, to recognize the possible liability of the Group an accrual was recognized during the year 2009 amounting to P9,544,218.91 for a total retirement liability amounting to P60,999,926 *(Note 24)*. Accordingly based on the actuarial valuation made in 2009, the liability as set up is more than enough to cover the required liability of P 53,377,923. (Note 3.14)

Note 5 - CASH

The Group's cash account consists of:

		2010		2009
Cash on hand	**P**	**76,951,419**	P	92,183,970
Cash in Banks		**5,005,746**		18,597,542
Cash equivalent		-		82,186,284
	P	**81,957,165**	P	192,967,796

Cash in bank generally earns interest based on daily bank deposit rates. The short term investments in 2009 were retired in September, 2010. Interest income, recognized in the consolidated statement of income as part of Other Revenues total P 894,883 and P5,437,342 as at September 30, 2010 and 2009, respectively. Interest income from short-term investment amount to P349,760 and P2,329,000 as at September 30, 2010 and 2009, respectively.

Note 6 - RECEIVABLES

Receivables consist of:

	2010	2009
Current		
Installment contract receivables -net of unrealized gross profit	P 1,244,481,046	P 669,579,184
Rent and trade receivables	231,160,895	220,880,111
	1,475,641,940	890,459,295
Allowance for doubtful accounts	(306,782,622)	(255,621,081)
	1,168,859,318	634,838,213
Due from related parties *(Note 8)*	1,699,814,325	1,560,593,690
Allowance for doubtful accounts	(2,020,071)	(17,953,398)
	1,697,794,254	1,542,640,292
Due from contractors	233,418,838	225,023,909
Due from officers and employees	64,843,998	59,905,538
Interest receivable	12,025,196	6,769,857
Other receivables	318,889,633	38,211,345
	3,495,831,237	2,507,389,155
Noncurrent		
Due from other realty development companies	377,137,830	304,815,310
	P 3,872,969,067	P 2,812,204,465

The rollforward analysis of the allowance for impairment loss as of September 30, 2010 and 2009 is shown below:

	2010	2009
Beginning balance	P 273,574,479	-
Add:		
Provision for the year	35,228,214	-
Ending balance	P 308,802,693	P 273,574,479

Due from other realty development companies

The noncurrent receivables pertain to legal and miscellaneous fees advanced in behalf of several real property owners and charges in connection with various project agreements entered into by the Group. The agreements stipulate that the Group undertakes the development and subdivision of the properties and that the Group and property owners will be paid upon collection of sales proceeds from their share in the developed real estate properties using a certain pre-agreed sharing ratio. Collection of these advances from said property owners are generally received upon sale of property owners' share in the projects. The amounts represent the amortized cost of the receivable using a rate of 6.2790% and will mature on Sept. 30, 2014. Deferred interests amounting to P63,123,599 and P 140,416,470 were recognized for 2010 and 2009, respectively.

Other receivables

Other receivables include interest receivables amounting to P12.02M and advances to employees and advances to service contractors as of reporting date.

The aging of the current receivables, excluding those due from related parties, are as follows:

2010	Neither Impaired or past due			Either past due or impaired	Total
	Current	31-60 days	61-90 days		
Installment contract receivables -net of unrealized gross profit				P 1,244,481,046	P 1,244,481,046
Due from contractors				233,418,838	233,418,838
Due to officers and employees	P 19,615,716	P 61,652		45,228,282	64,905,650
Interest receivable (Note __)	2,620,800		P 1,296,000	8,108,396	12,025,196
Other receivables	5,581,326		278,651	544,190,550	550,050,527
	27,817,842	61,652	1,574,651	2,075,427,111	2,104,881,257
Less; Allowance for doubtful accounts				(306,782,622)	(306,782,622)
Total	**P 27,817,842**	**P 61,652**	**P 1,574,651**	**P 1,768,644,489**	**P 1,798,098,635**

2009	Neither Impaired or past due			Either past due or impaired	Total
	Current	31-60 days	61-90 days		
Installment contract receivables -net of unrealized gross profit				P 669,579,184	P 669,579,184
Due from contractors				225,023,909	225,023,909
Due to officers and employees	19,604,494	P 14,882		40,286,162	59,905,538
Interest receivable (Note __)			P 1,324,800	5,445,057	6,769,857
Other receivables	380,321		735,195	257,975,940	259,091,456
	49,614,200	14,882	2,059,995	924,786,005	1,220,369,944
Less; Allowance for doubtful accounts				(255,621,081)	(255,621,081)
	P 27,817,842	**P 61,652**	**P 1,574,651**	**P 669,164,924**	**P 964,748,863**

Note 7 – INVENTORY

The details of this account are as follows:

	2010	2009
At cost		
Real estate for sale	**P 4,007,011,801**	P 4,520,353,378
Resort and golf share for sale	**2,011,768,046**	2,010,149,920
	P 6,018,779,847	P 6,530,503,298
Allowance for market decline	**(31,854,978)**	(19,478,535)
Total inventory	**P 5,986,924,869**	P 6,511,024,763

Resort shares comprise of proprietary/membership shares in Tagaytay Grasslands, Manila Southwoods, Sherwood, Fairways & Bluewaters in Boracay, Philippines that are of various types and costs. The costs of the resort shares were based on the acquisition and development costs of the land and the project for the landowner shares, while the founder shares were based on the par value of the resort shares which is P100/sh.

The last transacted prices of each type of Fairways & Bluewaters are presented below:

Type of share	Cost per share Landowner (Philippine Peso)	Founder	Last Transacted Price (Philippine Peso)
A1	144,527	100	500,000
A2	289,054	100	1,170,000
A3	433,580	100	1,575,000
B1	115,636	100	1,402,300
B2	231,272	100	1,080,000
B3	346,908	100	2,000,000
C1	90,284	100	250,000
C2	180,567	100	450,000
C3	270,851	100	635,500

Camp John Hay lot pads Lot 4 with an area of 4,344 square meters were acquired as guarantee income when the Group acted as guarantor of one of its subsidiaries for the development of the Camp John Hay Project. *(See Note 8.1b)*

Note 8 – RELATED PARTY TRANSACTION

8.1 Advances from/to Subsidiaries and Affiliates

The outstanding balances of non-interest bearing advances from/to subsidiaries and affiliates are as follows:

		2010				2009			
Related Party	Relationship	**DUE FROM**		**DUE TO**		DUE FROM		DUE TO	
Joint venture projects	Projects	**P**	**111,632,931**	**P**	**(342,499,894)**	P	104,898,000	P	132,631,000
Golf Clubs	Affiliates		**155,529,472**		**(1,188,668)**		238,653,000		1,744,000
Fil-Estate Marketing Compa	Associates		**147,067,120**		**(22,886,459)**		141,793,000		17,988,000
FEMI	Major Stockholder		**63,181,514**		-		47,156,000		-
FEDI	Affiliate		**93,438,192**		-		142,816,000		-
Others-net	Affiliates		**1,128,965,098**		**(477,807,989)**		192,243,000		298,706,000
TOTAL		**P**	**1,699,814,327**	**P**	**(844,383,010)**	P	867,559,000	P	451,069,000

The balances of accounts in the advance from/to related party are not secured or collateralized, except for the loan granted to Camp John Hay Development Corporation (CJDEVCO).

Related party transactions include sales, purchases, loans, transfers, leasing agreements, offsetting arrangements and guarantees.

a. On March 5, 2007, an Omnibus Agreement was entered into between the Parent Company as guarantor, Fil-Estate Urban Development Corporation (a wholly-owned subsidiary) as borrower, Lim Asia Multi Strategy Fund (LAMS) as Lender and Lim Asia Special Situations Master Fund Limited (LIM Marketing) which provided a revolving facility of up to USD12.5M to finance various projects of FEUDC including the Boracay Project and Cathedral Heights Project. Various extension letters were issued which were agreed to by LAMS and LIM Marketing.

b. On July 1, 2008, the Parent Company (as Guarantor) and FEUDC entered into a Memorandum of Agreement (MOA) with CJDEVCO wherein CJDEVCO will assign the project to perform specific development obligations to FEUDC in return for suites and cabin units, and receivables arising from the contracts to sell intended to fund the furnishing of the projects. The MOA is intended to complete the development of the Camp John Hay Suites and Forest Cabins. CJDEVCO is to contribute its leasehold rights over the projects and the technical data undertaken in relation to the project. FEUDC shall contribute cash to finance the completion of the projects funded by drawdowns from Lim Asia Arbitrage Fund.

