

FJP

F & J Prince Holdings Corporation

2009 Management Report

STOCK TRADING PRICE INFORMATION

The shares of the Registrant are listed with the Philippine Stock Exchange.

The high and low prices for each quarter within the last two (2) fiscal years and 1st quarter of 2010 are as follows:

QUARTER; YEAR	CLASS "A" (in Php)		CLASS "B" (in Php)	
	High	Low	High	Low
1st quarter, 2008	1.50	1.40	1.20	1.20
2nd quarter, 2008	1.42	1.42	-	-
3rd quarter, 2008	1.60	1.60	-	-
4th quarter, 2008	1.22	1.02	0.80	0.80
1st quarter, 2009	0.76	0.76	0.85	0.85
2nd quarter, 2009	1.08	1.00	0.85	0.85
3rd quarter, 2009	1.80	1.00	1.20	1.20
4th quarter, 2009	1.10	0.98	1.40	1.40
1 st quarter, 2010	1.42	0.93	2.70	1.62

Note 1: Price per share based on P0.01 per share par value until 3rd Quarter 1997 when par value was changed to P 1.00 per share.

Note 2: No Dividends have been declared by the company in the last two (2) fiscal years.

Note 3: Class "A" shares may be owned only by Filipino citizens while Class "B" shares may be owned by Filipino citizens as well as foreigners.

Note 4: Latest market price traded was P1.00 per share for Class A shares transacted on 05 April 2010 and P1.56 per share for Class B shares transacted on 01 June 2010.

Number of Shareholders

As of 30 April 2010, the Registrant had Five Hundred Fifty Six (556) stockholders of record, as follows: Class "A" shares – Four Hundred Ninety Eight (498) shareholders and Class "B" shares – Fifty Eight (58) shareholders.

Dividends

No dividends have been declared in the last two (2) most recent fiscal years.

Under the Registrant's By-laws, there are no restrictions in the declaration of dividends other than what is prescribed in the Corporation Code, namely that these shall be declared only from surplus profit and no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds of all stock outstanding and entitled to vote at a general or special meeting called for the purpose. The amount of unrestricted retained earnings available for distribution as of December 31, 2009 was P76,760,435.00.

F & J Prince Holdings Corporation

Management Report

Annual Stockholders' Meeting

28 July 2010

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REPORT OF THE CHAIRMAN AND PRESIDENT

The Registrant's Consolidated Total Revenue decreased by 41% in 2009 to P74.9 million from P127.2 million in 2008. Most of the decrease was accounted for by the net foreign exchange gains of P70.3 million in 2008 versus a P9.9 million net foreign exchange loss in 2009. Net earnings of associates increased to P33.3 million in 2009 from P28.7 million in 2008. The appreciation of the Peso in 2009 versus the U.S. Dollar penalized the dollar-denominated bonds held by the Registrant and its subsidiary and resulted in a net foreign exchange loss in 2009 compared to 2008 when a marked depreciation of the peso benefitted the dollar-denominated investments of the Registrant resulting in a net foreign gain of P70.3 million in 2008. The increase in equity in net earnings of associates was due to record earnings in 2009 at both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates. Rental income decreased to P2.5 million in 2009 from P4.3 million in 2008 as Pointwest Technologies Corporation moved out of the offices it leased from Magellan Capital Holdings Corporation, the 94% subsidiary of the Registrant, to move to bigger premises at the UP-Ayala Technopark.

Against the reduction in revenues, the following items in the expense column also fell resulting in an increase in net income.

- 1) In 2008, there was a loss on fair value changes on financial assets of P24.7 million as prices of listed securities owned by the Registrant and its subsidiary dropped sharply due to the worldwide financial crisis that depressed stock prices in global stock markets. In 2009, there was a gain of P17.2 million as stock markets recovered.
- 2) In 2008, there was a provision for impairment losses of P20.7 million as the remaining receivables due from MUDC to PIEI, a subsidiary of MCHC, was fully provided for. Thus, the Registrant's direct and indirect exposure to MUDC has been reduced on the books to almost nil. There was no provision in 2009 as the exposure had been fully provided for.
- 3) In 2008, there was a reported loss on disposal of HTM Investment of P7.4 million. This represents the loss realized upon maturity of an Equity-linked Note which resulted in the underlying equity being transferred to the investor. Because of the depressed stock prices, this loss represents the difference between the underlying cost of the equity and the closing stock price at December 31, 2008. There was no such loss in 2009 as the stock prices partly recovered its losses.

As a result of the above, the Registrant reported a consolidated net income attributable to equity holders of the Registrant of P35.6 million in 2009 compared to a net income of P23.3 million in 2008. Including the share of the minority shareholders of MCHC would reduce the net income for the Group to P35.1 million in 2009 compared to P24.3 million in 2008.

The Registrant's financial position remains strong and its ability to undertake its planned projects is not affected. As of December 31, 2009, the Registrant's consolidated cash and cash equivalents totalled P36.5 million compared to P101.4 million at the end of 2008. The Registrant and its subsidiary has decided to reinvest resources in bonds and stocks as the global financial crisis abated. The Registrant and its subsidiary are essentially debt free with total consolidated liabilities of P5.5 million not including deferred income tax liabilities of P20.6 million but including retirement benefit obligations of P2.8 million against total equity of P996.2 million at year-end 2009.

The Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC) has leased out three of the four units available for lease. The remaining unit was vacated in February 2009 and other potential lessees have looked at it and are considering to lease the unit.

The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders and PTC and BPOI which have availed of short

term loans for normal working capital requirements. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2009 totalled P36.5 million compared to P101.4 million at the end of 2008 while total current assets totalled P152.0 million at year-end 2009 compared to P198.1 million at year-end 2008. The Registrant had been increasing its liquidity in 2008 in the face of the worldwide financial crisis but with the global financial crisis abating, the Registrant has in 2009 started reinvesting its liquid resources. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the financial crisis on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

holders.

The following is a detailed discussion of the Company's direct and indirect subsidiaries and its affiliated associates:

MAGELLAN CAPITAL HOLDINGS CORPORATION (MCHC)

Magellan Capital Holdings Corporation (MCHC), your Company's 94% owned subsidiary, is involved in the development of and investment in infrastructure and power generation projects. Established in 1990, MCHC has P689 million in paid-in capital and over P911 million in consolidated shareholders' equity as of December 31, 2009. After the acquisition of the block of shares owned by PSEG Philippine Holdings LLC. in December 2006, your Company owns 94% of the outstanding shares of MCHC and effectively controls and manages MCHC.

MCHC was until December 2006, 28% owned by PSEG Philippine Holdings LLC, a unit of the Public Service Enterprise Group (PSEG), the largest energy holding company in New Jersey and one of the largest in the United States.

MCHC's total consolidated assets at year end 2009 totaled over P937 million compared to P948 million at year-end 2008. MCHC's consolidated gross revenues in the year ended December 31, 2009 was P26.3 million compared to P98.0 million in year 2008. MCHC reported a consolidated net loss of P11.1 million in 2009 compared to a net income of P20.3 million in 2008. This was mainly due to a net foreign exchange gain of P70 million due to the Peso depreciation during 2008 which marked up the dollar-denominated bonds held by MCHC and its subsidiaries versus a net fx loss of P9.7 million in 2009 as the peso recovered somewhat in 2009.

The Chairman of MCHC is Mr. Antonio H. Ozaeta, President of Philippine Trust Company and a former Chairman of the Manila Electric Company and former President of PCI Bank. The President and CEO of MCHC is Mr. Robert Y. Cokeng, who is also President of your Company.

MCHC owns 43% of Magellan Utilities Development Corporation (MUDC) which is discussed below. MCHC also owns 100% of Batangas Agro-Industrial Development Corporation (BAID) which on its own and through wholly owned subsidiaries owns 50 hectares of land fronting Batangas Bay. MCHC also owns the entire fifth floor of the Citibank Center Building in Makati. Almost half of the floor is used by your Company as well as MCHC and its subsidiaries as its corporate offices. One unit is leased to Cathay United Bank, one of the largest banks in Taiwan. Another unit is leased to Business Process Outsourcing International, a 35% owned affiliate of the Company. MCHC has also recently acquired a 985 square meter lot in Fort Bonifacio for future development into an office or mixed-use building.

MAGELLAN UTILITIES DEVELOPMENT CORPORATION (MUDC)

Magellan Utilities Development Corporation (MUDC) is an MCHC project company developing a 320 MW Power Project in Pinamucan, Batangas. MCHC directly owns 43% of MUDC. GPU Power Philippines, Inc., a unit of GPU Corporation (GPU), former U.S. parent company of the Manila Electric Company (MERALCO), owns 40% of MUDC. MERALCO was established by a predecessor company of GPU during the American colonial era and was a wholly owned subsidiary of GPU until 1962 when MERALCO was acquired by a Lopez - led investor group.

With the continued uncertainty over the project being developed by MUDC, MUDC at the urging of its outside auditors had in 2004 written-off all its project development expenditures. It had in 2003 already written-off all pre-operating expenses as dictated by new accounting standards that became effective in 2003. With these write-offs, MUDC now has negative equity of P253 million as of year end 2008. In 2005, your Company decided not to continue development of the project. Your Company's exposure including those of MCHC and its subsidiary, Pinamucan Industrial Estates, Inc., in the project have been provided for and will not have any impact on the Company's financial position. MCHC, along with other shareholders of MUDC, will evaluate the future course of action for MUDC.

BATANGAS AGRO-INDUSTRIAL DEVELOPMENT CORPORATION (BAID)

MCHC owns 100% of the shares of Batangas Agro-Industrial Development Corporation (BAID) which on its own and through six subsidiaries owns 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas City, Batangas. The land is located about 5 kilometers from the Shell Refinery in Tabangao, Batangas and is beside the J.G. Summit Petro-Chemical Plant.

POINTWEST TECHNOLOGIES CORPORATION (PTC)

Established in 2003 with your Company as one of the founding shareholders, Pointwest Technologies Corporation (PTC) is a global service company offering outsourced IT services from the Philippines. It is led by an experienced management team that helped pioneer offshore outsourcing in the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the United States. Your Company owns 30% of PTC. PTC has been profitable since its inception and has grown to a staff of over 450 professionals and revenues in 2009 of over US\$11 million. PTC had record profits in 2009 in spite of the drop in revenues.

BUSINESS PROCESS OUTSOURCING INTERNATIONAL, INC. (BPOI)

Business Process Outsourcing International, Inc. (BPOI) is a provider of accounting and finance related services such as payroll services, internal audit, payables processing and others. It has a total staff of 400 servicing many of the multinational and large corporations operating in the country. BPOI was spun off from the BPO Department of SGV & Co., the biggest auditing firm in the country.

Your Company now owns 35% of BPOI after it acquired another 8.75% in 2005. BPOI had record profits in 2009 as its revenues have expanded to over P220 million.

CONCLUSION

Your Company generated a consolidated net profit of over P35 million in 2009 or 44% higher than the P24.3 million generated in 2008. It has avoided any major losses during the global financial crisis and has now started re-deploying its assets as the crisis has abated. The Company will be carefully and prudently evaluating new projects that may be suitable to pursue in the current economic environment.

With the support of the Directors, Officers, Staff and Shareholders, we are confident of the Company's future prospects and continued success. We again reiterate our thanks to the Shareholders for their continued support.



ROBERT Y. COKENG
Chairman & President

BUSINESS AND GENERAL INFORMATION

A. BUSINESS DEVELOPMENT

The Registrant was incorporated and registered with the Securities and Exchange Commission ("SEC") on 18 February 1971 to engage primarily in the business of mining, including mineral and oil exploration. Its shares were registered and listed with the SEC in 1979 and thereafter listed and traded at the Manila Stock Exchange. Presently, its shares are listed with the Philippine Stock Exchange ("PSE").

On 28 July 1997, the Registrant's primary purpose was changed to that of a holding company. At present, the Registrant holds a 94.34% majority interest in Magellan Capital Holdings Corporation ("MCHC").

The Registrant owns 30% of Pointwest Technologies Corporation ("PTC"), a software servicing and development company. The Registrant also owns 35% of Business Process Outsourcing International, Inc. ("BPOI") a provider of accounting-based business process outsourcing ("BPO") services to a large number of clients.

From its incorporation to the present, the Registrant has not been subject to any bankruptcy, receivership or similar proceedings. There has been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets other than in the ordinary course of business.

Business Development of the Registrant's Subsidiaries

Magellan Capital Holdings Corporation ("MCHC"), is a corporation which was incorporated and registered with the SEC on 06 November 1990. The Registrant owns a 94.34% majority interest in MCHC. Its primary purpose is to engage in the business of identifying, developing and implementing infrastructure and industrial projects. On December 7, 2006, the Registrant acquired the shares of MCHC owned by PSEG Philippines Holdings LLC which represented a 27.67% total equity stake in MCHC. As a result of this transaction, the Registrant increased its ownership stake in MCHC from 66.67% to 94.34%. Because the shares were acquired at a substantial discount to book value, the Registrant booked a gain of P201.3 million representing excess of fair value of net assets acquired over cost in 2006.

MCHC owns 100% of the shares of the following companies:

NAME OF COMPANY	DATE OF INCORPORATION	PRIMARY PURPOSE
Pinamucan Industrial Estates, Inc.	05 May 1993	Real Estate Holding and Development
Malabrigo Corporation	31 August 1993	Mining
Batangas Agro-Industrial Development Corporation	28 December 1983	Real Estate Holding and Development
Fruits of the East, Inc.	14 October 1972	Agro-Industrial Holding and Development
Samar Commodities Trading and Industrial Corporation	23 June 1977	Commodities Trading
Tropical Aqua Resources, Inc.	10 October 1978	Aquatic, Marine & Agricultural Trading
United Philippine Oil Trading Inc.	29 June 1977	Commodities Trading
King Leader Philippines, Inc.	09 February 1984	Holding
Hometel Integrated Management Corporation	13 September 1972	Management Services

From its incorporation to the present, none of the Registrant's above-named subsidiaries have been subject to any bankruptcy, receivership or similar proceedings. There has also been no material reclassification, merger, consolidation, or purchase or sale of a significant amount of their assets other than in the ordinary course of business.

Business of Registrant

Description of Registrant

The Registrant is a holding company. At present, its principal assets are its shares in its subsidiary, MCHC, which is currently invested in real estate assets and in bond and stock investments and in shares of its subsidiaries. Most of the Registrant's indirect operating subsidiaries, i.e. MCHC's subsidiaries, are in development of infrastructure projects, as well as landholding and development. The Registrant also owns 30% of Pointwest Technologies Corporation, a software servicing and development company and 35% of Business Process Outsourcing International, Inc. ("BPOI") which it acquired in 2004 and 2005.

Percentage of Consolidated Total Revenues

Breakdown of Revenue for the year 2009

	Consolidated Total Revenue	Percentage Breakdown
Interest	P 20,329,855	27.1%
Gain on fair value change of financial assets	17,185,923	22.9%
Gain on sale of AFS Investments	-	-%
Equity in net earnings of associates	33,307,272	44.5%
Rent	2,520,204	3.4%
Dividend	965,467	1.3%
Others	595,538	0.8%
Total	P 74,904,259	100%

Breakdown of Revenue for the year 2008

	Consolidated Total Revenue	Percentage Breakdown
Interest	P22,542,444	17.7%
Net foreign exchange gain	70,445,458	55.4%
Equity in net earnings of associates	28,699,944	22.6%
Rent	4,280,772	3.3%
Dividend	992,265	0.8%
Amortization of Discount on HTM Investments	188,327	0.2%
Others	1,392	-
Total	P127,150,602	100%

The Registrant's consolidated revenue in 2009 decreased to P74.9 million from P127.2 million in 2008. Most of the decrease can be attributed to a P70.4 million net foreign exchange gain in 2008 versus a net foreign exchange loss of P9.9 million in 2009. Equity in net earnings of associates increased from P28.7 million in 2008 to P33.3 million in 2009 as both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates, saw record earnings in 2009. Rental income also decreased from P4.3 million in 2008 to P2.5 million in 2009 due to the reduction in area leased as Pointwest Technologies Corporation, the

Registrant's 30% owned affiliate, moved to bigger and PEZA-registered premises at the UP-Ayala Technopark in Diliman, Quezon City.

B. PRINCIPAL PRODUCTS AND SERVICES OF MCHC

Currently, MCHC, the Registrant's subsidiary, has primary interests in companies engaged in the development of infrastructure projects and in real estate investment and development. MCHC also has direct holdings in real estate and stock and bond investments.

(a) Power Generation Project Companies

As a result of the crippling power shortages in the 1980s, the Philippine government launched its program to encourage private sector participation in the power industry through the enactment of Executive Order No. 215 ("EO 215"). Under EO 215, independent power producers ("IPPs") may participate in bulk generation to serve the requirements of the National Power Corporation ("NPC"), electric cooperatives, private utilities and other customers. It was against this background that MCHC's power generation project companies, Magellan Utilities Development Corporation ("MUDC"), Magellan Cogeneration, Inc. ("MCI") and Mactan Power Corporation ("MPC") were organized, on the basis of BOO schemes under Republic Act No. 6957, as amended by Republic Act No. 7718. The MPC project was sold by MCHC in 1997 right before the onset of the Asian economic crisis. The MCI project was completed and sold in 1998.

MUDC, which is developing an approximately 320MW power plant in Pinamucan, Batangas is 43%-owned by MCHC. The other major shareholder in MUDC is GPU Power Philippines, Inc. ("GPU Power"), with a 40% equity interest. GPU Power is a subsidiary of GPU Corporation ("GPU"), the former parent company of Manila Electric Company ("MERALCO"). GPU was a U.S.-based energy holding company with about US\$11 billion in assets that operates utilities and power plants in New Jersey and Pennsylvania, U.S.A. GPU has been acquired by First Energy Corporation of Ohio which has decided to withdraw from the project and has done so by liquidating GPU Power.

MUDC initially had a 25-year power sales contract with MERALCO, under which MUDC was to supply power to MERALCO from its 300 MW coal-fired power plant to be constructed in Pinamucan, Batangas. Under a Memorandum of Agreement executed in December 1998, the parties agreed to execute a power purchase agreement whereby MERALCO would purchase the power generated from MUDC's 320 MW power plant, which was to be fuelled primarily by natural gas. The said power purchase agreement has not yet been finalized. However, the problems besetting MERALCO such as a refund to its consumers of as much as P28 billion and its continuing inability to obtain the required rate adjustments to meet higher operating costs as well as the continued inability of the National Power Corporation ("NPC") to put in required transmission upgrades results in uncertainty over the prospects of the project.

As a result of the project's uncertain prospects, the Registrant's auditor have asked that provision be made for all project development expenditures and pre-operating expenses by MUDC in line with current accounting standards. MUDC has decided not to proceed with its power project due to MERALCO's unwillingness to enter into a revised Power Purchase Agreement and its weakened financial position. In addition, MCHC has fully provided for its receivables due from MUDC. In 2008, in the Registrant's Consolidated Financial Statements, receivables due to MCHC's subsidiary, Pinamucan Industrial Estates, Inc., were also fully provisioned. Thus, the Registrant's remaining exposure to the MUDC project is almost nil at the end of 2009.

(b) Real Estate Holding and Development Companies

Aside from its interest in MUDC, MCHC also owns 100% interest in two real estate holding and development companies, to wit: Batangas Agro-Industrial Development Corporation ("BAID") and Pinamucan Industrial Estates, Inc. ("PIEI").

BAID has the following wholly-owned subsidiaries which together with BAID own 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas:

- (1) Fruit of the East, Inc.;
- (2) United Philippines Oil Trading, Inc.;
- (3) Hometel Integrated Management Corporation;
- (4) King Leader Philippines, Inc.;
- (5) Samar Commodities & Industrial Corporation; and
- (6) Tropical Aqua Resources, Inc.

BAID's land may be developed into an industrial estate for sale to industrial users and real estate investors. This part of the business would have the normal risk of competition in the real estate market. However, its proximity to the international port in Batangas would give BAID an advantage. PIEI is holding mainly investment in bonds and bank deposits funded by proceeds from the sale of land in prior years.

Principal Products and Services of Pointwest Technologies Corporation ("PTC")

PTC is a global service company offering outsourced IT services from the Philippines. It is led by an experienced management team that helped pioneer offshore outsourcing in the Philippines. The Registrant is a founding shareholder of PTC and owns 30% of its equity. Among others, PTC offers software servicing, maintenance, testing, and development to various clients mostly in the United States. It started operations in 2003 and has now built up to a staffing level of over Four Hundred Fifty (450) IT Professionals and Support Staff. PTC's revenue in 2009 exceeded Eleven million U.S. Dollars (US\$11 Million).

Principal Products and Services of Business Process Outsourcing International, Inc. ("BPOI")

BPOI is a provider of finance and accounting services such as payroll services, internal audit, payables processing and other accounting based services. It has a total of over 400 employees servicing many of the large multinationals operating in the country. BPOI was spun off from the BPO department of SGV & Co, the biggest auditing firm in the country. The Registrant is the biggest shareholder of BPOI with a 35% ownership stake. BPOI's revenues in 2009 exceeded P220 million.

Competition

Pointwest Technologies Corporation and BPOI face competition from other providers of software and business process outsourcing services both in the country and abroad. Outsourcing is a competitive industry and being competitive requires ability to provide quality and reliable service and ability to control costs so that operating margins are maintained at viable levels.

Transactions with and/or Dependence on Related Parties

The Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC), and certain of MCHC's subsidiaries and affiliates as well as Registrant's affiliates, Pointwest Technologies Corporation and Business Process Outsourcing International have transactions with each other such as rental contracts and intercompany loans. These transactions are on arms-length basis and, in the case of partially owned affiliates, are subject to approval of unrelated shareholders of these affiliates. In the case of rental contracts, the rental rates charged are similar to those charged to outside parties leasing similar properties.

Patents, Trademarks, Copyrights, Etc.

As previously stated, other than for MUDC's power supply agreement with MERALCO and Memorandum of Understanding with SPEX, there are no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts and the like, owned by or pertaining to the Registrant and its subsidiary, MCHC.

Costs and Effects of Compliance with Environmental Laws.

Since MUDC has decided not to pursue its power project, there is no anticipated need to comply with any environmental regulations. The other affiliates which are involved in the outsourcing industry which mainly involve the use of computer and other office equipment are expected to have negligible environmental impact.

Employees

The Registrant has three (3) full time employees, one (1) each for accounting, clerical, and administrative and one (1) consultant, not including the employees and consultants retained by the Registrant's subsidiary and affiliates. The Registrant's employees are not subject to any Collective Bargaining Agreements (CBA), nor are they involved in or have threatened to strike for the past three (3) years. Aside from the mandatory 13th month pay and service incentive leaves (vacation and sick) benefits, there are no other benefits that are granted by the Registrant to its employees. The Registrant does not anticipate the need to hire additional employees within the ensuing twelve (12) months.

Risk of the Business of the Registrant and Subsidiaries

1. Pointwest Technologies Corporation (PTC)

PTC would face the normal risks faced by an IT services company serving mostly foreign clients. These risks include: 1) the risk that PTC may not find or retain clients; 2) some contracts are on non-recurring basis and may not be renewed; 3) risk of contract dispute in case of customer dissatisfaction with the services provided; 4) risk of non-collection of receivables due to contract dispute or to financial problems of customers; 5) high staff turnover which may affect service quality; 6) ability to recruit and retain qualified IT professionals; (7) change in foreign exchange rates that may affect the operating margin of its businesses.

2. Business Process Outsourcing International, Inc. ("BPOI")

BPOI would face the normal risks faced by a BPO company which are very similar to the risks faced by an IT services outsourcing company such as PTC. BPOI currently services only domestic clients but intends to develop its foreign business. The risks BPOI faces include: 1) the risk that BPOI may not find or retain clients; 2) some contracts are on non-recurring basis and may not be renewed; 3) risk of contract dispute in case of customer dissatisfaction with the services provided; 4) risk of non-collection of receivables due to contract dispute or to financial problems of customers; 5) high staff turnover which may affect service quality; 6) ability to recruit and retain qualified accounting and finance professionals.

3. Portfolio Investments

The Registrant and its subsidiaries and affiliates also invest its excess cash in bonds, stocks and short-term placements. These involve government securities as well as corporate bond and stock investments which face the normal commercial risks such as price declines, payment defaults and foreign exchange risks in the case of foreign exchange denominated investments.

Other Interests

MCHC also has a 100% interest in a mining company, Malabrigo Corporation ("Malabrigo"). Malabrigo has a paid-up capital of P662,500.00 and limestone mining claims in Batangas, which are not considered significant in potential. It has also invested as a partner in a shopping center project in the United States.

MCHC and MUDC (through Pinamucan Power Corporation) jointly own Magellan Power Partnership ("MPP"), at 25%-75% respectively. MPP has a capital of P100,000.00 and is presently registered with the Board of Investments. With the decision not to proceed with the MUDC project, this partnership will probably be liquidated.

Other than MUDC's power supply agreement with MERALCO and Memorandum of Understanding with SPEX, there are no patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts and the like owned by or pertaining to the Registrant and its subsidiary, MCHC. Also, no substantial expenditures have been made for research and development activities for the past three (3) years.

PROPERTIES

Equity Interests. The Registrant's principal asset is its investment in MCHC, consisting of shares of common stock with aggregate issued value representing approximately 94.34% of the outstanding shares of MCHC.

MCHC owns 70,458 shares of common stock, representing approximately 43% of the outstanding capital stock of MUDC. MUDC is developing a 320 MW power plant project in Pinamucan, Batangas. MCHC's exposure to MUDC has been fully provided for in the Consolidated Financial Statements.

MCHC has equity interests also in Pinamucan Industrial Estates, Inc. (100%-owned), Malabrigo (100%-owned) and Magellan Power Partnership (25%-owned). MCHC also owns 100% of Batangas Agro-Industrial Development Corporation (BAID) which on its own and through subsidiaries own 50 hectares of land fronting Batangas Bay in Batangas City.

The Registrant owns common shares in Pointwest Technologies Corporation which represents a 30% ownership interest in the company. The Registrant also owns shares of BPOI equivalent to 35% ownership interest in BPOI.

Real Estate. The Registrant has no real estate holdings except through its subsidiary, MCHC, and MCHC's subsidiaries.

(a) Condominium Units

MCHC owns five (5) office condominium units which comprise the entire 5th Floor of the Citibank Center building, located at 8741 Paseo de Roxas, Makati City, including five (5) appurtenant parking units, *per* a Deed of Sale executed on 26 April 2000.

(b) Office Properties

MCHC, the Registrant's wholly-owned subsidiary, has relocated its corporate offices to its Citicenter Property which consists of the entire 5th Floor of the Citibank Center Building in Makati. The Registrant, as principal shareholder of MCHC, has been allocated office space by MCHC. MCHC has also leased out three of the four (4) remaining units. Two units were leased by Pointwest Technologies Corporation (PTC), a 30% owned affiliate of the Registrant until early 2009 when PTC moved some of its operations to a larger facility at the UP Ayala Techno Park. One of the vacated

units has since been leased by Business Process Outsourcing International (BPOI) since February 16, 2009. The other unit is currently vacant. But potential lessees are considering a possible lease. Two other units are leased to Cathay United Bank, one of the largest banks in Taiwan and to another lessee.

(c) Land/Property Ownership

MCHC has acquired a 985 m2 lot in Fort Bonifacio which it may develop into an office and/or residential building. BAID, which is 100%-owned by MCHC, owns, directly and through its wholly-owned subsidiaries, approximately 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas near the Shell refinery and the Enron power plant.

As of 31 December 2009, the above land and properties are not subject to any mortgages, liens or encumbrances.

The Registrant does not intend to acquire, purchase or lease any property in the next twelve (12) months.

LEGAL PROCEEDINGS

There are no proceedings involving, and to the best of knowledge threatened against the Company. However, with respect to its subsidiaries, following is a summary of pending litigation involving them:

- (a) “Rolando M. Zosa v. Magellan Capital Holdings Corporation and Magellan Capital Management Corporation”**, Civil Case No. CEB-18619, Regional Trial Court of Cebu City, Branch 58; *Magellan Capital Management Corporation and Magellan Capital Holdings Corporation v. Rolando M. Zosa, et al.*” G.R. No. 129916, Supreme Court; *Ad Hoc Arbitration with an Arbitral Tribunal composed of Justice Florentino P. Feliciano, as Chairman and Attys. Ramon R. Torralba and Enrique I. Quiason as members*; Regional Trial Court, Branch 139, SP Proc. No. M-6259 and SP Proc. No. 6264.

This is a case for damages instituted in May 1996, wherein complainant Zosa seeks to enforce his purported rights under his Employment Agreement with defendants and claims entitlement to the following reliefs, to wit:

- (1) actual damages in the amount of P10,000,000;
- (2) attorney’s fees in the amount of P300,000; and
- (3) expenses of litigation in the amount of P150,000.

Defendants sought a dismissal of the case, invoking the provision of arbitration in the Employment Contract. In a Decision dated 18 July 1997, the trial court declared invalid the arbitration clause providing for the manner by which the arbitrators will be chosen and substituted the provisions of the Arbitration Law therefor. The Supreme Court, on 26 March 2001 affirmed the trial court’s decision which became final and executory. Arbitrators have now been appointed one by Zosa, on the one hand, and the other jointly appointed by MCHC and MCMC.

Sometime in November 2004, the Arbitral Tribunal was finally constituted composed of Justice Florentino P. Feliciano as Chairman and Attys. Ramon R. Torralba and Enrique I. Quiason as members.

On March 14 2005, the parties submitted to the Tribunal their Confirmation of Agreement to Submit to Arbitration. The Complainant has submitted its Statement of Claims & Memorials. The respondents have submitted their Statement of Defenses and are scheduled to submit their Counter-Memorials on 02 May 2004.

On 02 August 2005, the Memoranda of the parties were submitted and the case was submitted for resolution.

On 06 March 2005, the Tribunal rendered its decision awarding Zosa's claim for severance pay but disallowed his claims for attorney's fees and moral and exemplary damages and costs of suit.

