2011

Management Report

F & J Prince Holdings Corporation

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 2012 are as follows:

QUARTER; YEAR	CLASS "A" (in Php)		CLASS "B" (in Php)	
	High	Low	High	Low
1st quarter, 2010	1.42	0.93	2.70	1.62
2nd quarter, 2010	1.00	1.00	1.56	1.02
3rd quarter, 2010	1.72	1.00	No trades for the quarter	
4th quarter, 2010	1.25	0.93	No trades for the quarter	
1st quarter, 2011	1.30	0.95	1.57	1.56
2nd quarter, 2011	1.48	1.03	1.45	1.15
3rd quarter, 2011	2.20	1.25	2.48	1.25
4th quarter, 2011	1.99	1.36	2.46	1.27
1st quarter, 2012	4.19	1.96	4.00	1.98

Note 1: Dividends of ₱0.07 per share were declared and paid by the company in 2011. Dividends of ₱0.05 per share were declared and paid by the company in 2010.

Note 2: 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 3: Latest market price traded was ₱2.62 per share for Class A shares transacted on May 21, 2012; and ₱2.51 per share for Class B shares transacted on May 18, 2012.

Number of Shareholders

As of May 15, 2012, the Registrant had Five Hundred Twenty Three (523) stockholders of record, as follows: Class "A" shares – Four Hundred Seventy Two (472) shareholders and Class "B" shares – Fifty One (51) shareholders.

Dividends

Dividends of ₱0.07 per share were declared and paid in 2011. Dividends of ₱0.05 per share were declared and paid by the company in 2010.

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, 2011 was ₱69,330,374.00.

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Management Report

Annual Stockholders' Meeting

July 17, 2012

Contents

REPORT OF THE CHAIRMAN AND PRESIDENT

The Registrant's consolidated total revenue from continuing operations increased by 31% in 2011 to ₱122.8 million from ₱93.7 million in 2010. This does not include the extraordinary income after tax of ₱610.3 million derived from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Most of the increase in revenue was accounted for by the 74% increase in interest income from ₱29.5 million in 2010 to ₱51.4 million in 2011. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 10.8% to ₱62.4 million in 2011 from ₱56.3 million in 2010 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱3.4 million in 2011 from ₱2.8 million in 2010 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been improving. Rental income also increased to ₱3.2 million in 2011 from ₱2.6 million in 2010 as a previously vacant office unit was rented out. Dividend income increased slightly to ₱0.9 million in 2011 from ₱0.8 million in 2010. Gain on disposal of transport equipment and of surplus equipment accounted for the balance of the improvement in total consolidated revenue.

Total consolidated expenses of the Registrant was almost unchanged at ₱36.2 million in 2011 compared to ₱36.1 million in 2010. Unrealized foreign exchange losses of ₱11.6 million in 2011 was lower than the ₱16.0 million in 2010. However, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits offset the improvement in unrealized FX losses. The other items in consolidated expenses only moved slightly compared to 2010 so that total consolidated expenses was almost the same in 2011 as in 2010.

As a result of the above, total consolidated income before tax from continuing operation in 2011 totalled ₱86.6 million, an improvement of 50.6% over the ₱57.5 million in 2010. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱78.9 million in 2011, a 41% improvement over the ₱55.9 million in 2010.

However, when we include the ₱610.3 million after tax income from the sale of the BAID shares, total consolidated net income for 2011 increased substantially to ₱689.1 million compared to ₱55.3 million in 2010. Net income attributable to equity holders of the parent from continuing operations totaled ₱78.1 million while net income from discontinued operations (from the sale of the BAID shares) attributable to equity holders of the Registrant totalled ₱579.8 million in 2011. In sum, total net income attributable to equity holders of the Registrant was ₱657.8 million compared to ₱55.0 million in 2010.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱31.3 million in 2011 compared to ₱0.3 million in 2010.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2011, the Registrant's consolidated cash and cash equivalent totaled over ₱1 billion compared to ₱32.7 billion as of December 31, 2010. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱15.1 million compared to total equity of ₱1.7 billion as of the end of 2011.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. 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 from time to time 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 2011 totalled ₱1,042 million compared to ₱32.6 million at the end of 2010 while total current assets totalled ₱1.17 billion at year-end 2011 compared to ₱135.3 million at year-end 2010. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations 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.