By virtue of the MOA and in consideration of the guarantee of the Parent Company to make available to FEUDC the funding necessary to complete the projects, CJDEVCO assigned to the Parent Company or any of its subsidiaries or affiliates developmental rights to construct the buildings for Leisure Homes and over certain lots and residual cash from the projects.

c. The Parent Company granted a two-year loan to CJHDEVCO amounting to P32.4 million which bears an annual interest rate of 16%. Principal is payable in four (4) equal semi-annual amortizations beginning December 24, 2008 and interest is payable quarterly in arrears beginning September 24, 2008 based on the outstanding principal balance. The loan is secured by assignment of leasehold rights over three (3) lot pads with carrying values of P49,956,000 *(Note 7).* Interest earned on this loan amounts to P5,241,600 and P5,256,000 for the Year 2010 and 2009, respectively *(Note 15.1).* Interest receivable accrued from this loan amounts to P12,025,196 and P6,769,857 as at September 30, 2010 and 2009, respectively *(Note 6).*

d. On June 29, 2010, the Parent Company and one of its affiliates, Pioneer L-5 Realty Corporation, mortgaged certain properties in favor of one of the country's local banks for a credit accommodation facility to be granted to Novo Sierra Holdings Corporation. The Parent Company is to further stand Surety thereof considering that this transaction is essential and would translate into measurable economic advantage to the Parent Company. The accommodation facility covers for a principal accommodation amount of P275,000,000 payable within three (3) years with interest rate set at three (3) PDST-F* plus 4% spread plus Gross Receipts Tax. The proceeds from this accommodation facility are used to refinance an existing loan from LIM Investments, Inc. which was used for the completion of certain project leasehold assets.

The Parent Company placed certain portions of its building, specifically its Mezzanine, unit F301 of the 3rd floor and unit F501 of the 5th floor *(see Note 10),* while Pioneer L-5 Realty Corporation, an affiliate of the Parent Company, also placed its property located along the North East side of Pioneer Street, Brgy. Barranca, Ilaya, Mandaluyong City as additional mortgage to the accommodation facility.

e. In accordance with the covenants of the Convertible Bond Issuance Facility, the Parent Company granted interest bearing advances to its subsidiaries and affiliates funded by the proceeds from the Lim Asia convertible bonds for use in financing the development of the Parent Company's projects. Interest income recognized by the Parent Company related to these interest bearing advances amounted to P41,952,625 and P44,131,391 for the year 2010 and 2009, respectively in the rate of 4% *(Note 21.1).*

Due to the possible redemption of the convertible bonds resulting from the happening of the event after reporting date, where approximately 60% of the ownership of the Parent Company was agreed to be bought by Alliance Global Group, Inc., additional interest of 12% will be charged to affiliates who availed of Interest-bearing advances from the Parent Company. Total interest income resulting from the additional charge amounts to P153,429,703 as of reporting date *(Note 21.1).*

Total interest charged to affiliated for the 2010, after adjustment for accrual of additional charges due to redemption of convertible bonds, amounts to P144,373,748 while interest charged in 2009 amounted to P45,580,000. *(See Note 21.3)*

f. The Parent Company also leases its office premises to its affiliates. Annual rental income from these operating lease transactions amounts to P18,372,439 and P 12,289,481 for 2010 and 2009, respectively. *(See Note 31.1)*

g. The Parent Company has subscriptions payable to FEUDC amounting to P750,000 as at September 30, 2010 and 2009. This amount is presented as a reduction from the Parent Company's Investment in its Subsidiary.

Note 9 – OTHER CURRENT ASSETS

This account consists of the following:

	2010	2009
Deferred commission	**P 158,146,176**	P 163,830,938
Input tax	**147,452,577**	123,836,974
Creditable withholding tax	**79,138,124**	77,942,632
Prepayments	**43,028,521**	28,863,390
Supplies inventory	**14,796,482**	16,455,219
Miscellaneous assets	**52,500,454**	58,179,614
	P 495,062,334	P 469,108,767

Deferred commission

This account represents commissions paid to the agents of the Group for the sale of their inventory that are to be realized as incurred in proportion with the Installment Contracts Receivable using the percentage of completion method.

Note 10 – PROPERTY AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of 2010 and 2009, and the gross carrying amounts and the accumulated depreciation of property and equipment are shown below:

	Building and Improvement	Construction in Progress	Construction and Maintenance Equipment	Water System	Transportation Equipment	Office Furn. & Fix, & Communication Equipments	Total
Balance, October 1, 2009 net of accumulated depreciation	P 466,232,395	P 32,762,039	P 11,108,517	P 66,604,628	P 2,155,107	P 6,018,322	P 584,881,009
Additions		189,680	57,703			325,578	572,961
Disposals			(310,315)			(761,217)	(1,071,532)
Depreciation Charge *(Note __)*	(21,680,126)		(3,135,693)	(6,054,966)	(749,988)	(1,928,044)	(33,548,817)
Restatement *(Note __)*	36,767,245	(30,944,305)					5,822,940
Balance, September 30, 2010 net of accumulated depreciation	P 481,319,514	P 2,007,414	P 7,720,213	P 60,549,662	P 1,405,119	P 3,654,639	P 556,656,561
Balance, October 1, 2008 net of accumulated depreciation	P 487,707,782	P 32,071,021	P 14,997,499	P 66,604,628	P 1,953,008	P 6,584,090	P 609,918,028
Additions		809,814			410,000	123,736	1,343,550
Disposals		(118,796)			(150,000)	(284,287)	(553,083)
Depreciation Charge *(Note __)*	(21,475,387)		(3,888,981)		(57,900)	(405,217)	(25,827,486)
Balance, September 30, 2009 net of accumulated depreciation	P 466,232,395	P 32,762,039	P 11,108,517	P 66,604,628	P 2,155,107	P 6,018,322	P 584,881,009

Property and equipment are subject to annual impairment testing and whenever there is an indication of impairment. *(See Note 3.8)* No impairment losses were recognized in 2010 and 2009 as the carrying values of the property and equipment are lower than their recoverable amounts.

The Group recognized gain (loss) on sale of property and equipment amounting to P127,000 *(see Note 21.1)* in 2010 for the sale of a fully-depreciated transportation equipment. No gain (loss) on sale of property and equipment was recognized in 2009. There were no acquisitions of property and equipment for the years ended September 30, 2010 and 2009.

Rental income from operating lease agreements for the building amounted to P20,035,331 and P12,291,095 for 2010 and 2009, respectively. *(See Note 31.1)*

Depreciation expenses are presented in the statements of income as follows:

		2010		2009
Cost of sales and services	**P**	**4,646,655**	P	4,646,655
General and administrative expense		**45,920**		48,152
	P	**4,692,575**	P	4,694,807

On July 29, 2010, the Group mortgaged certain portions of its building, specifically the Mezzanine, unit F301 of the 3rd and unit F501 of the 5th floor, for an accommodation facility in favor of its subsidiary Novo Sierra Holdings, Inc.*(See Note 8.1d)*

Note 11 – INVESTMENTS IN SUBSIDIARIES, AFFILIATES AND JOINT VENTURES

The Group's long – term investments are broken down as follows:

		2010		2009
Investments in subsidiaries and associates	P	338,823,261	P	435,648,283
Investments in joint venture		1,724,691,621		1,724,785,225
Other investments		168,191,540		164,327,138
	P	**2,231,706,423**	P	2,324,760,646

The reconciliation of the movements in the long – term investments is as follows:

	2010	2009
Investment in subsidiaries and associates		
Acquisition Cost	P 457,147,762	P 457,147,762
Additions (Novo Sierra)		-
Subscription payable	(750,000)	(750,000)
Adjustments	(89,716,874)	-
Impairment loss	(2,200,000)	(2,200,000)
	364,480,888	454,197,762
Accumulated equity in net earnings		
Beginning	(19,245,427)	(18,487,646)
For the year	(7,108,147)	(757,781)
Ending	(26,353,574)	(19,245,427)
Share in revaluation increment		
Beginning	695,948	695,948
For the year	-	-
Ending	695,948	695,948
	338,823,261	435,648,283
Investment in joint venture		
Contributions, beginning	1,724,785,225	1,724,683,801
Equity in net earnings (loss)	(93,604)	101,424
	1,724,691,621	1,724,785,225
Other investments		
Beginning	164,327,138	164,327,138
Acquisitions	3,864,403	-
Ending	168,191,541	164,327,138
Total	P 2,231,706,423	P 2,324,760,646

Joint Ventures

Joint ventures are project agreements with different venture partners that were deferred in view of the current business environment. The carrying value of these joint ventures represents the amount of investments placed by the Group as original investor/developer or as assigned/transferred to Group by subsidiaries, associates or affiliates who were the original investors/developers in the project agreement.

The investments in joint ventures were not impaired due to the active efforts of the Group to raise funds in order to push through with the projects. *(See Note 29.2)*

Olango Bay Project and Laurel, Batangas Project are unincorporated joint ventures that have not fully commenced operations.

