

# SUNTRUST HOME DEVELOPERS, INC.

SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.2 (b) THEREUNDER

1. For the quarterly period ended **31 March 2011**
2. SEC Identification Number: **10683**      3. BIR Tax Identification Number: **000-141-166**
4. **SUNTRUST HOME DEVELOPERS, INC.**  
Exact name of issuer as specified in its charter
5. **Metro Manila**  
Province, Country, or other jurisdiction of incorporation or organization
6.                      (SEC Use Only)  
Industry Classification Code:
7. **6/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City 1227**  
Address of issuer's principal office
8. **(632) 867-8826 to 40**  
Issuer's Telephone Number, including area code
9. Securities registered pursuant to Sections 8 and 12 of the Code, or Section 4 and 8 of the RSA

TITLE OF EACH CLASS	NUMBER OF SHARES OF COMMON STOCK OUTSTANDING
Common	2,250,000,000

10. Are any or all of the securities listed on the Philippine Stock Exchange?

Yes [ \* ]                      No [   ]

**Philippine Stock Exchange**

**Common Shares**

11. Indicate by check mark whether the registrant:

- (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 RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.

Yes [ \* ]                      No [   ]

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

Yes [ \* ]

No [ ]

#### PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

1. Statements of Financial Position (Exhibit 1)
2. Statements of Income (Exhibit 2)
3. Statements of Changes in Equity (Exhibit 3)
4. Statements of Cash Flows (Exhibit 4)
5. Notes to Financial Statements (Exhibit 5)

Item 2. Management's Discussions and Analysis of Financial Condition and Results of Operations

Please see Exhibit 6

#### PART II – OTHER INFORMATION

The Company is not in possession of any information which may, at its option, be reported under this item and which would otherwise be required to be filed in a report on SEC Form 17-C

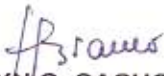

#### SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SUNTRUST HOME DEVELOPERS, INC.**

Issuer

By:

  
**EVELYN G. CACHO**  
Treasurer (Principal Officer)  
and Duly Authorized Officer   
May 13, 2011

**EXHIBIT 1**

**SUNTRUST HOME DEVELOPERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2011 AND DECEMBER 31, 2010**  
*(Amounts in Philippine Pesos)*

<b><u>ASSETS</u></b>	<i>Unaudited</i> <b>March 31, 2011</b>	<i>Audited</i> <b>December 31, 2010</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	2,249,203	2,523,456
Prepayments & Other Current Assets	<u>5,224,665</u>	<u>5,178,307</u>
Total Current Assets	<u>7,473,868</u>	<u>7,701,763</u>
<b>NON-CURRENT ASSETS</b>		
Investments in an associate	97,181,433	95,510,473
Investment Property - net	<u>471,241,892</u>	<u>471,551,742</u>
Total Non-current Assets	<u>568,423,325</u>	<u>567,062,215</u>
<b>TOTAL ASSETS</b>	<b><u>575,897,193</u></b>	<b><u>574,763,978</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	26,603,682	26,647,449
Advances from related parties	338,598	338,598
Provision	<u>436,848,488</u>	<u>436,848,488</u>
Total Liabilities	<u>463,790,768</u>	<u>463,834,535</u>
<b>EQUITY</b>		
Capital Stock	2,062,500,000	2,062,500,000
Deficit	<u>(1,950,393,575)</u>	<u>(1,951,570,557)</u>
Total Equity	<u>112,106,425</u>	<u>110,929,443</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u>575,897,193</u></b>	<b><u>574,763,978</u></b>

*See Notes to Financial Statements.*

**EXHIBIT 2**

**SUNTRUST HOME DEVELOPERS, INC.**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<i>Unaudited</i> <u>March 31, 2011</u>	<i>Unaudited</i> <u>March 31, 2010</u>
<b>REVENUES</b>		
Equity share in net earnings of an associate	1,670,960	-
Rental Income	169,714	552,921
Interest income from banks	<u>5,500</u>	<u>218</u>
	<u>1,846,174</u>	<u>553,139</u>
<b>COSTS AND EXPENSES</b>		
Administrative expenses	358,242	303,826
Cost of rentals	309,850	472,929
Equity share in net losses of an associate		69,215
Income tax expense	<u>1,100</u>	<u>1,643</u>
	<u>669,192</u>	<u>847,613</u>
<b>NET PROFIT (LOSS) FOR THE YEAR</b>	<u><u>1,176,982</u></u>	<u><u>(294,474)</u></u>
<b>EARNINGS/(LOSS) PER SHARE</b>		
	<u><b>P 0.0005</b></u>	<u><b>( P 0.0001 )</b></u>
Net Profit/(Loss) percentage to Revenues	63.75%	-53.24%
Equity share in net earnings/(losses) of an associate	1,670,960	(69,215)
<b><u>Income Tax Computation</u></b>		
Rental Income	169,714.00	
Cost of rentals	309,850.00	
Gross receipts subject to MCIT	<u>(140,136.00)</u>	
<b>MCIT</b>	<u><b>NA</b></u>	