The following is a detained discussion of the company direct and indirect subsidiaries and its affiliated associates:

MAGELLAN CAPITAL HOLDINGS CORPORATION (MCHC)

Magellan Capital Holdings Corporation (MCHC), your Company's 95% owned subsidiary, is involved in the development of and investment in infrastructure and power generation projects. Established in 1990, MCHC has ₱689 million in paid-in capital and over ₱1,587 million in consolidated shareholders' equity as of December 31, 2011. 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 2011 was ₱1,601.9 million compared to ₱973.6 million at end of 2010. The primary reason for the jump in assets was the substantial gain from the sale of MCHC's shares of Batangas Agro-Industrial Development Corp. (BAID) of ₱610.3 million after tax. MCHC's consolidated revenues for the year 2011 totaled P60.8 million, an increase of 48% over 2010. The increase was due mainly to an increase in interest income from ₱27.9 million 2010 to ₱49.1 million in 2011. The interest income derived from proceeds of the sale of the BAID shares accounted for the sharp increase. Total consolidated operating expenses of MCHC increase from ₱33.4 million in 2010 to ₱37.8 million in 2011 due mainly to a ₱5.0 million provision for legal obligation. As a result of the above, net income after tax from continuing operation of MCHC totaled ₱15.6 million in 2011 from ₱6.3 million in 2010. Including the gain from the sale of the BAID shares, MCHC's total net income in 2011 totaled ₱625.8 million from ₱5.7 million in 2010. As a result of the above, stockholder's equity of MCHC at the end of 2011 totaled ₱1,587.6 million from ₱946.4 million at the end of 2010.

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 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. The other two units available for lease have also been rented out. MCHC also owns a 985 square meter lot in Fort Bonifacio that it intends to develop 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 ₱253 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)

Until July 2011, MCHC owned 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. In July 2011, MCHC sold all its shares in BAID to J.G. Summit Holdings, Inc.

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 700 professionals and revenues in 2011 of over US$19 million. PTC had record revenue and profits in 2011.

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 500 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 2011 as its revenues has expanded to over ₱300 million.

CONCLUSION

Your Company generated a consolidated net profit of over ₱689.1 million in 2011 or 1250% higher than the ₱55.3 million generated in 2010. The Company's outsourcing affiliates continue to perform well and generate good earnings. In addition, the Company is looking to increase its investment in income producing property such as developing its lot in Fort Bonifacio into a building generating attractive lease income. It is also looking to acquire other income producing properties to increase the Company's income from continuing operations. The Company will be carefully and prudently evaluating other 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") which was the result of the merger of the Manila and Makati Stock Exchanges.

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 ₱201.3 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
Magellan Capital Trading, Inc.	04 January 1991	Trading
Magellan Capital Realty Development Corporation	14 November 1990	Realty

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 2011

	Consolidated Total Revenue	Percentage Breakdown
Equity in Net Earnings of Associates	₱ 62,373,976	50.8%
Interest Income	51,436,143	41.9%
Fair Value Gains on Financial Assets at FVPL	3,446,692	2.8%
Rent	3,232,389	2.6%
Dividend Income	869,051	0.7%
Gain on Disposal of PP	311,961	0.3%
Others	1,107,066	0.9%
Total	**₱ 122,777,548**	**100.00%**

Breakdown of Revenue for the year 2010

	Consolidated Total Revenue	Percentage Breakdown
Equity in Net Earnings of Associates	₱ 56,304,636	60.1%
Interest Income	29,490,392	31.5%
Fair Value Gains on Financial Assets at FVPL	2,841,147	3.0%
Rent	2,564,251	2.7%
Gain on Disposal of AFS and HTM Investments	1,171,222	1.3%
Dividend Income	772,395	0.8%
Gain on Disposal of Transport Equipment	245,666	0.3%
Others	277,067	0.3%
Total	**P93,666,776**	**100.00%**