The summarized financial data of the joint ventures follow:

		2010		2009
Cash and cash equivalents	**P**	**7,537,095**	P	14,166,390
Trade and Other Receivables-net		**480,914,309**		469,627,798
Real Estate for Sale		**912,903,352**		2,066,973,914
Due from related parties		**505,369,474**		502,436,412
Other Current Assets		**148,035,022**		126,416,395
Property and Equipment		**40,489**		40,489
Other Non-Current Assets		**20,729,925**		20,729,925
Trade Payables		**158,915,941**		265,464,283
Due to Related Parties		**108,086,882**		105,908,003
Estimated Construction Cost Payable		**163,959,904**		163,959,904
Unrealized Gross Profit		**76,467,452**		48,031,540
Deferred Commission		**-**		11,441,308
Income Tax Payable		**25,246,241**		23,703,551
Retention Payable		**3,382,128**		3,382,128
Advances		**31,203,091**		30,547,234
Other Payables		**195,131,118**		82,861,283
Estimated Liability on Ongoing Projects		**52,384,874**		1,204,804,331
Equity		**1,260,752,036**		1,260,287,758

Memorandum of Agreement on Capitol Plaza

On February 14, 2007, the Company entered into a Memorandum of Agreement with the landowner of Capitol Plaza to fully satisfy the obligations of the subsidiary, Fil-Estate Properties, Inc.(FEPI), amounting to P256.7M as developer of the project by swapping other properties of FEPI with the allocated share of the landowner. Pursuant to the agreement, FEPI and another subsidiary, Fil-Estate Golf Development, Inc. (FEGDI) entered into a Deed of Conveyance with the said landowner covering the transfer of certain properties amounting to P128.5M as partial settlement of the obligation.

Sharing Distribution Agreement between FEPI, Nasugbu Properties, Inc.(NPI), Carmona Realty and Development Corporation (CRDC) and CLDC

On December 23, 2008, the parties agreed on the transfer of certain number of hectares of land of the Nasugbu harbor Town Projects from CLDC jointly under the name of NPI and CRDC with 77% and 23% ownership, respectively. Joint landowners, NPI and CRDC shall enter in to a joint venture agreement (JVA) with FEPI and the sharing among the parties shall be FEPI at 52%, NPI at 38%, CRDC at 9% and Penta Capital Management Corporation (PENTA) at 1%. In addition, CRDC shall also contribute to the development of certain hectares of lot with sharing of CRDC at 4% and the Group at 55%.

As of September 30, 2009, the land was already transferred in the name of NPI and CRDC.

Other Investments
Other investments pertain to investments in shares of Camp John Hay Dev't. Corp. and are also accounted for using the cost method in the absence of a quoted market price in an active market place, thus, fair market value could not be reliably measured as of reporting date.

Note 12 – INVESTMENT PROPERTIES

	2010	2009
Investment Property	**188,764,954**	188,764,954
Investment Projects	**616,197,850**	616,237,849
Land Held for Future Development	**1,397,780,593**	1,400,428,932
	2,202,743,396	2,205,431,735

The Group's investment properties involve numerous investments in land covered by various titles and in various locations. The total acquisition costs of P698,607,638 includes incidental costs such as notarial and legal fees, and processing fees amounting to P23,874,634.

	Investment Property	**Investment Projects**	**Land Held for Future Development**
Balance at January 2010	**188,764,954**	**616,237,849**	**1,400,428,931.93**
Adjustments		**(39,999)**	
Net Sales and Purchases for the Year			**(2,648,339.28)**
Balance at December 31, 2010	**188,764,954**	**616,197,850**	**1,397,780,592.65**
Balance at January 2009	188,764,954	616,237,849	1,263,580,640
Adjustments			
Net Sales and Purchases for the Year			136,848,292
Balance at December 31, 2010	188,764,954	616,237,849	1,400,428,932

Of the total acquisition costs, outstanding liabilities arising from land acquisitions amounted to P27,377,103 as at September 30, 2010 and 2009. *(See Note 14)*

Note 13 – OTHER NON-CURRENT ASSETS

This consists of the following:

	2010	2009
Meter Deposits	**P 544,291**	P 564,840
Refundable Deposit	**15,463,401**	22,358,328
	P 16,007,692	P 22,923,168

Note 14 – TRADE AND OTHER PAYABLES

This account is composed of:

		2010		2009
Due to related parties	**P**	**844,383,010**	P	451,069,411
Vouchers payable		**582,384,332**		599,752,483
Customer deposits		**576,215,726**		561,025,740
Due to landowner		**280,393,926**		279,268,593
Accrued expenses		**183,077,651**		207,131,750
Due to officers and employees		**22,896,024**		10,931,007
Due to contractors		**14,944,209**		11,052,248
Rental deposit		**1,882,480**		3,534,226
AP Others		**183,121,425**		208,438,030
	P	**2,689,298,785**	P	2,332,203,488

Vouchers Payables
Vouchers payables represent accruals for expense due to service providers with which the Group has liabilities under a contractual agreement.

Included in Voucher Payable is outstanding payable to Warbird Security Services, an affiliate of the Parent, Fil-Estate Land, Inc. amounting to P4,616,679 and in Other payables representing offsetting payable amounting to P2,927,250 for a total of P7,543,929 which is subject of an offsetting arrangement covering assignment by an affiliate, Fil-Estate Ecocentrum Corp., of a property with an area of 1,000sqm located at Manila Southwoods Carmona Commercial Strip valued at P9M the excess of which will be used to cover transfer taxes.

Note 15 – OTHER CURRENT LIABILITIES

This account is composed of:

		2010		2009
Deferred income	**P**	**602,771,457**	P	732,767,923
Offsetting payable		**226,518,792**		209,370,833
Taxes payable		**143,091,306**		125,388,448
Provision for contingent liability		**34,000,000**		34,000,000
Interest payable		**457,074,848**		279,785,376
Accrued retirement (Note 3.14)		**63,238,394**		63,238,394
Other payables		**142,920,425**		107,367,503
	P	**1,669,615,222**	P	1,551,918,476

Accrued Interest
This account represents accrual of interest expense in US Dollar for the LIM Asia Arbitrage Fund Convertible Bonds Payable from May 9, 2010 to September 30, 2010 at 4% per annum

converted at P43.896/US $. The Group recognized unrealized foreign exchange gain in the amount of P843,992 from the accrual of this interest expense. *(See Note 16)*

Offsetting Payables
Offsetting payables represents accrued liabilities to service providers whose contractual agreements require partial payment in cash and partial payment in the form of properties or inventories owned by the Group or its subsidiary, associate or affiliate. These amounts represent the balance awaiting completion of assigned property or inventory as of reporting date.

Provision for contingent Liability
A provision was made for a probable refund pertaining to a P24M down payment made by a local bank on a purchase of 1,000 sq.m. lot area located in a subdivision in Binan, Laguna from an affiliate, Fil-Estate Ecocentrum Corp. which was rescinded. This is a subject case filed with the HLURB . Additional provision of P10M was set up to cover accruing interest of 12% per annum from July 1997 and other damages, presented as part of loss on refund in other expenses os Consolidated Statement of Comprehensive Income(Note 21.2)

Note 16 – BONDS PAYABLE

On September 14, 2007, the Parent Company (issuer) entered into a Bonds Issuance Facility Agreement (facility agreement) with LIM Asia Arbitrage Fund, Inc. (original bondholder), The Hong Kong and Shanghai Banking Corporation Limited Manila (trustee), Banco de Oro – EPCI, Inc. – Trust Banking Group (paying agent, transfer agent or conversion agent) and LIM Advisors Limited (arranger) wherein the issuer intends to issue a five (5) year and one (1) day fixed rate convertible bonds with a face value of up to US$25,000,000 sixty months and one (1) day after issue date and convertible to common shares of the capital stock of the issuer on the terms and conditions provided.

Significant provisions of the facility agreement follow:

a. The convertible bonds are not intended for public distribution and sale in the Philippines and will not be registered under SRC prior to the issue date. The convertible bonds will be sold on a private placement basis to the original bondholder with a restriction that they cannot be offered or sold, on a secondary basis, to more than 19 Bondholders who are not Qualified Buyers at any given twelve (12) month period.

b. The aggregate amount of the initial convertible bonds to be issued by the issuer under the terms of this facility agreement shall not exceed the maximum aggregate principal amount of US$25,000,000.

c. The original bondholder hereby grants to the issuer a convertible bond facility of up to the aggregate principal amount of US$12,500,000, subject to the terms and conditions thereof.

d. The issuer shall have the option to issue up to US$12,500,000 face value of additional convertible bonds, carrying the same terms and conditions as the initial issue, at any time prior to December 31, 2007, and which may be subscribed by the Arranger or any third party (the "Greenshoe Option"). The additional convertible bonds shall be governed by the same terms and conditions set forth in this agreement and deemed an integral part of the Convertible bonds Private Placement: provided that:

(i) the new issue date of the additional convertible bonds shall be mutually agreed upon by the issuer and the arranger;

(ii) the aggregate of the initial convertible bonds and the additional convertible bonds will not exceed $25M;