**EXHIBIT 3****SUNTRUST HOME DEVELOPERS INC.  
STATEMENTS OF CHANGES IN EQUITY  
MARCH 31, 2011 AND MARCH 31, 2010**

	<u>Unaudited March 31, 2011</u>	<u>Unaudited March 31, 2010</u>
<b>CAPITAL STOCK</b> - P1.00 par value		
Authorized to issue 3,000,000,000 shares	2,062,500,000	2,062,500,000
<b>DEFICIT</b>		
Balance, beginning of year	(1,951,570,557)	(1,956,320,485)
Net profit (loss) for the year	<u>1,176,982</u>	<u>(294,474)</u>
Balance at end of year	<u>(1,950,393,575)</u>	<u>(1,956,614,959)</u>
<b>TOTAL EQUITY</b>	<u>112,106,425</u>	<u>105,885,041</u>

*-See Notes to Financial Statements-*

**EXHIBIT 4**

**SUNTRUST HOME DEVELOPERS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010**

	<u>Unaudited March 31, 2011</u>	<u>Unaudited March 31, 2010</u>
<b><i>CASH FLOWS FROM OPERATING ACTIVITIES</i></b>		
Profit (loss) before tax	1,178,082	(292,831)
Adjustments for:		
Depreciation	309,850	472,929
Equity share in net (earnings) losses of an associate	(1,670,960)	69,215
Interest Income	<u>(5,500)</u>	<u>(218)</u>
Operating Loss before working capital changes	(188,528)	249,095
Increase in prepayments and other current assets	(46,358)	(172,673)
Decrease in trade & other payables	<u>(43,767)</u>	<u>(9,342)</u>
Cash generated from (used in) operations	(278,653)	67,080
Cash paid for taxes	<u>(1,100)</u>	<u>(1,643)</u>
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	(279,753)	65,437
<b><i>CASH FLOWS FROM INVESTING ACTIVITIES</i></b>	5,500	218
<b><i>CASH FLOWS FROM FINANCING ACTIVITIES</i></b>	<u>-</u>	<u>384,894</u>
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	(274,253)	450,549
<b>CASH &amp; CASH EQUIVALENTS - BEGINNING</b>	<u>2,523,456</u>	<u>111,847</u>
<b>CASH &amp; CASH EQUIVALENTS - ENDING</b>	<u><u>2,249,203</u></u>	<u><u>562,396</u></u>

-See Notes to Financial Statements-

**SUNTRUST HOME DEVELOPERS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

Suntrust Home Developers, Inc. (the Company) was incorporated in the Philippines to primarily engage in real estate development. The Company is a publicly listed entity in the Philippine Stock Exchange.

As of March 31, 2011 and December 31, 2010, Megaworld Corporation (Megaworld), also a publicly listed Company, is the major stockholder with 42.48% ownership interest in the Company.

The registered office of the Company, which is also its principal place of business, is located at the 6th Floor, The World Centre Building, 330 Sen. Gil Puyat Avenue, Makati City. The Company's administrative functions are being handled by Megaworld.

The financial statements have been prepared on a going concern basis since Megaworld commits to provide continuing financial support for its operating expenses until such time that the Company is able to successfully re-start its commercial operations as a real estate developer.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***2.1 Basis of Preparation of Financial Statements***

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

The financial statements of the 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.

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

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Company presents all items of income and expense in the statement of income. Two comparative periods are presented for the statement of financial position when the Company applies an accounting policy retrospectively, makes a retrospective

restatement of items on its financial statements, or reclassifies items in the financial statements.

(c) *Functional and Presentation Currency*

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

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

**2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS**

(a) *Effective in 2011 that are Relevant to the Company*

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its financial statements:

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

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

Management has determined that the adoption of the interpretation will not have a material effect on its financial statements as management does not anticipate to extinguish financial liabilities through equity swap in the subsequent periods.



- (ii) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to Philippine Financial Reporting Standards 2010* (the 2010 Improvements). Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The 2010 Improvements amend certain provisions of PFRS 3 (Revised 2008), clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on its financial statements.

(b) *Effective Subsequent to 2011*

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Company believes that adoption of the amendments in 2012 will not have any significant effect on its financial statements as they only affect disclosures and the Company usually provides adequate information in its financial statements in compliance with disclosure requirements.
- (ii) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

Phase 1: Classification and Measurement

Phase 2: Impairment Methodology

Phase 3: Hedge Accounting

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

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

### ***2.3 Investment in an Associate***

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

Changes resulting from the profit or loss generated by the associate are shown as Equity in Net Earnings (Losses) of an Associate in the Company's statement of income and therefore affect the net results of the Company. Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Company, as applicable.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has commitments, has incurred obligations or made payments on behalf of the associate.