The Registrant's consolidated revenue in 2011 increased by 31.1% to ₱122.8 million from ₱93.7 million in 2010. Most of the increase can be attributed to sharply higher interest income which increased by 74% to ₱51.4 million in 2011 from ₱29.5 million in 2010. This was due mainly to interest income from the proceeds of the sale of the shares of Batangas Agro-Industrial Development Corporation (BAID) to J.G. Summit Holdings, Inc. by Magellan Capital Holdings Corporation. The proceeds were invested mostly in Special Deposit Account (SDA), facility of the Bangko Sentral Ng Pilipinas (BSP) and classified in the financial statements under cash and cash equivalents. Equity in net earnings of associates also increased by 10.8% from ₱56.3 million in 2010 to ₱62.4 million in 2011 as both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates, continued to show improvement in earnings. Rental income increased from ₱2.8 million in 2010 to ₱3.4 million in 2011 as a previously vacant office unit was rented out during 2011. Dividend income also increased slightly in 2011 to

₱0.9 million from ₱0.8 million in 2010. Other income rose sharply to ₱1.1 million in 2011 from ₱0.5 million in 2010 offsetting the drop in gain on disposal of AFS and HTM Investments.

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. 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 2011.

(b) Real Estate Holding and Development Companies

Aside from its interest in MUDC, MCHC also owns 100% interest in Pinamucan Industrial Estates, Inc. ("PIEI"). PIEI is holding mainly investments in bonds and stocks funded from proceeds of prior land sale.

Until July 2011, MCHC also owned 100% of the shaes of Batangas Agro-Industrial Development Corporation (BAID). 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.

In July, 2011, MCHC sold all its shares in BAID to J.G. Summit Holdings, Inc.

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 Seven Hundred (700) IT Professionals and Support Staff. PTC's revenue in 2011 exceeded Nineteen million U.S. Dollars (US$19 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 500 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 2011 exceeded P300 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")*

BPO 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 ₱662,500.00 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 ₱100,000.00 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).

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 the four (4) remaining units. One of the units has been leased by Business Process Outsourcing International (BPOI) since February 16, 2009. Three other units are leased to Cathay United Bank, one of the largest banks in Taiwan and to two other lessees.

(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.

As of 31 December 2011, the above land and properties are not subject to any mortgages, liens or encumbrances.

The Registrant may acquire or purchase additional property in the next twelve (12) months.

LEGAL PROCEEDINGS

There are no proceedings involving, and to the best of knowledge threatened against the Registrant. As of May 15, 2011, none of the current directors, or nominees for election as director, executive officer, underwriter or control person of the Registrant has been involved in or in the subject of any bankruptcy petition, conviction by final judgment, or is the subject of any order judgment or decree, or involved in any violation of a securities of commodities law.

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 ₱41,021.50 (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 ₱121,500.00 (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 ₱40,000.00. 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 from continuing operations increased by 31% in 2011 to ₱122.8 million from ₱93.7 million in 2010. This does not include the extraordinary income after tax of ₱610.3 million derived from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Most of the increase in revenue was accounted for by the 74% increase in interest income from ₱29.5 million in 2010 to ₱51.4 million in 2011. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 10.8% to ₱62.4 million in 2011 from ₱56.3 million in 2010 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱3.4 million in 2011 from ₱2.8 million in 2010 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been improving. Rental income also increased to ₱3.2 million in 2011 from ₱2.6 million in 2010 as a previously vacant office unit was rented out. Dividend income increased slightly to ₱0.9 million in 2011 from ₱0.8 million in 2010. Gain on disposal of transport equipment and of surplus equipment accounted for the balance of the improvement in total consolidated revenue.

Total consolidated expenses of the Registrant was almost unchanged at ₱36.2 million in 2011 compared to ₱36.1 million in 2010. Unrealized foreign exchange losses of ₱11.6 million in 2011 was lower than the ₱16.0 million in 2010. However, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits offset the improvement in unrealized fx losses. The other items in consolidated expenses only moved slightly compared to 2010 so that total consolidated expenses was almost the same in 2011 as in 2010.

As a result of the above, total consolidated income before tax from continuing operation in 2011 totalled ₱86.6 million, an improvement of 50.6% over the ₱57.5 million in 2010. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱78.9 million in 2011, a 41% improvement over the ₱55.9 million in 2010.