(iii) the interest payment date and maturity date of the additional convertible bonds shall be defined under this facility agreement and shall coincide with the interest payment date and maturity date of the initial convertible bonds.

e. The convertible bonds are priced at 100% of their face value. The convertible bonds are priced to achieve a desired yield to maturity equivalent to 14.0% per annum, inclusive of all interest payments.

f. The issuer shall redeem all outstanding convertible bonds on maturity date by paying in full the principal maturity amount including accrued interest due on the maturity date for the period covering the immediately preceding interest payment date prior to the maturity date up to the maturity date by electronic fund transfer to the account of the paying agent.

g. The issuer shall pay interest on the outstanding principal amount on convertible bonds on each interest payment date for the interest period then ending at a rate of 4% pa. The issuer together with its subsidiaries and affiliates shall preserve any available foreign exchange credits for the purpose of interest payments.

h. Each convertible bond may be converted to conversion shares at P1.50 per share, subject to adjustments as provided or any business day commencing 6 months from the issue date until the maturity date at the sole discretion of the bondholders. The number of conversion shares to w/c a bondholder is entitled shall be fixed at the time of the issue date of the convertible bonds based on the conversion exchange rate.

i. In the event that the US Dollar appreciates by more than 20% against the peso over the conversion rate exchange, and is maintained at that level for more than ninety (90) consecutive days, then the conversion ratio shall be adjusted so that the difference between the US Dollar principal value of the convertible bonds and the original conversion ratio at P1.50 per share + 20% shall be the maximum amount of the convertible bonds to be converted into conversion shares upon the bondholders' exercise of the conversion rights, with the residual being maintained as unconvertible bonds otherwise having the same rights and obligations as the convertible bonds.

k. All payments by the issuer due to the bondholders or the trustee hereunder or under the convertible bonds, whether interest, principal, fees, early redemption shall be made without set-off, or counterclaim for indemnifiable taxes and free and clear and without any deduction or withholding on account of the issuer and shall be paid by the issuer directly to the relevant taxing or other authority when due.

l. In an event of default, the remedy period shall be 30 calendar days from the occurrence of the event of default and may be extended at the discretion of the majority of the board. At the time after the remedy period, if any such event of default shall be continuing and has not been waived by the majority bondholder, the trustee upon written direction of the majority bondholders shall by written notice to the issuer in default and shall immediately upon notice of the occurrence of such event of default at the rate of the redemption price plus 2% plus accrued interest, and failing redemption of the convertible bonds.

m. The convertible bonds may be either redeemed at the option of the Issuer or of the Bondholders. If as a result of certain changes in applicable laws, rules or regulations, or in the interpretation thereof, the applicable withholding tax increased by more than 20% over the prevailing rates as of Issue Date, the Issuer may redeem in whole, but not in part, the convertible Bonds on any Interest Payment Date. In the event the Issuer exercises this early redemption option, the amount payable to the Bondholders in respect of such early redemption shall be the amount calculated as the Redemption Price which is the principal amount of the Convertible Bonds plus 15.5% per year, compounded bi-annually on each Interest period, minus the paid interest rate during such Interest Period, from Issue Date until the date of the Interest Payment Date on which the Convertible Bonds are to be redeemed.

The parties entered into a supplemental agreement in January 14, 2008 to allow the Parent Company to extend the period for the exercise of the Greenshoe Option at any period prior to January 20, 2008 to allow the subscription of a new subscriber, LIM Asia Special Situations Fund Limited (new bondholder) to subscribe to the additional convertible bonds. An accession agreement was entered by new bondholder on January 18, 2008 as new bondholder and becomes a party to the facility agreement with effect on and from January 18, 2007.

Bond Issuance

Pursuant to the above convertible bonds issuance facility agreement and the other related agreements, the Parent Company issued five-year and one day fixed rate convertible bonds totaling US$25 million. The first tranche was issued on November 8, 2007 with a face value of US$12.5 million to the original bondholder due on November 8, 2012 and the second tranche was issued on January18, 2008 with a face value of US$12.5 million due in 2013. The US$25 million convertible bonds translated to year-end rates amount to P1,097,400 and P1,189,800,000 as at September 30, 2010 and 2009 respectively.

Interest expense and Accrual

Pursuant to the covenants, payment of interest is based on a rate of 4% payable at the end of each six month after issue date. Interest expense recognized on the bonds amounted to P57,594,424 and P60,314,452 for the years ended September 30, 2010 and 2009, respectively. Realized gain from the settlement of the interests incurred amounts to P635,201 and 2,013,097 for 2010 and 2009, respectively. Accrued interest amount to P22,544,660 and P23,796,000 as at September 30, 2010 and 2009 respectively.

Unrealized gain(loss) on forex

Unrealized gain (loss) from the translation of the convertible bonds and the accrual of interest expense amounted to P93,243,992 as at September 30, 2010 broken down as follows:

Translation of convertible bonds	P 92,400,000
Accrual of interest expense	843,992
Total	P 93,243,992

Early redemption of convertible bonds

In view of the happening of the event after reporting date, Alliance Global Group, Inc. (AGI) entered into a Subscription Agreement to which AGI will invest and acquire controlling interest in the Parent Company, FEUDC has offered to repay on or before January 28, 2011 the Structured Loans and all amounts outstanding and payable to LAMS and LIM Marketing under the Omnibus Agreement and the Extension Letters and the Parent Company has offered for an early redemption of the outstanding convertible bonds under the Convertible Bond

Facility Agreement at a premium of 145.34which the creditors have agreed to accept.*(Note 30).*

In view of this, an accrual for the redemption price of the convertible bonds is made based on principal amount of the convertible bond plus 16% per year minus all interest payments made based on an interest rate of 4% per year. Total additional interest payable accrued and grossed up to include the 20% withholding tax borne by the Parent Company amounts to P531,506,055. *(See Note 20.2 and 25.1)* Total adjustments to retained earnings due to the interest income earned from the early redemption amounted to P319,986,721 *(See Note 20.2)*, while interest income for the year increased by P153,429,703 *(See Note 15.1 and 25.2).*

NOTE 17- LOANS PAYABLE

This account consist of the following;

	2010	2009
Current	4,100,000	
Non Current (Note 8.d)		
Accomodation of Facility	275,000,000	
Others	226,001,457	468,681,766
	505,101,457	468,681,766

<u>Omnibus Agreement with LIM Asia Arbitrage</u>

On March 5, 2007, the Fil-Estate Urban Development Corporation (borrower), a subsidiary together with FELI (guarantor) entered into an Omnibus Agreement (“agreement”) with LIM Asia Arbitrage Fund, Inc. (LIM Asia, lender) for a US$10.5 million loan facility (to be registered with Bangko Sentral ng Pilipinas) and a US$2 million loan facility. The facility is being extended for five (5) years from the signing date.

Under the agreement, the following are the conditions of the security for the drawdown under the facility:

1. The chattel mortgage the guarantor shall execute pursuant to the agreement, to constitute a chattel mortgage over 100% of the total issued and outstanding shares of the capital stock of the borrower to be registered with the Chattel Mortgage Registry and delivered to the trustee (HSBC).

2. A signed and irrevocable proxy from the guarantor as the owner of the shares in favor of the lender to be held by the trustee. The proxy shall be delivered by the trustee to the lender upon the lenders notice to the trustee of there being an event of default. The proxy must provide for full voting rights over the 100% of the borrowers shares to be given to the lender.

3. Signed and undated irrevocable resignation notices of all borrowers' directors to be held by the trustee and delivered to the lender upon the lender's notice to the trustee of there being an event of default which remains unremedied after the lapse of the applicable remedy period.

Each drawdown shall specify a project for which the fund shall be used. Moreover, the Company (FEUDC), as the borrower, will not, unless the lender otherwise agrees in writing;

a). Merge or consolidate with any other entity or take any step with a view to dissolution, liquidation or winding up;
b). Purchase or redeem any of its issued shares or reduce its share capital;
c). Declare or pay any dividends or make any other income distribution to its stockholders;
d). Establish or acquire any subsidiary or affiliate;
e). Undertake any business activity other than transactions contemplated by the finance documents;
f). Change the nature of its business;
g). Grant any loan or advance, guarantee;
h). Incur any other indebtedness;
i). Enter into any agreement or obligation which might mutually and adversely affect its financial consolidation.

Drawdown Pursuant to the Omnibus Agreement

17. 1 First Drawdown
The USD equivalent of PhP100 million loan was secured in a single drawdown on April 24, 2007 through loan line facility provided by Hong Kong and Shanghai Bank Corporation (HSBC) subject to the terms and conditions thereof. This represents 110% USD Equivalent of PhP100M secured by a lien in favour of HSBC over a deposit of LIM Asia with HSBC Institutional Trust Services Asia Limited (HTHK). The loan was to be used for the development of 90 townhouse units located in New Manila in Quezon City (Cathedral Heights Project). The drawdown security consists of a duly registered first ranking real estate mortgage and security interest over 17 individual townhouse units of the project *(Note 7)*, assignment of insurance claims and proceeds from insurance policies relating to the mortgaged units and receivables relating to previous sales of the project. The coupon rate of 10% p.a. fixed for the interest period of 18 months from drawdown date.