On 12 April 2006, MCHC filed with the Regional Trial Court of Makati City, a verified petition with prayer for the issuance of an Order to Vacate the Arbitral Award, dated 6 March 2006, pursuant to Sections 22 to 29 of Republic Act No. 876 ("The Arbitration law") and the relevant provisions of Republic Act No. 9825 (the "Alternative Dispute Resolution Act of 2004). Likewise, Zosa filed his Application for Confirmation of Award on 12 April 2006. The two cases were consolidated and are presently pending with Branch 139 of the Regional Trial Court of Makati as Sp. Proc. No. M-6259 and M-6264. The parties are presently awaiting the Court's resolution on the issue of whether the Application for Confirmation of Award was seasonably filed considering the non-payment of docket fees at the time of filing. On 17 March 2009, a hearing was held whereby the Court directed all the parties to submit their respective Memoranda. In compliance with the aforesaid order, MCHC submitted its Memoranda on 17 May 2009. To date, the case is pending decision of the Regional Trial Court.

- (b) ***"People of the Philippines vs. Ariel Balatbat"***, Criminal Case No. 115515, Regional Trial Court of Pasig City, Branch 155. MCHC filed a complaint, through its authorized officer, against Ariel Balatbat for qualified theft relating to several unauthorized withdrawals of, and anomalous transactions involving, company funds in the total amount P41,021.50 (converted to US\$1,000.00). On 29 October 2004, the Court rendered its decision finding the accused guilty beyond reasonable doubt of the crime of qualified theft under Article 310 of the Revised Penal Code and imposed the corresponding penalty of imprisonment of 10 years minimum to a maximum of 14 years. The case is pending appeal.

"People of the Philippines vs. Ariel Balatbat", Criminal Case No. 114955, Regional Trial Court of Pasig City, Branch 151. MUDC, through its authorized officer, has also filed a complaint against Ariel Balatbat for qualified theft relating to several unauthorized withdrawals of, and anomalous transactions involving, company funds in the total amount of P121,500.00 (equivalent to US\$3,000.00), US\$4,000.00, and US\$1,020.00. Said amounts were never recovered or accounted for. The case is currently pending before the Regional Trial Court, which also issued a warrant of arrest for the same. The bail was set for P40,000.00. The accused was arrested and subsequently arraigned. Three (3) witnesses have been presented – two (2) from the bank and one (1) from MUDC.

On 28 February 2005, the Prosecution filed its "Formal Offer of Evidence". With this filing, the prosecution is deemed to have terminated the presentation of its evidence and rested its case. Defense rested its case on 4 December 2006. On 22 January 2007, the Prosecution presented its rebuttal evidence. As of this writing, Memorandum for the Prosecution has been filed and the case has been submitted for decision.

FINANCIAL AND OTHER INFORMATION

Management's Discussion and Analysis

The Registrant's Consolidated Total Revenue decreased by 41% in 2009 to P74.9 million from P127.2 million in 2008. Most of the decrease was accounted for by the net foreign exchange gains of P70.3 million in 2008 versus a P9.9 million net foreign exchange loss in 2009. Net earnings of associates increased to P33.3 million in 2009 from P28.7 million in 2008. The appreciation of the Peso in 2009 versus the U.S. Dollar penalized the dollar-denominated bonds held by the Registrant and its subsidiary and resulted in a net foreign exchange loss in 2009 compared to 2008 when a marked depreciation of the peso benefitted the dollar-denominated investments of the Registrant resulting in a net foreign gain of P70.3 million in 2008. The increase in equity in net earnings of associates was due to record earnings in 2009 at both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates. Rental income decreased to P2.5 million in 2009 from P4.3 million in 2008 as Pointwest Technologies Corporation moved out of the offices it leased from Magellan Capital Holdings Corporation, the 94% subsidiary of the Registrant, to move to bigger premises at the UP-Ayala Technopark.

Against the reduction in revenues, the following items in the expense column also fell resulting in an increase in net income.

- 1) In 2008, there was a loss on fair value changes on financial assets of P24.7 million as prices of listed securities owned by the Registrant and its subsidiary dropped sharply due to the worldwide financial crisis that depressed stock prices in global stock markets. In 2009, there was a gain of P17.2 million as stock markets recovered.
- 2) In 2008, there was a provision for impairment losses of P20.7 million as the remaining receivables due from MUDC to PIEI, a subsidiary of MCHC, was fully provided for. Thus, the Registrant's direct and indirect exposure to MUDC has been reduced on the books to almost nil. There was no provision in 2009 as the exposure had been fully provided for.
- 3) In 2008, there was a reported loss on disposal of HTM Investment of P7.4 million. This represents the loss realized upon maturity of an Equity-linked Note which resulted in the underlying equity being transferred to the investor. Because of the depressed stock prices, this loss represents the difference between the underlying cost of the equity and the closing stock price at December 31, 2008. There was no such loss in 2009 as the stock prices partly recovered its losses.

As a result of the above, the Registrant reported a consolidated net income attributable to equity holders of the Registrant of P35.6 million in 2009 compared to a net income of P23.3 million in 2008. Including the share of the minority shareholders of MCHC would reduce the net income for the Group to P35.1 million in 2009 compared to P24.3 million in 2008.

The Registrant's financial position remains strong and its ability to undertake its planned projects is not affected. As of December 31, 2009, the Registrant's consolidated cash and cash equivalents totalled P36.5 million compared to P101.4 million at the end of 2008. The Registrant and its subsidiary has decided to reinvest resources in bonds and stocks as the global financial crisis abated. The Registrant and its subsidiary are essentially debt free with total consolidated liabilities of P5.5 million not including deferred income tax liabilities of P20.6 million but including retirement benefit obligations of P2.8 million against total equity of P996.2 million at year-end 2009.

The Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC) has leased out three of the four units available for lease. The remaining unit was vacated in February 2009 and other potential lessees have looked at it and are considering to lease the unit.

The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders and PTC and BPOI which have availed of short term loans for normal working capital requirements. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2009 totalled P36.5 million compared to P101.4 million at the end of 2008 while total current assets totalled P152.0 million at year-end 2009 compared to P198.1 million at year-end 2008. The Registrant had been increasing its liquidity in 2008 in the face of the worldwide financial crisis but with the global financial crisis abating, the Registrant has in 2009 started reinvesting its liquid resources. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the financial crisis on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

Top Five (5) Key Performance Indicators

The top five (5) performance indicators for the Registrant are as follows:

- (1) Revenue Generation
- (2) Change in net income
- (3) Earnings per share
- (4) Current ratio
- (5) Book value per share

Revenue Generation. Revenue in the last three fiscal years are summarized below along with vertical percentage analysis:

(P 000)	Year 2009	Percentage	Year 2008	Percentage	Year 2007	Percentage
Interest	P20,330	27.1%	P22,543	17.7%	P23,092	41.0%
Net FX Gain	-	-	70,446	55.4%	-	-
Equity in net earnings of associates	33,307	44.5%	28,700	22.6%	10,634	18.9%
Rent	2,520	3.4%	4,281	3.4%	3,231	5.7%
Dividend	965	1.3%	992	0.8%	37	0.1%
Amortization of Discount on HTM Investment		-	188	0.1%	-	-
Gain on Fair Value Changes of Financial Assets at FVPL	17,186	22.9%	-	-	17,341	30.8%
Gains on Disposal of AFS Investment	-	-	-	-	295	0.5%
Others	596	0.8%	1	-	1,689	3.0%
	P74,904	100.0%	P127,151	100.0%	P56,319	100.0%

The reason for the movements in the accounts shown above are discussed below:

Because the Registrant is a holding company and most of its subsidiaries are in the pre-operating stage, most of the reported consolidated revenue is derived from portfolio investments such as interest income, FX gain or losses, dividend income and gain or losses on fair value changes of financial assets at FVPL. However, 45% of the Registrant's consolidated revenues is its equity in the net earnings of its minority owned affiliates which are in the outsourcing business. Its share of earnings of its associates has increased as its affiliates Pointwest Technologies Corporation (PTC) and BPO International (BPOI) expand their revenues and have been reporting record earnings in the last two years.

Interest income in 2009 decreased to P20.3 million from P22.5 million in 2008 and P23.1 million in 2007 as the Registrant and its subsidiary shifted some funds from bond investments to lower yielding but lower risk time deposits in the face of the worldwide financial crisis. Net foreign exchange gain in 2008 was P70.4 million versus a net foreign exchange loss of P9.9 million in 2009 as the Peso in 2009 strengthened against the Dollar resulting in some FX losses on the dollar-denominated investments of the Registrants and its subsidiary. Net FX loss in 2007 was P52.8 million as the peso strengthened sharply that year. Equity in net earnings of associates increased to P33.3 million in 2009 from P28.7 million in 2008 and P10.6 million in 2007 as the Registrant's outsourcing affiliates again reported record earnings in 2009. Rental income decreased to P2.5 million in 2009 from P4.3 million in 2008 and P3.2 million in 2007 as Pointwest Technologies Corporation vacated space it was renting from MCHC and moved to bigger and PEZA-registered facilities at the UP-Ayala Technopark. MCHC temporarily leased out its excess space to PTC which needed space to house its expanded staff pending completion of the retrofit of its new expanded facilities at the UP-Ayala Techno Park.

Change in net income. The income statement for the last three fiscal years are shown below with vertical percentage analysis.

(000)	Years Ended December 31					
	Year 2009	Percentage	Year 2008	Percentage	Year 2007	Percentage
Revenue	P74,904	100.0%	P127,151	100.0%	P56,319	100.0%
Expenses	39,785	53.1%	81,320	64.0%	75,012	133.2%
Net Income Before Tax	35,119	46.9%	45,831	36.0%	(18,693)	(33.2%)
Tax	52	0.1%	(21,532)	(16.9%)	(16,357)	(29.0%)
Net Income After Tax	35,067	46.8%	24,300	19.1%	(35,050)	(62.2%)
Attributable to						
Stockholders	35,621	47.5%	23,285	18.3%	(32,157)	(57.1%)
Minority Stockholders	(554)	(0.7)	1,015	0.8%	(2,892)	(5.1%)

The revenue account has been discussed extensively in the proceeding section. Expenses dropped sharply in 2009 to P39.8 million from P81.3 million in 2008 and P75.0 million in 2007. The main reason for the reduction was the reduction in the provision for impairment which dropped to P40,000 in 2009 from P20.7 million in 2008 as the group's remaining exposure to the MUDC project was fully provided for. Fair value losses in financial assets at FVPL also dropped from P24.7 million in 2008 to NIL in 2009. Loss on early redemption of HTM investments also dropped from P7.4 million in 2008 to NIL in 2009. Thus, in spite of a P9.9 million provision for FX loss in 2009, total expenses dropped by P41.5 million in 2009 to P39.8 million. The main item in the 2007 expenses was net FX loss of P52.8 million.

As a result of the drop in expenses, the Registrant in 2009 recorded a consolidated net income before tax of P35.1 million compared to a net income before tax of P45.8 million in 2008 and a net loss before tax of P18.7 million in 2007. Net income after tax was P35.1 million in 2009 compared to P24.3 million in 2008 and a net loss after tax of P35.1 million in 2007. The higher provision for taxes in 2008 was mainly due to P20.6 million in provision for deferred taxes to account for taxes on foreign exchange gains when they are realized. There was also a deferred tax of P16.0 million in 2007 to reverse deferred tax assets reported in previous years as a more conservative measure.

Earnings per share. The earnings per share in 2009 amounted to P0.092 per share compared to P0.060 per share in 2008 and a net loss per share of P0.083 in 2007.

Current Ratio. Current ratio (current assets divided by current liabilities) which measures the liquidity position of the Registrant was 54.9 x as of December 31, 2009 compared to 51.7 x as of December 31, 2008.

Book value per share. The Registrant's book value per share (excluding treasury shares owned by subsidiaries of the Registrant) increased to P2.46 per share at the end of 2009 from P2.34 at year-end 2008 and P2.31 at year-end 2007.

OPERATIONS AND FINANCIAL CONDITION FOR THE LAST THREE (3) FISCAL YEARS

The following is a detailed discussion of the Registrant's operations and financial condition for the past three (3) fiscal years.

Exhibit "2" shows the audited consolidated balance sheet as of December 31, 2009 and December 31, 2008 and audited consolidated income statements for the years 2009, 2008 and 2007. The accounts are discussed below in more detail.

OPERATING RESULTS

Revenues. In the year ended 31 December 2009, total consolidated revenues totalled P74.9 million compared to P127.2 million in 2008 and P56.3 million in 2007. The reasons for the change have been discussed in the revenue generation section.

Expenses. Total consolidated operating expenses decreased to P39.8 million in 2009 from P81.3 million in 2008 and P75.0 million in 2007. A P52.8 million net foreign exchange loss was the biggest item in the 2007 total consolidated expenses as the peso strengthened in 2007 thus resulting in FX losses on the Dollar-denominated investments of the company. In 2008, there was a net foreign exchange gain instead of a net foreign exchange loss as the peso weakened against the U.S. Dollar more than erasing the net FX losses in 2007. However, provision for impairment losses of P20.7 million to cover the remaining exposure of the Registrant and its subsidiaries in the MUDC project as well as fair value losses on financial assets at FVPL of P24.7 million due to the sharp drop in stock prices at the height of the global financial crisis offset the absence of FX losses resulting in an increase in total consolidated expenses to P81.3 million in 2008 from P75.0 million in 2007. In 2009, there was a smaller net foreign exchange loss of P9.9 million as the peso strengthened moderately in 2009. However, the recovery of stock markets in 2009 resulted in a fair value gain on financial asset at FVPL of P17.2 million in 2009 versus a fair value loss on financial assets at FVPL of P24.7 million in 2008. There was also no provision for impairment losses in 2009 versus a P20.7 million provision in 2008 as the group's remaining exposure in the MUDC project has been fully covered by provisions. As a result of the above, total consolidated expenses dropped to P39.8 million in 2009 from P81.3 million in 2008.

Net Income Before Tax. As a result of the movement in revenues and expenses discussed in the preceding sections, net income before tax totaled P35.1 million in 2009 compared to P45.8 million in 2008 and a net loss before tax of P18.7 million in 2007.

Provision For Income Tax. As a conservative measure, no deferred tax asset was recognized. However, deferred tax liabilities are being accrued. As a result, Provision For Income Tax was P21.5 million in 2008 (including deferred taxes of P20.6 million) on an income before tax of P45.8 million. In 2007, there was a tax provision of P16.4 million including deferred taxes of P16.1 million even though there was a consolidated loss before taxes of P18.7 million mainly due to reversal of deferred tax assets booked in prior years. In 2009, there was minimal provision for income tax since a major part of the income consisted of non-taxable items such as equity in net earnings of associates and dividends.

Net Income After Tax. As a result of the provision for income tax discussed above, the Registrant had a consolidated net income after tax of P35.1 million in 2009 compared to P24.3 million consolidated net income after tax in 2008 and a consolidated net loss of P35.1 million in 2007. The net income attributable to shareholders of the Registrant was P35.6 million in 2009 and P23.3 million in 2008 and a net loss attributable to shareholders of the Registrant of P32.2 million in 2007. The balance of net loss of P0.6 million in 2009, net income of P1.0 million in 2008 and net loss of P2.9 million in 2007 were attributable to minority shareholders of Magellan Capital Holdings Corporation.

BALANCE SHEET ACCOUNTS

The following comparative financial analysis is based on audited consolidated balance sheets as of December 31, 2009 and December 31, 2008 shown in Exhibit “2”. Exhibit “4” shows the vertical percentage analysis of balance sheet accounts as of December 31, 2009 and December 31, 2008. The movements in the various accounts are discussed below:

ASSETS

Current Assets. Total current assets at year-end 2009 totalled P152.0 million compared to P198.1 million at year-end 2008. Management of the Registrant decided to increase liquidity and reduce investments in bond instruments in response to the global financial crisis in 2008 which led to increased level of cash and cash equivalents at year-end 2008. However, as the global financial crisis abated, the Registrant and its subsidiary started shifting to higher yielding bond investments in 2009 thus resulting in a reduced level of cash and cash equivalents at year-end 2009. Financial assets at Fair Value through Profit or Loss (FVPL) totalled P34.4 million at year-end 2009 from P13.8 million at year-end 2008 as the prices of listed stock investments owned by the Registrant and its subsidiary recovered in 2009. Short-term investments also dropped to P14.9 million at year-end 2009 from P62.2 million at year-end 2008 as funds were shifted from low yielding bank deposits to longer maturity but higher yielding bond investments. Receivables also increased to P42.2 million at year-end 2009 from P4.5 million at year-end 2008 due mainly to dividend receivables from Pointwest Technologies Corporation and Business Process International, Inc. which had declared dividends in 2009 but were not paid out until early 2010. Fixed income deposits increased slightly from P4.4 million at year-end 2008 to P4.6 million at year-end 2009. Held To Maturity investments under current assets which are bonds which mature in less than one year from balance sheet date increased to P14.1 million at year-end 2009 from P7.2 million at year-end 2008. Prepayments and other assets increased slightly to P5.2 million at year-end 2009 from P4.7 million at year-end 2008.

Non-current assets. Total non-current assets at year-end 2009 totalled P870.3 million versus P776.3 million at year-end 2008. Most of the increase was due to AFS investments which increased from P8.0 million at year-end 2008 to P169.3 million at year-end 2009. This more than offset the reduction in HTM investments from P168.9 million at year-end 2008 to P116.7 million at year-end 2009. The net increase of P109.1 million reflects the increase in higher yielding bond investments made by the Registrant and its subsidiaries as the global financial crisis winds down. Investments in associates dropped to P118.6 million at year-end 2009 from P135.3 million at year-end 2008 reflecting the declaration of dividends by the Registrant’s associates which exceeded the Registrant’s share in the 2009 net income of the affiliates since little or no dividends were paid in prior years. The investment properties account increased to P414.4 million at year-end 2009 from P368.1 million at year-end 2008 due mainly to the reclassification of the land in Fort Bonifacio from other assets to investment properties as title to the land had been transferred to MCHC in 2009. Concurrently, the other assets account decreased from P59.8 million at year-end 2008 to P13.5 million at year-end 2009.

Total assets. As a result of the movement in the accounts described above, total consolidated assets of the Registrant at year-end 2009 totalled P1,022.3 million compared to P974.4 million at year-end 2008.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities decreased to P2.8 million at year-end 2009 from P3.8 million at year-end 2008 mainly due to decrease in accounts payable and accrued expenses of P0.4 million and decrease in income tax payable of P0.7 million in 2009.

Non-Current Liabilities. Non-current liabilities increased from P22.8 million at year-end 2008 to P23.3 million at year-end 2009 due mainly to increase in retirement benefit obligations from P2.2 million at year-end 2008 to P2.8 million at year-end 2009. Deferred income tax liabilities which is the major item in non-current liabilities remained unchanged at P20.6 million from year-end 2008 to year-end 2009.

Stockholder's Equity. Total Stockholder's Equity Attributable to Equity Holders of the Registrant increased to P949.4 million at year-end 2009 from P901.1 million at year end 2008. This was due to the net income in 2009 attributable to equity holders of the Registrant of P35.6 million in 2009 as well as other comprehensive income of P12.7 million realized from change in fair value of AFS investments and amortization of unrealized losses in fair value of AFS investments. Equity attributable to minority shareholders of MCHC totalled P46.8 million compared to P46.7 million at year-end 2008. As a result, total stockholders equity at year-end 2009 stood at P996.1 million compared to P947.7 million at year-end 2008.

(i) Any known trends or any known demands, commitments, events or uncertainties

The Registrant and its subsidiary and affiliates are now substantially debt-free, except for MUDC, which has loans and advances from its principal shareholders. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements during the next twelve (12) months. Consolidated cash and cash equivalents totalled P36.5 million at year end 2009 compared to P101.4 million at year end 2008. Other than the normal fluctuations of the Philippine Peso to the U.S. Dollar, the Registrant is unaware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

MCHC has signed an agreement to purchase a lot in Fort Bonifacio. Payment for the lot was completed in 2006 and transfer of the title to MCHC has been completed in early 2009.

(ii) Any events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(iii) All material off-balance sheet transactions, arrangements, obligations

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

INFORMATION ON INDEPENDENT ACCOUNTANT AND OTHER RELATED MATTERS

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no disagreements with the Registrant's accountants, past or present, on accounting and financial disclosures. In 1997, Sycip Gorres Velayo & Co. replaced Velandria, Dimagiba & Co. and at present, continues to be engaged as the external auditor of the Registrant. In 2000, Vicente E. Reyes and Associates replaced Sycip Gorres Velayo & Co. as the external auditor of some of the wholly owned subsidiaries of Magellan Capital Holdings Corporation.

External Audit Fees and Services

a) Audit and Audit- Related Fees for the Last Three Fiscal Years

	2007	2008	2009
Registrant	P 166,800	P 175,500	P 185,000
MCHC	260,220	273,200	287,000
Subsidiaries of MCHC	87,179	91,540	100,688
MUDC	18,522	19,448	21,393

The fees above are all for audit services. No other services were provided.

b) Tax Fees: None

c) All Other Fees: None

d) Audit Committee has approved the audit fees

In approving the fees, the Audit Committee has considered the work being rendered compared to previous years as well as additional requirements for audit required to comply with new requirements. It has also compared audit fees of similar listed companies to determine reasonableness of the fees. The reputation and record of the audit firm is also considered.

Financial Statements

The Statement of Management's Responsibility along with Audited Consolidated Financial Statements as of 31 December 2009 is shown in this report.

Attendance of Accountants in the meeting

Representatives of the Corporation's External Auditor, SGV & Co., are expected to be present at the Annual Stockholders' Meeting on 28 July 2010. Said accountants will be given the opportunity to make a statement if they desire to do so and will be available to respond to relevant questions on the financial statements.

Dividends

No dividends have been declared in the last two (2) years. The amount of unrestricted retained earnings available for distribution as of December 31, 2009 as calculated by the Issuer's external auditor, SGV & Company, is P76,760,435.00 in compliance with SEC Memorandum Circular No. 11, Series of 2008.

TOP 20 STOCKHOLDERS OF THE REGISTRANT

The top twenty (20) stockholders of each class of the common equity of the Registrant as of 30 April 2010 are as follows:

CLASS "A"

	NAME OF STOCKHOLDERS	NUMBER OF SHARES	PERCENTAGE OWNERSHIP ^{1>}
1	PCD Nominee Corporation	72,912,546	24.92%
2	Magellan Capital Holdings Corporation	47,403,022	16.20%
3	Consolidated Tobacco Industries of the Phils., Inc.	43,052,023	14.71%
4	Vructi Holdings Corporation	30,000,000	10.25%
5	Center Industrial and Investment, Inc.	23,991,000	8.20%
6	Johnson Tan Gui Yee	15,371,747	5.25%
7	Robert Y. Cokeng	13,693,072	4.68%
8	Victorian Development Corporation	12,085,427	4.13%
9	Pinamucan Industrial Estates, Inc.	10,954,426	3.74%
10	Brixton Investment Corporation	2,815,000	0.96%
11	Francisco Y. Cokeng, Jr.	2,160,000	0.74%
12	Antonio H. Ozaeta	1,374,751	0.47%
13	Johnson U. Co	1,100,000	0.38%
14	Betty C. Dy	1,100,000	0.38%
15	Rosalinda C. Tang	1,080,000	0.37%
16	Homer U. Cokeng, Jr.	1,020,000	0.35%
17	Olivia Chua Ng	950,000	0.32%
18	Metro Agro Industrial Supplies	523,833	0.18%
19	Criscini A. Reyes	400,000	0.14%
20	Ramon Cruz, Sr.	320,000	0.11%

CLASS "B"

	NAME OF STOCKHOLDERS	NUMBER OF SHARES	PERCENTAGE OWNERSHIP ^{2>}
1	Essential Holdings Limited	139,778,670	73.87%
2	Pinamucan Industrial Estates, Inc.	37,713,379	19.93%
3	Joam Investments Corporation	4,993,890	2.64%
4	PCD Nominee Corporation (F)	3,920,000	2.07%
5	PCD Nominee Corporation	1,383,856	0.73%
6	Metro Agro Industrial Supplies	270,144	0.14%
7	J.M. Barcelon & Co., Inc.	237,500	0.13%
8	Victoria U. Co Low	80,000	0.04%
9	Homer U. Cokeng, Jr.	80,000	0.04%
10	Robert Y. Ynson	74,289	0.04%
11	Ofelia Yambot Cabrera	65,000	0.03%
12	Domingo Herrera	60,000	0.03%
13	John Gates	50,400	0.03%
14	Lourdes B. Pablo	50,000	0.03%
15	Amparo V. Barcelon and/or Nenita S. Cruz	50,000	0.03%
16	Rennie Tan	32,335	0.02%
17	Rufino B. Tiangco	30,392	0.02%
18	Chua Siu Le	30,000	0.02%
19	Rogelio dela Cruz	20,000	0.01%
20	Librado Calilung	20,000	0.01%

^{1>} Percent of Outstanding Class "A" Shares

^{2>} Percent of Outstanding Class "B" Shares

MARKET INFORMATION

CLASS “A”

FROM	TO	HIGH	LOW
01-01-08	03-31-08	1.50	1.40
04-01-08	06-30-08	1.42	1.42
07-01-08	09-30-08	1.60	1.60
10-01-08	12-31-08	1.22	1.02
01-01-09	03-31-09	0.76	0.76
04-01-09	06-30-09	1.08	1.00
07-01-09	09-30-09	1.80	1.00
10-01-09	12-31-09	1.10	0.98
01-01-10	03-31-10	1.42	0.93

The latest transaction price for F & J stocks - Class “A” – P1.00 per share as of 05 April 2010.

CLASS “B”

FROM	TO	HIGH	LOW
01-01-08	03-31-08	1.20	1.20
04-01-08	06-30-08	-	-
07-01-08	09-30-08	-	-
10-01-08	12-31-08	0.80	0.80
01-01-09	03-31-09	0.85	0.85
04-01-09	06-30-09	0.85	0.85
07-01-09	09-30-09	1.20	1.20
10-01-09	12-31-09	1.40	1.40
01-01-10	03-31-10	2.70	1.62

The latest transaction price for F & J stocks - Class “B” - P1.56 per share as of 01 June 2010.

Holders

As of 30 April 2010, the Registrant had Five Hundred Fifty Six (556) stockholders of record, as follows: Class “A” shares – Four Hundred Ninety Eight (498) shareholders and Class “B” shares – Fifty Eight (58) shareholders.

Recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction

The Registrant has not sold any securities within the past three (3) years, which were not registered under the Securities Regulation Code, including sales of reacquired, as well as new issues, securities issued in exchange for property, services, or other securities and new securities resulting from the modification of outstanding securities.

Warrants

There are no existing warrants outstanding. One detachable Subscription Warrant was issued for each share subscribed under the share offering in 2002. Warrants for 723,727 “A” shares and 71,198 “B” shares were exercised. All the remaining warrants that were not exercised have expired as of May 2008. There are no options or warrants currently outstanding.

DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

In Compliance with SEC Memorandum Circular No. 2, dated 5 April 2002, the Company submitted its Manual on Corporate Governance on 29 August 2002 as approved by its Board of Directors in a meeting held on 14 August 2002, which basically adopted the SEC's Model Manual. Since the Manual's effectivity on 01 January 2003, the Company's Board of Directors and Management has been complying with the principles laid down by the Code of Corporate Governance through the mechanisms which have been institutionalized in the Manual and so far as may be relevant and appropriate to the Company's business as a holding company.

The Company continues to adopt measures to ensure compliance with the leading practices on good corporate governance through, among others, the nomination and election of two independent directors, the constitution of the different committees required by the Code such as the Nominations Committee, the Audit Committee, the Compensation and Remuneration Committee, all of which have been performing their functions as laid down in the Manual.

During a meeting held on March 29, 2004 the company's Board of Directors approved the adoption as part of the Manual, Sec. 4.2 of the PSE's Revised Disclosure Rules, which is in consonance with Chapter VII of the Securities Regulation Code.

Since its effective date, there has been no deviation from the Company's Manual of Corporate Governance. No member of the Company's Board of Directors or its officers and personnel has done or caused to be done any act in violation of the principles laid down in the said Manual.

The Company continues to adhere to the principles and policies of its Manual with the view to continually improve the company's corporate governance.

On 11 February 2008, the Board of Directors of the Company attended and completed the Seminar on Corporate Governance given by the UP Law Center, as required by the Rules. The company continues to comply with the appropriate performance self-rating assessment and performance evaluation system in compliance with pertinent SEC regulations.

Evaluation System

The Company continues to adhere to the principles and policies of its Manual with the view to continually improve the company's corporate governance. It has adopted as a guideline the SEC's Corporate Governance Self-Rating Form (CG-SRF) in order to determine the Company's compliance with the leading practices on Corporate Governance.

Plan to Improve

The Company continues to take efforts to be abreast with development and trends on Corporate Governance as the same may emerge.

BOARD OF DIRECTORS AND MANAGEMENT

DIRECTORS

Robert Y. Cokeng
Chairman

Francisco Y. Cokeng, Jr.
Vice-Chairman

Emeterio L. Barcelon, S.J.

Francis L. Chua

Johnson U. Co

Johnny O. Cobankiat

Homer U. Cokeng, Jr.

Mary K. Cokeng

Johnson Tan Gui Yee

Rufino B. Tiangco

Robert Y. Ynson

MANAGEMENT

Robert Y. Cokeng
Chairman of the Board

Robert Y. Cokeng
President

Emeterio L. Barcelon, S.J.
Senior Vice-President

Johnson U. Co
Vice-President & Treasurer

Manuel N. Dy
Assistant Treasurer

Fina C. Tantuico
Corporate Secretary

DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

DIRECTORS AND EXECUTIVE OFFICERS

The following are the directors and executive officers of the Registrant, with the past and present positions held by them in the Registrant's subsidiaries and other companies for the past five (5) years:

ROBERT Y. COKENG, 58 years old, Filipino citizen.
Chairman, President & Chief Executive Officer

Re-elected on 23 July 2009 for a one-year term. Director and Officer since 1996.

President & Chief Executive Officer, Magellan Capital Holdings Corporation, Magellan Utilities Development Corporation, Batangas Agro-Industrial Development Corporation and its wholly-owned subsidiaries, Pinamucan Power Corporation, Malabrigo Corporation, Consolidated Tobacco Industries of the Philippines, Inc. and Center Industrial and Investment, Inc.; *Director*, Alcorn Gold Resources Corporation (PSE listed company) and Pinamucan Industrial Estates, Inc.; *Managing Director*, Essential Holdings Ltd.; *Vice-Chairman*, Pointwest Technologies Corporation and Pointwest Innovations Corporation; *Director and Chairman of the Executive Committee*, Business Process Outsourcing International, Inc.