However, when we include the ₱610.3 million after tax income from the sale of the BAID shares, total consolidated net income for 2011 increased substantially to ₱689.1 million compared to ₱55.3 million in 2010. Net income attributable to equity holders of the parent from continuing operations totaled ₱78.1 million while net income from discontinued operations (from the sale of the BAID shares) attributable to equity holders of the Registrant totalled ₱579.8 million in 2011. In sum, total net income attributable to equity holders of the Registrant was ₱657.8 million compared to ₱55.0 million in 2010.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱31.3 million in 2011 compared to ₱0.3 million in 2010.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2011, the Registrant's consolidated cash and cash equivalent totaled over ₱1 billion compared to ₱32.7 billion as of December 31, 2010. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱15.1 million compared to total equity of ₱1.7 billion as of the end of 2011.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. 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 from time to time 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 2011 totalled ₱1,042 million compared to ₱32.6 million at the end of 2010 while total current assets totalled ₱1.17 billion at year-end 2011 compared to ₱135.3 million at year-end 2010. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations 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:

(₱000)	YEAR 2011	PERCENTAGE	YEAR 2010	PERCENTAGE	YEAR 2009	PERCENTAGE
Equity in net earnings of associates	₱ 62,374	50.8%	₱ 56,305	60.1%	₱ 33,307	44.7%
Interest Income	51,436	41.9%	29,490	31.5%	19,840	26.6%
Fair value gains of Financial Assets at FVPL	3,447	2.8%	2,841	3.0%	16,896	22.7%
Rent	3,232	2.6%	2,564	2.7%	2,520	3.4%
Dividend Income	869	0.7%	772	0.8%	966	1.3%
Gain on Disposal of Transport Equipment	312	0.3%	246	0.3%	-	-
Gain on Disposal of AFS and HTM Investments	-	-	1,171	1.3%	-	-
Gain on Disposal of Financial Assets at FVPL	-	-	-	-	290	0.4%
Others	1,107	0.9%	277	0.3%	595	0.8%
Total from continuing operation	**₱122,777**	**100%**	**₱ 93,666**	**100.0%**	**₱ 74,904**	**100.0%**

Because it is a holding company, the Registrant derives the bulk of its revenue from its equity in net earnings of associates which in 2011 accounted for over half of consolidated total revenues from continuing operations. The Registrant's outsourcing affiliates have been increasing their earnings in the last few years. As a result, the Registrant's share in their net earnings has grown from ₱33.3 million in 2009 to ₱56.3 million in 2010 and ₱62.4 million in 2011. Interest income also increased sharply in 2011 to P51.4 million from ₱29.5 million in 2010 and ₱19.8 million in 2009. The big jump in 2011 was due to interest earnings on the proceeds of the sale of the BAID shares. Interest income was the second largest contributor to total consolidated revenue at over 40%. As the above shows, consolidated total revenue from continuing operations has been steadily increasing year on year since 2009. In 2011, total consolidated revenue increased by 31% over 2010 while in 2010 it increased by 26% over 2009.

Increasing equity in net earnings of associates and interest income accounted for most of the increase. In the future, we would expect rental income to gradually increase as the Registrant and its subsidiary increases its portfolio of income producing properties by developing its land in Fort Bonifacio into an income producing building and by acquiring additional income producing properties.

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

(000)	YEARS ENDED DECEMBER 31					
	YEAR 2011	PERCENTAGE	YEAR 2010	PERCENTAGE	YEAR 2009	PERCENTAGE
From continuing operations						
Revenue	₱122,777	100.0%	₱ 93,667	100.0%	₱ 74,414	100.0%
Expenses	36,168	29.5%	36,143	38.6%	38,156	51.3%
Net Income Before Tax	86,609	70.5%	57,524	61.4%	36,258	48.7%
Tax	(7,755)	(6.3%)	(1,602)	(1.7%)	(594)	(0.8%)
Net Income After Tax from continuing operation	78,854	64.2%	55,921	59.7%	35,664	(47.9%)
Net Income from discontinued operations	610,276	64.20%	(605)	(0.6%)	(597)	(0.8%)
Total Net Income	**₱689,130**	**561.2%**	**₱ 55,316**	**59.1**	**₱ 35,067**	**47.1**
Attributable to Stockholders of Registrant	657,838		55,033	58.8%	35,621	47.5%
Non-Controlling Interest	31,292		283	0.3%	(554)	(0.7)