#### ***2.4 Financial Assets***

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

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

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 Company 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 end of reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company 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.

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.

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

## ***2.5 Investment Property***

Investment property consists of condominium units and land held for capital appreciation. Condominium units are stated at cost, less accumulated depreciation and any accumulated impairment losses, while land is stated at cost less accumulated impairment losses, if any. Depreciation of condominium units is computed on a straight-line basis over the estimated useful life of 30 years (see Note 3.2). An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.10).

Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement disposal.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

## ***2.6 Financial Liabilities***

Financial liabilities include trade and other payables and advances from related parties.

Financial liabilities are recognized when the entity becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense under the caption Finance Costs in the statement of income.

Trade and other payables and advances from related parties are recognized initially at their fair value and subsequently measured at amortized cost.

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

## ***2.7 Provisions and Contingencies***

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the

Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.8 Revenue and Expense Recognition***

Revenue comprises revenue from the rental of investment property measured by reference to the fair value of consideration received or receivable by the Company, excluding value-added tax (VAT).

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

- (a) *Rental income* – Revenue is recognized on a straight-line basis over the duration of the lease term.
- (b) *Interest* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

### ***2.9 Leases – Company as Lessor***

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

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

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

The Company's investment in an associate and investment property are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized for the amount by which the asset's 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 evaluation of discounted cash flow.

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.

## ***2.11 Income Taxes***

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using 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 profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

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

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

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

## ***2.12 Related Party Transactions***

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

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

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

### ***2.13 Equity***

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

Subscription receivable represents the unpaid portion of the subscribed capital stock due from stockholders.

Deficit includes all current and prior period results of operations as disclosed in the statement of income.

### ***2.14 Earnings or Loss Per Share***

Basic earnings or loss per share is computed by dividing net income or loss by the weighted average number of common shares subscribed and issued during the year adjusted retroactively for any stock dividend, stock split or reverse stock split declared in the current year, if any.

Diluted earnings or loss per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Company does not have dilutive potential shares outstanding, thus, dilutive earnings per share is equal to the basic earnings per share.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Company'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. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates:

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

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

#### *(a) Distinction Between Investment Properties and Owner-managed Properties*

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

#### *(b) Operating and Finance Leases*

The Company has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

#### *(c) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on provisions and contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 5.

### ***3.2 Key Sources of Estimation Uncertainty***

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

#### *(a) Useful Life of Condominium Units (presented under Investment Property)*

The Company estimates the useful life of its condominium units based on the period over which the assets are expected to be available for use. The estimated useful life of these assets 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.

In 2010, the Company reviewed the estimated useful life of its investment properties. As a result, the estimated useful life of its investment properties was extended from 20 years to 30 years which management believes is a more reasonable estimation of the period over which the investment properties are expected to be available for use, based on management's collective assessment of industry practice, technical evaluation and experience with similar assets as at December 31, 2010. The effect of this change in accounting estimate, recognized in profit or loss prospectively, decreased the amount of annual depreciation charges in 2010 and subsequent years by P0.7 million.

#### *(b) Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.10. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations. Based on management's assessment, there were no impairment losses as of the end of the reporting periods.

## **4. INVESTMENT IN AN ASSOCIATE**

In 2008, SPI increased its authorized capital stock from 200 million shares to 500 million shares. Out of this increase, 262.5 million shares of stock at P1 par value were subscribed and paid-up by another related party. The Company did not exercise its right of pre-emption with regard to the increase in SPI's authorized capital stock resulting in the decrease in its ownership interest in SPI from 60% to 20%. This resulted in a loss on dilution of ownership interest in SPI amounting to P51.1 million, which is included as part of Loss on Dilution of Interest in a Subsidiary account in the 2008 statement of income. Because of this, the accounts of SPI were deconsolidated from the Company's financial statements in 2008 and the investment was reclassified to the Investment in an Associate account. The Company's investment in SPI is now accounted for using the equity method.

Subsequent to this transaction, an impairment loss amounting to P20.2 million was recognized which was estimated based on the amount paid by the buyer of SPI's shares as fair value reference which is lower than the remaining carrying value of the investment in SPI. Such impairment loss is also included as part of Loss on Dilution of Interest in a Subsidiary account in the 2008 statement of income.

On March 25, 2011, the SEC approved SPI's application for the increase in its capital stock, in which MC was the only subscriber to the new SPI shares. MC infused P562.1 million into SPI thereby increasing SPI's subscribed capital stock from P399.75 million to P955.81 million. As a result of the SPI's issuance of additional common shares, the Company's ownership in SPI decreased from 20% to 8%.