FRANCISCO Y. COKENG, JR., 56 years old, Filipino citizen.
Vice-Chairman and Director

Re-elected on 23 July 2009 to a one-year term. Director since 1996.
Also director from 1980-1991.

Director, Consolidated Tobacco Industries of the Philippines, Inc.; *Chairman*, Sunflare Horizon International, Inc.

JOHNSON U. CO, 57 years old, Filipino citizen.
Vice-President, Treasurer & Chief Financial Officer

Re-elected on 23 July 2009 for a one-year term. Director and Treasurer since 1996.

President, Pinamucan Industrial Estates, Inc.; *President*, Sunflare Horizon International, Inc.; *Treasurer & Chief Financial Officer and Director*, Magellan Capital Holdings Corporation, Magellan Utilities Development Corporation, Batangas Agro-Industrial Development Corporation and its wholly-owned subsidiaries, Malabrigo Corporation and Pinamucan Power Corporation; *Vice Chairman*, Consolidated Tobacco Industries of the Philippines, Inc.; *Director*, Essential Holdings Ltd., Pointwest Technologies Corporation; *Treasurer*, Business Process Outsourcing International, Inc.

EMETERIO L. BARCELON, S.J., 82 years old, Filipino citizen.
Senior Vice-President and Director

Re-elected on 23 July 2009 for a one-year term. Director since 1980.

Former Director, Oriental Petroleum and Minerals Corporation; *Former President*, Ateneo de Davao; *Vice-President*, Xavier University; *Former Professor*, Asian Institute of Management; *Columnist*, Manila Bulletin.

HOMER U. COKENG, JR., 51 years old, Filipino citizen.

Director

Re-elected on 23 July 2009 to a one-year term. Director since 1996.

Vice President and Director, Consolidated Tobacco Industries of the Philippines, Inc.; *Director*, Center Industrial and Investment, Inc., Magellan Capital Holdings Corporation, Batangas Agro-Industrial Development Corporation and its wholly-owned subsidiaries, Malabrigo Corporation, Pinamucan Power Corporation and Pinamucan Industrial Estates, Inc.

MARY K. COKENG, 57 years old, Filipino citizen.

Director

Re-elected on 23 July 2009 to a one-year term. Director since 2008.

Assistant Director, Essential Holdings, Limited; *Director*, Magellan Capital Holdings Corporation, Magellan Capital Corporation

JOHNNY O. COBANKIAT, 58 years old, Filipino citizen.

Director

Re-elected on 23 July 2009 to a one-year term. Director since 2008.

President, Ace Hardware Phils., Cobankiat Hardware, Inc. and Milwaukee Builders Center, Inc.; *Executive Vice President*, Hardware Workshop; *Vice Chairman*, R. Nubla Securities; *Director*, Philippine Bank of Communications, and Shang Properties, Inc.

FRANCIS LEE CHUA, 58 years old, Filipino citizen.

Director

Re-elected 23 July on 2009 for a one-year term. Director since 2001.

General Manager, Sunny Multi Products and Land Management Inc., Rocky's Construction Supplies and Marketing, Inc.; *Director*, Consolidated Tobacco Industries of the Phils., Inc. and Sunflare Horizon International, Inc.

JOHNSON TAN GUI YEE, 63 years old, Filipino citizen.

Director

Re-elected on 23 July 2009 to a one-year term. Director since 1997.

Chairman, Armak Tape Corporation; *President & Chief Executive Officer*, Armak Holdings and Development, Inc.; *President*, Yarnton Traders Corporation; *Director*, Magellan Capital Holdings Corporation.

RUFINO B. TIANGCO, 60 years old, Filipino citizen.
Director

Re-elected on 23 July 2009 to a one-year term. Director since 1997.

Chairman of the Board, R.A.V. Fishing Corporation; *President*, Vrukti Holdings Corporation, Trufsons Holdings Corporation, Rolandson Fisheries and Agro-Industrial Corporation, Cynvic Development Corporation, Ruvict Holdings Corporation; *Director*, Magellan Capital Holdings Corporation and Magellan Utilities Development Corporation.

ROBERT Y. YNSON, 62 years old, Filipino citizen.
Director

Re-elected on 23 July 2009 to a one-year term. Director since 1997.

President, Phesco, Incorporated, Benter Management & Construction Corporation, Pearl of the Orient Realty & Development Corporation; INAVEIT Systems Technologies, Inc., Pumps Internationale Corporation; *Director*, Super Industrial Corporation.

FINA C. TANTUICO, 48 years old, Filipino citizen.
Corporate Secretary

Elected on 23 July 2009 to a one-year term.

Term of Office. The directors of the Registrant were elected during the annual stockholders' meeting held on 23 July 2009. The directors have a one (1) year term of office.

The Independent Directors. The independent directors of the Registrant are Robert Y. Ynson and Francis L. Chua.

SIGNIFICANT EMPLOYEES

There are no other persons other than the Registrant's executive officers who are expected to make a significant contribution to its business.

FAMILY RELATIONSHIPS

Messrs. Robert Y. Cokeng and Francisco Y. Cokeng, Jr. are brothers. They are first cousins of Messrs. Homer U. Cokeng, Jr. and Johnson U. Co who are siblings. Mary K. Cokeng is the spouse of Robert Y. Cokeng.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**


The Management of F & J Prince Holdings Corporation and its subsidiaries is responsible for all information and representation contained in the financial statements for the year ended 31 December 2009. The financial statements have been prepared in conformity with the generally accepted accounting principles in the Philippines and reflect amounts that are based on 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 management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

Sycip Gorres Velayo & Co., CPA's, the independent auditors appointed by the Stockholders, have examined the financial statements of the company in accordance with the generally accepted auditing standards in the Philippines and have expressed their 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 Y. COKENG
Chairman and President

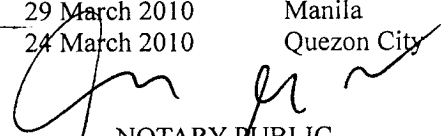

JOHNSON U. CO
Chief Financial Officer

APR 28 2010

SUBSCRIBED AND SWORN to before me this _____ day of April, 2010, affiants exhibiting to me their Community Tax Certificates, as follows:

<u>Names</u>	<u>Community Tax Certificate</u>	<u>Date of Issue</u>	<u>Place of Manila</u>
Robert Y. Cokeng	27079397	29 March 2010	Manila
Johnson U. Co	30976538	24 March 2010	Quezon City

Doc. No. 284;
Page No. 57;
Book No. 34;
Series of 2010.


NOTARY PUBLIC
ATTY. SOCRATES G. MARANAN
NOTARY PUBLIC
UNTIL DECEMBER 31, 2011
PTR 8241988 T15P 762691
ROA 31823

F & J Prince Holdings Corporation

**Audited
Financial Statements
As of 31 December 2009**

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
F & J Prince Holdings Corporation
5th Floor, Citibank Center Building
8741 Paseo de Roxas corner Villar Street
Salcedo Village, Makati City

We have audited the accompanying consolidated financial statements of F & J Prince Holdings Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Malabrigo Corporation and Pinamucan Industrial Estates, Inc. (both wholly owned companies of the Company's subsidiary) which financial statements reflect combined total assets constituting 13% and 14% as of December 31, 2009 and 2008, respectively, and combined total revenues constituting 5%, 8% and 3% in 2009, 2008 and 2007, respectively, of the related consolidated totals. We also did not audit the financial statements of Business Process Outsourcing International, Inc. (a corporation in which the Company has a 35% interest and investments which are carried in the consolidated financial statements using the equity method of accounting), in which the Company's investment is stated at ₱62.1 million and ₱69.7 million as of December 31, 2009 and 2008, respectively, and the Company's equity in its net income is stated at ₱12.0 million, ₱9.5 million and ₱2.9 million in 2009, 2008 and 2007, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

Management's 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 audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



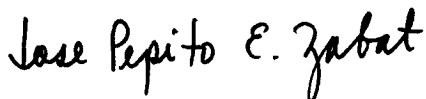
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of F & J Prince Holdings Corporation and Subsidiaries as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III

Partner

CPA Certificate No. 85501

SEC Accreditation No. 0328-AR-1

Tax Identification No. 102-100-830

PTR No. 2087583, January 4, 2010, Makati City

April 12, 2010



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱36,527,458	₱101,358,385
Financial assets at fair value through profit or loss (FVPL) (Note 5)	34,376,068	13,792,027
Short-term investments (Note 21)	14,907,815	62,205,165
Receivables - net (Note 6)	42,189,070	4,467,787
Fixed income deposits (Note 21)	4,637,376	4,425,862
Held-to-maturity (HTM) investments (Note 8)	14,099,112	7,154,632
Prepayments and other current assets	5,239,280	4,671,340
Total Current Assets	151,976,179	198,075,198
Noncurrent Assets		
Receivables from related parties - net (Note 16)	1,482,270	397,432
Investments in associates - net (Note 7)	118,641,693	135,321,385
Fixed income deposits (Note 21)	500,000	500,000
HTM investments - net of current portion (Note 8)	116,717,359	168,891,460
Available-for-sale (AFS) investments - net (Note 9)	169,255,633	8,001,237
Property and equipment - net (Note 10)	35,799,085	35,325,536
Investment properties (Note 11)	414,394,525	368,074,900
Other noncurrent assets (Note 19)	13,494,294	59,813,919
Total Noncurrent Assets	870,284,859	776,325,869
TOTAL ASSETS	₱1,022,261,038	₱974,401,067
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 12)	₱2,773,254	₱3,161,118
Income tax payable	—	673,638
Total Current Liabilities	2,773,254	3,834,756
Noncurrent Liabilities		
Deferred income tax liabilities (Note 14)	20,584,494	20,584,494
Retirement benefit obligations (Note 13)	2,755,696	2,243,405
Total Noncurrent Liabilities	23,340,190	22,827,899
Equity (Note 15)		
Common stock	481,827,653	481,827,653
Additional paid-in capital	144,759,977	144,759,977
Treasury shares	(95,791,606)	(95,762,527)
Net unrealized losses on changes in fair value of AFS investments (Notes 8 and 9)	(2,246,491)	(14,949,028)
Retained earnings	420,812,366	385,191,695
Total Equity Attributable to Equity Holders of the Parent	949,361,899	901,067,770
Minority Interests	46,785,695	46,670,642
Total Equity	996,147,594	947,738,412
TOTAL LIABILITIES AND EQUITY	₱1,022,261,038	₱974,401,067

See accompanying Notes to Consolidated Financial Statements.



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Equity in net earnings of associates (Note 7)	₱33,307,272	₱28,699,944	₱10,634,262
Interests (Notes 4, 8 and 21)	20,329,855	22,542,444	23,092,326
Fair value gains on financial assets at FVPL (Note 5)	17,185,923	—	17,340,663
Rent (Note 16)	2,520,204	4,280,772	3,231,006
Dividend	965,467	992,265	37,260
Net foreign exchange gain (Note 20)	—	70,445,458	—
Amortization of discount on HTM investments	—	188,327	—
Gain on disposal of AFS investments	—	—	294,995
Others	595,538	1,392	1,688,885
	74,904,259	127,150,602	56,319,397
EXPENSES (INCOME)			
Net foreign exchange loss (Note 20)	9,945,929	—	52,796,047
Amortization of unrealized losses on changes in fair value of AFS investments (Notes 8 and 9)	9,690,812	9,701,561	—
Personnel expenses:			
Salaries and wages	6,160,688	6,116,265	6,032,988
Other employee benefits	611,597	631,089	615,555
Retirement benefits (Note 13)	512,291	518,503	465,359
Depreciation (Note 10)	3,153,399	3,063,914	3,246,171
Professional fees	2,671,065	2,894,641	3,111,300
Condominium dues	1,752,617	1,150,587	1,032,505
Amortization of premium on HTM investments	1,032,307	81,114	—
Taxes and licenses	946,783	1,175,882	3,306,824
Entertainment, amusement and recreation (EAR)	429,377	399,276	422,566
Bank charges	424,777	454,961	505,227
Utilities	306,928	381,416	395,922
Provision for impairment losses (Notes 6, 9 and 20)	40,000	20,709,293	—
Fair value losses on financial assets at FVPL (Note 5)	—	24,700,135	—
Loss on early redemption of HTM investments	—	7,446,763	—
Others	2,106,738	1,894,192	3,081,337
	39,785,308	81,319,592	75,011,801
INCOME (LOSS) BEFORE INCOME TAX	35,118,951	45,831,010	(18,692,404)
PROVISION FOR INCOME TAX (Note 14)			
Current	667,504	897,141	349,772
Deferred	(615,723)	20,634,361	16,007,464
	51,781	21,531,502	16,357,236
NET INCOME (LOSS)	₱35,067,170	₱24,299,508	(₱35,049,640)
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent	₱35,620,671	₱23,284,773	(₱32,157,375)
Minority interests	(553,501)	1,014,735	(2,892,265)
	₱35,067,170	₱24,299,508	(₱35,049,640)
Earnings (Loss) Per Share (Note 17)			
For profit (loss) for the year attributable to equity holders of the parent			
Basic	₱0.092	₱0.060	(₱0.083)
Diluted	0.092	0.060	(0.074)

See accompanying Notes to Consolidated Financial Statements.



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
NET INCOME (LOSS)	₱35,067,170	₱24,299,508	(₱35,049,640)
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair value of AFS investments (Note 9)	3,640,279	(25,632,422)	(9,429,192)
Disposal of AFS investment	—	—	(572,915)
Amortization of unrealized losses on changes in fair value of AFS investments - net (Note 9)	9,690,812	9,701,561	—
Impairment loss on AFS investments	40,000	250,000	—
	13,371,091	(15,680,861)	(10,002,107)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱48,438,261	₱8,618,647	(₱45,051,747)
TOTAL COMPREHENSIVE (LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent	₱48,323,208	₱8,225,207	(₱41,732,022)
Minority interests	115,053	393,440	(3,319,725)
	₱48,438,261	₱8,618,647	(₱45,051,747)

See accompanying Notes to Consolidated Financial Statements.



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Attributable to Equity Holders of the Parent						
	Common Stock (Note 15)	Additional Paid-in Capital	Treasury Shares (Note 15)	Investments (Notes 9 and 15)	Retained Earnings	Minority Interests	Total Equity
Balances at January 1, 2007	₱481,032,728	₱144,759,977	(₱95,684,327)	₱9,685,185	₱394,064,297	₱49,596,927	₱983,454,787
Exercise of warrants (Note 15)	794,925	—	—	—	—	—	794,925
Net loss for the year	—	—	—	—	(32,157,375)	(2,892,265)	(35,049,640)
Other comprehensive loss	—	—	—	(9,574,647)	—	(427,460)	(10,002,107)
Total comprehensive loss	—	—	—	(9,574,647)	(32,157,375)	(3,319,725)	(45,051,747)
Balances at December 31, 2007	481,827,653	144,759,977	(95,684,327)	110,538	361,906,922	46,277,202	939,197,965
Additional treasury shares (Note 15)	—	—	(78,200)	—	—	—	(78,200)
Net income for the year	—	—	—	—	23,284,773	1,014,735	24,299,508
Other comprehensive loss	—	—	—	(15,059,566)	—	(621,295)	(15,680,861)
Total comprehensive income	—	—	—	(15,059,566)	23,284,773	393,440	8,618,647
Balances at December 31, 2008	481,827,653	144,759,977	(95,762,527)	(14,949,028)	385,191,695	46,670,642	947,738,412
Additional treasury shares (Note 15)	—	—	(29,079)	—	—	—	(29,079)
Net income for the year	—	—	—	—	35,620,671	(553,501)	35,067,170
Other comprehensive income	—	—	—	12,702,537	—	668,554	13,371,091
Total comprehensive income	—	—	—	12,702,537	35,620,671	115,053	48,438,261
Balances at December 31, 2009	₱481,827,653	₱144,759,977	(₱95,791,606)	(₱2,246,491)	₱420,812,366	₱46,785,695	₱996,147,594

See accompanying Notes to Consolidated Financial Statements.



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	₱35,118,951	₱45,831,010	(₱18,692,404)
Adjustments for:			
Net unrealized foreign exchange loss (gain)	9,831,784	(76,657,386)	52,420,876
Amortization of unrealized loss on changes in fair value of AFS investments (Notes 8 and 9)	9,690,812	9,701,561	-
Depreciation (Note 10)	3,153,399	3,063,914	3,246,171
Amortization of premium on HTM investments	1,032,307	81,114	-
Retirement expense (Note 13)	512,291	518,503	465,359
Provision for impairment losses (Notes 6, 9 and 20)	40,000	20,709,293	-
Loss on early redemption of HTM investments	-	7,446,763	-
Gain on disposal of AFS investments	-	-	(294,995)
Amortization of discount on HTM investments	-	(188,327)	-
Gain on disposal of financial assets at FVPL	(290,000)	-	-
Dividend income	(965,467)	(992,265)	(37,260)
Loss (gain) on fair value changes of financial assets at FVPL	(16,895,923)	24,700,135	(17,340,663)
Interest income	(20,329,855)	(22,542,444)	(23,092,326)
Equity in net earnings of associates	(33,307,272)	(28,699,944)	(10,634,262)
Operating loss before working capital changes	(12,408,973)	(17,028,073)	(13,959,504)
Decrease (increase) in:			
Receivables	(34,423,865)	(306,573)	(443,839)
Prepayments and other current assets	(567,940)	191,744	(377,494)
Increase (decrease) in accounts payable and accrued expenses	(387,864)	306,195	144,760
Net cash flows used in operations	(47,788,642)	(16,836,707)	(14,636,077)
Interest received	17,032,437	25,985,734	21,943,481
Dividends received	965,467	992,265	37,260
Income taxes paid	(725,419)	(573,275)	(286,826)
Net cash flows from (used in) operating activities	(30,516,157)	9,568,017	7,057,838
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of:			
Short-term investments	44,916,654	-	6,101,967
HTM investments	36,195,860	19,584,015	-
Fixed income deposits	-	46,030,789	9,011,290
AFS investments	-	57,942,638	-
Additions to:			
Short-term investments	-	(61,567,695)	-
Fixed income deposits	(211,514)	-	-
Financial assets at FVPL	(3,483,202)	-	-
Property and equipment	(3,626,948)	-	(35,687)
Investments in associates	(10,500,000)	-	(22,500,000)
AFS investments	(160,407,550)	(24,033,402)	(16,174,134)
Decrease (increase) in:			
Receivables from related parties	(919,770)	(397,432)	-
Other noncurrent assets	-	72,523	(10,387,907)
Dividends received	60,486,964	-	24,037,500
Net cash flows from (used in) investing activities	(37,549,506)	37,631,436	(9,946,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchases of treasury shares	(29,079)	(78,200)	-
Decrease in payables to related parties	-	(586,965)	(1,307,252)
Proceeds from exercise of stock warrants	-	-	794,925
Net cash flows used in financing activities	(29,079)	(665,165)	(512,327)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,094,742)	46,534,288	(3,401,460)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,263,815	14,887,941	(4,001,389)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	101,358,385	39,936,156	47,339,005
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱36,527,458	₱101,358,385	₱39,936,156

See accompanying Notes to Consolidated Financial Statements.



F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

F & J Prince Holdings Corporation (the Company) was registered with the Philippines Securities and Exchange Commission (SEC) on February 18, 1971. Its primary purpose is to purchase, subscribe for or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including, but not limited to, land, building, condominium units, shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts or obligations of any corporation and associations, domestic or foreign.

The registered office address of the Company is 5th Floor, Citibank Center Building, 8741 Paseo de Roxas corner Villar Street, Salcedo Village, Makati City.

The consolidated financial statements of the Company and its subsidiary (collectively referred to as the Group) as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were authorized for release by the President of the Company on April 12, 2010, pursuant to a resolution by the Board of Directors (BOD) dated February 8, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at FVPL and AFS investments that have been measured at their fair values (see Notes 5 and 9) and investment properties which have been carried at their revalued amounts considered to be their "deemed cost" (see Note 11). The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency, except when otherwise stated.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PFRS and Philippine Accounting Standards (PAS) which became effective on January 1, 2009.

- **PFRS 7 Amendments, *Improving Disclosures about Financial Instruments***

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions



- *PAS 1, Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present two linked statements.
- *PFRS 8, Operating Segments*
PFRS 8 replaced PAS 14, *Segment Reporting*, upon its effective date. The Group concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 18 to the consolidated financial statements.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

New Standards and Interpretations

- *PAS 23, Borrowing Costs (Revised)* effective January 1, 2009
- *PFRS 8, Operating Segments* effective January 1, 2009
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes* effective July 1, 2008
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation* effective October 31, 2008
- *Philippine Interpretation IFRIC 18, Transfers of Assets from Customers* effective July 1, 2009

Amendments to Standards

- *PAS 32, Financial Instruments: Presentation*, and *PAS 1, Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- *PFRS 1, First-time Adoption of PFRS*, and *PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective January 1, 2009
- *PFRS 2, Share-based Payment - Vesting Conditions and Cancellations* effective January 1, 2009
- *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives* and *PAS 39, Financial Instruments: Recognition and Measurement - Embedded Derivatives* effective June 30, 2009
- *Improvements to PFRS (2008)*
- *Improvements to PFRS (2009)*, with respect to the amendment to the Appendix to *PAS 18, Revenue*

New Accounting Standards, Interpretations and Amendments to the Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to consolidated financial statements when these become effective.



- *PFRS 3, Business Combinations (Revised) and PAS 27, Consolidated and Separate Financial Statements (Amended)*
The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. Amended PAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by Revised PFRS 3 and Amended PAS 27 will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. Revised PFRS 3 will be applied prospectively while Amended PAS 27 will be applied retrospectively with a few exceptions.
- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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.
- *Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Amendments to Standards

- *Amendments to PAS 39, Eligible Hedged Items*
The amendment to PAS 39, effective for annual periods beginning on or after July 1, 2009, 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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on its financial position or performance since it has not entered into any such hedges.
- *Amendments to PFRS 2, Share-based Payments - Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance since it has not entered into any such share-based payment transactions.



Improvements to PFRS in 2009

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010, except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The amendment is effective for annual periods beginning on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.



- that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
 - Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group, which includes Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31 of each year. The consolidated financial statements of the MCHC Group are prepared for the same reporting year as the Group, using uniform accounting policies.

As of December 31, 2009, the Group has 94.34% interest in the unquoted equity stocks of MCHC, a holding company involved in investing real and personal properties of every kind, including, but not limited to, land, buildings, condominium units, shares of stocks, bonds, and other securities of any corporation or association, domestic or foreign. The cost of investment in MCHC amounted to ₱537,514,860 as of December 31, 2009 and 2008.

MCHC has investments in the following subsidiaries as of December 31, 2009 and 2008:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
<i>Held by MCHC</i>			
Pinamucan Industrial Estates, Inc. (PIEI)	Philippines	100	₱181,744,760
Batangas-Agro Industrial Development Corporation (BAID)*	Philippines	100	25,000,000
Malabrigo Corporation*	Philippines	100	662,500
Magellan Capital Realty Development Corporation*	Philippines	100	100,000

(Forward)



	Country of Incorporation	Percentage of Ownership	Cost of Investment
Magellan Capital Trading Corporation*	Philippines	100	₱62,500
<i>Held by BAID</i>			
Fruits of the East, Inc.*	Philippines	100	—
Samar Commodities Trading and Industrial Corporation*	Philippines	100	—
Tropical Aqua Resources, Inc.*	Philippines	100	—
United Philippine Oil Trading, Incorporated*	Philippines	100	—
King Leader Philippines, Inc.*	Philippines	100	—
The Hometel Integrated Management Corporation*	Philippines	100	—
			207,569,760
Less allowance for impairment losses			162,500
			₱207,407,260

* still in the preoperating stage

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities and 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 Group controls another entity.

Subsidiaries are consolidated from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of net results and net assets of MCHC not held by the Group. They are presented in the consolidated balance sheet within equity, apart from equity attributable to equity holders of the parent and are separately disclosed in the consolidated statements of income and comprehensive income. Minority interests consist of the amount of those interests at the date of original business combination and the minority interests' share on changes in equity since the date of the business combination. Losses applicable to the minority in excess of the minority's interest in MCHC's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses. Acquisitions of minority interests are accounted for using the parent-entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. The excess of the Group's interest in the net fair value of the identifiable net assets over cost of acquisition is credited to the consolidated statement of income in the period of the acquisition.



Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the share in the results of operations of the associates. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The associate is accounted for under equity method from the date the Group obtains significant influence.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

The following are the Group's associates:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
<i>Held by the Company</i>			
Business Process Outsourcing International, Inc. (BPO)			
Unquoted equity stocks	Philippines	35	₱33,205,006
Advances			16,100,000
Pointwest Technologies Corporation (PTC)	Philippines	30	40,725,000
			90,030,006
<i>Held by MCHC</i>			
Magellan Utilities Development Corporation (MUDC)	Philippines	43	94,830,129
Less allowance for impairment losses			94,830,129
			-
			₱90,030,006



Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized immediately in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Business combination of entities under common control is accounted using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of income.

Cash and Cash Equivalents

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

Financial Instruments

Financial assets and financial liabilities are recognized at fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.



The Group recognizes a financial asset or a financial liability in the consolidated balance sheet 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 disposals or retirements, as applicable, is done using settlement date accounting.

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

Financial assets

Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, HTM investments, and AFS investments. 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 at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets are classified as current assets when it is expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading purposes and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2009 and 2008, the Group's investments in trading securities are classified under financial assets at FVPL.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investment or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is



calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group's cash and cash equivalents, short-term investments, receivables, fixed income deposits and receivables from related parties are classified as loans and receivables.

HTM investments

HTM investments are quoted nonderivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Group will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group's HTM investments include investment in debt securities.

AFS investments

AFS investments are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS investments are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income as 'Dividend' when the right of payment has been established.

As of December 31, 2009 and 2008, the Group's investments in equity and debt securities are classified as AFS investments.

Determination of fair value

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



For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Embedded derivatives

Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives are recognized in the consolidated statement of comprehensive income.

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2009 and 2008, the Group has no bifurcated embedded derivatives.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities.

Financial liabilities are classified as current liabilities when it is expected to be realized within 12 months from the reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from reporting date.

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income. Interest incurred is recorded as interest expense.

Financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the liabilities are part of a group of financial liabilities which are managed and their



performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial liability contains an embedded derivative that would need to be separately recorded.

As of December 31, 2009 and 2008, the Group has no financial liabilities at FVPL.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

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 consolidated statement of income.

This accounting policy applies primarily to the accounts payable and accrued expenses, payables to related parties and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.



Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 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.

Assets carried at amortized cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced either directly or through use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is 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. The amount of the loss shall be recognized in the consolidated statement of income.

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

In relation to receivables, a provision for impairment losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.



The carrying amount of the receivables shall be reduced through the use of an allowance account. Impaired debts shall be derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that the financial asset is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Day 1 Profit or Loss

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated 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 consolidated statement of 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 or loss amount.

Reclassification of Financial Instruments

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry a financial asset or financial liability at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable.



In the case of a financial asset with a fixed maturity, any previous gain or loss on that asset that has been recognized directly in equity shall be amortized to the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest rate method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognized in the consolidated statement of comprehensive income. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated balance sheet.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment, including borrowing cost for long-term construction projects, when that cost is incurred and if the recognition criteria are met.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

Category	Number of Years
Condominium	25
Condominium improvements	10
Transportation equipment	10
Office furniture, fixtures and equipment	5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.



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

Investment Properties

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

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

Expenditures incurred after the investment properties have been put into operation are normally charged to income in the period in which the costs are incurred.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property and owner occupied property do not change the carrying amount of the investment property transferred and they do not change the cost of the property.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely: prepayments and other current assets, property and equipment, investment properties, investments in associates, and other noncurrent assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. The estimated recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the estimated recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its estimated recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the



assumptions used to determine the asset's estimated recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as of December 31 of each year.

Common Stock

Common stock is classified as equity.

Incremental costs directly attributable to the issuance of new equity instruments are taken to the consolidated statement of changes in equity as a deduction from the proceeds, net of tax.

Treasury Shares

The Group's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the considerations received is recognized as capital reserves.

Dividends Payable

Dividends payable are recorded in the financial year in which they are declared by the BOD.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Interest

Interest income from bank deposits and investments is recognized as the interest accrues on a time proportion basis on the principal outstanding balance and at the effective interest rate as applicable.

Dividend

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

Rental

Rental income from building is accounted for on a straight-line basis over the lease term.



Retirement Benefits

The Group has an unfunded, noncontributory retirement benefit plan covering substantially all its regular employees. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefit costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognized as income or expense when the net cumulative net actuarial gains and losses of the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains and losses are amortized over the expected average remaining working lives of the covered employees.

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

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan are reductions in the future contributions to the plan. If there is no change or decrease in the present value of the economic benefits, the entire net actuarial gains of the period after the deduction of past service cost of the current period are recognized immediately.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;



- c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on a straight-line basis.

Costs and expenses

Personnel costs

Salaries and wages, other employee benefits and retirement benefits are recognized when employees have rendered service.

Professional fees

Professional fees are recognized when incurred based on the terms of the agreement.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional and presentation currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are measured in the functional currency and are recorded on initial recognition in that functional currency at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values were determined.

Income Taxes

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and



- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.



Contingencies

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

Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends or stock splits declared during the year and adjusted for the effects of dilutive stock warrants and other dilutive securities. Effects of anti-dilutive potential common shares are not considered in computing diluted earnings per share.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets (see Note 18).

Events After the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

Estimates and judgments 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.

Estimates and Assumptions

Fair values of financial assets and liabilities

The Group carries and discloses certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income and loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in



establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The fair values of the Group's financial instruments are presented in Note 21 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL is ₱34,376,068 and ₱13,792,027 as of December 31, 2009 and 2008, respectively (see Note 5). The carrying amount of the Group's AFS investments is ₱169,255,633 and ₱8,001,237 as of December 31, 2009 and 2008, respectively (see Note 9). The carrying amount of the Group's HTM investments is ₱130,816,471 and ₱176,046,092 as of December 31, 2009 and 2008 (see Note 8).

Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected taxes to be paid in the future based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable is nil and ₱673,638 as of December 31, 2009 and 2008, respectively.