As the above shows, net income from continuing operation has increased sharply and steadily from ₱35.7 million in 2009 to ₱55.9 million in 2010 and to ₱78.9 million in 2011, or increases of 56.6% in 2010 and 41.1% in 2011. In addition, in 2011, there was an extraordinary income from the sale of BAID shares of ₱610.3 million after tax which increased the total net income for 2011 to ₱689.1 million or an increase of 1246% over 2010. The net income in 2011 attributable to stockholders of the Registrant was ₱657.8 million while ₱31.3 million was attributable to non-controlling interests, namely minority shareholders of Magellan Capital Holdings Corporation. The net income attributable to stockholders of the Registrant in 2011 was over 136% of the paid-in capital of the Registrant as of the end of 2011.

Earnings per share. The earnings per share in 2011 amounted to ₱1.708 per share of which ₱0.203 per share was from continuing operations while 1.505 per share was from the sale of the BAID shares. In comparison, earnings per share from continuing operations was ₱0.144 per share in 2010 and ₱0.094 per share in 2009. The earnings per share are adjusted to reflect the shares held by the Registrant's subsidiaries which are classified as treasury shares in the Consolidated Financial Statements.

Current-Ratio. Current Ratio (current assets divided by current liabilities) which measures the liquidity position of the Registrant went up sharply at December 31, 2011 to 105 x from 34.7 x at the end of 2010 reflecting the increased liquidity that resulted from the sale of the BAID shares. The Registrant's liquidity position is very strong and gives it substantial resources to pursue its projects.

Book value per share. The Registrant's book value per share (excluding treasury shares owned by subsidiaries of the Registrant) increased sharply to ₱4.15 per share at the end of 2011 from ₱2.58 at year-end 2010 and ₱2.46 at year-end 2009 due to the substantial net income in 2011.

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.

The audited consolidated balance sheet as of December 31, 2011 and December 31, 2010 and audited consolidated income statements for the years 2011, 2010 and 2009 are shown in the attached Audited Financial Statements. The accounts are discussed below in more detail.

OPERATING RESULTS

Revenues. In the year ended December 31, 2011, total consolidated revenues from continuing operations totalled ₱122.8 million compared to ₱93.7 million in 2010 and ₱74.4 million in 2009. The reasons for the change have been discussed in the revenue generation section earlier in this Report.

Expenses. Total consolidated operating expenses barely increased to ₱36.2 million in 2011 from the ₱36.1 million in 2010 due to the reasons discussed earlier in this Report. The consolidated operating expenses in 2009 was much higher at ₱81.3 million due mainly to provision for impairment losses and for fair value losses on financial assets at FVPL.

Net Income Before Tax. As a result of the movement in revenues and expenses discussed in the preceding sections, net income before tax from continuing operations totalled ₱86.6 million in 2011 compared to ₱57.5 million in 2010 and ₱36.3 million in 2009.

Provision For Income Tax. In 2010, 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 and interest income subject to final tax. In addition, MCHC used up its available NOLCO in 2010. In 2011, provision for income tax increased sharply due to higher interest, rental and other income. There was a provision for deferred taxes of ₱20.6 million in 2009.

Net Income After Tax. As a result of the provision for income tax discussed above, the Registrant had a consolidated net income after tax from continuing operations of ₱78.9 million in 2011 compared to ₱55.9 million in 2010 and ₱35.7 million in 2009. In 2011, there was an additional net income of ₱610.3 million from the sale of discontinued operation (sale of the BAID shares) which increased net income for 2011 to ₱689.1 million.

BALANCE SHEET ACCOUNTS

The following comparative financial analysis is based on audited consolidated balance sheets as of December 31, 2011, December 31, 2010 and December 31, 2009.