The above loan facility was renewed with the same terms and conditions on May 31, 2010 together with a repayment schedule starting with P20M due on November 30, 2010 and P10M due every three (3) months thereafter with the outstanding balance due May 25, 2012.

17.2 Second Drawdown
The USD equivalent of PhP130 million loan was secured in a single drawdown on August 3, 2007 with the full repayment of the loan principal 24 months from date of First Drawdown, with interest at 10% per annum fixed for the 24 months term payable in four equal instalments, quarterly in advance from the date of drawdown with a six month initial grace period. The said loan was secured to fund the Villa Maria (18) and Villa Margarita (19) of the Boracay villas project.
The drawdown security consists of duly registered first ranking real estate mortgage over fifty two (52) units of the project *(Note 7)* assignment of insurance claims and proceeds from insurance policies relating to the mortgaged units and receivables relating to previous sales of the project.

17.3 Third Drawdown
On September 17, 2008, the USD equivalent of PhP30M in a single drawdown was secured with the full repayment of the loan principal on or before 18 months from date of First Drawdown with interest at 9% per annum for the 18 month term payable in four equal instalments, quarterly in advance from the date of drawdown with a six month initial grace period. The said loan was secured to fund the development of CJH Forest Cabins consisting of 28 duplexes or 56 semi detached units located in Camp John Hay. The drawdown security consists of duly registered first ranking real estate mortgage over six (6) units of the project

(Note 7) assignment of insurance claims and proceeds from insurance policies relating to the mortgaged units and receivables relating to previous sales of the project.

17.4 Fourth Drawdown

On September 17, 2008, the USD equivalent of PhP205M was secured in two drawdowns with the full repayment of the loan principal on or before 18 months from date of First Drawdown with interest at 9% per annum for the 24 month term payable in four equal instalments, quarterly in advance from the date of drawdown with a six month initial grace period. The first drawdown amounts to the USD equivalent of PhP100M and the second drawdown amounts to the USD equivalent of P105M. The said loan was secured to fund the development of Phase 1 of CJH Suites consisting of 205 units located in Camp John Hay. The drawdown security consists of duly registered first ranking real estate mortgage over ninety (90) units of the project *(Note 7)*, assignment of insurance claims and proceeds from insurance policies relating to the mortgaged units and receivables relating to previous sales of the project amounting to P12.09M and encumbrance on the Limited Warranty Deed (LWD) for each respective unit.

Limited Warranty Deed

On July 1, 2008, a Limited Warranty Deed was issued to the Company covering the ninety (90) units stating that the Company is the owner of such units until October 7, 2046.

On July 12, 2010, Lim Asia Arbitrage Fund inc. fully released and the cancelled the said real estate mortgage with respect to the real properties covered by Limited Warranty Deed.

NOTE 18 – OTHER NONCURRENT LIABILITIES

	2010	2009
Due To other realty	**P 407,395,123**	P 407,245,122
Retention Payable	**75,493,188**	61,832,609
Others	**17,731,062**	17,484,299
	P 500,619,372	P 486,562,030

NOTE 19 – REVENUES

	2010	2009
Sale of Real Estate	**P 366,459,863**	P 388,469,249
Service Income	**101,409,733**	92,234,564
Sale of Golf and Resort Shares	**1,000,000**	-
Rental Income	**19,591,984**	16,985,120

Rental Income

A major part of rental income pertains to the lease of Splash Island water park premises. The lease agreement is with Global Gutz Parks Phils., Inc. for the period commencing on March 1, 2009 until February 29, 2012, renewable for another two (2) years subject to mutual agreement of both parties. Total rental income recognized by the Company from the lease of the water park amounts to ₱8,482,143 and ₱4,947,917 for 2010 and 2009, respectively. The

Group during the year, also realized income relating to its previous year Rental Received in Advance amounting to ₱3,534,226.

NOTE 20 – COST OF SALE

	2010	2009
Cost of Sale	**P 387,444,674**	P 230,999,237
Cost of Services	**4,646,655**	4,646,655
	P 392,091,329	P 235,645,892

Note 21 – OTHER INCOME AND EXPENSES

21.1 Other Income

Other income consists of:

	2010	2009
Unrealized Forex Gain(Note 3.12)	**P 110,953,770**	P 1,647,641
Interest Income	**108,079,588**	23,125,924
Amortization of Deferred Interest (Note 6)	**63,123,599**	140,416,470
Dividend	**1,756,690**	79,289
Realized Forex Gain (Note 3.12)	**635,201**	2,013,097
Transfer Fee	**394,117**	440,924
Gain (Loss) on Refund Income	**-**	10,000
Miscellaneous Income	**32,395,862**	54,746,406
	P 317,338,827	P 222,479,751

Sources of Interest Income are presented listed bellow;

	2010	2009
Delayed Amortization	**P 59,185,153**	P 9,909,537
Advances to Affiliates	**47,649,792**	7,776,716
Banks	**894,883**	5,437,342
Short term Investment	**349,760**	2,329,000
	P 108,079,588	P 25,452,595

21.2 Other Expenses

Other expenses account is composed of the following:

	2010	2009
Loss on Refund	**P 23,241,102**	P 88,435,994
Loss on Dacion of MCX Property	**-**	20,558,400
Unrealized forex loss (Note 3.12)	**1,452**	16,875,001
Realized forex loss (Note 3.12)	**3,391,353**	1,111,468
Miscellaneous expenses	**140,740**	19,164
	P 26,774,648	P 127,000,027

Loss on Dacion of MCX Properties

On November 9, 2007, the Parent Company's creditor bank approved and accepted the proposed full settlement of the outstanding P20M loan by way of dacion en pago. In 2008, the loan was settled simultaneously with the buyback of FEPI of overdue receivables amounting to P32M to total P52M in principal. Various properties for a total dacion value of P90M were used to settle the said principal amount inclusive of interest. A loss of P20,558,400 on the dacion was incurred representing the difference between the carrying amount of the property over the settlement price of the liability to the bank.

Loss on Refund
Included in the account is provision for impairment provided for Real Estate for Sale amounting to ₱12,376,444 and ₱17,704,016 in 2010 and 2009, respectively. *(Note 5)*

Also included in the account is 12% interest amounting to ₱10,000,000 accruing to the Company as a result of refund from rescinded sale made with a local bank. *(Note 13)*

21.3 Finance Costs

Finance costs were incurred from the following:

	2010	2009
4% Lim Asia (Note 16)	**P 116,631,500**	P 86,695,691
12% Unaccrued expense relating		
to early redemption of convertible bonds	**211,519,334**	
Amortization of Deferred interest	**19,848,007**	17,195,370
Drawdown Interest	**34,237,615**	1,076,622
Others	**177,000**	-
	P 382,413,456	P 104,967,683

Note 22 – GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of:

		2010		2009
Employee Benefits	**P**	**93,476,553**	P	114,346,461
Doubtful accounts expense		**59,667,731**		-
Depreciation Expense		**25,363,601**		24,099,513
Amortization of Deferred Interest Payable		**17,518,172**		
Legal Fees		**17,054,120**		18,906,416
Taxes and Licenses		**16,391,189**		21,676,729
Professional Fees		**12,334,974**		22,251,095
Representation and entertainment		**8,297,740**		11,010,516
Utilities Expense		**8,046,858**		8,066,451
Transportation and Travel		**6,998,091**		12,008,736
Fees and Dues		**6,514,558**		2,521,731
Security services		**3,185,707**		5,245,076
Association Dues		**3,180,799**		4,607,800
Penalties & Surcharges		**2,946,236**		722,073
Arrangement fee		**2,455,130**		-
Documentary Stamps Tax		**2,367,442**		1,150,718
Gas & Oil		**1,866,674**		2,415,333
Repairs and Maintenance		**1,856,221**		4,747,762
Communication expense		**1,608,732**		2,916,021
Insurance Expense		**1,158,101**		1,070,667
Meetings and conferences		**960,722**		970,310
Supplies expense		**889,448**		2,242,559
Janitorial Services		**804,717**		3,004,385
Trustee fee		**790,000**		-
Relocation Cost		**781,875**		30,561,244
Bank Charges		**729,384**		375,375
Negotiation Fee		**604,800**		-
Directors Fee		**584,706**		676,250
Donation		**472,992**		249,965
Agency Fee		**370,417**		426,239
Seminars and Trainings		**74,156**		86,261
Appraisal Fee		**8,450**		27,451
Freight and Delivery		**190**		1,120,589
Provision for retirement expense		**-**		178,312
Rental Expense		**-**		1,626,579
Royalty fee		**-**		1,166,400
Others		**42,498,286**		61,221,348
	P	**341,858,773**	P	361,696,368

Note 23 – MARKETING EXPENSES

This account consists of:

Marketing Expenses

		2010		2009
Commission Expense	**P**	**17,696,913**	P	25,237,804
Advertising & Promotion		**1,553,882**		11,869,644
Marketing fee		**744,849**		-
Printing and reproduction		**490,485**		799,118
Open House Expense		**118,473**		473,410
Sales Incentive		**81,000**		897,517
Prizes and Awards Expense		**18,500**		49,589
Management Fee		**-**		271,160
		20,704,100		39,598,242

Note 24– EMPLOYEE BENEFITS

The Company has an unfunded, non-contributory defined benefit plan covering all regular employees. The plans provide for lump-sum benefits equivalent to 85% to 150% of the employee's monthly salary for every year of service depending on the years of service. The normal retirement age is sixty (60) years old and upon completion of five (5) years of faithful and continuous service with the Company. However, an employee who attains the age of fifty (50) with the completion of no less than ten (10) years of service; or upon completion of fifteen (15) years of service and opts for an early retirement is likewise entitled to the same benefits.