Realizability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Group has unrecognized deferred income tax assets on temporary differences amounting to ₱264,465,224 and ₱247,024,410 as of December 31, 2009 and 2008, respectively (see Note 14).

Useful lives of property and equipment

The estimated useful lives used as bases for depreciating the Group's property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The carrying amount of the Group's property and equipment is ₱35,799,085 and ₱35,325,536 and as of December 31, 2009 and 2008, respectively (see Note 10).

Allowance for impairment losses

The Group reviews its loans and receivables (trade receivables and receivables from related party) at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

On receivables from related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded. These allowances are re-evaluated and adjusted as additional information is received. The balance of the Group's allowance for impairment losses



on receivables and receivables from related parties is ₱187,483,263 and ₱188,883,263 as of December 31, 2009 and 2008, respectively (see Notes 6 and 16). The carrying amount of the Group's receivables, net of allowance for impairment losses, is ₱42,189,070 and ₱4,467,787 as of December 31, 2009 and 2008, respectively (see Note 6). The carrying amount of the Group's receivables from related parties, net of allowance for impairment losses, is ₱1,482,270 and ₱397,432 as of December 31, 2009 and 2008, respectively (see Note 16).

Pension and other retirement benefits

The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Retirement benefits expense recognized amounted to ₱512,291, ₱512,503, and ₱465,359 in 2009, 2008 and 2007, respectively. The carrying amount of the Group's retirement benefit obligations is ₱2,755,696 and ₱2,243,405 as of December 31, 2009 and 2008, respectively (see Note 13).

Impairment of AFS Investments

The Group recognizes impairment losses on AFS investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period).

The balance of the Group's allowance for impairment losses on investment in equity securities is ₱10,574,000 and ₱10,534,000 as of December 31, 2009 and 2008, respectively (see Notes 9 and 20). The carrying amount of the Group's AFS investments is ₱169,255,633 and ₱8,001,237 as of December 31, 2009 and 2008, respectively (see Note 9).

Impairment of nonfinancial assets

The Group determines whether investments in associates, property and equipment and investment properties are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the assets are allocated. Estimating the value in use requires the Group to make estimates of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94,830,129 as of December 31, 2009 and 2008. The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flow method. The Group has fully provided an allowance for impairment in its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC is now carried at nil. The carrying amount of the Group's investments in associates is ₱118,641,693 and ₱135,321,385 as of December 31, 2009 and 2008, respectively (see Note 7).



The carrying amount of the Group's property and equipment is ₱35,799,085 and ₱35,325,536 as of December 31, 2009 and 2008, respectively (see Note 10). The carrying amount of the Group's investment properties is ₱414,394,525 and ₱368,074,900 as of December 31, 2009 and 2008 (see Note 11).

Judgments

Functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of services and the costs of providing these services.

Classification of financial instruments

The Group exercises judgments in classifying a financial instrument, or its component parts, upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis (see Note 21).

Contingencies

In the ordinary course of business, the Group is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon analysis of potential results. Although there can be no assurances, the Group believes, based on information currently available and the advice by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims (see Note 19).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and with banks	₱2,964,124	₱3,750,381
Short-term placements	33,563,334	97,608,004
	₱36,527,458	₱101,358,385

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso made for varying periods of up to three months or less depending on the immediate cash requirements of the Group and earn interest at the respective bank rates from 2.0% to 6.5% in 2009 and 2.75% to 6.5% in 2008. Interest income earned from cash and cash equivalents amounted to about ₱1.2 million and about ₱19.0 million in 2009 and 2008, respectively.



5. Financial Assets at FVPL

Financial assets at FVPL consist of listed securities which are traded in the Philippine Stock Exchange (PSE) and New York Stock Exchange (NYSE). Fair values of listed equity securities are based on quoted market prices in the PSE and NYSE.

The carrying value of financial assets at FVPL includes unrealized gain on fair value changes amounting to ₱16,895,923 as of December 31, 2009 and unrealized loss on fair value changes amounting to ₱24,700,135 as of December 31, 2008 and presented under "Gain/loss on fair value changes of financial assets at FVPL" account in the consolidated statements of income.

6. Receivables - net

	2009	2008
Third parties		
Accrued interest	₱7,784,248	₱4,486,830
Dividend receivable (see Note 7)	34,237,500	—
Others	736,492	443,387
Related parties:		
Management fees (see Note 16)	45,197,865	45,197,865
Accrued interest (see Note 16)	43,753,772	45,153,772
Others	589,380	696,120
	132,299,257	95,977,974
Less allowance for impairment losses	90,110,187	91,510,187
	₱42,189,070	₱4,467,787

Receivables from third parties consist of mainly of dividend receivable and accrued interest receivable, which is generally on 30 to 90 days' term.

Movements in the allowance for impairment losses on receivables are as follows:

	Third parties	Related Parties (see Note 16)			Total
		Management fees	Accrued interest	Others	
At January 1, 2007	₱1,178,095	₱45,197,865	₱25,194,478	₱37,762	₱71,608,200
Recovery during the year	(557,306)	—	—	—	(557,306)
At December 31, 2007	620,789	45,197,865	25,194,478	37,762	71,050,894
Provision during the year	500,000	—	19,959,293	—	20,459,293
At December 31, 2008	1,120,789	45,197,865	45,153,771	37,762	91,510,187
Written-off during the year	—	—	(1,400,000)	—	(1,400,000)
At December 31, 2009	₱1,120,789	₱45,197,865	₱43,753,771	₱37,762	₱90,110,187

Provision for impairment losses on receivables presented in statements of income amounted was nil in 2009 and ₱20,459,293 in 2008.



7. Investments in Associates

	2009	2008
Unquoted equity stocks:		
Cost:		
Acquisition cost	₱164,470,640	₱164,470,640
Additional investment	10,500,000	—
	174,970,640	164,470,640
Accumulated equity in net earnings:		
At beginning of year	45,291,380	16,591,436
Equity in net earnings for the year	33,307,272	28,699,944
Dividends received	(60,486,964)	—
At end of year	18,111,688	45,291,380
	193,082,328	209,762,020
Less allowance for impairment losses	94,830,129	94,830,129
	98,252,199	114,931,891
Advances	20,389,494	20,389,494
	₱118,641,693	₱135,321,385

The Group has equity interest in the unquoted equity stocks of and additional advances to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Carrying amount of Investment	
		2009	2008	2009	2008
MUDC	Philippines	43	43	₱94,830,129	₱94,830,129
Less allowance for impairment losses				(94,830,129)	(94,830,129)
				—	—
BPO	Philippines	35	35	61,736,094	69,660,201
PTC	Philippines	30	30	56,905,599	65,661,184
				₱118,641,693	₱135,321,385

MUDC

The Group has 43% interest in MUDC. As of December 31, 2009, MUDC has not yet started commercial operations. However, it has obtained the necessary requirements for the signing of a supply agreement with a public utility firm and a purchase agreement with certain oil companies. As of December 31, 2009 and 2008, MUDC has project development costs recorded in its books of about ₱207.1 million. The recoverability of these assets is dependent upon the signing of these agreements and the ultimate success of MUDC's future operation. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt about MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2009 and 2008, MUDC has incurred significant losses, which resulted to a deficit of about ₱435.5 million and about ₱434.4 million, respectively, and capital deficiency of about ₱254.6 million and about ₱253.5 million, respectively.



Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Additional losses are provided for by MCHC to the extent that it has made payments. The Group has assessed that its investment and advances to MUDC amounting to about ₱94.8 million is impaired since management believes that it is probable that the Group will no longer recover from such investment and advances as of December 31, 2009 and 2008.

Accordingly, the Group provided a full allowance for impairment losses on its receivables from MUDC due to nonrecoverability of the project development costs incurred in 2004.

BPO

BPO is a provider of accounting and finance related services such as payroll services, internal audit, payables processing and others. It is involved in outsourcing business process services in the Philippines, servicing many of the multinational and large corporations operating in the country.

The Group's equity in net earnings from BPO amounted to about ₱12.0 million, about ₱9.5 million, and about ₱2.9 million, in 2009, 2008 and 2007, respectively. Investment in BPO included goodwill of about ₱23.4 million.

The Company received about ₱26.2 million cash dividends from BPO in 2009.

On December 31, 2009, , the BOD of BPO approved the declaration of cash dividends amounting to ₱12.0 million or ₱42.86 per share of BPO's common stocks as of record date December 31, 2009, and will be paid on or before April 15, 2010. Subsequently, the Company recognized dividend receivable/income amounting to ₱4.2 million in 2009 (see Note 6).

PTC

PTC is a global service company outsourcing information technology services from the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the US. The Group has 30% interest in PTC.

Pursuant to a resolution of PTC's BOD during a special meeting held on December 6, 2007, PTC increased its authorized capital stock from ₱100.0 million to ₱400.0 million. As a result, the Group subscribed to additional 22,500,000 shares at ₱1.00 par value in order to maintain its 30% equity interest in PTC.

The Group's equity in net earnings from PTC amounted to about ₱21.3 million, about ₱19.2 million and about ₱7.7 million in 2009, 2008 and 2007, respectively.

On December 15, 2009, the BOD of PTC approved the declaration of cash dividends amounting to ₱100,125,000 or ₱0.89 per share of PTC's common stocks as of record date December 30, 2009, and will be paid on or before June 30, 2010. Subsequently, the Group recognized dividend receivable amounting to ₱30,037,500 in 2009 (see Note 6)



Summarized combined financial information of associates follow:

	2009	2008	2007
Current assets	₱500,154,566	₱447,686,260	₱329,925,142
Noncurrent assets	129,690,718	170,278,593	97,117,196
Total assets	629,845,284	617,964,853	427,042,338
Current liabilities	463,875,359	408,466,465	337,167,528
Noncurrent liabilities	123,333,362	109,687,063	104,562,093
Total liabilities	587,208,721	518,153,528	441,729,621
Revenues	768,026,030	758,598,623	652,956,694
Expenses	646,946,034	668,545,239	620,142,526
Net income	104,224,699	90,053,384	32,814,168

8. HTM Investments

As of December 31, 2009 and 2008, the Company has HTM investments pertaining to debt securities at amortized costs amounting to ₱130,816,471 and ₱176,046,092, respectively. Fair value of the HTM investments as of December 31, 2009 and 2008 amounted to ₱136,178,292 and ₱138,557,051, respectively (see Note 21).

HTM investments of the Group earn interest ranging from 7.4% to 10.8% in 2009 and 2008 and have contractual maturity dates of less than 10 years.

In 2008, following the amendments to PAS 39 and PFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets included under “AFS Investments” account to “HTM investments” account in the 2008 consolidated balance sheet. The recent global credit crunch had prompted the amendments to be issued by the International Accounting Standards Board, and the adoption of these amendments permitted the Group to revisit the existing classification of their financial assets. The Group identified financial assets, eligible under the amendments, for which on July 1, 2008, it had a clear change of intent to hold until maturity rather than to exit or trade in the short term. The disclosures below detailed the impact of the reclassifications on the Group.

On November 26, 2008, the Group’s BOD confirmed and ratified the resolution by the Audit Committee on November 26, 2008, to approve the reclassification of certain financial assets from AFS investments to HTM investments in the financial and regulatory reporting books of the Group effective July 1, 2008. These securities were reclassified based on the criteria and rules laid out in the SEC Memorandum Circular No. 10, Series of 2008 on Amendments to PAS 39 and PFRS 7.

The following table shows the carrying values and fair values of the reclassified assets:

Debt securities	December 31, 2007	July 1, 2008	December 31, 2008	December 31, 2009
Carrying Value	₱209,274,615	₱193,907,662	₱176,046,092	₱130,816,471
Fair Value	209,274,615	193,662,715	138,557,051	136,178,292

As of the reclassification date, effective interest rates on reclassified debt securities ranged from 6.7% to 15.0% with expected recoverable cash flows of about \$4.3 million (equivalent to about ₱193.7 million). Ranges of effective interest rates were determined based on effective interest rates of the investments.



As of July 1, 2008, the unrealized losses on changes in fair value of the Group's reclassified AFS investments amounted to about ₱25.4 million (including the share of minority interest of about ₱1.3 million), which is presented as "Net unrealized losses on changes in fair value of AFS investments" in the 2008 consolidated balance sheet and is amortized over the remaining life of the investment using the effective interest rate method. If the reclassification had not been made, the Group's equity would have included an additional unrealized gain on changes in fair value of AFS investments amounting to about ₱24.8 million as of December 31, 2009 and unrealized loss on changes in fair value of AFS investments amounting to about ₱28.3 million as of December 31, 2008.

After reclassification, the Group recognized the amortization of the net unrealized losses on changes in fair value of the reclassified AFS investments of ₱9,690,812 and ₱9,701,561 in 2009 and 2008, respectively and presented under "Amortization of unrealized losses on changes in fair value of AFS investments" in the 2009 consolidated statement of comprehensive income. As of December 31, 2009 and 2008, the unamortized unrealized losses on changes in fair value of the reclassified AFS investments amounted to ₱6,045,007 and ₱15,735,819, respectively.

The current portion of the HTM investments amounted to ₱14,099,112 and ₱7,154,632 as of December 31, 2009 and 2008, respectively.

In 2009, HTM investments with face value of \$850,000 (equivalent to about ₱36.2 million) have matured.

Interest income earned from HTM investments amounted to about ₱10.9 million and about ₱12.1 million in 2009 and 2008, respectively.

9. AFS Investments

	2009	2008
Debt securities	₱159,110,069	₱-
Equity securities	10,145,564	8,001,237
	₱169,255,633	₱8,001,237

Investment in debt securities

Investments in debt securities are denominated in US dollar and are stated at fair value based on quoted prices. Changes in market values are included in the consolidated statements of comprehensive income. Fixed interest rate ranges from 6.0% to 13.6% per annum. Value date of the investments ranges from August 4, 2009 to December 22, 2009 and with maturity dates ranging from March 9, 2011 to September 4, 2019. Interests on investments are received and settled semi-annually in US dollar.

On July 1, 2008, the Group reclassified its investment in debt securities from AFS investments to HTM investments (see Note 8).

Net unrealized losses on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets as of December 31, 2009 and 2008 amounted to ₱2,246,491 and ₱14,949,028, respectively.

Interest income earned from AFS investments amounted to ₱5.7 million and about ₱6.4 million in 2009 and 2008, respectively.



Movements in the unrealized gains (losses) on changes in fair value of AFS investments are as follows:

As of December 31, 2009:

	Parent	Minority Interests	Total
Beginning balance	(P14,949,028)	(P786,791)	(P15,735,819)
Changes in fair value of AFS investments	3,458,265	182,014	3,640,279
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	9,206,272	484,540	9,690,812
Impairment loss on AFS investments	38,000	2,000	40,000
Ending balance	(P2,246,491)	(P118,237)	(P2,364,728)

As of December 31, 2008:

	Parent	Minority Interests	Total
Beginning balance	P110,538	P5,818	P116,356
Changes in fair value of AFS investments	(24,513,549)	(1,118,873)	(25,632,422)
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	9,216,483	485,078	9,701,561
Impairment loss on AFS investments	237,500	12,500	250,000
Ending balance	(P14,949,028)	(P615,477)	(P15,564,505)

Investment in equity securities

Investment in equity securities consist of proprietary club shares and investments in quoted shares of stock which the Group has neither control nor significant influence. The Group recognized provision for impairment losses amounting to P40,000 and P250,000 in 2009 and 2008, respectively.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of December 31, 2009 and 2008.

10. Property and Equipment

As of December 31, 2009:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	P47,014,750	P8,058,590	P5,828,221	P2,400,683	P63,302,244
Additions during the year	-	-	3,571,339	55,609	3,626,948
Balances at end of year	47,014,750	8,058,590	9,399,560	2,456,292	66,929,192
Accumulated depreciation:					
Balances at beginning of year	15,515,580	5,489,281	4,602,142	2,369,705	27,976,708
Depreciation	1,880,590	781,025	471,837	19,947	3,153,399
Balances at end of year	17,396,170	6,270,306	5,073,979	2,389,652	31,130,107
Net book value	P29,618,580	P1,788,284	P4,325,581	P66,640	P35,799,085



As of December 31, 2008:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning and end of year	₱47,014,750	₱8,058,590	₱5,828,221	₱2,400,683	₱63,302,244
Accumulated depreciation:					
Balances at beginning of year	13,634,990	4,708,257	4,234,470	2,335,077	24,912,794
Depreciation	1,880,590	781,024	367,672	34,628	3,063,914
Balances at end of year	15,515,580	5,489,281	4,602,142	2,369,705	27,976,708
Net book value	₱31,499,170	₱2,569,309	₱1,226,079	₱30,978	₱35,325,536

11. Investment Properties

Investment properties consist of parcels of land held by BAID and its subsidiaries with a total land area of 494,798 square meters located in Barangay Pinamucan, Batangas City. These parcels of land are currently being held by the Group for an undetermined future use.

The carrying amount of the investment properties as of December 31, 2009 and 2008 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be "deemed cost", and determined on January 4, 2005 by an independent firm of appraisers.

The fair value of investment properties, which has been determined based on valuations performed by Cuervo Appraisers, Inc. as of March 27, 2010, exceeded its carrying costs. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm's-length transaction at the date of valuation. The aggregate fair value of the land as of December 31, 2009 amounted to about ₱658.3 million.

This account also includes land held by MCHC situated in Fort Bonifacio, Taguig that was previously classified as part of deposits under "Other noncurrent assets". It was reclassified as investment property in the books carried at cost amounting to ₱46,319,625 upon acquiring the title to the land. This land is currently held by the MCHC for an undetermined future use (see Note 19).

12. Accounts Payable and Accrued Expenses

	2009	2008
Deposits payable	₱1,011,508	₱1,053,431
Accrued expenses	633,685	612,067
Others	1,128,061	1,495,620
	₱2,773,254	₱3,161,118

Deposits payable pertain to deposits made by tenants for the lease of the Group's surplus condominium spaces. Accrued expenses include accrual for professional fees. Other payables include withholding tax payable.



13. Retirement Benefits

The Group has an unfunded, defined benefit pension plan covering substantially all of its regular employees. Retirement benefits under the plan are based on a percentage of latest monthly salary and years of credited service.

The latest independent actuarial valuation of the plan as of December 31, 2009, prepared by an independent actuary, is determined using the projected unit credit method in accordance with PAS 19.

The following tables summarize the components of retirement benefit expense recognized in the consolidated statements of income and the unfunded status and amounts recognized in the consolidated balance sheets for the plan.

Composition of retirement benefits expense recognized in the consolidated statements of income are as follows:

	2009	2008	2007
Current service cost	₱353,352	₱389,703	₱375,752
Interest cost on benefit obligation	158,732	122,008	87,806
Net actuarial losses	207	6,792	1,801
Net benefit expense	₱512,291	₱518,503	₱465,359

The amounts recognized in the consolidated balance sheets as retirement benefit obligations are as follows:

	2009	2008
Present value of obligations	₱3,022,933	₱2,499,135
Unrecognized net actuarial losses	(267,237)	(255,730)
Retirement benefit obligations	₱2,755,696	₱2,243,405

Changes in the present value of unfunded defined benefit obligations are as follows:

	2009	2008
Present value of obligations at beginning of year	₱2,284,736	₱1,987,424
Current service cost	353,352	389,703
Interest cost on benefit obligation	158,732	122,008
Net actuarial losses on obligation	226,113	-
Present value of obligations at end of year	₱3,022,933	₱2,499,135

Movements in the retirement benefit obligation recognized in the consolidated balance sheets are as follows:

	2009	2008
Beginning balances	₱2,243,405	₱1,724,902
Net periodic pension costs	512,291	518,503
Ending balances	₱2,755,696	₱2,243,405



The principal actuarial assumptions used in determining retirement benefit obligations for the Group's retirement plan are as follows:

	2009	2008	2007
Discount rate	8.8%	9.0%	7.0%
Salary increase rate	5.0%	3.0%	6.0%

Amounts for the current year and previous four (4) years are as follows:

	2009	2008	2007	2006	2005
Unfunded defined benefit obligations	₱2,755,696	₱2,243,405	₱1,724,902	₱1,259,543	₱797,079
Experience adjustments on plan liabilities - losses (gains)	(228,402)	—	100,019	(97,583)	160,890

14. Income Taxes

The components of the net deferred income tax liabilities are as follows:

	2009	2008
Deferred income tax assets:		
<i>Recognized directly in income:</i>		
Allowance for impairment losses on receivables and AFS investments	₱20,626,093	₱23,575,628
Deferred income tax liabilities:		
<i>Recognized directly in equity:</i>		
Share in revaluation increment on investment properties of MCHC's subsidiaries (see Note 10)	20,584,494	20,584,494
<i>Recognized directly in income:</i>		
Net unrealized foreign exchange gains	20,626,093	23,575,628
	41,210,587	44,160,122
Net deferred income tax liabilities	₱20,584,494	₱20,584,494

No deferred income tax assets were recognized on the following deductible temporary differences because management believes that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

	2009	2008
Allowance for impairment losses on receivables and AFS investments	₱129,303,620	₱120,831,836
Allowance for impairment losses on investments in associates	94,830,129	94,830,129
NOLCO	18,690,285	18,733,937
Unamortized unrealized losses on changes in fair value of AFS investments	17,409,624	9,271,124
Retirement benefit obligations	2,755,696	2,243,405
Amortized of premium on HTM investments	1,054,380	81,114
MCIT	421,490	1,032,865
	₱264,465,224	₱247,024,410



Reconciliation of income tax expense computed at the statutory income tax rate to provision for (benefit from) income tax shown in the consolidated statements of income follows:

	2009	2008	2007
Provision for (benefit from) income tax at effective statutory tax rate of 30.0% and 35.0% in 2009 and 2008, respectively	₱10,535,685	₱16,040,853	(₱6,542,341)
Additions to (reductions in) income tax resulting from:			
Unrecognized deferred income tax assets	5,877,419	13,239,945	9,144,180
Unallowable EAR	77,206	73,482	75,369
Nondeductible expenses	20,216	420	1,725
Change in recognized deferred income tax assets	—	(492,871)	25,862,819
Effect of changes in tax rates	—	(3,521,205)	5,702,062
Non taxable gain on sale of financial assets at FVPL	(87,000)	—	—
Dividend income exempt from tax	(194,923)	(347,293)	(13,041)
Interest income subjected to final tax	(1,115,863)	(2,061,895)	(8,082,314)
Nontaxable gain (loss) on fair value changes of financial assets at FVPL	(5,068,777)	8,645,047	(6,069,232)
Equity in net earnings of associates	(9,992,182)	(10,044,981)	(3,721,991)
	₱51,781	₱21,531,502	₱16,357,236

As of December 31, 2009, the Group has NOLCO that can be claimed as deduction from future taxable income and MCIT that can be used against payment of regular income tax as follows:

NOLCO:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2006	2007-2009	₱3,419,014	₱—	₱—	(₱3,419,014)	₱—
2007	2008-2010	2,937,095	—	—	—	2,937,095
2008	2009-2011	12,377,828	—	—	—	12,377,828
2009	2010-2012	—	3,375,362	—	—	3,375,362
		₱18,733,937	₱3,375,362	₱—	(₱3,419,014)	₱18,690,285

MCIT:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2006	2007-2009	₱390,690	₱—	(₱343,257)	(₱47,433)	₱—
2007	2008-2010	340,572	—	(272,466)	—	68,106
2008	2009-2011	301,603	—	—	—	301,603
2009	2010-2012	—	51,781	—	—	51,781
		₱1,032,865	₱51,781	(₱615,723)	(₱47,433)	₱421,490

Republic Act (R.A.) No. 9337 was enacted into law which became effective on November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. are as follows:

- Increased corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009; and
- Increased the nondeductible interest expense rate from 38% to 42% with a reduction thereof to 33% beginning January 1, 2009.



15. Equity

a. Common stock

	2009	2008
Common stock - ₱1 par value		
Class A		
Authorized - 600 million shares		
Issued and outstanding - 292,610,118 shares	₱292,610,118	₱292,610,118
Class B		
Authorized - 400 million shares		
Issued and outstanding - 189,217,535 shares	189,217,535	189,217,535
	₱481,827,653	₱481,827,653

Class A and B common stockholders enjoy the same rights and privileges, except that Class A shares may be owned by, transferred to and subscribed only by Filipino citizens or corporations, partnerships and associations organized under the laws of the Philippines, of which 60% of the capital stock outstanding is owned by citizens of the Philippines, while Class B shares may be issued, transferred or sold to any person, corporation, partnership or association regardless of nationality.

On November 26, 2000, the BOD approved the issuance, out of the authorized common stock, of 192,413,090 shares at ₱1 par value which will be offered through a pre-emptive stock rights issue and detachable stock warrants, as follows: (a) 96,206,545 shares consisting of 58,377,278 Class A shares and 37,829,267 Class B shares, to be offered in two tranches, the First Tranche consisting of 48,103,272 shares of stock and the Second Tranche consisting of 48,103,273 shares of stock, to which each stockholder may subscribe on a pre-emptive rights basis, and (b) the balance of 96,206,545 shares to be offered through detachable stock warrants, which shall entitle each stockholder to subscribe to one share of stock for every one share of stock of the same class that such stockholder subscribe to out of this stock rights issue.

The Group's application to list additional 192,413,090 common shares with a par value of ₱1 per share through pre-emptive rights issue and detachable subscription warrants was approved by the PSE on February 27, 2002 and by the SEC on April 5, 2002.

The exercise periods and expiration dates of the Group's subscription warrants are as follows:

	Number of Shares	Exercise Periods	Expiration Dates
First Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,633	June 4, 2002 to	June 3, 2007
	<u>48,103,272</u>	June 3, 2007	
Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to	May 8, 2008
	<u>48,103,273</u>	May 8, 2008	
	<u>96,206,545</u>		



Full payment of each subscription under the First Tranche was made within the offer period approved by the PSE and the SEC, and the full payment of each subscription under the Second Tranche shall be due and payable one year from the last day of the offer period. With the full subscription of the Pre-Emptive Rights Stock Offering, the Group's outstanding common stock increased to 481,032,728 common shares of stock, consisting of 291,886,391 Class A common shares and 189,146,337 Class B common shares, all with par value of ₱1 per share.

With the complete exercise of all Detachable Stock Warrants, the Group will have an outstanding common stock of 577,239,273 shares, consisting of 350,263,669 Class A common shares and 226,975,604 Class B common shares, all with par value of ₱1 per share. However, as of December 31, 2007, 723,727 Class A common stock warrants and 71,198 Class B common stock warrants were exercised and 28,464,912 Class A common stock warrants and 18,843,435 Class B common stock warrants expired. As of December 31, 2008, 29,188,639 Class A common stock warrants and 18,914,634 Class B common stock warrants expired due to non-exercise of stock warrants before expiration date. After the expiration of the said warrants, the Group's outstanding common stock amounted to ₱481,827,653 with additional paid-in capital of ₱144,759,977 as of December 31, 2009 and 2008.

The total proceeds of ₱192,413,090, to be raised both from this offering and the exercise of the warrants, will be used to fund the establishment of a subsidiary to engage in internet commerce and to fund the equity requirements for the power plant project being undertaken by MUDC.

b. Treasury shares

	Number of Shares	Cost
At January 1 2009	96,046,827	₱95,762,527
Additions during the year	24,000	29,079
At December 31, 2009	96,070,827	₱95,791,606

In 2002, MCHC subscribed, through this offering, to 47,143,022 Class A shares. On the other hand, PIEI subscribed to 9,762,114 Class A shares and 37,496,379 Class B shares, respectively. In 2005, additional 260,000 Class A shares and 20,000 Class B shares are transferred by the transfer agent to PIEI. For consolidation purposes, the costs of these shares are presented under "Treasury shares" account in the equity section of the consolidated balance sheets.

In a special meeting held on May 22, 2003, the BOD resolved that the period for the payment of the deferred tranche be extended to 60 days from May 9, 2003 to July 9, 2003. If no payment is made within 30 days from July 9, 2003, the shares pertaining to the unpaid subscriptions shall become delinquent. On August 9, 2003 the shares of stock amounting to ₱715,312 have been declared delinquent and sold at public auction on October 9, 2003. There was only one bidder, PIEI, to whom the delinquent shares were sold, and in whose favor a certificate of sale was issued. In 2004, additional 60,000 shares of stock of the Group were sold to PIEI at ₱48,100.

c. Unrealized losses on changes in fair value of AFS investments

Unrealized losses on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets amounted to ₱2,246,491 and ₱14,949,028 as of December 31, 2009 and 2008, respectively (see Notes 8 and 9).



d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱95,791,606 and ₱95,762,527 as of December 31, 2009 and 2008, respectively.

Also, the retained earnings balance as of December 31, 2009 and 2008 include the revaluation increment on investment properties of ₱62,793,927, which is not available for distribution until realized.

16. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties can be a corporate or an individual entity.

A summary of account balances and transactions with the related parties follows:

Related Parties	Current		Noncurrent	
	Receivables (see Note 6)		Receivables from Related Parties	
	2009	2008	2009	2008
MUDC	₱88,951,637	₱90,351,637	₱98,271,241	₱97,186,903
Others	589,380	696,120	584,105	583,605
	89,541,017	91,047,757	98,855,346	97,770,508
Less allowance for impairment losses	(88,989,398)	(90,389,398)	(97,373,076)	(97,373,076)
	₱551,619	₱658,359	₱1,482,270	₱397,432

Movements in the allowance for impairment losses on receivables from related parties are as follows:

	Current	Noncurrent	Total
At January 01, 2008	₱70,430,105	₱97,373,076	₱167,803,181
Provision for the year	19,959,293	—	19,959,293
At December 31, 2008	90,389,398	97,373,076	187,762,474
Written-off during the year	(1,400,000)	—	(1,400,000)
	₱88,989,398	₱97,373,076	₱186,362,474

- a. MCHC has executed a management agreement (the Agreement) with MUDC and other related parties. The Agreement with MUDC requires MCHC to provide general management services for the operation of the business and affairs of MUDC for a period of five years, renewable for the same periods thereafter under certain terms and conditions, unless terminated earlier by either party after serving the required written notice to the other.



MCHC's BOD approved MUDC's request for suspension of the management fee for the period January 1, 2002 up to the contract's expiration in March 2003. Subsequently, the agreement was terminated in December 2002. As of December 31, 2009 and 2008, management fees receivable from MUDC amounted to about ₱45.2 million (see Note 6). In 2004, the management fee receivable was fully provided with allowance for impairment losses since management believes that this is not likely to be collected in the future.