ASSETS

Current Assets. Total current assets at year-end 2011 totalled ₱1,170 million compared to ₱135.3 million at year-end 2010 and ₱152 million at year-end 2009. The proceeds from the sale of the BAID shares resulted in a sharp increase in cash and cash equivalents which totalled ₱1,042 million at year-end 2011 compared to ₱32.7 million at year-end 2010 and ₱36.5 million at year-end 2009. Financial assets at Fair Value through Profit or Loss (FVPL) totalled ₱52.4 million at year-end 2011 from ₱44.6 million at year-end 2010 and P34.4 million at year-end 2009 as the prices of listed stock investments owned by the Registrant and its subsidiary improved in the last two years. Short-term investments further dropped to nil at year-end 2011 from ₱6.8 million at year-end 2010 and ₱14.9 million at year-end 2009 as funds were shifted from low yielding bank deposits to longer maturity but higher yielding bond investments. Receivables also increased to ₱58.3 million at year-end 2011 from ₱46.1 million at year-end 2010 and P42.2 million at year-end 2009 due mainly to dividend receivables from Pointwest Technologies Corporation and Business Process International, Inc. Higher AFS Investments under current assets which are bonds which mature in less than one year from balance sheet date increased to ₱12.3 million at year-end 2011 from nil at year end 2010 and year-end 2009. Prepayments and other assets increased slightly to ₱5.3 million at year-end 2011 from ₱5.2 million at year-end 2010 and year-end 2009.

Non-current assets. Total non-current assets at year-end 2011 totalled ₱522.2 million versus ₱937.1 million at year-end 2010 and ₱870.3 million at year-end 2009. Most of the decrease was due to the sale of the BAID shares which were carried on the books at ₱367.7 million. In addition, AFS Investments net of current portion dropped to ₱284.3 million at year-end 2011 from ₱335.6 million at year-end 2010 due to the shift of some investments to the current portion as well as due to provision for drop in bond prices. However, the drop in bond prices is believed to be temporary and would be reversed by possible price recovery or by full payment upon maturity of the bonds. In 2010, AFS Investments increased to ₱335.6 million from ₱169.3 million at year-end 2009 due to reclassification of Held to Maturity Investments to AFS Investments.

Total assets. As a result of the movement in the accounts described above, total consolidated assets of the Registrant at year-end 2011 totalled ₱1,692.8 million compared to ₱1,072.4 million at year-end 2010 and ₱1,022.3 million at year-end 2009.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities increased to ₱11.2 million at year-end 2011 from ₱3.9 million at year-end 2010 and ₱2.8 million at year-end 2009 mainly due to increase in income tax payable to ₱2.9 million at year end 2011 and a provision for legal obligation of ₱5 million.

Non-Current Liabilities. Non-current liabilities decreased to ₱4.0 million at year-end 2011 from ₱23.30 million at year-end 2010 and ₱23.3 million at year-end 2009 due mainly to decrease in deferred taxes which dropped to nil from ₱20.4 million at year end 2010. The deferred tax liability was attributable to the increase in fair value of BAID's land holdings and this was eliminated due to the sale of BAID shares by MCHC.

Stockholder's Equity. Total Stockholder's Equity Attributable to Equity Holders of the Registrant increased to ₱1,599.5 million at year-end 2011 from ₱996.8 million at year end 2010 and ₱949.4 million at year-end 2009. This was due mainly to the net income in 2011 attributable to equity holders of the Registrant of ₱689.1 million. Equity attributable to minority shareholders of MCHC totalled ₱78.2 million at year end 2011 compared to ₱48.0 million at year-end 2010 and ₱46.8 million at year-end 2009. As a result, total stockholders equity at year-end 2011 stood at ₱1,677.6 million compared to ₱1,044.7 million at year-end 2010 and ₱996.2 million at year-end 2009.

(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 ₱1,042 million at year end 2011 compared to ₱32.7 million at year end 2010 and ₱36.5 million at year-end 2009. 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.

(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

(1) External Audit Fees and Services

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

	2009	2010	2011
Registrant	₱ 185,000	₱ 195,000	₱ 195,000
MCHC	287,000	301,000	301,000
Subsidiaries of MCHC	91,540	96,117	37,739
MUDC	19,448	20,420	21,442

Note: Fees for the subsidiaries of MCHC fell in 2011 due to the sale of BAID and its subsidiaries in July 2011.

b) Tax Fees: None
c) All Other Fees: None
d) Upon the recommendation of the Audit Committee, the Board approved the audit fees and nomnination of SGV & Co as external auditor for the year 2012.