Based on the last Actuarial Report dated February 4, 2010, the actuarial accrued liability, computed using the Projected Unit Credit Method, amounts to P371,933 as of September 30, 2009.

The discount rate used was 8.00% per annum which was based on the prevailing yield of government bonds, as published by the Philippine Dealing Exchange (PDEX), with the remaining period to maturity approximating the estimated average duration of benefit payment. The estimated duration is estimated to be 12 years.

The salary increase rate was assumed at 5.00% per annum taking into consideration the prevailing inflation rate and company policy.

Based on the last Actuarial Valuation dated February 4, 2010, Changes in the Present Value of the defined benefit obligation are as follows:

Balance at the Beginning of the year	**P 58,155,966**
Interest Cost	**4,650,706**
Current Service Cost	**2,656,339**
Curtailment (gain) cost	**(13,226,665)**
Actuarial (gain) loss on obligation	**(10,406,481)**
	P 41,829,865

Amounts recognized in the Statement of Financial Position as of September 30, 2010 and 2009 were determined as follows:

	2010	2009
Benefit Obligation	**P 50,966,535**	P 50,389,336
Unrecognized net actuarial loss	**12,271,859**	12,849,058
net retirement liability	**P 63,238,394**	P 63,238,394

Amounts recognized in the Statements of Comprehensive Income for the year 2010 and 2009 were determined as follows

	2010	2009
Current Service Cost	**P 13,226,665**	P 13,226,665
Interest Cost	**1,064,063**	1,068,216
Net Actuarial Gains recognized for the year	**(2,579,479)**	(2,606,339)
Gain on Curtailment	**(4,544,100)**	(4,649,706)
	P 7,167,149	P 7,038,836

Note 25– TAXES

25.1 Deferred tax assets and liabilities

The deferred tax assets and liabilities recognized in the Statement of Financial Position are broken down as follows:

Deferred Tax Asse/Liability

	2010	
	Tax Base	DTA
Unrealized income	P 461,592,356	P 138,477,707
Unrealized gross profit	10,440,281	3,132,084
Accrued retirement	4,306,867	1,292,060
Allowance for impairment	140,721,440	42,216,919
Allowance for decline in value of golf shares	1,693,300	287,990
Disallowed interest expense	192,007,459	57,602,238
NOLCO	396,647,931	123,833,035
Excess MCIT over normal tax	54,338,350	2,311,657
Unrealized foreign exchange loss	16,829,097	5,048,729
Others		
	1,278,577,081	374,202,419
Unrecognized DTA		65,076,307
		309,126,112
Prior-year adjustment		
2008		40,166,898
2009		55,829,119
		P 405,122,128

The changes on deferred income taxes for the year resulted from the reversal of the recorded deferred tax asset related to the unrealized foreign exchange and recognition of deferred tax liability on unrealized foreign exchange gain. These changes were affected by the translation of the foreign denominated convertible bonds to the current exchange rate. *(See Note 16)*

25.2 MCIT and NOLCO

MCIT

Date Incurred	Amount	Expired/Applied	Balance	Expiry Date
2007	P 131,000	(P 76,000)	P 55,000	2010
2008	82,000.00	(62,000.00)	20,000.00	2011
2009	305,000.00		305,000.00	2012
2010	1,086,767.00			2013
	P 1,604,767	(P 138,000)	P 1,466,767	

NOLCO

Date Incurred	Amount	Expired/Applied	Balance	Expiry Date
2007	P 37,137,000	(P 7,685,000)	P 29,452,000	2010
2008	56,670,000	(12,583,000.00)	44,087,000.00	2011
2009	38,232,000		38,232,000.00	2012
2010	396,647,931			2013
	P 528,686,931	(P 20,268,000)	P 508,418,931	

25.3 New Tax Regulation

On May 24, 2005, Republic Act No. 9337 (“RA 9337”), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and became effective beginning November 1, 2005. The following are the major changes brought about by RA 9337 that are relevant to the Company:

a. RCIT rate is increased from 32% to 35% starting November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning January 1, 2009;

b. 12% VAT rate is now be imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

c. Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter.

Effective beginning July 6, 2008, Revenue Regulations (RR) No. 10-2008 implements Republic Act (RA) No. 9504 on the income tax exemption of minimum wage earners (Sec. 24) and the increased personal and additional exemptions (Sec. 35(A) and (B)) and prescribes pro-rated personal and additional exemptions and transitional withholding tax (WT) for the period July 6 to December 31, 2008. It also deals with optional standard deduction (OSD), allowing individuals and corporations to deduct 40% of gross income in computing their taxable income starting July 6, 2008 and onwards in lieu of itemized deductions.

Note 26 – EARNINGS PER SHARE

The Company's basic earnings per share were computed as follows:

	2010	2009
Net income (loss) for the year	**(P 493,032,841)**	(P 207,716,366)
Weighted average number of shares	**3,066,877,964**	3,066,877,964
Basic earnings (loss) per share	**(P 0.16)**	(P 0.07)

The Parent Company has no dilutive potential common shares as of September 30, 2010 and 2009.

Note 27 – EQUITY

27.1 Share Capital

The Company's share capital is described as follows:

	2010	2009
Share Capital		
Authorized (P1.00 par value/sh)	**5,000,000,000**	5,000,000,000
Subscribed	**3,350,000,000**	3,350,000,000
Subscription receivable	**283,122,036**	283,122,036
Issued and outstanding	**3,066,877,964**	3,066,877,964

There were no movements in the share capital of the Company for the year.

Underlying Common Shares for the Convertible Bonds

On December 12, 2007, the Philippine Stock Exchange approved the Parent Company's application to list additional 772,266,667 common shares with a par value of P1.00 per share to cover the underlying common shares for the convertible bonds with a total value of US$25 Million *(see Note 14)* at a conversion price of P1.50 per share.

Warrant Instrument

On February 8, 2007, as part of consideration for the private placement subscriptions made by LIM Asia Arbitrage Fund (LAAF) and LIM Asia Alternative Real Estate Fund (LAARF) and their agreement to provide a financial facility for ongoing and future real estate projects, the Board of Directors authorized the issuance of 136 million warrants relating to 136 million unissued shares of the common stock of the Parent Company with an exercise price of P1.00 subject to adjustment as provided in the Warrant Instrument.

There is no value assigned to the warrant issued since the interest rate of the construction loan granted is higher than the prevailing market rates at the time of availment of the loans.

27.2 Prior Period Adjustment

The Parent Company recognized a prior period adjustment for unrecorded interest expense from the Bonds Issuance Facility Agreement *(see Note 14)* entered into on September 14, 2007. The Parent Company also recognized a prior period adjustment, as a result of the above, for the unrecognized interest income for the advances to its affiliates whose funds came from the Bond Issuance Facility Agreement. The financial statements for the year 2009 and 2008 were adjusted and re-stated as per PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The unrecorded interest expense for the years ended 2009 and 2008 amounts to P186,097,062 and P133,889,659, respectively, while the interest income amounting to P 80,199,080 for 2008, were not recognized.

The Equity as re-stated for 2009 amounts P5,270,990,589 while the re-stated Equity for 2008 amounts to P5,277,777,335. The reconciliation of the effects of the prior period adjustments to equity is as follows:

	2010	2009	2008
Balances at beginning of the year	**9,323,424,834**	9,285,841,428	9,493,672,068
Prior period adjustments			
Interest expense			
2008	**(133,889,659)**	(133,889,659)	(133,889,659)
2009	**(186,097,062)**	(186,097,062)	-
Interest income			
2008	**80,199,080**	80,199,080	80,199,080
Tax effect or prior period adj.			
2008	**16,107,174**	16,107,174	16,107,174
2009	**-**		-
Net-effect	**(223,680,467)**	(223,680,467)	(37,583,405)
Re-stated balance at the end of the year	9,099,744,366	9,062,160,961	9,456,088,662

Note 28 – CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Parent Company's objective when managing capital is to maintain its ability to continue as a going concern entity and to maintain optimal capital structure so as to maximize shareholder value. In order to achieve an optimal result, the Parent Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, earn or sell assets to reduce debt.