- b. MCHC has existing non-interest bearing long-term advances to MUDC of about ₱43.8 million and about ₱45.2 million, including accumulated interest not yet paid to MCHC, as of December 31, 2009 and 2008, respectively. In 2004, the Group ceased to accrue interest receivable on the said advances.
- c. MCHC leases out a portion of its condominium unit to PIEI for a period of two years from October 1, 2008 to September 30, 2010. Monthly rentals, inclusive of VAT, amounted to ₱21,381. Lease revenue from rentals of PIEI amounted to about ₱0.2 million in 2009 and 2008.
- d. In 2006, total non-interest bearing long-term advances to related parties amounting to about ₱56.8 million, including the unamortized discount of about ₱23.4 million as of December 31, 2005, was fully provided with allowance for impairment losses, since management believes that the entire balance is not likely to be collected in the future.

Compensation of key management personnel of the Group are as follows:

	2009	2008	2007
Short-term employee benefits	₱6,469,580	₱6,469,580	₱6,469,580
Long-term employee benefits	31,350	31,350	31,350
	₱6,500,930	₱6,500,930	₱6,500,930

17. Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) for the year attributable to equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income (loss) and share data used in computing basic and diluted earnings (loss) per share computations for the years ended December 31:

	2009	2008	2007
Net income (loss) attributable to equity holders of the parent	₱35,620,671	₱23,284,773	(₱32,157,375)



	2009	2008	2007
Weighted average number of ordinary shares outstanding for basic earnings (loss) per share	₱386,036,047	₱386,065,126	₱386,143,326
Effect of dilutive stock warrants	—	—	48,103,273
Adjusted weighted number of shares applicable to diluted earnings (loss) per share	386,036,047	385,780,826	434,246,599
Earnings (loss) per share			
Basic	₱0.092	₱0.060	(₱0.083)
Diluted	0.092	0.060	(0.074)

Class A common shares of 58,377,278 as of December 31, 2007 and 2006 granted to shareholders exercisable at the end of the year have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current period presented (see Note 14).

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

18. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Company and its subsidiary, MCHC, is to invest in real and personal properties. MCHC has subsidiaries engaged in real estate business which, as of December 31, 2009, have not yet started commercial operations. Accordingly, the Group operates mainly in one reportable business segment which is investing and one reportable geographical segment which is the Philippines.

19. Commitments and Contingencies

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Group believes, based on information currently available and the advice by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings. Also, MCHC entered into a contract to buy a certain parcel of land within a specifically controlled and planned development area known as the Bonifacio Global City, located in Fort Bonifacio, Taguig, Metro Manila owned by Fort Bonifacio Development Corporation. The Group has made deposits amounting to ₱46,319,625 as of December 31, 2008 included under "Other noncurrent assets" in the consolidated balance sheets. The lot was delivered on March 5, 2009, when the transfer certificate title was obtained and this was subsequently classified as part of the investment property carried at cost in the 2009 consolidated balance sheets (see Note 11).

The Group leases its surplus condominium spaces. Future minimum rental income of about ₱2.3 million from existing rental agreements will be recognized in 2010.



20. Financial Risk Management Objectives and Policies

Risk Management Structure

BOD

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The principal financial instruments of the Group consist of financial assets at FVPL, short-term investments, fixed income deposits, AFS investments and HTM investments. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial assets and liabilities such as cash and cash equivalents, receivables, receivables from related parties and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (i.e., interest rate risk, foreign currency risk and equity price risk). The Group's management reviews and approves policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments. The magnitudes of these risks that have arisen over the year are discussed below.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Group is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (i.e., foreign currency denominated debt instruments, short-term investments, fixed income deposits and receivables) to its financial assets.

Credit risk management

In managing credit risk on these investments, capital preservation is paramount. The Group trades only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Group's President and Treasurer.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables from third parties and related parties, short-term investments and fixed income deposits, the Group's President and Treasurer monitor these financial assets on an ongoing basis with the result that the Group's exposure to impairment losses is not significant.

Credit risk exposures

At reporting date, the Group's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the consolidated balance sheets.

Credit risk concentration profile

The Group has no significant concentrations of credit risk.



Credit quality

As of December 31, 2009 and 2008, the credit quality per class of financial assets follows:

2009:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
Loans and receivables:					
Cash and cash equivalents	₱36,527,458	₱-	₱-	₱-	₱36,527,458
Short-term investments	14,907,815	-	-	-	14,907,815
Receivables	42,189,070	-	-	90,110,187	132,299,257
Fixed income deposits	5,137,376	-	-	-	5,137,376
Receivables from related parties	1,482,270	-	-	97,373,076	98,855,346
Financial assets at FVPL	34,376,068	-	-	-	34,376,068
HTM investments	130,816,471	-	-	-	130,816,471
AFS investments	169,255,633	-	-	10,574,000	179,829,633
	₱434,692,161	₱-	₱-	₱198,057,263	₱632,749,424

2008:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
Loans and receivables:					
Cash and cash equivalents	₱101,358,385	₱-	₱-	₱-	₱101,358,385
Short-term investments	62,205,165	-	-	-	62,205,165
Receivables	4,467,787	-	-	91,510,187	95,977,974
Fixed income deposits	4,925,862	-	-	-	4,925,862
Receivables from related parties	397,432	-	-	97,373,076	97,770,508
Financial assets at FVPL	13,792,027	-	-	-	13,792,027
HTM investments	176,046,092	-	-	-	176,046,092
AFS investments	8,001,237	-	-	10,534,000	18,535,237
	₱371,193,987	₱-	₱-	₱199,417,263	₱570,611,250

High grade financial assets

High grade receivables pertain to receivables from related parties and customers with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Other high grade financial assets reflect the investment grade quality of the investments and/or counterparty and realizability is thus assured.

Standard grade financial assets

Receivables from customers that slide beyond the credit terms are classified under standard grade. Other standard grade financial assets are considered moderately realizable.

The carrying amount of the Group's financial assets as at December 31, 2009 and 2008 and the movement of the allowance used to record the impairment are as follows:

2009:

	Receivables	Receivables from related parties	AFS investments	Total
Nominal amounts	₱132,299,257	₱98,855,346	₱179,829,633	₱410,984,236
Less allowance for impairment losses	90,110,187	97,373,076	10,574,000	198,057,263
At December 31, 2009	₱42,189,070	₱1,482,270	₱169,255,633	₱212,926,973



2008:

	Receivables	Receivables from related parties	AFS investments	Total
Nominal amounts	₱95,977,974	₱97,770,508	₱18,535,237	₱212,283,719
Less allowance for impairment losses	91,510,187	97,373,076	10,534,000	199,417,263
At December 31, 2008	₱4,467,787	₱397,432	₱8,001,237	₱12,866,456

Movement in allowance for impairment losses account:

	Receivables	Receivables from related parties	AFS investments	Total
At January 01, 2008	₱71,050,894	₱97,373,076	₱10,284,000	₱178,707,970
Provision during the year	20,459,293	—	250,000	20,709,293
At December 31, 2008	91,510,187	97,373,076	10,534,000	199,417,263
Provision during the year	—	—	40,000	40,000
Written-off during the year	(1,400,000)	—	—	(1,400,000)
At December 31, 2009	₱90,110,187	₱97,373,076	₱10,574,000	₱198,057,263

Impairment assessment

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are accounts that have been endorsed to the legal department, nonmoving accounts receivable, accounts of defaulted agents and accounts from closed companies.

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱40,000, ₱20,709,293, and nil in 2009, 2008 and 2007, respectively.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due and this is done by primarily investing in highly liquid investments and maintaining a significant amount of cash and cash equivalents and pre-terminable investments in its portfolio.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted cash flows. The table also analyzes the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.



As of December 31, 2009

	Total carrying value	On demand	< 1 year	Total
Accounts payable and accrued expenses	₱2,590,473	₱-	₱2,590,473	₱2,590,473
Financial assets:				
Cash and cash equivalents	₱36,527,458	₱36,527,458	₱-	₱36,527,458
Short-term investments	14,907,815	14,907,815	-	14,907,815
Receivables	42,189,070	42,189,070	-	42,189,070
Financial assets at FVPL	34,376,068	34,376,068	-	34,376,068
AFS investments	169,255,633	169,255,633	-	169,255,633
Total financial assets	₱297,256,044	₱297,256,044	₱-	₱297,256,044

As of December 31, 2008

	Total carrying value	On demand	< 1 year	Total
Accounts payable and accrued expenses	₱2,890,085	₱-	₱2,890,085	₱2,890,085
Cash and cash equivalents	₱101,358,385	₱101,358,385	₱-	₱101,358,385
Short-term investments	62,205,165	62,205,165	-	62,205,165
Receivables	4,467,787	4,467,787	-	4,467,787
Financial assets at FVPL	13,792,027	13,792,027	-	13,792,027
AFS investments	8,001,237	8,001,237	-	8,001,237
Total financial assets	₱189,824,601	₱189,824,601	₱-	₱189,824,601

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group derives majority of its revenue from interest-bearing placements and bonds. Accordingly, the Group is subject to financial risk arising from changes in interest rates. The Group manages interest rate risk by investing mainly on fixed coupon interest bonds and other investments. By doing so, the Group is assured of future interest revenues from such investments.

Since the Group invests on fixed coupon interest bonds and other investments, the Group is not exposed significantly to cash flow interest rate risk.



The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's equity due to changes in fair values of AFS investments in debt securities (see Note 9):

	2009	2008
Change in interest rate (in basis points)		
+10%	(P15,911,007)	P-
-10%	15,911,007	-

In 2008, the Group has no interest rate risk exposure as a result of the reclassification of its investment in debt securities from AFS to HTM investment category as discussed in Note 8.

b. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign currencies.

The Group holds cash denominated in US dollar for working capital purposes amounting to \$34,909 (P1,329,224) and \$4,757 (P219,497) as of December 31, 2009 and 2008, respectively.

In the normal course of business, the Group enters into transactions denominated in US dollar. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent are as follows:

	2009		2008	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Cash and cash equivalents	\$759,537	P35,090,595	\$1,892,914	P89,951,281
Receivables	166,470	7,690,894	92,088	4,376,041
Short-term investments	281,722	13,015,573	1,303,192	61,927,681
AFS investments	3,443,941	159,110,069	154,908	7,361,237
HTM investments	2,831,525	130,816,471	3,704,674	176,046,092
Other noncurrent assets	250,000	11,550,000	250,000	11,880,000
	\$7,733,195	P357,273,602	\$7,397,776	P351,542,332

The Group has no foreign currency denominated monetary liabilities as of December 31, 2009 and 2008.

The exchange rate of the Philippine peso vis-à-vis the US dollar further strengthened to P46.20 as of December 31, 2009 from P47.52 as of December 31, 2008. As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses of P9,945,929 in 2009, foreign exchanges gains of P70,445,458 in 2008 and foreign exchange losses of P52,796,047 in 2007.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2009, with all other variables held constant, of the Group's 2009 and 2008 income before



income tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

US Dollar	Effect on income before income tax
2009	
Strengthened by 3%	₱10,718,208
Weakened by 3%	(10,718,208)
2008	
Strengthened by 15%	52,731,350
Weakened by 15%	(52,731,350)

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

c. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's financial assets at FVPL and investment in AFS equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Group measures the sensitivity of its equity securities by using PSE index fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2009 and 2008, with all other variables held constant, of the Group's income before income tax and equity:

Effect on income before income tax:

	2009	2008
<i>Financial assets at FVPL:</i>		
Change in stock market index (%)		
+10%	₱2,992,025	₱1,379,203
-10%	(2,992,025)	(1,379,203)

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

Effect on equity:

	2009	2008
<i>Investment in equity securities:</i>		
Change in club share prices (%)		
+10%	₱249,200	₱179,550
-10%	(249,200)	(179,550)



21. Financial Instruments

Categories of Financial Instruments

As of December 31, 2009:

	Financial assets					Nonfinancial assets	Total
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments			
ASSETS							
Current:							
Cash on hand and in banks	₱2,964,124	₱-	₱-	₱-	₱-	₱2,964,124	
Short-term placements	33,563,334	-	-	-	-	33,563,334	
Listed debt securities	-	-	14,099,112	-	-	14,099,112	
Listed equity securities	-	34,376,068	-	-	-	34,376,068	
Short-term investments	14,907,815	-	-	-	-	14,907,815	
Receivable from third parties	41,637,451	-	-	-	-	41,637,451	
Receivable from related parties	551,619	-	-	-	-	551,619	
Fixed income deposits	4,637,376	-	-	-	-	4,637,376	
Prepayments and other current assets	-	-	-	-	5,239,280	5,239,280	
Noncurrent:							
Receivable from related parties	1,482,270	-	-	-	-	1,482,270	
Investments in associates	-	-	-	-	118,641,693	118,641,693	
Fixed income deposits	500,000	-	-	-	-	500,000	
Listed debt securities	-	-	116,717,359	159,110,069	-	275,827,428	
Listed equity securities	-	-	-	10,145,564	-	10,145,564	
Property and equipment	-	-	-	-	35,799,085	35,799,085	
Investment properties	-	-	-	-	414,394,525	414,394,525	
Other noncurrent assets	-	-	-	-	13,494,294	13,494,294	
TOTAL	₱100,243,989	₱34,376,068	₱130,816,471	₱169,255,633	₱587,568,877	₱1,022,261,038	

As of December 31, 2008:

	Financial assets					Nonfinancial assets	Total
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments			
ASSETS							
Current:							
Cash on hand and in banks	₱3,750,381	₱-	₱-	₱-	₱-	₱3,750,381	
Short-term placements	97,608,004	-	-	-	-	97,608,004	
Listed equity securities	-	13,792,027	-	-	-	13,792,027	
Short-term investments	62,205,165	-	-	-	-	62,205,165	
Receivables from third parties	3,935,903	-	-	-	-	3,935,903	
Receivables from related parties	531,884	-	-	-	-	531,884	
Fixed income deposits	4,425,862	-	-	-	-	4,425,862	
Listed debt securities	-	-	7,154,632	-	-	7,154,632	
Prepayments and other current assets	-	-	-	-	4,671,340	4,671,340	
Noncurrent:							
Receivable from related parties	₱397,432	₱-	₱-	₱-	₱-	₱397,432	
Investments in associates	-	-	-	-	135,321,385	135,321,385	
Fixed income deposits	500,000	-	-	-	-	500,000	
Listed debt securities	-	-	168,891,460	-	-	168,891,460	
Listed equity securities	-	-	-	8,001,237	-	8,001,237	
Property and equipment	-	-	-	-	35,325,536	35,325,536	
Investment properties	-	-	-	-	368,074,900	368,074,900	
Other noncurrent assets	-	-	-	-	59,813,919	59,813,919	
TOTAL	₱173,354,631	₱13,792,027	₱176,046,092	₱8,001,237	₱603,207,080	₱974,401,067	



As of December 31, 2009:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,011,508	₱-	₱1,011,508
Accrued expenses	633,685	-	633,685
Others	945,280	182,781	1,128,061
Noncurrent:			
Retirement benefit obligations	-	2,755,696	2,755,696
Deferred income tax liabilities	-	20,584,494	20,584,494
TOTAL	₱2,590,473	₱23,522,971	₱26,113,444

As of December 31, 2008:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,053,431	₱-	₱1,053,431
Accrued expenses	612,067	-	612,067
Others	1,224,587	271,033	1,495,620
Income tax payable	-	673,638	673,638
Noncurrent:			
Retirement benefit obligations	-	2,243,405	2,243,405
Deferred income tax liabilities	-	20,584,494	20,584,494
TOTAL	₱2,890,085	₱23,772,570	₱26,662,655

Fair Values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

Fair values and carrying amount comparison of financial instruments as of December 31 are as follows:

	2009		2008	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
Financial assets:				
Current:				
Cash and cash equivalents	₱36,527,458	₱36,527,458	₱101,358,385	₱101,358,385
Financial assets at FVPL	34,376,068	34,376,068	13,792,027	13,792,027
Short-term investments	14,907,815	14,907,815	62,205,165	62,205,165
Receivables	42,189,070	42,189,070	4,467,787	4,467,787
Fixed income deposits	4,637,376	4,637,376	4,425,862	4,425,862
HTM investments				
Debt securities	14,099,112	14,510,939	7,154,632	6,559,503
Noncurrent:				
Receivable from related parties	1,482,270	1,207,568	397,432	320,300
Fixed income deposits	500,000	566,113	500,000	623,532
AFS investments:				
Debt securities	159,110,069	159,110,069	-	-
Equity securities	10,145,564	10,145,564	8,001,237	8,001,237
HTM investments:				
Debt securities	116,717,359	121,667,353	168,891,460	131,997,548

(Forward)



	2009		2008	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
<i>Financial liabilities:</i>				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	1,011,508	1,011,508	1,053,431	1,053,431
Accrued expenses	633,685	633,685	612,067	612,067
Others	945,280	945,280	1,224,587	1,224,587

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, based on their notional amounts, reasonably approximate their fair values because these are short-term in nature or the fair value difference is not material. Financial assets at FVPL and AFS investments are stated at their fair values based on quoted prices.

Short-term investments are fixed-rate time deposits denominated in US dollar with a maturity of over three months but within one year from the reporting date and earn annual interest of 2.4% to 4.0% in 2009 and 3.3% to 4.0% in 2008. The carrying value of short-term investments approximates its fair value due to its short-term nature.

Fixed income deposits represent fixed rate time deposits denominated in US dollar and earn interest annually at 3.25% to 10.0% in 2009 and 2008. For fixed income deposits maturing within one year, the carrying amount approximates its fair value due to its short-term nature. For fixed income deposits maturing beyond one year, fair value is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.1% in 2009 and 8.2% to 8.8% in 2008.

The fair value of HTM investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date or last trading day as applicable.

The fair value of receivables from related parties classified as noncurrent in the consolidated balance sheets is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2009 and 8.2% to 8.8% in 2008.

The following table shows financial instruments recognized at fair value, analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱34,376,068	₱—	₱—	₱34,376,068
AFS financial assets:				
Private debt securities	159,110,069	—	—	159,110,069
Listed equity securities	10,145,564	—	—	10,145,564
	₱203,631,701	₱—	₱—	₱203,631,701



As of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱13,792,027	₱-	₱-	₱13,792,027
AFS financial assets:				
Listed equity securities	8,001,237	-	-	₱8,001,237
	₱21,793,264	₱-	₱-	₱21,793,264

As of December 31, 2009 and 2008, there were no transfers between Level 1 and Level 2 fair value measurements. Also, there were no transfers into and out of level 3 fair value measurements.

22. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure, which pertains to its equity, and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2009, 2008 and 2007. The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio below 40%. The Group includes, within net debt, accounts payable and accrued expenses and payables to related parties, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less unrealized losses on changes in fair value of AFS investments.

	2009	2008
Accounts payable and accrued expenses	₱2,773,254	₱3,161,118
Less cash and cash equivalents	36,527,458	101,358,385
Net debt	(33,754,204)	(98,197,267)
Equity attributable to equity holders of the parent	949,361,899	901,067,770
Unrealized losses on changes in fair value of AFS investments	2,246,491	14,949,028
Total capital	951,608,390	916,016,798
Total capital and net debt	₱917,854,186	₱817,819,531
Gearing ratio	(3.68%)	(12.01%)

23. Note to Statements of Cash Flows

In 2008, the noncash activities pertain to the reclassification of investments in debt and equity securities of about ₱193.7 million from AFS investment to HTM investment on July 1, 2008 as discussed in Notes 8 and 9.



In 2009, noncash activities pertain to the reclassification of deposits under "other noncurrent asset" amounting to about ₱46.3 million to investment properties when the certificate of title was obtained by the Group (see Notes 11 and 19).

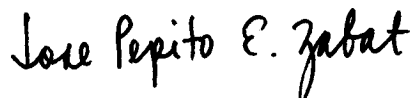


INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
F & J Prince Holdings Corporation
5th Floor, Citibank Center Building
8741 Paseo de Roxas corner Villar Street
Salcedo Village, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of F & J Prince Holdings Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated April 12, 2010. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jose Pepito E. Zabat III
Partner
CPA Certificate No. 85501
SEC Accreditation No. 0328-AR-1
Tax Identification No. 102-100-830
PTR No. 2087583, January 4, 2010, Makati City

April 12, 2010



F & J PRINCE HOLDINGS CORPORATION
SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION

RETAINED EARNINGS, BEGINNING, <i>as adjusted to available for dividend declaration</i>	₱17,828,100
NET INCOME ACTUALLY INCURRED DURING THE PERIOD	
Net income during the period closed to Retained Earnings	73,316,879
Less: Non actual losses and expenses	
Gains on fair value changes of financial assets at FVPL	14,384,544
	58,932,335
RETAINED EARNINGS, END, AVAILABLE FOR DIVIDEND DECLARATION	₱76,760,435

Figures based on functional currency audited financial statements.



F & J Prince Holdings Corporation

**2010
First Quarter
Unaudited Financial Report**

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following financial statements, presented in a comparative format, are submitted:

- (1) Unaudited Consolidated Interim Balance Sheet as of 31 March 2010 and Audited Consolidated Balance Sheet as of 31 December 2009 as Annex “A”;
- (2) Unaudited Interim Statement of Income and Retained Earnings for the three (3) month period ending 31 March 2010 and the three (3) month period ending 31 March 2009 as Annex “B”;
- (3) Unaudited Interim Statement of Changes in Stockholders’ Equity for the three (3) months ending 31 March 2010 and 2009 and Audited Statement of Changes in Stockholders’ Equity for the year ending 31 December 2009 as Annex “C”;
- (4) Unaudited Interim Cash Flow Statement for the three (3) month period ending 31 March 2010 and the three (3) month period ending 31 March 2009 as Annex “D”;
- (5) Interim Cash Flow for the quarterly periods ending 30 June and 30 September 2009, Audited Cash Flow Statement for the year ended 31 December 2009 as Annex “E”;
- (6) Consolidated Balance Sheet as of 31 March 2010 and 31 December 2009 with vertical and horizontal percentage analysis as Annex “F”.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(1) Management's Discussion and Analysis

The Registrant's Consolidated Total Revenue decreased by 41% in 2009 to P74.9 million from P127.2 million in 2008. Most of the decrease was accounted for by the net foreign exchange gains of P70.3 million in 2008 versus a P9.9 million net foreign exchange loss in 2009. Net earnings of associates increased to P33.3 million in 2009 from P28.7 million in 2008. The appreciation of the Peso in 2009 versus the U.S. Dollar penalized the dollar-denominated bonds held by the Registrant and its subsidiary and resulted in a net foreign exchange loss in 2009 compared to 2008 when a marked depreciation of the peso benefitted the dollar-denominated investments of the Registrant resulting in a net foreign gain of P70.3 million in 2008. The increase in equity in net earnings of associates was due to record earnings in 2009 at both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates. Rental income decreased to P2.5 million in 2009 from P4.3 million in 2008 as Pointwest Technologies Corporation moved out of the offices it leased from Magellan Capital Holdings Corporation, the 94% subsidiary of the Registrant, to move to bigger premises at the UP-Ayala Technopark.

Against the reduction in revenues, the following items in the expense column also fell resulting in an increase in net income.

- 1) In 2008, there was a loss on fair value changes on financial assets of P24.7 million as prices of listed securities owned by the Registrant and its subsidiary dropped sharply due to the worldwide financial crisis that depressed stock prices in global stock markets. In 2009, there was a gain of P17.2 million as stock markets recovered.
- 2) In 2008, there was a provision for impairment losses of P20.7 million as the remaining receivables due from MUDC to PIEI, a subsidiary of MCHC, was fully provided for. Thus, the Registrant's direct and indirect exposure to MUDC has been reduced on the books to almost nil. There was no provision in 2009 as the exposure had been fully provided for.
- 3) In 2008, there was a reported loss on disposal of HTM Investment of P7.4 million. This represents the loss realized upon maturity of an Equity-linked Note which resulted in the underlying equity being transferred to the investor. Because of the depressed stock prices, this loss represents the difference between the underlying cost of the equity and the closing stock price at December 31, 2008. There was no such loss in 2009 as the stock prices partly recovered its losses.

As a result of the above, the Registrant reported a consolidated net income attributable to equity holders of the Registrant of P35.6 million in 2009 compared to a net income of P23.3 million in 2008. Including the share of the minority shareholders of MCHC would reduce the net income for the Group to P35.1 million in 2009 compared to P24.3 million in 2008.

The Registrant's financial position remains strong and its ability to undertake its planned projects is not affected. As of December 31, 2009, the Registrant's consolidated cash and cash equivalents totalled P36.5 million compared to P101.4 million at the end of 2008. The Registrant and its subsidiary has decided to reinvest resources in bonds and stocks as the global financial crisis abated. The Registrant and its subsidiary are essentially debt free with total consolidated liabilities of P5.5 million not including deferred income tax liabilities of P20.6 million but including retirement benefit obligations of P2.8 million against total equity of P996.2 million at year-end 2009.

The Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC) has leased out three of the four units available for lease. The remaining unit was vacated in February 2009 and other potential lessees have looked at it and are considering to lease the unit.

The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders and PTC and BPOI which have availed of short term loans for normal working capital requirements. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2009 totalled P36.5 million compared to P101.4 million at the end of 2008 while total current assets totalled P152.0 million at year-end 2009 compared to P198.1 million at year-end 2008. The Registrant had been increasing its liquidity in 2008 in the face of the worldwide financial crisis but with the global financial crisis abating, the Registrant has in 2009 started reinvesting its liquid resources. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the financial crisis on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

(a) Operating Results and Financial Condition for the First Quarter of 2010

- (i) There are no known trends, demands, events or uncertainties that would have a material effect on the Issuer's liquidity.

- (ii) There are no known or anticipated events that would trigger direct or contingent financial obligation that is material to the Company including any default or acceleration of any obligation.
- (iii) There are no material off-balance sheet transaction, arrangements, obligations (including contingent obligations) and other relationship of the Company with unconsolidated entities or other persons created during first quarter of 2010 or in prior periods.
- (iv) There are no material commitments for capital expenditures, by the Company or its majority owned subsidiary.
- (v) There are no trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable impact on net revenues/income from continuing operations except for possible unrealized or realized foreign exchange gains from the dollar denominated investments of the Company and its majority owned subsidiary. These are generally recognized in the year-end Audited Financial Statements except for realized foreign exchange gain which are reported in the period realized.
- (vi) The Company did not realize any non-operating income in the first quarter of 2010 or in the first quarter of 2009 aside from unrealized gains on trading securities and gains on disposal of AFS/HTM investments.

The following is a detailed discussion of the Registrant's operations and financial condition during the first quarter of 2010 and first quarter of 2009.

Operating Results

Breakdown of Revenue for the Three Months Period Ending March 31, 2010 and March 31, 2009 with Vertical and Horizontal Percentage Analysis:

	FIRST QUARTER	VERTICAL PERCENTAGE ANALYSIS	FIRST QUARTER	VERTICAL PERCENTAGE ANALYSIS	INCREASE (DECREASE) AMOUNT	INCREASE (DECREASE) PERCENTAGE
(P000)	MARCH 31, 2010	MARCH 31, 2010	MARCH 31, 2009	MARCH 31, 2009	MARCH 31, 2010	MARCH 31, 2010
INTEREST INCOME						
From Banks	195	1.8%	1,301	12.6%	(1,106)	(15.0%)
From Securities	6,339	60.1%	3,791	36.8%	2,548	67.2%
TOTAL	P6,534	61.9%	P5,092	49.4%	1,442	28.3%
Dividend Income	71	0.7%	7	0.1%	64	814.1%
Rent Income	620	5.9%	663	6.4%	(43)	(6.5%)
Unrealized Gain on Trading Securities	1,164	11.0%	4,547	44.1%	(3,383)	(25.6%)
Gains on Disposal of AFS/HTM	2,168	20.5%	-	-	2,168	-
TOTAL	P10,556	100%	P10,309	100%	P247	2.4%

Revenues. Consolidated Revenues, during the 3 month period ended March 31, 2010, totaled P10.6 million compared to the P10.3 million during the same 3 month period in 2009. The higher revenue was due to higher interest income as the Registrant increased its investment in higher yielding bond investments as the financial crisis has abated. Gains on disposal of AFS/HTM investments offset lower unrealized gain on trading securities as prices of listed securities did not increase in first quarter 2010 as much as in first quarter 2009 when stock prices recovered from the depressed level at the end of 2008.

Expenses. Consolidated General and Administrative Expenses in the first quarter of 2010 totaled P8.6 million which was higher than the P5.3 million in the first quarter of 2009. Net foreign exchange loss of P1.1 million and unrealized loss of financial assets at FVPL of P2.1 million accounted for most of the increase.

Operating Income. As a result of the factors discussed above, consolidated operating income in first quarter 2010 totaled P2.0 million compared to a P5.0 million net income in the same period of 2009.

Net Income. Net income totaled P2.0 million during the first quarter of 2010 compared to net income of P5.0 million in the first quarter of 2009. The net income in the first quarter of 2009 attributable to shareholders of the Company totaled P4.9 million while P76,088 net income was attributable to minority shareholders in the company's majority owned subsidiary Magellan Capital Holdings Corporation. In the first quarter of 2010, P1.7 million net income was attributable to shareholders of the company and P0.2 million attributable to minority shareholders in the Registrant's subsidiary.

Balance Sheet Accounts

Annex "F" shows the Vertical and Horizontal Percentage Analysis of Balance Sheet Account for March 31, 2010 compared to December 31, 2009.

ASSETS

Current Assets. Consolidated current assets as of March 31, 2010 totaled P137.2 million compared to P152.0 million as of December 31, 2009. Most of the decrease was due to the decrease of dividend receivables which dropped to P4.2 million as of March 31, 2010 from P34.2 million as of December 31, 2009. This was due to payment of dividends declared by Pointwest Technologies Corporation, a 30% owned affiliate of the Registrant.

Receivables from Related Parties. This account increased to P1.9 million at March 31, 2010 from P1.5 million at year-end 2009 to reflect advances made to Magellan Utilities Development Corporation by Magellan Capital Holdings Corporation.

Investments in Associates. This account which consists of investment in Pointwest Technologies Corporation and BPO International, Inc. remained unchanged from year-end 2009 to March 31, 2010 at P118.6 million.