## **5. COMMITMENTS AND CONTINGENCIES**

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

## **6. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's risk management is coordinated with the BOD and focuses on actively securing the Company's short-to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks to which the Company is exposed to are described below.

### ***6.1 Credit Risk***

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position under Cash and Advances to Officers and Employees (presented under Prepayments and Other Current Assets) in the statement of financial position.

The Company is also exposed to credit risk to the extent of financial guarantee provided in a prior year to a co-venturer.

None of the financial assets are secured by collateral or other credit enhancements.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

### ***6.2 Liquidity Risk***

The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities.



As at March 31, 2011 and December 31, 2010, the Company's trade and other payables amounting to P26.60 million and P20.65 million, respectively, have contractual maturities of within six months after the end of the reporting period. These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting period.

## **7. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

The Company's capital management objectives are:

- To ensure the Company's ability to continue as a going concern; and,
- To provide an adequate return to shareholders in the future.

The Company does not have direct outside borrowings; hence, it is not subject to externally imposed capital requirements. The Company also monitors capital on the basis of the carrying amount of equity as presented on the statement of financial position. It sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The 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.

## EXHIBIT 6

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

#### 2011 vs. 2010

#### RESULTS OF OPERATION

##### Three months ended March 31, 2011 Compared to Three months ended March 31, 2010

The company's total revenues exhibited an increase of 1.29 million or 233.76% from 553.14 thousand in 2010 to 1.85 million in 2011 of the same period. Total revenues mostly came from equity share of 1.67 million in net earnings of an associate.

Cost and expenses decreased by 178.42 thousand or 21.05% from 847.61 thousand in 2010 to 669.19 thousand in 2011. Decrease in expenses is mainly due to lower cost of rentals for the current period.

The net results of the company shows an increase of 1.47 million or 499.69% from 294.47 thousand net loss in 2010 to 1.18 million in 2011.

#### FINANCIAL CONDITION

##### As of March 31, 2011 and December 31, 2010

Current assets decreased by 227.90 thousand from 7.70 million in 2010 to 7.47 million in 2011. Cash & Cash Equivalents decreased by 274.25 thousand or 10.87% from 2.52 million in 2010 to 2.25 million in 2011. Prepayments increased by 46.36 thousand from 5.18 million in 2010 to 5.22 million in 2011.

Investment in an associate increased by 1.67 million from 95.51 million in 2010 to 97.18 million in 2011. Investment property decreased by 309.85 thousand from 471.55 million in 2010 to 471.24 million in 2011.

Trade & Other Payables exhibited a decrease of 43.77 thousand from 26.65 million in 2010 to 26.60 million in 2011.

**Material Changes in the Financial Statement Items:  
Increase/(Decrease) of 5% or more versus 2010**

**Balance Sheet**

Cash & Cash Equivalents. (10.87%)

Decrease is due to payment of current obligations and expenditures for the current period.

**Income Statement**

Equity Share in Net Earnings/Loss of an Associate 2,514.16%

Increase due to company reported equity share in net income of an associate for the current period while equity share in net loss of an associate in the previous period.

Rental Income (69.31%)

Decrease due to lower income generated from acquired investment property for the current period.

Interest Income 2,422.94%

Due to interest income from temporary investment.

Administrative Expenses 17.91%

Due to increase in operating expenditures for the current period.

Cost of Rentals (34.48%)

Due to change in estimated life of investment property.

Income Tax Expense (33.05%)

Due to corporate income tax expense for the previous period.

**KEY PERFORMANCE INDICATORS**

Presented below are the top five (5) key performance indicators of the Company:

- *Revenue Growth* – The Company generated its revenue mostly from acquired investment property and equity share in an investment to associate. The company's revenues showed an increase of P1.29 million or 233.76% to P1.85 million in 2011 from P553.14 thousand in 2010.
- *Net Income Growth* – measures the percentage change in net income over a designated period of time. The company's net results recorded a 499.69% increase from P294.47 thousand net loss in 2010 to P1.18 million net income in 2011.

- *Net income rate*— computed as percentage of net income to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs. The Company has a positive net income rate of 63.75% in 2011 from negative 53.24% in 2010.
- *Increase in Investment in Associate* – Investment in an associate increased from 95.51 million to 97.18 million due to higher net income of an associate.
- *Decrease in cost and expenses* – Cost and expenses decreased by 33.05% from 847.61 thousand in 2010 to 669.19 thousand in 2011. Considerable decrease is due to decrease in cost of rentals.

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

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way.

There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company has no unusual nature of transactions or events that affects assets, liabilities, equity, net income or cash flows.

There are no seasonal aspects that had a material effect on the financial condition or results of operations of the company.

There are no material events subsequent to the end of the period that have not been reflected in the financial statements for the period.

There are no changes in estimates of amount reported in periods of the current financial year or changes in estimates of amounts reported in prior financial years.