The Parent Company monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position. Capital for the reporting periods under review is summarized as follows:

		2010		2009
Total liabilities	**P**	**2,394,780,744**	P	2,088,693,593
Total equity		**5,191,199,643**		5,270,374,889
Debt-to-equity ratio		**1:2.17**		1:2.52

The Parent Company's goal in capital management is to maintain a debt-to-equity structure ratio of 1:1 to 1:2 on a monthly basis.

The Parent Company has complied with its covenant obligations including its debt-to-equity ratio goal in capital management.

Note 29 – RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

Category and carrying values of financial assets and liabilities
The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In determining the fair value of its financial assets and liabilities, the Group takes into account its current circumstances and the costs that would be incurred to exchange or settle the underlying financial assets and liabilities.

The carrying value and estimated fair values of the Group's financial assets and liabilities for the year ended September 30, 2008 and 2007 are presented in the table below:

	2010				2009			
		Carrying Value		**Estimated Fair Value**		Carrying Value		Estimated Fair Value
Financial Assets								
Cash	**P**	**81,957**	**P**	**81,957**	P	192,968	P	192,968
Receivables		**491,986**		**491,986**		1,563,661		1,563,661
Due from related parties		**1,699,814**		**1,699,814**		867,559		867,559
	P	**2,273,758**	**P**	**2,273,758**	P	2,624,188	P	2,624,188
Financial Liabilities								
Trade and other payables	**P**	**8,135,448**	**P**	**8,135,448**	P	1,865,593	P	1,865,593
Due to related parties		**844,383**		**844,383**		451,069		451,069
Bonds payable		**1,097,400**		**1,097,400**		1,189,800		1,189,800
Other current liabilities		**1,669,615**		**1,669,615**		1,551,918		1,551,918
	P	**11,746,846**	**P**	**11,746,846**	P	5,058,381	P	5,058,381

The carrying amounts approximate their fair values due to relatively short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables approximate their fair values.

Financial Risk Management Objectives and Policies
The Parent Company's risk management is in close cooperation with the Board of Directors, and focuses on actively securing the short-to-medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Parent Company is exposed to are described below together with the risk management policies:

29.1 Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the Statement of Financial Position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

	2010	2009
Cash	**P 81,957**	P 27,116
Installment contract receivable and other trade	**1,168,859**	634,838
Interest receivable	**12,025**	6,770
Due from other contractors	**233,419**	225,024
Due from related parties	**393,764**	1,466,471
Other receivable	**383,734**	98,117
	P 2,273,758	P 2,458,335

The qualities of the exposed financial assets of the company are classified as follows:

2010

	Neither Impaired or past due			Either past due		
	High	Medium	Low	or impaired	allowance	Total
Cash	**P 81,957,165**	-	-	-		**P 81,957,165**
Installment contract receivables -net of						
unrealized gross profit	**937,698,424**			**306,782,622**	**(306,782,622)**	**937,698,424**
Other trade receivables	**231,160,895**					**231,160,895**
Interest receivable		**4,018,796**		**8,006,400**		**12,025,196**
Due from Contractors		**233,418,838**				**233,418,838**
Due from officers and employees		**64,843,998**				**64,843,998**
Due from Related Party		**1,697,794,254**		**2,020,071**	**(2,020,071)**	**1,697,794,254**
Other receivables		**106,572,266**		**212,317,367**		**318,889,633**
Total	**P 1,250,816,483**	**P 2,106,648,152**	-	**P 529,126,460**	**(P 308,802,693)**	**P 3,577,788,402**

2009

	Neither Impaired or past due			Either past due		
	High	Medium	Low	or impaired	Allowance	Total
Cash	P 81,957,165					P 81,957,165
Installment contract receivables -net of						-
unrealized gross profit	413,958,103			255,621,081	(255,621,081)	413,958,103
Other Trade Receivables	220,880,111					220,880,111
Interest receivable		1,324,800		5,445,057		6,769,857
Due from Contractors		225,023,909				225,023,909
Due from Offcers and Employees		59,905,538				59,905,538
Due from Related party		1,542,640,292		17,953,398	(17,953,398)	1,542,640,292
Other receivables			38,211,345			38,211,345
Total	P 716,795,379	P 1,828,894,539	P 38,211,345	P 279,019,536	(P 273,574,479)	P 2,589,346,320

The Company sets the maximum amounts and limits that may be advanced to or placed with individual and corporate counterparties which are set by reference to their long term ratings. Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties.

Sales to buyers of real estate on installment are relatively risk-free. These sales are documented under a Contract to Sell agreement which allow cancellation of the sale and forfeiture of payments made in event of defaults by buyers. Also, ownership titles related to the installment sales are only transferred upon full payment of the contract price.

Concentrations of credit risks on pertain to interest receivable from a loan of an affiliate and receivables from other realty development companies that are to be due in four (4) years.

29.2 Liquidity Risk

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from difficulty in collections or inability to generate cash inflows as anticipated. The Company's objective in managing its profile is:

a. To ensure that adequate funding is available at all times.
b. To meet commitments as they arise without incurring unnecessary cost.
c. To be able to access funding when needed at the least possible cost.

The Parent Company has reduced bank debt and payables to suppliers, contractors and other creditors via asset swap arrangement utilizing the Parent Company's real estate and golf and resort inventories. But, at the same time, the Parent Company is still in active search for financial institutions that would provide them with funding requirements and solve liquidity issues for the continuation of the developments of its projects.

The contractual maturity of the Company's financial liabilities is as follows:

2010	less than 1 year	1 -3 years	3-5 years	more than 5 years	Total
Retention Payable		P 53,413,693			P 53,413,693
Loans Payable	P 489,990,630	12,010,827.44	-	P 3,100,000	505,101,457
Liabilities arising from acquisition	27,377,102.93				27,377,103
Bonds payable		1,097,400,000			1,097,400,000
Deposit on Real Estate Sales	60,895,266				60,895,266
Trade and other payable	8,979,830,723				8,979,830,723
Customer Deposit	485,647,321				485,647,321
Liablities arising from Land Acquisition	67,788,065				67,788,065
Others	1,173,397,132				1,173,397,132
	P 11,284,926,240	P 1,162,824,520	-	P 3,100,000	P 12,450,850,760
	-	-	-		

2009	less than 1 year	1 -3 years	3-5 years	more than 5 years	Total
Retention Payable		P 49,968,824	P 11,487,415		P 61,456,240
Loans Payable		467,731,766		P 950,000	468,681,766
Mortgage payable				524,593	
Liabilities arising from acquisition	28,652,853				28,652,853
Bonds payable			1,189,800,000		1,189,800,000
Deposit on Real Estate Sales	61,557,043				61,557,043
Trade and other payables	2,316,662,034				2,316,662,034
Customer Deposit	477,438,936				477,438,936
Liablities arising from Land Acquisition	67,788,065				67,788,065
Others	955,120,851				955,120,851
	P 3,907,219,782	P 517,700,590	P 1,201,287,415	P 1,474,593	P 5,627,157,787

29.3 Interest Rate Risk

Interest rate risk arises when there is a possible change on interest rate of +100 basis points and -100 basis points every quarter, which will affect future cash flows or fair value of financial instruments. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant.
The Parent Company's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Parent Company's interest bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Parent Company follows prudent policies in managing its exposure to interest rate fluctuation, and constantly monitors its exposure to fluctuation in interest rates to estimate the impact of interest rate movements on its interest expense.

29.4 Currency Risk

The Parent Company's principal transactions are carried out in Philippine Peso, its functional currency. Its exposure to foreign currency exchange risk arises primarily with respect to the US Dollar as a result of its interest-bearing bonds *(see Note 13).*

The exchange rate exposure is mitigated by a provision in the loan agreement that allows prepayment of the US Dollar loan in whole or in part without penalty in the event of an exchange fluctuation. Moreover, the Parent Company seeks to manage the effect of its foreign exchange exposure by purchasing US Dollars and generating revenues in foreign currency that will result to a natural hedge.

The Parent Company's foreign currency exposures as of September 30, 2010 and 2009 are summarized as follows:

	2010		2009	
	US $	Php	US $	Php
Accrued interest	**$ 500,000**	**P 21,948,000**	$ 500,000	P 23,796,000
Bonds payable	**$ 25,000,000**	**P 1,097,400,000**	$ 25,000,000	P 1,189,800,000
	$ 25,500,000	**P 1,119,348,000**	$ 25,500,000	P 1,213,596,000

Bonds payable was converted to Philippine Peso at a rate of P43.896 and P47.592 as at September 30, 2010 and 2009, respectively, while accrual of interests for both years were restated in Philippine Peso depending on the spot rate on quarterly accrual date.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity.