Available for Sale Investments. This account which consists mostly of listed securities and corporate bonds increased to P197.9 million as of March 31, 2010 from P169.3 million.

Held to Maturity Investment. This account which includes the company's bond investments, that are intended to be held to maturity dropped to P103.7 million as of March 31, 2010 from P116.7 million as of December 31, 2009.

Property And Equipment. This account totaled P34.9 million as of March 31, 2010 compared to P35.8 million as of December 31, 2009 due to allowance for depreciation taken in the first quarter of 2010.

Investment in Property. This Account remained unchanged at P414.4 million from year-end 2009 to March 31, 2010.

Other Non-Current Assets. This account totaled P13.9 million as of March 31, 2010 compared to P13.5 million at year-end 2009.

Total Assets. As a result of the foregoing, total assets increased to P1,025 million as of March 31, 2010 from P1,022 million as of December 31, 2009.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities remained fairly stable at P2.9 million as of March 31, 2010 from P2.8 million as of December 31, 2009.

Non-Current Liabilities. Non-current liabilities which consists mostly of deferred tax liabilities was stable at P23.3 million as of March 31, 2010, the same level as at year-end 2009.

Stockholder's Equity. Total stockholder's equity increased to P998.8 million as of March 31, 2010 from P996.2 million at year-end 2009 due to the net income of P2.0 million generated in the first quarter of 2010 and the amortization of unrealized losses in fair value of AFS investment of P0.7 million in the first quarter of 2010. Total equity attributable to stockholders of the company totaled P981.8 million at March 31, 2010 from P949.4 million at December 31, 2009 due to the net income of P2.0 million and amortization of unrealized losses in fair value of AFS investment. Minority interest which represents the share of minority shareholders of Magellan Capital Holdings Corporation was P47.0 million at March 31, 2010 compared to P46.8 million at December 31, 2009.

(a) Top Performance Indicators

The top five (5) performance indicators for the Company and its Subsidiary are as follows:

- 1) Change in revenues
- 2) Change in net income

- 3) Earnings per share
- 4) Current ratio
- 5) Book Value per share

Change in Revenues. Consolidated revenues in the first quarter of 2010 and 2009 are shown in Annex “B” and presented below in summary form:

(P 000)	1 st Quarter-2010	Percentage (%)	1 st Quarter-2009	Percentage (%)
Interest Income	P 6,534	61.9%	P 5,092	49.4%
Lease Rental Income	620	5.9%	663	6.4%
Dividend Income	71	0.7%	7	0.1%
Other Income	3,332	31.5%	4,547	44.1%
Total Income	P 10,556	100%	P 10,309	100%

Total revenue increased by P2.4% in the first quarter of 2010 to P10.5 million compared to P10.3 million in the first quarter of 2009. Higher interest income due to increased investments in higher yielding corporate bonds instead of lower risk but lower yielding bank deposit accounted for most of the increase. The higher interest income offset lower other income which mainly represents unrealized gain on trading securities and gains on disposal of AFS/HTM investments as the prices of listed securities went up less in the first quarter of 2010 compared to the first quarter of 2009 when stock prices recovered from the depressed levels at the end of 2008.

Change in Net Income. The income statement in the first quarter of 2010 and 2009 are shown in Annex “B” and summarized below:

(P 000)	1 st Quarter-2010	Percentage (%)	1 st Quarter-2009	Percentage (%)
Revenues	P 10,556	100%	P 10,309	100%
Expenses	8,607	81.5%	5,324	51.6%
Net Income	1,949	18.5%	4,985	48.4%
Attributable to:				
- Minority Interest	247	2.3%	76	0.8%
- Stockholders of Company	P 1,702	16.2%	P 4,908	47.6%

The company realized a net income of P1.7 million attributable to stockholders of the company in the first quarter of 2010 compared to a net income of P4.9 million attributable to stockholders of the company in the first quarter of 2009 due to the factors discussed in the preceding pages.

Earnings Per Share. The net income per share attributable to shareholders of the Company during the first quarter of 2010 was P0.0044 per share compared to net income per share of P0.0128 in the first quarter of 2009.

Current Ratio. Current ratio as of March 31, 2010 was 47.5 X compared to 54.8 X as of December 31, 2009. The decrease was due mainly to decrease in dividends receivables.

Book Value Per Share. Book value per share as of March 31, 2010 was P2.47 per share compared to P2.46 as of December 31, 2009 due to the net income attributable to stockholders of the company realized in the first quarter of 2010.

PART II OTHER INFORMATION

Pursuant to the resolutions adopted and approved by the Board of Directors during its meeting held on 08 February 2010:

The Board of Directors of the Registrant approved the following:

- (1) Authorizing the President, Mr. Robert Y. Cokeng, to approve the release by the Company's External Auditor, SGV & Co. of the final Audited Financial Statements for year ending 2009, pursuant to the reportorial requirements of the BIR and the SEC."
- (2) The Annual Meeting of the Stockholders of the Registrant which should be held on 12 April 2010 at the Corporation's offices pursuant to the By-Laws of the Corporation, is postponed pending preparation of the Annual Report to Stockholders which will not be ready by said date. The Board of Directors has decided to fix July 28, 2010 as the date of the Annual Stockholders' Meeting. Stockholders will be notified, in due course of the time and venue of the meeting.

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.

Issuer *F & J Prince Holdings Corporation*

Principal Executive Officer

Signature and
Title..... 
ROBERT Y. COKENG, President

Date..... **14 May 2010**

Principal Financial/Accounting Officer/Controller

Signature and
Title..... 
JOHNSON U. CO, Vice-President & Treasurer

Date..... **14 May 2010**

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2010 AND DECEMBER 31, 2009

ANNEX "A"
Page 1

ASSETS	UNAUDITED MARCH 31, 2010	AUDITED DEC. 31,2009
<i>Current Assets</i>		
Cash and cash equivalents	P 48,236,966	P 36,527,458
Financial assets at fair value through profit or loss	41,626,803	34,376,068
Short-term investments	10,505,322	14,907,815
Receivables-net :		
Advances to Officers & Employees	0	3,500
Creditable Withheld Taxes	0	137,328
Dividends Receivable	4,200,000	34,237,500
Accounts Receivable	295,343	292,000
Management Fee Receivable	45,197,865	45,197,865
Accrued Interest Receivable	43,753,772	43,753,772
Others	9,804,008	8,677,292
Total Receivables	103,250,988	132,299,257
Allowance for doubtful accounts	90,110,187	90,110,187
Total Receivables-Net	13,140,801	42,189,070
Fixed income deposits	4,273,893	4,637,376
Held-to-maturity (HTM) investments	14,099,112	14,099,112
Prepaid expenses & other current assets:		
Input Tax	976,910	932,118
Prepaid Income Tax	400,000	400,000
Others	3,897,245	3,907,062
Total Prepaid expenses and other current assets	5,274,155	5,239,280
Total Current Assets	P 137,157,052	P 151,976,179
<i>Non-current Assets</i>		
Receivables from related parties-net	1,856,312	1,482,270
Investments in associates	118,641,693	118,641,693
Fixed income deposits	500,000	500,000
HTM investments-net	105,724,876	116,717,359
Available-for-sale (AFS) investments	197,904,893	169,255,633
Investment in property	414,394,525	414,394,525
Property and Equipment		
Building	47,014,750	47,014,750
Building Improvements	8,058,590	8,058,590
Transportation equipment	9,399,560	9,399,560
Furniture and fixtures	2,456,292	2,456,292
Total	66,929,192	66,929,192
Less: Accumulated depreciation	31,983,551	31,130,107
Net Book Value	34,945,641	35,799,085
Total Property and Equipment	34,945,641	35,799,085
Other non-current assets	13,927,181	13,494,294
Total Non-Current Assets	887,895,121	870,284,859
TOTAL ASSETS	P 1,025,052,173	P 1,022,261,038

LIABILITIES & STOCKHOLDERS' EQUITY	UNAUDITED MARCH 31, 2010	AUDITED DEC. 31, 2009
Current Liabilities		
Accounts Payable and accrued expenses		
Accounts payable-trade	6,395	0
Accounts payable-others	764,683	945,279
Withholding taxes payable	163,815	137,090
SSS Premium Payable	9,084	10,929
HDMF Premium Payable	1,600	3,842
Philhealth Premium Payable	3,425	3,400
Deposit Payable	1,011,507	1,011,508
Output Vat Payable	108,743	27,521
Accrued expenses	815,024	633,685
Total Accounts payable and accrued expenses	P 2,884,276	P 2,773,254
Income Tax Payable		
Total Current Liabilities	P 2,884,276	P 2,773,254
Non-Current Liabilities		
Deferred income tax liabilities-net	20,584,494	20,584,494
Payable to related parties	0	0
Retirement benefit obligation)	2,755,696	2,755,696
Total Non-Current Liabilities	23,340,190	23,340,190
Stockholders' Equity		
Capital stock	481,827,653	481,827,653
Additional paid in capital	144,759,977	144,759,977
Treasury shares	(95,791,606)	(95,791,606)
Other Reserves	(1,514,935)	(2,246,491)
Retained earnings	422,514,389	420,812,366
Total Equity Attributable to Stockholders of the Company	951,795,478	949,361,899
Minority Interest	47,032,229	46,785,695
Total Stockholders' Equity	998,827,707	996,147,594
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	P 1,025,052,173	P 1,022,261,038

See accompanying Notes to Consolidated Financial Statements

Prepared by:



ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2010 AND MARCH 31, 2009

	UNAUDITED MARCH 31, 2010	UNAUDITED MARCH 31, 2009
REVENUES		
Interest Income		
From Banks	P 195,365	P 1,300,951
From Securities	6,338,464	3,791,202
Total Interest Income	6,533,829	5,092,153
Unrealized gains on trading securities	1,163,751	4,547,267
Rental Income	619,576	662,561
Gains on disposal of AFS/HTM investments	2,168,246	0
Dividend Income	71,025	6,798
Other income		
	P 10,556,427	P 10,308,779
EXPENSES		
Net foreign exchange loss	1,098,264	
Amortization of unrealized losses on changes in fair value of AFS investments	669,567	1,420,968
Salaries, wages and employees' benefits	1,773,388	1,531,573
Depreciation	853,446	587,821
Professional fees	565,838	486,826
Condominium dues	499,645	322,238
Amortization of premium on HTM investments		
Taxes and licenses	477,752	343,788
Entertainment, amusement and recreation	54,395	74,587
Unrealized loss on financial assets at FVPL	2,117,688	
Others	497,886	555,951
	8,607,869	5,323,752
NET INCOME	P 1,948,558	P 4,985,027
NET INCOME ATTRIBUTABLE TO:		
STOCKHOLDERS OF THE COMPANY	P 1,702,024	P 4,908,939
MINORITY INTERESTS	246,534	76,088
EARNINGS PER SHARE	P 0.0044	P 0.0128

See accompanying Notes to Consolidated Financial Statements

Prepared by:



ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2010 AND MARCH 31, 2009

		UNAUDITED MARCH 31, 2010		UNAUDITED MARCH 31, 2009
NET INCOME	P	1,948,558	P	4,985,027
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		61,989		
Amortization of unrealized losses on changes in fair value of AFS investments		669,567		1,420,969
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		731,556		1,420,969
TOTAL COMPREHENSIVE INCOME(LOSS)	P	2,680,114	P	6,405,996
TOTAL COMPREHENSIVE INCOME(LOSS)				
ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	2,546,108	P	6,085,696
MINORITY INTERESTS		134,006		320,300
	P	2,680,114	P	6,085,696

See accompanying Notes to Consolidated Financial Statements

Prepared by:


ARSENIO T. LIAO
 Accountant

ANNEX "C"

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND MARCH 31, 2009
AND THE YEAR ENDED DECEMBER 31, 2009**

		UNAUDITED MARCH 31, 2010	UNAUDITED MARCH 31, 2009	AUDITED DEC. 31, 2009
CAPITAL STOCK				
Balance at beginning of year	P	481,827,653P	481,827,653 P	481,827,653
Exercise of stock warrants				
Issuance of additional shares of stock				
Subscription of additional shares of stock				
Balance at end of period		481,827,653	481,827,653	481,827,653
ADDITIONAL PAID-IN CAPITAL				
Treasury Shares		(95,791,606)	(95,762,527)	(95,791,606)
Other Reserves		(1,514,935)	(13,528,059)	(2,246,491)
SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES				
RETAINED EARNINGS				
Balance at beginning of period		420,812,365	385,191,694	385,191,695
Net Income		1,702,024	4,908,939	35,620,671
Balance at end of period		422,514,389	390,100,633	420,812,366
		951,795,478	907,397,677	949,361,899
Minority Interests		47,032,229	46,746,730	46,785,695
TOTAL STOCKHOLDERS' EQUITY				
	P	998,827,707 P	954,144,407 P	996,147,594

See accompanying Notes to Consolidated Financial Statements

Prepared by:




ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2010 AND MARCH 31, 2009

	UNAUDITED MARCH 31, 2010	UNAUDITED MARCH 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	P 1,702,024	P 4,908,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority Interest	246,534	76,088
Depreciation and amortization	853,444	587,821
Amortization of unrealized loss/gain on FV of AFS inv.	731,556	1,420,968
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	29,048,269	(371,976)
Prepaid expenses and other current assets	(34,875)	(126,098)
Increase (decrease) in accounts payable and accrued expenses	111,022	(79,521)
<i>Net cash provided by operating activities</i>	<i>32,657,974</i>	<i>6,416,221</i>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	0	0
AFS/HTM investments and financial assets (FVPL)	(20,141,537)	57,628,817
Decrease (increase) in:		
Receivable from related parties	(374,042)	(500)
Other assets	(432,887)	1,557,420
<i>Net cash provided by (used in) investing activities</i>	<i>(20,948,466)</i>	<i>59,185,737</i>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Deferred credits		
Payable to related parties	0	0
Income tax payable	0	0
<i>Net cash provided by (used in) financing activities</i>	<i>0</i>	<i>0</i>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P 11,709,508	P 65,601,958
CASH AND CASH EQUIVALENTS, BEGINNING	36,527,458	101,358,385
CASH AND CASH EQUIVALENTS, ENDING	P 48,236,966	P 166,960,343

See accompanying Notes to Consolidated Financial Statements

Prepared by:


ARSENIO T. LIAO
 Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 3 MONTHS PERIOD ENDING JUNE 30, 2009 AND SEPTEMBER 30, 2009

	UNAUDITED SEPTEMBER 30, 2009	UNAUDITED JUNE 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	P 18,069,283	P 3,564,436
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	388,875	41,931
Depreciation and amortization	1,779,270	587,821
Unrealized loss on changes in fair value of AFS and FVPL	3,956,437	1,661,999
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	502,728	465,915
Subscription receivable from exercise of warrants		
Prepaid expenses and other current assets	(910,246)	36,007
Increase (decrease) in:		
Accounts payable and accrued expenses	(613,084)	(168,573)
Net cash provided by operating activities	23,173,263	6,189,536
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment	(3,626,947)	0
AFS investments and financial assets (FVPL)	43,716,313	4,729,901
Decrease (increase) in:		
Receivables from related parties	(498,489)	(248,948)
Other assets	1,557,418	(2)
Net cash provided by (used in) investing activities	41,148,295	4,480,951
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Deferred credits		0
Redemption of bonds	0	0
Payable to related parties	0	0
Income tax payable	(78,100)	(78,100)
Net cash provided by (used in) financing activities	(78,100)	(78,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P 64,243,458	P 10,592,387
CASH AND CASH EQUIVALENTS, BEGINNING	101,358,385	166,960,343
CASH AND CASH EQUIVALENTS, ENDING	P 165,601,843	P 177,552,730

**F & J PRINCE HOLDINGS CORPORATION AND
SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2009**

**ANNEX "E"
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Audited

CASH FLOWS FROM OPERATING ACTIVITIES

Income (loss) before income tax and minority interests	P	35,118,951
Adjustments for:		
Net unrealized foreign exchange losses (gains)		9,831,784
Provision for impairment losses		40,000
Amortization of unrealized losses on changes in fair value of AFS investments		9,690,812
Gains (losses) on disposal of HTM investments		-
Depreciation		3,153,399
Retirement expense		512,291
Amortization of premium on HTM investments		1,032,307
Gains (losses) on disposal of financial assets at FVPL		(290,000)
Dividend income		(965,467)
Losses(gains) on fair value changes of financial assets at FVPL		(16,895,923)
Equity in net losses (earnings) of associates		(33,307,272)
Interest income		(20,329,855)
Operating loss before working capital changes		(12,408,973)
Decrease (increase) in:		
Receivables		(34,423,865)
Prepaid expenses and other current assets		(567,940)
Increase (decrease) in accounts payable and accrued expense		(387,864)
Net cash flows used in operations		(47,788,642)
Interest received		17,032,437
Dividends received		965,467
Income tax paid		(725,419)
Net cash flows from operating activities		(30,516,157)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from disposal of:		
HTM investments		36,195,860
Short-term investments		44,916,654
Addition to:		
Fixed income deposits		(211,514)
Investments in associates		(10,500,000)
HTM investments		-
Financial assets at FVPL		(3,483,202)
AFS investments		(160,407,550)
Property and equipment		(3,626,948)
Investment properties		-
Increase(decrease) in receivable from related parties		(919,770)
Increase(decrease) in other noncurrent assets		-
Dividends received		60,486,964
Net cash flows from (used in) investing activities		(37,549,506)

CASH FLOWS FROM FINANCING ACTIVITIES

Purchases of treasury shares		(29,079)
Net cash flows from financing activities		(29,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(68,094,742)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		3,263,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		101,358,385
CASH AND CASH EQUIVALENTS AT END OF YEAR	P	36,527,458

F&J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2010 AND DECEMBER 31, 2009
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX F"

Page 1

	UNAUDITED MARCH 31, 2010	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2010	AUDITED DEC. 31, 2009	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2009	INCREASE (DECREASE) AMOUNT MARCH 31, 2010	INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2010
ASSETS						
Current Assets						
Cash and cash equivalents	48,236,966	4.71%	36,527,458	3.57%	11,709,508	32.06%
Financial assets at fair value through fair value thru profit or loss (FVPL)	41,626,803	4.06%	34,376,068	3.36%	7,250,735	21.09%
Short-term investments	10,505,322	1.02%	14,907,815	1.47%	(4,402,493)	-29.53%
Receivables :						
Advances to Officers & Employees	0	0.00%	3,500	0.00%	(3,500)	-100.00%
Creditable Withheld Taxes	0	0.00%	137,328	0.01%	(137,328)	-100.00%
Accounts Receivable	295,343	0.03%	292,000	0.03%	3,343	1.14%
Dividends Receivable	4,200,000	0.41%	34,237,500	3.35%	(30,037,500)	-87.73%
Management Fee Receivable	45,197,865	4.41%	45,197,865	4.42%	0	0.00%
Accrued Interest Receivable	43,753,772	4.27%	43,753,772	4.28%	0	0.00%
Others	9,804,008	0.96%	8,677,292	0.85%	1,126,716	12.98%
Total Receivables	103,250,988	10.08%	132,299,257	12.94%	(29,048,269)	-21.96%
Allowance for doubtful accounts	90,110,187	-8.80%	90,110,187	-8.81%	0	0.00%
Total Receivables-Net	13,140,181	1.28%	42,189,070	4.13%	(29,048,269)	-68.85%
Fixed income deposits	4,273,893	0.42%	4,637,376	0.45%	(363,483)	-7.84%
Held-to-maturity investments	14,099,112	1.38%	14,099,112	1.38%	0	0.00%
Prepaid expenses & other current assets:						
Others	3,897,245	0.38%	3,907,062	0.38%	(9,817)	-0.25%
Input Tax	976,910	0.10%	932,218	0.09%	44,692	4.79%
Prepaid Income Tax	400,000	0.04%	400,000	0.04%	0	0.00%
Total Prepaid expenses & other current assets	5,274,155	0.52%	5,239,280	0.51%	34,875	0.67%
Total Current Assets	137,157,052	13.39%	151,976,179	14.87%	(14,819,127)	-9.75%
Non-current Assets						
Receivables from related parties	1,856,312	0.18%	1,482,270	0.14%	374,042	25.23%
Investments in associates	118,641,693	11.57%	118,641,693	11.60%	0	0.00%
Fixed income deposits	500,000	0.04%	500,000	0.05%	0	0.00%
HTM investments	105,724,876	10.31%	116,717,359	11.42%	(10,992,483)	-9.42%
Available -for-sale (AFS) investments	197,904,893	19.30%	169,255,633	16.56%	28,649,260	16.93%
Investment in properties	414,394,525	40.43%	414,394,525	40.54%	0	0.00%
Property and Equipment						
Building	47,014,750	4.59%	47,014,750	4.60%	0	0.00%
Building Improvements	8,058,590	0.80%	8,058,590	0.79%	0	0.00%
Transportation equipment	9,399,560	0.92%	9,399,560	0.92%	0	0.00%
Furniture and fixtures	2,456,292	0.24%	2,456,292	0.24%	0	0.00%
Total Property and Equipment	66,929,192	6.55%	66,929,192	6.55%	0	0.00%
Less: accumulated depreciation	31,983,551	-3.13%	31,130,107	-3.05%	853,444	2.74%
Net Book Value	34,945,641	3.42%	35,799,085	3.50%	(853,444)	-2.38%
Total Property and Equipment	34,945,641	3.42%	35,799,085	3.50%	(853,444)	-2.38%
Deferred income tax assets-net	0	0.00%	0	0.00%	0	0.00%
Other Assets - net	13,927,181	1.36%	13,494,294	1.32%	432,887	3.21%
Total Non-Current Assets	887,895,121	86.61%	870,284,859	85.13%	17,610,262	2.02%
TOTAL ASSETS	1,025,052,173	100.00%	1,022,261,038	100.00%	2,791,135	0.27%

	UNAUDITED MARCH 31, 2010	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2010	AUDITED DEC. 31, 2009	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2009	INCREASE (DECREASE) AMOUNT MARCH 31, 2010	INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2010
LIABILITIES & STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable and accrued expenses						
Accounts payable-trade	6,395	0.00%	0	0.00%	6,395	0.00%
Accounts payable-others	764,683	0.07%	945,279	0.09%	(180,596)	-19.11%
Withholding taxes payable	163,815	0.02%	137,090	0.01%	26,725	19.49%
SSS Premium Payable	9,084	0.00%	10,929	0.00%	(1,845)	-16.88%
HDMF Premium Payable	1,600	0.00%	3,842	0.00%	(2,242)	-58.36%
Philhealth Premium Payable	3,425	0.00%	3,400	0.00%	25	0.74%
Deposit Payable	1,011,507	0.10%	1,011,508	0.10%	(1)	0.00%
Output Vat Payable	108,743	0.01%	27,521	0.01%	81,222	295.13%
Accrued expenses	815,024	0.08%	633,685	0.06%	181,339	28.62%
Total Accounts payable & accrued expenses	2,884,276	0.28%	2,773,254	0.27%	111,022	4.00%
Income Tax Payable	0	0.00%	0	0.00%	0	0.00%
Total Current Liabilities	2,884,276	0.28%	2,773,254	0.27%	111,022	4.00%
Non-Current Liabilities						
Deferred tax liabilities-net	20,584,494	2.01%	20,584,494	2.01%	0	0.00%
Payable to related parties	0	0.00%	0	0.00%	0	0.00%
Retirement benefit obligation	2,755,696	0.27%	2,755,696	0.27%	0	0.00%
Total Non-Current Liabilities	23,340,190	2.28%	23,340,190	2.28%	0	0.00%
Stockholders' Equity						
Capital stock	481,827,653	47.01%	481,827,653	47.13%	0	0.00%
Additional paid in capital	144,759,977	14.12%	144,759,977	14.16%	0	0.00%
Other reserves	(1,514,935)	-0.15%	(2,246,491)	-0.22%	(731,556)	-32.56%
Treasury shares	(95,791,606)	-9.35%	(95,791,606)	-9.37%	0	0.00%
Retained earnings	422,514,389	41.22%	420,812,366	41.17%	1,702,023	0.40%
Total Equity Attributable to Stockholders of the Company	951,795,478	92.85%	949,361,899	92.87%	2,433,579	0.26%
Minority Interest	47,032,229	4.59%	46,785,695	4.58%	246,534	0.53%
Total Stockholders' Equity	998,827,707	97.44%	996,147,594	97.45%	2,680,113	0.27%
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	1,025,052,173	100.00%	1,022,261,038	100.00%	2,791,135	0.27%

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

F & J Prince Holdings Corporation (the Company) was registered with the Philippines Securities and Exchange Commission (SEC) on February 18, 1971. Its primary purpose is to purchase, subscribe for or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, including, but not limited to, land, building, condominium units, shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts or obligations of any corporation and associations, domestic or foreign.

The registered office address of the Company is 5th Floor, Citibank Center Building, 8741 Paseo de Roxas corner Villar Street, Salcedo Village, Makati City.

The consolidated financial statements of the Company and its subsidiary (collectively referred to as the Group) as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were authorized for release by the President of the Company on April 12, 2010, pursuant to a resolution by the Board of Directors (BOD) dated February 8, 2010.

2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at FVPL and AFS investments that have been measured at their fair values (see Notes 5 and 9) and investment properties which have been carried at their revalued amounts considered to be their “deemed cost” (see Note 11). The consolidated financial statements are presented in Philippine peso, which is the Group’s functional currency, except when otherwise stated.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended PFRS and Philippine Accounting Standards (PAS) which became effective on January 1, 2009.

- *PFRS 7 Amendments, Improving Disclosures about Financial Instruments*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions

and financial assets used for liquidity management. As disclosed in Note 21, the new disclosures relate to the fair values by source of inputs using a three level fair value hierarchy. The liquidity risk disclosures are presented in Note 20. The amendments in the disclosures include a liquidity gap analysis which is presented in a tabular format.

- PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present this statement as two linked statements.

The following new and amended standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

New Standards and Interpretations

- PAS 23, *Borrowing Costs* (Revised) effective January 1, 2009
- PFRS 8, *Operating Segments* effective January 1, 2009
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* effective July 1, 2008
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* effective October 31, 2008
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers* effective July 1, 2009

Amendments to Standards

- PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* effective January 1, 2009
- PFRS 1, *First-time Adoption of PFRS*, and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* effective January 1, 2009
- PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations* effective January 1, 2009
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives* effective June 30, 2009
- Improvements to PFRS (2008)
- Improvements to PFRS (2009), with respect to the amendment to the Appendix to PAS 18, *Revenue*

New Accounting Standards, Interpretations and Amendments to the Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to consolidated financial statements when these become effective.

- PFRS 3, *Business Combinations* (Revised) and PAS 27, *Consolidated and Separate Financial Statements* (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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.
- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Amendments to Standards

- Amendments to PAS 39, *Eligible Hedged Items*
The amendment to PAS 39, effective for annual periods beginning on or after July 1, 2009, 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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on its financial position or performance since it has not entered into any such hedges.
- Amendments to PFRS 2, *Share-based Payments - Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on

the financial position or performance since it has not entered into any such share-based payment transactions.

Improvements to PFRS in 2009

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning January 1, 2010, except as otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The amendment is effective for annual periods beginning on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:

- that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
 - Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group, which includes Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31 of each year. The consolidated financial statements of the MCHC Group are prepared for the same reporting year as the Group, using uniform accounting policies.

As of December 31, 2009, the Group has 94.34% interest in the unquoted equity stocks of MCHC, a holding company involved in investing real and personal properties of every kind, including, but not limited to, land, buildings, condominium units, shares of stocks, bonds, and other securities of any corporation or association, domestic or foreign. The cost of investment in MCHC amounted to ₱ 537,514,860 as of December 31, 2009 and 2008.

MCHC has investments in the following subsidiaries as of December 31, 2009 and 2008:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
<i>Held by MCHC</i>			
Pinamucan Industrial Estates, Inc. (PIEI)	Philippines	100	₱181,744,760
Batangas-Agro Industrial Development Corporation (BAID)*	Philippines	100	25,000,000
Malabrigo Corporation*	Philippines	100	662,500
Magellan Capital Realty Development Corporation*	Philippines	100	₱100,000

(Forward)

	Country of Incorporation	Percentage of Ownership	Cost of Investment
Magellan Capital Trading Corporation*	Philippines	100	62,500
<i>Held by BAID</i>			
Fruits of the East, Inc.*	Philippines	100	–
Samar Commodities Trading and Industrial Corporation*	Philippines	100	–
Tropical Aqua Resources, Inc.*	Philippines	100	–
United Philippine Oil Trading, Incorporated*	Philippines	100	–
King Leader Philippines, Inc.*	Philippines	100	–
The Hometel Integrated Management Corporation*	Philippines	100	–
			207,569,760
Less allowance for impairment losses			162,500
			<u>₱207,407,260</u>

* still in the preoperating stage

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities and 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 Group controls another entity.

Subsidiaries are consolidated from the date of acquisition, being the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of net results and net assets of MCHC not held by the Group. They are presented in the consolidated balance sheet within equity, apart from equity attributable to equity holders of the parent and are separately disclosed in the consolidated statements of income and comprehensive income. Minority interests consist of the amount of those interests at the date of original business combination and the minority interests' share on changes in equity since the date of the business combination. Losses applicable to the minority in excess of the minority's interest in MCHC's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses. Acquisitions of minority interests are accounted for using the parent-entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. The excess of the Group's interest in the net fair value of the identifiable net assets over cost of acquisition is credited to the consolidated statement of income in the period of the acquisition.

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. The consolidated statement of income reflects the share in the results of operations of the associates. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in its associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The associate is accounted for under equity method from the date the Group obtains significant influence.

In the Company's separate financial statements, investments in associates are accounted for at cost less impairment losses.

The following are the Group's associates:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
<i>Held by the Company</i>			
Business Process Outsourcing International, Inc. (BPO)			
Unquoted equity stocks	Philippines	35	₱33,205,006
Advances			16,100,000
Pointwest Technologies Corporation (PTC)	Philippines	30	40,725,000
			90,030,006
<i>Held by MCHC</i>			
Magellan Utilities Development Corporation (MUDC)	Philippines	43	94,830,129
Less allowance for impairment losses			94,830,129
			—
			₱90,030,006

Business Combinations and Goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the business combination is recognized immediately in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Business combination of entities under common control is accounted using a method similar to pooling of interest. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated statement of income.

Cash and Cash Equivalents

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

Financial Instruments

Financial assets and financial liabilities are recognized at fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet 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 disposals or retirements, as applicable, is done using settlement date accounting.

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

Financial assets

Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, HTM investments, and AFS investments. 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 at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial assets are classified as current assets when it is expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer.

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading purposes and financial assets designated upon initial recognition as at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded as such according to the terms of the contract, or when the right of payment has been established.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2009 and 2008, the Group's investments in trading securities are classified under financial assets at FVPL.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investment or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is

calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group's cash and cash equivalents, short-term investments, receivables, fixed income deposits and receivables from related parties are classified as loans and receivables.

HTM investments

HTM investments are quoted nonderivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments and the Group will be precluded from using the HTM investments account for the current period and for the next two succeeding periods from tainting date. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2009 and 2008, the Group's HTM investments include investment in debt securities.

AFS investments

AFS investments are those nonderivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS investments are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income as 'Dividend' when the right of payment has been established.

As of December 31, 2009 and 2008, the Group's investments in equity and debt securities are classified as AFS investments.

Determination of fair value

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

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques incorporating as much as possible market desirable inputs. Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Embedded derivatives

Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of these derivatives are recognized in the consolidated statement of comprehensive income.

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2009 and 2008, the Group has no bifurcated embedded derivatives.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities.

Financial liabilities are classified as current liabilities when it is expected to be realized within 12 months from the reporting date or the Group does not have an unconditional right to defer settlement for at least 12 months from reporting date.

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. Derivatives, including embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on liabilities held for trading are recognized in the consolidated statement of income. Interest incurred is recorded as interest expense.

Financial liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (a) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (b) the liabilities are part of a group of financial liabilities which are managed and their

performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (c) the financial liability contains an embedded derivative that would need to be separately recorded.

As of December 31, 2009 and 2008, the Group has no financial liabilities at FVPL.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument, as a whole, the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

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 consolidated statement of income.

This accounting policy applies primarily to the accounts payable and accrued expenses, payables to related parties and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets 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 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.

Assets carried at amortized cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced either directly or through use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is 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. The amount of the loss shall be recognized in the consolidated statement of income.

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

In relation to receivables, a provision for impairment losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

The carrying amount of the receivables shall be reduced through the use of an allowance account. Impaired debts shall be derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

For AFS investments, the Group assesses at each reporting date whether there is objective evidence that the financial asset is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Day 1 Profit or Loss

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated 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 consolidated statement of 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 or loss amount.

Reclassification of Financial Instruments

If, as a result of a change in intention or ability or in the rare circumstance that a reliable measure of fair value is no longer available, it becomes appropriate to carry a financial asset or financial liability at cost or amortized cost rather than at fair value, the fair value carrying amount of the financial asset or the financial liability on that date becomes its new cost or amortized cost, as applicable.

In the case of a financial asset with a fixed maturity, any previous gain or loss on that asset that has been recognized directly in equity shall be amortized to the consolidated statement of comprehensive income over the remaining life of the investment using the effective interest rate method. Any difference between the new amortized cost and maturity amount shall also be amortized over the remaining life of the financial asset using the effective interest rate method, similar to the amortization of a premium and a discount. If the financial asset is subsequently impaired, any gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall remain in equity until the financial asset is sold or otherwise disposed of, when it shall be recognized in the consolidated statement of comprehensive income. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized directly in equity is recognized in the consolidated statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet 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. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated balance sheet.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment, including borrowing cost for long-term construction projects, when that cost is incurred and if the recognition criteria are met.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the property and equipment as follows:

Category	Number of Years
Condominium	25
Condominium improvements	10
Transportation equipment	10
Office furniture, fixtures and equipment	5

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are sold or retired, the cost and the related accumulated depreciation and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

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

Investment Properties

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

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

Expenditures incurred after the investment properties have been put into operation are normally charged to income in the period in which the costs are incurred.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property and owner occupied property do not change the carrying amount of the investment property transferred and they do not change the cost of the property.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication that its nonfinancial assets (namely: prepayments and other current assets, property and equipment, investment properties, investments in associates, and other noncurrent assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount. The estimated recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the estimated recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its estimated recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the

assumptions used to determine the asset's estimated recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill as of December 31 of each year.

Common Stock

Common stock is classified as equity.

Incremental costs directly attributable to the issuance of new equity instruments are taken to the consolidated statement of changes in equity as a deduction from the proceeds, net of tax.

Treasury Shares

The Group's shares which are acquired and held by a subsidiary (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the considerations received is recognized as capital reserves.

Dividends Payable

Dividends payable are recorded in the financial year in which they are declared by the BOD.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Interest

Interest income from bank deposits and investments is recognized as the interest accrues on a time proportion basis on the principal outstanding balance and at the effective interest rate as applicable.

Dividend

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

Rental

Rental income from building is accounted for on a straight-line basis over the lease term.

Retirement Benefits

The Group has an unfunded, noncontributory retirement benefit plan covering substantially all its regular employees. Retirement benefit costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefit costs include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions. Actuarial gains and losses are recognized as income or expense when the net cumulative net actuarial gains and losses of the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains and losses are amortized over the expected average remaining working lives of the covered employees.

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

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan are reductions in the future contributions to the plan. If there is no change or decrease in the present value of the economic benefits, the entire net actuarial gains of the period after the deduction of past service cost of the current period are recognized immediately.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

- c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on a straight-line basis.

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional and presentation currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are measured in the functional currency and are recorded on initial recognition in that functional currency at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the dates when the fair values were determined.

Income Taxes

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Earnings (Loss) Per Share

Earnings (loss) per share is computed by dividing the net income (loss) for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends or stock splits declared during the year and adjusted for the effects of dilutive stock warrants and other dilutive securities. Effects of anti-dilutive potential common shares are not considered in computing diluted earnings per share.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets (see Note 18).

Events After the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

Estimates and judgments 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.

Estimates and Assumptions

Fair values of financial assets and liabilities

The Group carries and discloses certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income and loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The fair values of the Group's financial instruments are presented in Note 21 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL is ₱41,626,803 and ₱34,376,068 as of March 31, 2010 and December 31, 2009, respectively (see Note 5). The carrying amount of the Group's AFS investments is ₱197,904,893 and ₱169,255,633 as of March 31, 2010 and December 31, 2009, respectively (see Note 9). The carrying amount of the Group's HTM investments is ₱119,823,988 and ₱130,816,471 as of March 31, 2010 and December 31, 2009. (see Note 8).

Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected taxes to be paid in the future based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable is nil as of March 31, 2010 and December 31, 2009, respectively.

Realizability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Group has unrecognized deferred income tax assets on temporary differences amounting to ₱264,465,224 which remains unchanged as of March 31, 2010 and December 31, 2009 respectively (see Note 14).

Useful lives of property and equipment

The estimated useful lives used as bases for depreciating the Group's property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The carrying amount of the Group's property and equipment is ₱34,945,641 and ₱35,799,085 as of March 31, 2010 and December 31, 2009, respectively (see Note 10).

Allowance for impairment losses

The Group reviews its loans and receivables (trade receivables and receivables from related party) at each reporting date to assess whether an impairment loss should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

On receivables from related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded. These allowances are re-evaluated and adjusted as additional

information is received. The balance of the Group's allowance for impairment losses on receivables and receivables from related parties remains unchanged at ₱198,057,263 as of March 31, 2010 and December 31, 2009, respectively (see Notes 6 and 16). The carrying amount of the Group's receivables, net of allowance for impairment losses, is ₱13,140,801 and ₱42,189,070 as of March 31, 2010 and December 31, 2009, respectively (see Note 6). The carrying amount of the Group's receivables from related parties, net of allowance for impairment losses, is ₱1,856,312 and ₱1,482,270 as of March 31, 2010 and December 31, 2009, respectively (see Note 16).

Pension and other retirement benefits

The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Retirement benefits expense recognized amounted to ₱512,291, ₱512,503, and ₱465,359 in 2009, 2008 and 2007, respectively. The carrying amount of the Group's retirement benefit obligations remains unchanged at ₱2,755,696 as of March 31, 2010 and December 31, 2009, respectively (see Note 13).

Impairment of AFS Investments

The Group recognizes impairment losses on AFS investments when there has been a significant or prolonged decline in the fair value of such investments below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. In determining whether the decline in value is significant, the Group considers historical volatility of share price (i.e., the higher the historical volatility, the greater the decline in fair value before it is likely to be regarded as significant) and the period of time over which the share price has been depressed (i.e., a sudden decline is less significant than a sustained fall of the same magnitude over a longer period).

The balance of the Group's allowance for impairment losses on investment in equity securities remains unchanged at ₱10,574,000 as of March 31, 2010 and December 31, 2009, respectively (see Notes 9 and 20). The carrying amount of the Group's AFS investments is ₱197,904,893 and ₱169,255,633 as of March 31, 2010 and December 31, 2009, respectively (see Note 9).

Impairment of nonfinancial assets

The Group determines whether investments in associates, property and equipment and investment properties are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the assets are allocated. Estimating the value in use requires the Group to make estimates of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94,830,129 remains unchanged as of March 31, 2010 and December 31, 2009 respectively. The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flow method. The Group has fully provided an allowance for impairment in its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC is now carried at nil. The carrying amount of

the Group's investments in associates remains unchanged at ₱118,641,693 as of March 31, 2010 and December 31, 2009, respectively (see Note 7).

The carrying amount of the Group's property and equipment is ₱34,945,641 and ₱35,799,085 as of March 31, 2010 and December 31, 2009, respectively (see Note 10). The carrying amount of the Group's investment properties remains unchanged at ₱414,394,525 as of March 31, 2010 and December 31, 2009 (see Note 11).

Judgments

Functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of services and the costs of providing these services.

Classification of financial instruments

The Group exercises judgments in classifying a financial instrument, or its component parts, upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis (see Notes 20 and 21).

Contingencies

In the ordinary course of business, the Group is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon analysis of potential results. Although there can be no assurances, the Group believes, based on information currently available and the advice by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims (see Note 19).

4. Cash and Cash Equivalents

	March 2010	December 2009
Cash on hand and with banks	₱6,337,744	₱2,964,124
Short-term placements	41,899,222	33,563,334
	₱48,236,966	₱36,527,458

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso made for varying periods of up to three months or less depending on the immediate cash requirements of the Group and

earn interest at the respective bank rates from 2.0% to 6.5% in 2009 and 2.75% to 6.5% in 2008. Interest income earned from cash and cash equivalents amounted to about ₱1.2 million and about ₱19.0 million in 2009 and 2008, respectively.

5. Financial Assets at FVPL

Financial assets at FVPL consist of listed securities which are traded in the Philippine Stock Exchange (PSE) and New York Stock Exchange (NYSE). Fair values of listed equity securities are based on quoted market prices in the PSE and NYSE.

Financial assets at FVPL which include unrealized gain/loss on fair value changes is ₱41,626,803 and ₱34,376,068 as of March 31, 2010 and December 31, 2009 respectively.

6. Receivables - net

	March 2010	December 2009
Third parties		
Accrued interest	₱8,699,261	₱7,784,248
Dividend receivable (see Note 7)	4,200,000	34,237,500
Others	683,805	736,492
Related parties:		
Management fees (see Note 16)	45,197,865	45,197,865
Accrued interest (see Note 16)	43,753,772	43,753,772
Others	716,285	589,380
	103,250,988	132,299,257
Less allowance for impairment losses	90,110,187	90,110,187
	₱13,140,801	₱42,189,070

Receivables from third parties consist of mainly of dividend receivable and accrued interest receivable, which is generally on 30 to 90 days' term.

Movements in the allowance for impairment losses on receivables are as follows:

	Third parties	Related Parties (see Note 16)			Total
		Management fees	Accrued interest	Others	
At January 1, 2007	₱1,178,095	₱45,197,865	₱25,194,478	₱37,762	₱71,608,200
Recovery during the year	(557,306)	–	–	–	(557,306)
At December 31, 2007	620,789	45,197,865	25,194,478	37,762	71,050,894
Provision during the year	500,000	–	19,959,293	–	20,459,293
At December 31, 2008	1,120,789	45,197,865	45,153,771	37,762	91,510,187
Written-off during the year	–	–	(1,400,000)	–	(1,400,000)
At March 31, 2010 and December 31, 2009	₱1,120,789	₱45,197,865	₱43,753,771	₱37,762	₱90,110,187

Provision for impairment losses on receivables presented in statements of income amounted was nil in 2009 and ₱20,459,293 in 2008.

7. Investments in Associates

	March 2010	December 2009
Unquoted equity stocks:		
Cost:		
Acquisition cost	₱164,470,640	₱164,470,640
Additional investment	10,500,000	10,500,000
	174,970,640	174,970,640
Accumulated equity in net earnings:		
At beginning of year	45,291,380	45,291,380
Equity in net earnings for the year	33,307,272	33,307,272
Dividends received	(60,486,964)	(60,486,964)
At end of year	18,111,688	18,111,688
	193,082,328	193,082,328
Less allowance for impairment losses	94,830,129	94,830,129
	98,252,199	98,252,199
Advances	20,389,494	20,389,494
	₱118,641,693	₱118,641,693

The Group has equity interest in the unquoted equity stocks of and additional advances to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Carrying amount of Investment	
		2009	2008	2009	2008
MUDC	Philippines	43	43	₱94,830,129	₱94,830,129
Less allowance for impairment losses				(94,830,129)	(94,830,129)
BPO	Philippines	35	35	61,736,094	69,660,201
PTC	Philippines	30	30	56,905,599	65,661,184
				₱118,641,693	₱135,321,385

MUDC

The Group has 43% interest in MUDC. As of December 31, 2009, MUDC has not yet started commercial operations. However, it has obtained the necessary requirements for the signing of a supply agreement with a public utility firm and a purchase agreement with certain oil companies. As of December 31, 2009 and 2008, MUDC has project development costs recorded in its books of about ₱207.1 million. The recoverability of these assets is dependent upon the signing of these agreements and the ultimate success of MUDC's future operation. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt about MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2009 and 2008, MUDC has incurred significant losses, which resulted to a deficit of about ₱435.5 million and about ₱434.4 million, respectively, and capital deficiency of about ₱254.6 million and about ₱253.5 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Additional losses are provided for by MCHC to the extent that it has made payments. The Group has assessed that its investment and advances to MUDC amounting to about ₱94.8 million is impaired since management believes that it is probable that the Group will no longer recover from such investment and advances as of December 31, 2009 and 2008.

Accordingly, the Group provided a full allowance for impairment losses on its receivables from MUDC due to nonrecoverability of the project development costs incurred in 2004.

BPO

BPO is a provider of accounting and finance related services such as payroll services, internal audit, payables processing and others. It is involved in outsourcing business process services in the Philippines, servicing many of the multinational and large corporations operating in the country.

The Group's equity in net earnings from BPO amounted to about ₱12.0 million, about ₱9.5 million, and about ₱2.9 million, in 2009, 2008 and 2007, respectively. Investment in BPO included goodwill of about ₱23.4 million.

The Company received about ₱26.2 million cash dividends from BPO in 2009.

On December 31, 2009, , the BOD of BPO approved the declaration of cash dividends amounting to ₱12.0 million or ₱42.86 per share of BPO's common stocks as of record date December 31, 2009, and will be paid on or before April 15, 2010. Subsequently, the Company recognized dividend receivable/income amounting to ₱4.2 million in 2009 (see Note 6).

PTC

PTC is a global service company outsourcing information technology services from the Philippines. Among others, it offers software servicing, maintenance, testing and development to various clients, mostly in the US. The Group has 30% interest in PTC.

Pursuant to a resolution of PTC's BOD during a special meeting held on December 6, 2007, PTC increased its authorized capital stock from ₱100.0 million to ₱400.0 million. As a result, the Group subscribed to additional 22,500,000 shares at ₱1.00 par value in order to maintain its 30% equity interest in PTC.

The Group's equity in net earnings from PTC amounted to about ₱21.3 million, about ₱19.2 million and about ₱7.7 million in 2009, 2008 and 2007, respectively.

On December 15, 2009, the BOD of PTC approved the declaration of cash dividends amounting to ₱100,125,000 or ₱0.89 per share of PTC's common stocks as of record date December 30, 2009, and will be paid on or before June 30, 2010. Subsequently, the Group collected the dividend receivable amounting to ₱30,037,500 in March, 2010 (see Note 6)

Summarized combined financial information of associates follow:

	2009	2008	2007
Current assets	₱500,154,566	₱447,686,260	₱329,925,142
Noncurrent assets	129,690,718	170,278,593	97,117,196
Total assets	629,845,284	617,964,853	427,042,338
Current liabilities	463,875,359	408,466,465	337,167,528

Noncurrent liabilities	123,333,362	109,687,063	104,562,093
Total liabilities	587,208,721	518,153,528	441,729,621
Revenues	768,026,030	758,598,623	652,956,694
Expenses	646,946,034	668,545,239	620,142,526
Net income	104,224,699	90,053,384	32,814,168

8. HTM Investments

As of March 31, 2010 and December 31, 2009, the Company has HTM investments pertaining to debt securities at amortized costs amounting to ₱119,823,988 and ₱130,816,471, respectively.

HTM investments of the Group earn interest ranging from 7.4% to 10.8% in 2009 and 2008 and have contractual maturity dates of less than 10 years.

In 2008, following the amendments to PAS 39 and PFRS 7, *Reclassification of Financial Assets*, the Group reclassified certain financial assets included under “AFS Investments” account to “HTM investments” account in the 2008 consolidated balance sheet. The recent global credit crunch had prompted the amendments to be issued by the International Accounting Standards Board, and the adoption of these amendments permitted the Group to revisit the existing classification of their financial assets. The Group identified financial assets, eligible under the amendments, for which on July 1, 2008, it had a clear change of intent to hold until maturity rather than to exit or trade in the short term. The disclosures below detailed the impact of the reclassifications on the Group.

On November 26, 2008, the Group’s BOD confirmed and ratified the resolution by the Audit Committee on November 26, 2008, to approve the reclassification of certain financial assets from AFS investments to HTM investments in the financial and regulatory reporting books of the Group effective July 1, 2008. These securities were reclassified based on the criteria and rules laid out in the SEC Memorandum Circular No. 10, Series of 2008 on Amendments to PAS 39 and PFRS 7.

The following table shows the carrying values and fair values of the reclassified assets:

Debt securities	December 31, 2007	July 1, 2008	December 31, 2008	December 31, 2009
Carrying Value	₱209,274,615	₱193,907,662	₱176,046,092	₱130,816,471
Fair Value	209,274,615	193,662,715	138,557,051	136,178,292

As of the reclassification date, effective interest rates on reclassified debt securities ranged from 6.7% to 15.0% with expected recoverable cash flows of about \$4.3 million (equivalent to about ₱193.7 million). Ranges of effective interest rates were determined based on effective interest rates of the investments.

As of July 1, 2008, the unrealized losses on changes in fair value of the Group’s reclassified AFS investments amounted to about ₱25.4 million (including the share of minority interest of about ₱1.3 million), which is presented as “Net unrealized losses on changes in fair value of AFS investments” in the 2008 consolidated balance sheet and is amortized over the remaining life of the investment using the effective interest rate method. If the reclassification had not been made, the Group’s equity would have included an additional unrealized gain on changes in fair value of AFS investments amounting to about ₱24.8 million as of December 31, 2009 and unrealized loss on changes in fair value of AFS investments amounting to about ₱28.3 million as of December 31, 2008.

After reclassification, the Group recognized the amortization of the net unrealized losses on changes in fair value of the reclassified AFS investments of ₱9,690,812 and ₱9,701,561 in 2009 and 2008, respectively and presented under “Amortization of unrealized losses on changes in fair value of AFS investments” in the 2009 consolidated statement of comprehensive income. As of December 31, 2009 and 2008, the unamortized unrealized losses on changes in fair value of the reclassified AFS investments amounted to ₱6,045,007 and ₱15,735,819, respectively.

The current portion of the HTM investments remains unchanged at ₱14,099,112 as of March 31, 2010 and December 31, 2009, respectively.

In March, 2010 HTM investments with face value of \$500,000 (equivalent to about ₱22.78 million) have been disposed.

Interest income earned from HTM investments amounted to about ₱6.3 million and about ₱10.9 million in March, 2010 and December, 2009 respectively.

9. AFS Investments

	March 2010	December 2009
Investment in debt securities	₱187,759,329	₱159,110,069
Investment in equity securities	10,145,564	10,145,564
	₱197,904,893	₱169,255,633

Investment in debt securities

Investments in debt securities are denominated in US dollar and are stated at fair value based on quoted prices. Changes in market values are included in the consolidated statements of comprehensive income. Fixed interest rate ranges from 6.0% to 13.6% per annum. Value date of the investments ranges from August 4, 2009 to December 22, 2009 and with maturity dates ranging from March 9, 2011 to September 4, 2019. Interests on investments are received and settled semi-annually in US dollar.

On July 1, 2008, the Group reclassified its investment in debt securities from AFS investments to HTM investments (see Note 8).

Net unrealized losses on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets as of March 31, 2010 and December 31, 2009 amounted to ₱1,514,935 and ₱2,246,491, respectively.

Interest income earned from AFS investments amounted to ₱5.7 million and about ₱6.4 million in 2009 and 2008, respectively.

Movements in the unrealized gains (losses) on changes in fair value of AFS investments are as follows:

As of March 31, 2010:

	Parent	Minority Interests	Total
Beginning balance	(P2,246,491)	(P118,237)	(P2,364,728)
Changes in fair value of AFS investments	61,989	3,262	65,251
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	669,567	35,240	704,807
Impairment loss on AFS investments			
Ending balance	(P1,514,935)	(P79,735)	(P1,594,670)

As of December 31, 2009:

	Parent	Minority Interests	Total
Beginning balance	(P14,949,028)	(P786,791)	(P15,735,819)
Changes in fair value of AFS investments	3,458,265	182,014	3,640,279
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	9,206,272	484,540	9,690,812
Impairment loss on AFS investments	38,000	2,000	40,000
Ending balance	(P2,246,491)	(P118,237)	(P2,364,728)

Investment in equity securities

Investment in equity securities consist of proprietary club shares and investments in quoted shares of stock which the Group has neither control nor significant influence. The Group recognized provision for impairment losses amounting to P40,000 and P250,000 in 2009 and 2008, respectively.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of December 31, 2009 and 2008.

10. Property and Equipment**As of March 31, 2010:**

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	P47,014,750	P8,058,590	P5,828,221	P2,400,683	P63,302,244
Additions during the year	—	—	3,571,339	55,609	3,626,948
Balances at end of year	47,014,750	8,058,590	9,399,560	2,456,292	66,929,192
Accumulated depreciation:					
Balances at beginning of year	17,396,170	6,270,306	5,073,979	2,389,652	31,130,107
Depreciation	470,147	195,256	181,201	6,840	853,444
Balances at end of year	17,866,317	6,465,562	5,255,180	2,396,492	31,983,551
Net book value	P29,148,433	P1,593,028	P4,144,380	P59,800	P34,945,641

As of December 31, 2009:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱5,828,221	₱2,400,683	₱63,302,244
Additions during the year	—	—	3,571,339	55,609	3,626,948
Balances at end of year	47,014,750	8,058,590	9,399,560	2,456,292	66,929,192
Accumulated depreciation:					
Balances at beginning of year	15,515,580	5,489,281	4,602,142	2,369,705	27,976,708
Depreciation	1,880,590	781,025	471,837	19,947	3,153,399
Balances at end of year	17,396,170	6,270,306	5,073,979	2,389,652	31,130,107
Net book value	₱29,618,580	₱1,788,284	₱4,325,581	₱66,640	₱35,799,085

11. Investment Properties

Investment properties consist of parcels of land held by BAID and its subsidiaries with a total land area of 494,798 square meters located in Barangay Pinamucan, Batangas City. These parcels of land are currently being held by the Group for an undetermined future use.

The carrying amount of the investment properties as of December 31, 2009 and 2008 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be “deemed cost”, and determined on January 4, 2005 by an independent firm of appraisers.

The fair value of investment properties, which has been determined based on valuations performed by Cuervo Appraisers, Inc. as of March 27, 2010, exceeded its carrying costs. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and knowledgeable, willing seller in an arm’s-length transaction at the date of valuation. The aggregate fair value of the land as of December 31, 2009 amounted to about ₱658.3 million.

This account also includes land held by MCHC situated in Fort Bonifacio, Taguig that was previously classified as part of deposits under “Other noncurrent assets”. It was reclassified as investment property in the books carried at cost amounting to ₱46,319,625 upon acquiring the title to the land. This land is currently held by the MCHC for an undetermined future use (see Note 19).

12. Accounts Payable and Accrued Expenses

	March 2010	December 2009
Deposits payable	₱1,011,507	₱1,011,508
Accrued expenses	807,888	633,685
Others	1,064,881	1,128,061
	₱2,884,276	₱2,773,254

Deposits payable pertain to deposits made by tenants for the lease of the Group’s surplus condominium spaces. Accrued expenses include accrual for professional fees. Other payables include withholding tax payable.

13. Retirement Benefits

The Group has an unfunded, defined benefit pension plan covering substantially all of its regular employees. Retirement benefits under the plan are based on a percentage of latest monthly salary and years of credited service.

The latest independent actuarial valuation of the plan as of December 31, 2009, prepared by an independent actuary, is determined using the projected unit credit method in accordance with PAS 19.

The following tables summarize the components of retirement benefit expense recognized in the consolidated statements of income and the unfunded status and amounts recognized in the consolidated balance sheets for the plan.

Composition of retirement benefits expense recognized in the consolidated statements of income are as follows:

	2009	2008	2007
Current service cost	₱353,352	₱389,703	₱375,752
Interest cost on benefit obligation	158,732	122,008	87,806
Net actuarial losses	207	6,792	1,801
Net benefit expense	₱512,291	₱518,503	₱465,359

The amounts recognized in the consolidated balance sheets as retirement benefit obligations are as follows:

	2009	2008
Present value of obligations	₱3,022,933	₱2,499,135
Unrecognized net actuarial losses	(267,237)	(255,730)
Retirement benefit obligations	₱2,755,696	₱2,243,405

Changes in the present value of unfunded defined benefit obligations are as follows:

	2009	2008
Present value of obligations at beginning of year	₱2,284,736	₱1,987,424
Current service cost	353,352	389,703
Interest cost on benefit obligation	158,732	122,008
Net actuarial losses on obligation	226,113	—
Present value of obligations at end of year	₱3,022,933	₱2,499,135

Movements in the retirement benefit obligation recognized in the consolidated balance sheets are as follows:

	2009	2008
Beginning balances	₱2,243,405	₱1,724,902
Net periodic pension costs	512,291	518,503
Ending balances	₱2,755,696	₱2,243,405

The principal actuarial assumptions used in determining retirement benefit obligations for the Group's retirement plan are as follows:

	2009	2008	2007
Discount rate	8.8%	9.0%	7.0%
Salary increase rate	5.0%	3.0%	6.0%

Amounts for the current year and previous four (4) years are as follows:

	2009	2008	2007	2006	2005
Unfunded defined benefit obligations	₱2,755,696	₱2,243,405	₱1,724,902	₱1,259,543	₱797,079
Experience adjustments on plan liabilities - losses (gains)	(228,402)	–	100,019	(97,583)	160,890

As of March 31, 2010, there is no movement in retirement benefit obligation.

14. Income Taxes

The components of the net deferred income tax liabilities are as follows:

	2009	2008
Deferred income tax assets:		
<i>Recognized directly in income:</i>		
Allowance for impairment losses on receivables and AFS investments	₱20,626,093	₱23,575,628
Deferred income tax liabilities:		
<i>Recognized directly in equity:</i>		
Share in revaluation increment on investment properties of MCHC's subsidiaries (see Note 10)	20,584,494	20,584,494
<i>Recognized directly in income:</i>		
Net unrealized foreign exchange gains	20,626,093	23,575,628
	41,210,587	44,160,122
Net deferred income tax liabilities	₱20,584,494	₱20,584,494

No deferred income tax assets were recognized on the following deductible temporary differences because management believes that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

	2009	2008
Allowance for impairment losses on receivables and AFS investments	₱129,303,620	₱120,831,836
Allowance for impairment losses on investments in associates	94,830,129	94,830,129
NOLCO	₱18,690,285	₱18,733,937
Unamortized unrealized losses on changes in fair value of AFS investments	17,409,624	9,271,124
Retirement benefit obligations	2,755,696	2,243,405
Amortized of premium on HTM investments	1,054,380	81,114
MCIT	421,490	1,032,865
	₱264,465,224	₱247,024,410

Reconciliation of income tax expense computed at the statutory income tax rate to provision for (benefit from) income tax shown in the consolidated statements of income follows:

	2009	2008	2007
Provision for (benefit from) income tax at effective statutory tax rate of 30.0% and 35.0% in 2009 and 2008, respectively	₱10,535,685	₱16,040,853	(₱6,542,341)
Additions to (reductions in) income tax resulting from:			
Unrecognized deferred income tax assets	5,877,419	13,239,945	9,144,180
Unallowable EAR	77,206	73,482	75,369
Nondeductible expenses	20,216	420	1,725
Change in recognized deferred income tax assets	–	(492,871)	25,862,819
Effect of changes in tax rates	–	(3,521,205)	5,702,062
Non taxable gain on sale of financial assets at FVPL	(87,000)	–	–
Dividend income exempt from tax	(194,923)	(347,293)	(13,041)
Interest income subjected to final tax	(1,115,863)	(2,061,895)	(8,082,314)
Nontaxable gain (loss) on fair value changes of financial assets at FVPL	(5,068,777)	8,645,047	(6,069,232)
Equity in net earnings of associates	(9,992,182)	(10,044,981)	(3,721,991)
	₱51,781	₱21,531,502	₱16,357,236

As of December 31, 2009, the Group has NOLCO that can be claimed as deduction from future taxable income and MCIT that can be used against payment of regular income tax as follows:

NOLCO:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2006	2007-2009	₱3,419,014	₱–	₱–	(₱3,419,014)	₱–
2007	2008-2010	2,937,095	–	–	–	2,937,095
2008	2009-2011	12,377,828	–	–	–	12,377,828
2009	2010-2012	–	3,375,362	–	–	3,375,362
		₱18,733,937	₱3,375,362	₱–	(₱3,419,014)	₱18,690,285

MCIT:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2006	2007-2009	₱390,690	₱–	(₱343,257)	(₱47,433)	₱–
2007	2008-2010	340,572	–	(272,466)	–	68,106
2008	2009-2011	301,603	–	–	–	301,603
2009	2010-2012	–	51,781	–	–	51,781
		₱1,032,865	₱51,781	(₱615,723)	(₱47,433)	₱421,490

Republic Act (R.A.) No. 9337 was enacted into law which became effective on November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A. are as follows:

- Increased corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009; and
- Increased the nondeductible interest expense rate from 38% to 42% with a reduction thereof to 33% beginning January 1, 2009.