	Possible Change in US $ - Php Exchange Rates	Effect on Income before Tax	Effect on Retained Earnings
September 30, 2010	+ Php 2.00	(P 52,534,722)	(P 36,774,306)
	- Php 2.00	P 52,534,722	P 36,774,306
September 30, 2009	+ Php 2.00	(P 52,496,356)	(P 36,747,449)
	- Php 2.00	P 52,496,356	P 36,747,449

The analysis of the sensitivity of interest expense to the change in currency exchange rate shows that for every one peso increase/decrease (+/-) will result to a P1/25 Million increase/decrease in the interest expense.

Note 30 - EVENTS AFTER REPORTING DATE

30.1 Subscription Agreement

On December 22, 2010, the Alliance Global Group, Inc. entered into a Subscription Agreement with the Parent Company to invest and acquire controlling interest in the latter.

The agreement initiated an application by the Parent Company with Securities and Exchange Commission (SEC) for an increase in authorized capital stock from PhP5 Billion to PhP10 Billion. On January 12, 2011, the initial investment of P1.25B by AGI was put in escrow which would be released upon approval by the SEC of its application for increase in authorized capital stock. On January 20, 2011, the SEC approved the Parent Company's application for increase in capital stock from P5 Billion to P10B. The initial investment of 1.25B held in escrow will now be released. The remaining portion amounting to P3.75M was also placed in escrow on January 11, 2011 to be released after fulfillment of certain covenants of the agreement by the Parent company.

Note 31 - COMMITMENTS AND CONTINGENCIES

31.1 Operating Lease Commitments – Company as Lessor

The Company entered into cancellable contracts of lease with several entities, including affiliates, covering their building property that has terms ranging from 1 year to 5 years with renewable options and escalation rate of 5% per annum. The minimum lease payments expected to be received from the remaining operating lease agreements amounts to P4,452,630 for a maximum of 2 years using the bank discount rate or 6%. One-month security deposits for the remaining lease contracts amounts to P330,200 and P784,400 for 2010 and 2009, respectively. *(See Note13)*

Rental income derived from these lease commitments amounted to P20,035,331 in 2010 and P12,291,095 in 2009. Rental income earned from related parties totaled P18,372,437 for 2010 and around P9 M for 2010 and 2009, respectively *(See Note 12.1f).*
Operating Lease

The Company is a "Lessor" under a 3-year lease agreement with Global Gutz Parks ("Lessee") Phils., Inc. for a parcel of land situated at Southwoods Ecocentrum, Biñan, Laguna. This includes improvements made thereof in order to maintain and operate therein a first-class water theme park. The lease agreement shall be renewable for another two (2) years and the rate of rent escalation and other terms and conditions of such renewal shall be mutually agreed upon by the parties. The lease agreement provides for annual rent of PhP: Nine Million Five hundred Thousand and 00/100 (₱9,500,000) inclusive of value added tax (VAT) commencing March 1, 2009 and a security deposit of P2Million. The Cost of maintenance and all repairs of the improvements and movable properties shall be for the Lessee's account.

Gross carrying amount and accumulated depreciation of the Company's asset held for operating lease amounts to ₱240,895,440 and ₱205,738,859, respectively. Depreciation recognized on asset held for operating lease amounts to ₱2,906,084. *(Note 11)*

Future minimum lease payments under this operating lease are aggregated and classified as follows (net of related taxes):

Due in no more than one year	₱	8,482,143
Due in more than one but not more than five years	₱	1,433,036
More than five years	₱	-

The Company is a "Lessor" under a 5-year lease agreement with Greenfield Development Corporation ("Lessee"), a stockholder, for the lease portion of the Company's parcel of land for the purpose of installing and maintaining therein two (2) double-faced advertising billboard displays. The lease term is for a period of five (5) years with monthly rental amount of PhP: Forty Thousand and 00/100 (₱40,000) per site subject to a yearly increase of 10% for the duration of the agreement.

Future minimum lease payments under this operating lease are aggregated and classified as follows (net of related taxes):

Due in no more than one year	₱	1,035,225

Due in more than one but not more than five years	₱	2,879,657
More than five years	₱	503,546

Finance Lease

The Company is a “Lessor” under a 20-year lease contract with option to purchase with Archos Land Corporation (“Lessee”) for a 1,763 sqm parcel of land of Ecocentrum Business Park for the operation of a gas station business. The lease agreement provides for the following rental rates: Eighty Nine Pesos and 60/100 per square meter (₱89.60 per sqm) inclusive of VAT for the first three (3) years; Ninety Four Pesos and 8/100 per square meter (₱94.08 per sqm) for the fourth and fifth year; One Hundred and Three Pesos and 49/100 per square meter (₱103.49 per sqm) for the sixth to eight year; on the ninth and succeeding years, an escalation rate of 5% on a year per year basis inclusive of VAT. Security Deposit shall be equivalent to a 24-month rent or PhP: Three Million Seven Hundred Ninety One Thousand One Hundred Fifty Five and 00/100 (₱3,791,155). The Lessee shall also be given the right to exercise the option to purchase the leased premises for ₱12,320 per square meter inclusive of VAT or for an aggregate of Php: Twenty One Million Seven Hundred Twenty Thousand One Hundred Sixty and 00/100 (₱21,720,160). As an incentive for the exercise of the option, one hundred percent of the security deposit, at Lessee’s option shall be considered as earnest money/down payment to be applied against the purchase price of the leased premises.

The present value of the minimum lease payments receivable as of reporting date is categorized as follows (net of related taxes):

Due in one year or less	₱	1,810,954
Due in more than one year but not more than five years	₱	7,635,433
Due beyond five years	₱	43,859,635

31.2 Others

The Parent Company is a party to certain lawsuits and/or claims arising from the normal course of its business. Also, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. The Parent Company’s management and legal counsels is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Company’s financial statements.

Note 32 – SEGMENT INFORMATION

The industry segments where the Group operates are as follows;

a. Sales of real estate and golf club and resort shares – development/contruction and sale of residential subdivision and commercial lots, condominium buildings and townhouses in various locations, development of golf manar and sale of golf shares thereof.

b. Service and rental - maintenance of golf courses, lease to affiliates and third parties of office space, commercial lots and business park.

Segment Assets and Liabilities

The following tables present revenue and income information for the fiscal years ended September 30, 2010, 2009 and 2008, and segment assets and liabilities information as of the years then ended regarding business segments.

2010

	Sales of Real Estate and Golf Club and Resort Shares	Service and Rental	Total	Consolidated
Revenue	P 468,869,596	P 19,591,984	P 488,461,580	P 488,461,580
Cost of Sales and Services	288,658,769	4,646,655	293,305,424	293,305,424
Gross Profit	P 180,210,827	P 14,945,329	P 195,156,156	P 195,156,156
Segment Assets	P 15,532,166,640	P 316,982,993	P 15,849,149,633	P 15,849,149,633
segment Liabilities	6,651,458,605	135,744,053	6,787,202,658	6,787,202,658
Segment Addition to:				
Property and Equipment(Note 9	P 370,040		P 370,040	P 370,040
Investment Property(Note 10)		7,600	7,600	7,600
Equity in net earnings of associates and joint venture	7,201,752		7,201,752	7,201,752

2009

	Sales of Real Estate and Golf Club and Resort Shares	Service and Rental	Total	Consolidated
Revenue	P 480,703,814	P 16,985,120	P 497,688,934	P 497,688,934
Cost of Sales and Services	31,068,922	4,646,655	35,715,577	35,715,577
Gross Profit	P 449,634,892	P 12,338,465	P 461,973,357	P 461,973,357
Segment Assets	P 15,252,757,538	P 311,280,766	P 15,564,038,305	P 15,564,038,305
segment Liabilities	6,189,464,683	126,315,606	6,315,780,289	6,315,780,289

	2008			
	Sales of Real Estate and Golf Club and Resort Shares	Service and Rental	Total	Consolidated
Revenue	P 218,936,000	P 166,928,000	P 385,864,000	P 385,864,000
Cost of Sales and Services	53,040,000	105,398,000	158,438,000	158,438,000
Gross Profit	P 165,896,000	P 61,530,000	P 227,426,000	P 227,426,000
Segment Assets	P 14,988,068,000	P 320,207,000	P 15,308,275,000	P 15,308,275,000
segment Liabilities	5,573,212,000	107,554,000	5,680,766,000	5,680,766,000
Segment Addition to:				
Property and Equipment(Note 9)	P 5,725,000		P 5,725,000	P 5,725,000
Investment Property(Note 10)		-	-	-
Equity in net earnings of associates and joint venture	(10,913,000)		(10,913,000)	(10,913,000)

Note 33 – RECLASSIFICATIONS OF ACCOUNTS

Certain Reclassifications had been made to the 2010 financial statements in order to conform with this year presentation.