15. Equity

a. Common stock

	March 2010	December 2009
Common stock - ₱1 par value		
Class A		
Authorized - 600 million shares		
Issued and outstanding - 292,610,118 shares	₱292,610,118	₱292,610,118
Class B		
Authorized - 400 million shares		
Issued and outstanding - 189,217,535 shares	189,217,535	189,217,535
	₱481,827,653	₱481,827,653

Class A and B common stockholders enjoy the same rights and privileges, except that Class A shares may be owned by, transferred to and subscribed only by Filipino citizens or corporations, partnerships and associations organized under the laws of the Philippines, of which 60% of the capital stock outstanding is owned by citizens of the Philippines, while Class B shares may be issued, transferred or sold to any person, corporation, partnership or association regardless of nationality.

On November 26, 2000, the BOD approved the issuance, out of the authorized common stock, of 192,413,090 shares at ₱1 par value which will be offered through a pre-emptive stock rights issue and detachable stock warrants, as follows: (a) 96,206,545 shares consisting of 58,377,278 Class A shares and 37,829,267 Class B shares, to be offered in two tranches, the First Tranche consisting of 48,103,272 shares of stock and the Second Tranche consisting of 48,103,273 shares of stock, to which each stockholder may subscribe on a pre-emptive rights basis, and (b) the balance of 96,206,545 shares to be offered through detachable stock warrants, which shall entitle each stockholder to subscribe to one share of stock for every one share of stock of the same class that such stockholder subscribe to out of this stock rights issue.

The Group's application to list additional 192,413,090 common shares with a par value of ₱1 per share through pre-emptive rights issue and detachable subscription warrants was approved by the PSE on February 27, 2002 and by the SEC on April 5, 2002.

The exercise periods and expiration dates of the Group's subscription warrants are as follows:

	Number of Shares	Exercise Periods	Expiration Dates
First Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,633	June 4, 2002 to	June 3, 2007
	<u>48,103,272</u>	June 3, 2007	
Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to	May 8, 2008
	<u>48,103,273</u>	May 8, 2008	
	<u>96,206,545</u>		

Full payment of each subscription under the First Tranche was made within the offer period approved by the PSE and the SEC, and the full payment of each subscription under the Second Tranche shall be due and payable one year from the last day of the offer period. With the full subscription of the Pre-Emptive Rights Stock Offering, the Group's outstanding common stock increased to 481,032,728 common shares of stock, consisting of 291,886,391 Class A common shares and 189,146,337 Class B common shares, all with par value of ₱1 per share.

With the complete exercise of all Detachable Stock Warrants, the Group will have an outstanding common stock of 577,239,273 shares, consisting of 350,263,669 Class A common shares and 226,975,604 Class B common shares, all with par value of ₱1 per share. However, as of December 31, 2007, 723,727 Class A common stock warrants and 71,198 Class B common stock warrants were exercised and 28,464,912 Class A common stock warrants and 18,843,435 Class B common stock warrants expired. As of December 31, 2008, 29,188,639 Class A common stock warrants and 18,914,634 Class B common stock warrants expired due to non-exercise of stock warrants before expiration date. After the expiration of the said warrants, the Group's outstanding common stock amounted to ₱481,827,653 with additional paid-in capital of ₱144,759,977 as of December 31, 2009 and 2008.

The total proceeds of ₱192,413,090, to be raised both from this offering and the exercise of the warrants, will be used to fund the establishment of a subsidiary to engage in internet commerce and to fund the equity requirements for the power plant project being undertaken by MUDC.

b. Treasury shares

	Number of Shares	Cost
At January 1 2009	96,046,827	₱95,762,527
Additions during the year	24,000	29,079
At December 31, 2009	96,070,827	₱95,791,606

In 2002, MCHC subscribed, through this offering, to 47,143,022 Class A shares. On the other hand, PIEI subscribed to 9,762,114 Class A shares and 37,496,379 Class B shares, respectively. In 2005, additional 260,000 Class A shares and 20,000 Class B shares are transferred by the transfer agent to PIEI. For consolidation purposes, the costs of these shares are presented under "Treasury shares" account in the equity section of the consolidated balance sheets.

In a special meeting held on May 22, 2003, the BOD resolved that the period for the payment of the deferred tranche be extended to 60 days from May 9, 2003 to July 9, 2003. If no payment is made within 30 days from July 9, 2003, the shares pertaining to the unpaid subscriptions shall become delinquent. On August 9, 2003 the shares of stock amounting to ₱715,312 have been declared delinquent and sold at public auction on October 9, 2003. There was only one bidder, PIEI, to whom the delinquent shares were sold, and in whose favor a certificate of sale was issued. In 2004, additional 60,000 shares of stock of the Group were sold to PIEI at ₱48,100.

c. Unrealized losses on changes in fair value of AFS investments

Unrealized losses on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets amounted to ₱1,514,935 and ₱2,246,491 as of March 31, 2010 and December 31, 2009, respectively (see Notes 8 and 9).

d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱95,791,606 and ₱95,762,527 as of December 31, 2009 and 2008, respectively.

Also, the retained earnings balance as of December 31, 2009 and 2008 include the revaluation increment on investment properties of ₱62,793,927, which is not available for distribution until realized.

16. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties can be a corporate or an individual entity.

A summary of account balances and transactions with the related parties follows:

Related Parties	Current		Noncurrent	
	Receivables (see Note 6)		Receivables from Related Parties	
	March 2010	December 2009	March 2010	December 2009
MUDC	₱88,977,810	₱88,951,637	₱98,645,783	₱98,271,241
Others	585,069	589,380	583,605	584,105
	89,562,879	89,541,017	99,229,388	98,855,346
Less allowance for impairment losses	(88,989,398)	(88,989,398)	(97,373,076)	(97,373,076)
	₱573,481	₱551,619	₱1,856,312	₱1,482,270

As of March 31, 2010, there is no movement in the allowance for impairment losses on receivables.

Movements in the allowance for impairment losses on receivables from related parties are as follows:

	Current	Noncurrent	Total
At January 01, 2008	₱70,430,105	₱97,373,076	₱167,803,181
Provision for the year	19,959,293	–	19,959,293
At December 31, 2008	90,389,398	97,373,076	187,762,474
Written-off during the year	(1,400,000)	–	(1,400,000)
	₱88,989,398	₱97,373,076	₱186,362,474

- a. MCHC has executed a management agreement (the Agreement) with MUDC and other related parties. The Agreement with MUDC requires MCHC to provide general management services for the operation of the business and affairs of MUDC for a period of five years, renewable for the same periods thereafter under certain terms and conditions, unless terminated earlier by either party after serving the required written notice to the other.

MCHC's BOD approved MUDC's request for suspension of the management fee for the period January 1, 2002 up to the contract's expiration in March 2003. Subsequently, the agreement was terminated in December 2002. As of December 31, 2009 and 2008, management fees receivable from MUDC amounted to about ₱45.2 million (see Note 6). In 2004, the management fee receivable was fully provided with allowance for impairment losses since management believes that this is not likely to be collected in the future.

- b. MCHC has existing non-interest bearing long-term advances to MUDC of about ₱43.8 million and about ₱45.2 million, including accumulated interest not yet paid to MCHC, as of December 31, 2009 and 2008, respectively. In 2004, the Group ceased to accrue interest receivable on the said advances.
- c. MCHC leases out a portion of its condominium unit to PIEI for a period of two years from October 1, 2008 to September 30, 2010. Monthly rentals, inclusive of VAT, amounted to ₱21,381. Lease revenue from rentals of PIEI amounted to about ₱0.2 million in 2009 and 2008.
- d. In 2006, total non-interest bearing long-term advances to related parties amounting to about ₱56.8 million, including the unamortized discount of about ₱23.4 million as of December 31, 2005, was fully provided with allowance for impairment losses, since management believes that the entire balance is not likely to be collected in the future.

Compensation of key management personnel of the Group are as follows:

	2009	2008	2007
Short-term employee benefits	₱6,469,580	₱6,469,580	₱6,469,580
Long-term employee benefits	31,350	31,350	31,350
	₱6,500,930	₱6,500,930	₱6,500,930

17. Earnings (Loss) Per Share

Basic earnings (loss) per share amounts are calculated by dividing net income (loss) for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings (loss) per share amounts are calculated by dividing the net income (loss) for the year attributable to equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income (loss) and share data used in computing basic and diluted earnings (loss) per share computations for the years ended December 31:

	2009	2008	2007
Net income (loss) attributable to equity holders of the parent	₱35,620,671	₱23,284,773	(₱32,157,375)
Weighted average number of ordinary shares outstanding			
for basic earnings (loss) per share	386,036,047	386,065,126	386,143,326
Effect of dilutive stock warrants	—	—	48,103,273

	2009	2008	2007
Adjusted weighted number of shares applicable to diluted earnings (loss) per share	386,036,047	385,780,826	434,246,599
Earnings (loss) per share			
Basic	₱0.092	₱0.060	(₱0.083)
Diluted	0.092	0.060	(0.074)

Class A common shares of 58,377,278 as of December 31, 2007 and 2006 granted to shareholders exercisable at the end of the year have not been included in the calculation of diluted earnings per share because they are anti-dilutive for the current period presented (see Note 14).

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

18. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Company and its subsidiary, MCHC, is to invest in real and personal properties. MCHC has subsidiaries engaged in real estate business which, as of December 31, 2009, have not yet started commercial operations. Accordingly, the Group operates mainly in one reportable business segment which is investing and one reportable geographical segment which is the Philippines.

19. Commitments and Contingencies

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Group believes, based on information currently available and the advice by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Also, MCHC entered into a contract to buy a certain parcel of land within a specifically controlled and planned development area known as the Bonifacio Global City, located in Fort Bonifacio, Taguig, Metro Manila owned by Fort Bonifacio Development Corporation. The Group has made deposits amounting to ₱46,319,625 as of December 31, 2008 included under “Other noncurrent assets” in the consolidated balance sheets. The lot was delivered on March 5, 2009, when the transfer certificate title was obtained and this was subsequently classified as part of the investment property carried at cost in the 2009 consolidated balance sheets (see Note 11).

The Group leases its surplus condominium spaces. Future minimum rental income of about ₱2.3 million from existing rental agreements will be recognized in 2010.

20. Financial Risk Management Objectives and Policies

Risk Management Structure

BOD

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The principal financial instruments of the Group consist of financial assets at FVPL, short-term investments, fixed income deposits, AFS investments and HTM investments. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial assets and liabilities such as cash and cash equivalents, receivables, receivables from related parties and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (i.e., interest rate risk, foreign currency risk and equity price risk). The Group's management reviews and approves policies for managing each of these risks and they are summarized below. The Group also monitors the market price risk arising from all financial instruments. The magnitudes of these risks that have arisen over the year are discussed below.

Credit Risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligation.

The Group is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (i.e., foreign currency denominated debt instruments, short-term investments, fixed income deposits and receivables) to its financial assets.

Credit risk management

In managing credit risk on these investments, capital preservation is paramount. The Group trades only with recognized and creditworthy third parties. For investments in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investments in equity securities represent investments in companies with good dividend track record as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed regularly by the Group's President and Treasurer.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, receivables from third parties and related parties, short-term investments and fixed income deposits, the Group's President and Treasurer monitor these financial assets on an ongoing basis with the result that the Group's exposure to impairment losses is not significant.

Credit risk exposures

At reporting date, the Group's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the consolidated balance sheets.

Credit risk concentration profile

The Group has no significant concentrations of credit risk.

Credit quality

As of March 31, 2010 and December 31, 2009, the credit quality per class of financial assets follows:

March 2010:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
Loans and receivables:					
Cash and cash equivalents	₱48,236,966	₱–	₱–	₱–	₱48,236,966
Short-term investments	10,505,322	–	–	–	10,505,322
Receivables	13,140,801	–	–	90,110,187	103,250,988
Fixed income deposits	4,773,893	–	–	–	4,773,893
Receivables from related parties	1,856,312	–	–	97,373,076	99,229,388
Financial assets at FVPL	41,626,803	–	–	–	41,626,803
HTM investments	119,823,988	–	–	–	119,823,988
AFS investments	197,904,893	–	–	10,574,000	208,478,893
	₱437,868,978	₱–	₱–	₱198,057,263	₱635,926,241

December 2009:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
Loans and receivables:					
Cash and cash equivalents	₱36,527,458	₱–	₱–	₱–	₱36,527,458
Short-term investments	14,907,815	–	–	–	14,907,815
Receivables	42,189,070	–	–	90,110,187	132,299,257
Fixed income deposits	5,137,376	–	–	–	5,137,376
Receivables from related parties	1,482,270	–	–	97,373,076	98,855,346
Financial assets at FVPL	34,376,068	–	–	–	34,376,068
HTM investments	130,816,471	–	–	–	130,816,471
AFS investments	169,255,633	–	–	10,574,000	179,829,633
	₱434,692,161	₱–	₱–	₱198,057,263	₱632,749,424

High grade financial assets

High grade receivables pertain to receivables from related parties and customers with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Other high grade financial assets reflect the investment grade quality of the investments and/or counterparty and realizability is thus assured.

Standard grade financial assets

Receivables from customers that slide beyond the credit terms are classified under standard grade. Other standard grade financial assets are considered moderately realizable.

The carrying amount of the Group's financial assets as at March 31, 2010 and December 31, 2009 and the movement of the allowance used to record the impairment are as follows:

March 2010:

	Receivables	Receivables from related parties	AFS investments	Total
Nominal amounts	₱103,250,988	₱99,229,388	₱208,478,893	₱410,959,269
Less allowance for impairment losses	90,110,187	97,373,076	10,574,000	198,057,263
At March 31, 2010	₱13,140,801	₱1,856,312	₱197,904,893	₱212,902,006

December 2009:

	Receivables	Receivables from related parties	AFS investments	Total
Nominal amounts	₱132,299,257	₱98,855,346	₱179,829,633	₱410,984,236
Less allowance for impairment losses	90,110,187	97,373,076	10,574,000	198,057,263
At December 31, 2009	₱42,189,070	₱1,482,270	₱169,255,633	₱212,926,973

Movement in allowance for impairment losses account:

	Receivables	Receivables from related parties	AFS investments	Total
At January 01, 2008	₱71,050,894	₱97,373,076	₱10,284,000	₱178,707,970
Provision during the year	20,459,293	–	250,000	20,709,293
At December 31, 2008	91,510,187	97,373,076	10,534,000	199,417,263
Provision during the year	–	–	40,000	40,000
Written-off during the year	(1,400,000)	–	–	(1,400,000)
At December 31, 2009	₱90,110,187	₱97,373,076	₱10,574,000	₱198,057,263

Impairment assessment

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are accounts that have been endorsed to the legal department, nonmoving accounts receivable, accounts of defaulted agents and accounts from closed companies.

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱40,000, ₱20,709,293, and nil in 2009, 2008 and 2007, respectively.

Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds.

The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they are due and this is done by primarily investing in highly liquid investments and maintaining a significant amount of cash and cash equivalents and pre-terminable investments in its portfolio.

The following table summarizes the maturity profile of the Group's financial liabilities as of December 31, 2009 and 2008 based on contractual undiscounted cash flows. The table also analyzes

the maturity profile of the Group's financial assets in order to provide a complete view of the Group's contractual commitments. The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity dates.

As of March 31, 2010

	Total carrying value	On demand	< 1 year	Total
Accounts payable and accrued expenses	₱2,591,214	₱–	₱2,591,214	₱2,591,214
Financial assets:				
Cash and cash equivalents	₱48,236,966	₱48,236,966	₱–	₱48,236,966
Short-term investments	10,505,322	10,505,322	–	10,505,322
Receivables	13,140,801	13,140,801	–	13,140,801
Financial assets at FVPL	41,626,803	41,626,803	–	41,626,803
AFS investments	197,904,893	197,904,893	–	197,904,893
Total financial assets	₱311,414,785	₱311,414,785	₱–	₱311,414,785

As of December 31, 2009

	Total carrying value	On demand	< 1 year	Total
Accounts payable and accrued expenses	₱2,590,473	₱–	₱2,590,473	₱2,590,473
Financial assets:				
Cash and cash equivalents	₱36,527,458	₱36,527,458	₱–	₱36,527,458
Short-term investments	14,907,815	14,907,815	–	14,907,815
Receivables	42,189,070	42,189,070	–	42,189,070
Financial assets at FVPL	34,376,068	34,376,068	–	34,376,068
AFS investments	169,255,633	169,255,633	–	169,255,633
Total financial assets	₱297,256,044	₱297,256,044	₱–	₱297,256,044

Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and equity prices. There has been no change in the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group derives majority of its revenue from interest-bearing placements and bonds. Accordingly, the Group is subject to financial risk arising from changes in interest rates. The

Group manages interest rate risk by investing mainly on fixed coupon interest bonds and other investments. By doing so, the Group is assured of future interest revenues from such investments.

Since the Group invests on fixed coupon interest bonds and other investments, the Group is not exposed significantly to cash flow interest rate risk.

The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's equity due to changes in fair values of AFS investments in debt securities (see Note 9):

	March 2010	December 2009
Change in interest rate (in basis points)		
+10%	(P18,775,933)	(P15,911,007)
-10%	P18,775,933	15,911,007

In 2008, the Group has no interest rate risk exposure as a result of the reclassification of its investment in debt securities from AFS to HTM investment category as discussed in Note 8.

b. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign currencies.

The Group holds cash denominated in US dollar for working capital purposes amounting to \$92,308 (P4,174,151) and \$34,909 (P1,329,224) as of March 31, 2010 and December 31, 2009, respectively.

In the normal course of business, the Group enters into transactions denominated in US dollar. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent are as follows:

	March 2010		December 2009	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Cash and cash equivalents	\$92,308	P4,174,151	\$759,537	P35,090,595
Receivables	180,796	8,169,080	166,470	7,690,894
Short-term investments	329,192	15,313,494	281,722	13,015,573
AFS investments	4,152,130	187,759,329	3,443,941	159,110,069
HTM investments	4,273,376	193,239,828	2,831,525	130,816,471
Other noncurrent assets	250,000	11,550,000	250,000	11,550,000
	\$9,277,802	P420,205,882	\$7,733,195	P357,273,602

The Group has no foreign currency denominated monetary liabilities as of March 31, 2010 and December 31, 2009.

The exchange rate of the Philippine peso vis-à-vis the US dollar further strengthened to P46.20 as of December 31, 2009 from P47.52 as of December 31, 2008. As a result of the

translation of these foreign currency denominated assets, the Group had foreign exchange losses of ₱9,945,929 in 2009, foreign exchanges gains of ₱70,445,458 in 2008 and foreign exchange losses of ₱52,796,047 in 2007.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2009, with all other variables held constant, of the Group's 2009 and 2008 income before income tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

US Dollar	Effect on income before income tax
March 2010	
Strengthened by 3%	₱12,606,176
Weakened by 3%	(12,606,176)
December 2009	
Strengthened by 15%	₱10,718,208
Weakened by 15%	(10,718,208)

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

c. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's financial assets at FVPL and investment in AFS equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Group measures the sensitivity of its equity securities by using PSE index fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2009 and 2008, with all other variables held constant, of the Group's income before income tax and equity:

Effect on income before income tax:

	March 2010	December 2009
<i>Financial assets at FVPL:</i>		
Change in stock market index (%)		
+10%	₱2,791,607	₱2,992,025
-10%	(2,791,607)	(2,992,025)

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

Effect on equity:

	March 2010	December 2009
<i>Investment in equity securities:</i>		
Change in club share prices (%)		
+10%	₱259,400	₱249,200
-10%	(259,400)	(249,200)

21. Financial Instruments

Categories of Financial Instruments

As of March 31, 2010:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	Total
ASSETS						
Current:						
Cash on hand and in banks	₱6,337,744	₱–	₱–	₱–	₱–	₱6,337,744
Short-term placements	41,899,222	–	–	–	–	41,899,222
Listed debt securities	–	–	14,099,112	–	–	14,099,112
Listed equity securities	–	41,626,803	–	–	–	41,626,803
Short-term investments	10,505,322	–	–	–	–	10,505,322
Receivable from third parties	12,567,320	–	–	–	–	12,567,320
Receivable from related parties	573,481	–	–	–	–	573,481
Fixed income deposits	4,273,893	–	–	–	–	4,273,893
Prepayments and other current assets	–	–	–	–	5,274,155	5,274,155
Noncurrent:						
Receivable from related parties	1,856,312	–	–	–	–	1,856,312
Investments in associates	–	–	–	–	118,641,693	118,641,693
Fixed income deposits	500,000	–	–	–	–	500,000
Listed debt securities	–	–	105,724,876	187,759,329	–	293,484,205
Listed equity securities	–	–	–	10,145,564	–	10,145,564
Property and equipment	–	–	–	–	34,945,641	34,945,641
Investment properties	–	–	–	–	414,394,525	414,394,525
Other noncurrent assets	–	–	–	–	13,927,181	13,927,181
TOTAL	₱78,513,294	₱41,626,803	₱119,823,988	₱197,904,893	₱587,183,195	₱1,025,052,173

As of December 31, 2009:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	Total
ASSETS						
Current:						
Cash on hand and in banks	₱2,964,124	₱–	₱–	₱–	₱–	₱2,964,124
Short-term placements	33,563,334	–	–	–	–	33,563,334
Listed equity securities	–	–	14,099,112	–	–	14,099,112
Listed equity securities	–	34,376,068	–	–	–	34,376,068
Short-term investments	14,907,815	–	–	–	–	14,907,815
Receivables from third parties	41,637,451	–	–	–	–	41,637,451
Receivable from related parties	551,619	–	–	–	–	551,619
Fixed income deposits	4,637,376	–	–	–	–	4,637,376
Prepayments and other current assets	–	–	–	–	5,239,280	5,239,280
Noncurrent:						
Receivable from related parties	1,482,270	–	–	–	–	1,482,270

Investments in associates	–	–	–	–	118,641,693	118,641,693
Fixed income deposits	500,000	–	–	–	–	500,000
Listed debt securities	–	–	116,717,359	159,110,069	–	275,827,428
Listed equity securities	–	–	–	10,145,564	–	10,145,564
Property and equipment	–	–	–	–	35,799,085	35,799,085
Investment properties	–	–	–	–	414,394,525	414,394,525
Other noncurrent assets	–	–	–	–	13,494,294	13,494,294
TOTAL	₱100,243,989	₱34,376,068	₱130,816,471	₱169,255,633	₱587,568,877	₱1,022,261,038

As of March 31, 2010:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,011,507	₱–	₱1,011,507
Accrued expenses	815,024	–	815,024
Others	764,683	293,062	1,057,745
Noncurrent:			
Retirement benefit obligations	–	2,755,696	2,755,696
Deferred income tax liabilities	–	20,584,494	20,584,494
TOTAL	₱2,591,214	₱23,633,252	₱26,224,466

As of December 31, 2009:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,011,508	₱–	₱1,011,508
Accrued expenses	633,685	–	633,685
Others	945,280	182,781	1,128,061
Noncurrent:			
Retirement benefit obligations	–	2,755,696	2,755,696
Deferred income tax liabilities	–	20,584,494	20,584,494
TOTAL	₱2,590,473	₱23,522,971	₱26,113,444

Fair Values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

Fair values and carrying amount comparison of financial instruments as of March 31 are as follows:

	March 2010		December 2009	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
<i>Financial assets:</i>				
Current:				
Cash and cash equivalents	₱48,236,966	₱48,236,966	₱36,527,458	₱36,527,458
Financial assets at FVPL	41,626,803	41,626,803	34,376,068	34,376,068
Short-term investments	10,505,322	10,505,322	14,907,815	14,907,815
Receivables	13,140,801	13,140,801	42,189,070	42,189,070
Fixed income deposits	4,273,893	4,273,893	4,637,376	4,637,376
HTM investments				
Debt securities	14,099,112	14,510,939	14,099,112	14,510,939
Noncurrent:				

	March 2010		December 2009	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
Receivable from related parties	1,856,312	1,581,610	1,482,270	1,207,568
Fixed income deposits	500,000	566,113	500,000	566,113
AFS investments:				
Debt securities	187,759,329	187,759,329	159,110,069	159,110,069
Equity securities	10,145,564	10,145,564	10,145,564	10,145,564
HTM investments:				
Debt securities	105,724,876	110,674,870	116,717,359	121,667,353

Financial liabilities:

Current:

Accounts payable and accrued expenses:

Deposits payable	1,011,508	1,011,508	1,011,508	1,011,508
Accrued expenses	815,024	815,024	633,685	633,685
Others	764,683	764,683	945,280	945,280

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, based on their notional amounts, reasonably approximate their fair values because these are short-term in nature or the fair value difference is not material. Financial assets at FVPL and AFS investments are stated at their fair values based on quoted prices.

Short-term investments are fixed-rate time deposits denominated in US dollar with a maturity of over three months but within one year from the reporting date and earn annual interest of 2.4% to 4.0% in 2009 and 3.3% to 4.0% in 2008. The carrying value of short-term investments approximates its fair value due to its short-term nature.

Fixed income deposits represent fixed rate time deposits denominated in US dollar and earn interest annually at 3.25% to 10.0% in 2009 and 2008. For fixed income deposits maturing within one year, the carrying amount approximates its fair value due to its short-term nature. For fixed income deposits maturing beyond one year, fair value is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.1% in 2009 and 8.2% to 8.8% in 2008.

The fair value of HTM investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices, at the close of business on the reporting date or last trading day as applicable.

The fair value of receivables from related parties classified as noncurrent in the consolidated balance sheets is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2009 and 8.2% to 8.8% in 2008.

The following table shows financial instruments recognized at fair value, analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of March 31, 2010:

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱41,626,803	₱–	₱–	₱41,626,803
AFS financial assets:				
Private debt securities	187,759,329	–	–	187,759,329
Listed equity securities	10,145,564	–	–	10,145,564
	₱239,531,696	₱–	₱–	₱239,531,696

As of December 31, 2009:

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱34,376,068	₱–	₱–	₱34,376,068
AFS financial assets:				
Private debt securities	159,110,069	–	–	159,110,069
Listed equity securities	10,145,564	–	–	10,145,564
	₱203,631,701	₱–	₱–	₱203,631,701

As of December 31, 2009 and 2008, there were no transfers between Level 1 and Level 2 fair value measurements. Also, there were no transfers into and out of level 3 fair value measurements.

22. Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure, which pertains to its equity, and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for the years ended December 31, 2009, 2008 and 2007. The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio below 40%. The Group includes, within net debt, accounts payable and accrued expenses and payables to related parties, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less unrealized losses on changes in fair value of AFS investments.

	March 2010	December 2009
Accounts payable and accrued expenses	₱2,884,276	₱2,773,254
Less cash and cash equivalents	48,236,966	36,527,458
Net debt	(45,352,690)	(33,754,204)
Equity attributable to equity holders of the parent	951,795,478	949,361,899
Unrealized losses on changes in fair value of AFS investments	1,514,935	2,246,491
Total capital	953,310,413	951,608,390
Total capital and net debt	₱907,957,723	₱917,854,186
Gearing ratio	(5.00%)	(3.68%)

23. Note to Statements of Cash Flows

In 2008, the noncash activities pertain to the reclassification of investments in debt and equity securities of about ₱193.7 million from AFS investment to HTM investment on July 1, 2008 as discussed in Notes 8 and 9.

In 2009, noncash activities pertain to the reclassification of deposits under “other noncurrent asset” amounting to about ₱46.3 million to investment properties when the certificate of title was obtained by the Group (see Notes 11 and 19).

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
AS OF MARCH 31, 2010

Name	Beginning Balance	Additions	Deductions		Current 30 days	60 days or over	Over 120 days	Ending Balance
			Amount Collected	Amount Written-Off				
Magellan Capital Realty Development Corp.	14,064						14,064	14,064
Magellan Capital Corporation	260,144	1,100				1,100	260,144	261,244
Magellan Capital Trading Corporation	14,064						14,064	14,064
Pointwest Technologies Corp.	(250)	3,240	3,240				(250)	(250)
Business Process Outsourcing International	3,852	275,958	274,215		5,595			5,595
Pinamucan Power Corp.	126	500				500	126	626
	292,000	280,798	277,455		5,595	1,600	288,148	295,343

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AUDITORS:

Sycip Gorres Velayo & Co.
Certified Public Accountants
6760 Ayala Avenue, Makati City 1226

TRANSFER AGENT:

RCBC Stock Transfer
Ground Floor, West Wing
Grepalife Building
Sen. Gil Puyat Avenue
Makati City

LISTED AT:

Philippine Stock Exchange, Inc.
PSE Center, Tektite Towers
Julia Vargas Avenue, Ortigas Center
Pasig City

BANKERS:

BANK OF SINGAPORE

22nd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, 1226 Makati City

BANK OF THE PHILIPPINE ISLANDS

Ortigas Branch
Benpres Building, Ortigas Center
Pasig City

CHINA BANKING CORPORATION

Balintawak-Boni Branch
Balintawak, Quezon City

BDO PRIVATE BANK

27th Floor, Ayala Tower
Ayala Avenue, Makati City

SECURITY BANK

Greenhills Branch
37 Greenhills Mansions
Anapolis Street, Greenhills
San Juan City

METROPOLITAN BANK & TRUST CO.

Meralco Branch
Ortigas Building, Ortigas Avenue
Pasig City

PHILIPPINE BANK OF COMMUNICATIONS

Meralco Avenue Branch
Ground Floor, Horizon Condominium
Ortigas Center, Pasig City

ANNUAL REPORT ON SEC FORM 17-A

The corporation undertakes to provide without charge to the shareholders or to each person solicited, on the written request of any such person, a copy of the Annual Report on SEC Form 17-A. Said written request, may be directed to:

ATTY. FINA C. TANTUICO
Corporate Secretary
F&J Prince Holdings Corporation
5th Floor, Citibank Center
8741 Paseo de Roxas, Makati City