Financial Statements

The Statement of Management's Responsibility along with Audited Consolidated Financial Statements as of December 31, 2011 are 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 July 17, 2012. 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

Dividends of ₱0.07 per share were declared and paid in 2011. Dividends of ₱0.05 per share were paid in 2010.

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, 2011 was ₱69,330,374.00.

TOP 20 STOCKHOLDERS OF THE REGISTRANT

The top twenty (20) stockholders of each class of the common equity of the Registrant as of May 15, 2012 are as follows:

CLASS "A"

	NAME OF STOCKHOLDER	NUMBER OF SHARES	PERCENTAGE[1]
1	PCD Nominee Corporation	70,965,227	24.25%
2	Magellan Capital Holdings Corporation	47,143,022	16.11%
3	Consolidated Tobacco Industries of the Philippines, Inc.	43,052,023	14.71%
4	Vructi Holdings Corporation	34,240,628	11.70%
5	Center Industrial and Investment, Inc.	23,991,000	8.20%
6	Robert Y. Cokeng	15,501,072	5.30%
7	Johnson Tan Gui Yee	15,371,747	5.25%
8	Victorian Development Corporation	12,085,427	4.13%
9	Pinamucan Industrial Estates, Inc.	9,772,114	3.34%
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	Betty C. Dy	1,100,000	0.38%
14	Johnson U. Co	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%

[1] Percent of outstanding Class A shares

CLASS "B"

	NAME OF STOCKHOLDER	NUMBER OF SHARES	PERCENTAGE[2]
1	Essential Holdings Limited	139,778,670	73.87%
2	Pinamucan Industrial Estates, Inc.	37,496,379	19.82%
3	PCD Nominee Corporation (F)	5,582,191	2.95%
4	Joam Investments Corporation	4,993,890	2.64%
5	Metro-Agro Industrial Supplies	270,144	0.14%
6	J.M. Barcelon & Co., Inc.	237,500	0.13%
7	PCD Nominee Corporation (NF)	110,000	0.06%
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	John Gates	50,400	0.03%
13	Lourdes B. Pablo	50,000	0.03%
14	Rufino B. Tiangco	30,392	0.02%
15	Chua Siu Le	30,000	0.02%
16	Natividad Chua	20,000	0.01%
17	Antonio Chua	20,000	0.01%
18	Tim Go	20,000	0.01%
19	Librado Calilung	20,000	0.01%
20	Rogelio Dela Cruz	20,000	0.01%

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 warrants outstanding as of the end of December, 2011.

[2] Percent of outstanding Class B shares

DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON CORPORATE GOVERNANCE

In Compliance with SEC Memorandum Circular No. 2, dated April 05, 2002, the Company submitted its Manual on Corporate Governance on August 29, 2002 as approved by its Board of Directors in a meeting held on August 14, 2002, which basically adopted the SEC's Model Manual. Since the Manual's effectivity on January 01, 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 February 11, 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.

On February 22, 2011, the Company submitted its Revised Manual on Corporate Governance pursuant to SEC Memorandum Circular No. 6, Series of 2009.

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

Mark Ryan K. Cokeng

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

Mark Ryan K. Cokeng
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, 60 years old, Filipino citizen.
Chairman, President & Chief Executive Officer

Re-elected on July 28, 2011 for a one-year term. Director and Officer since 1996.

President & Chief Executive Officer, Magellan Capital Holdings Corporation, Magellan Utilities Development Corporation, 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); Chairman, 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., 58 years old, Filipino citizen.
Vice-Chairman and Director

Re-elected on July 28, 2011 for 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, 59 years old, Filipino citizen.
Vice-President, Treasurer & Chief Financial Officer

Re-elected on July 28, 2011 for a one-year term. Director and Treasurer since 1996.

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

EMETERIO L. BARCELON, S.J., 84 years old, Filipino citizen.
Senior Vice-President and Director

Re-elected on July 28, 2011 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.

MARK RYAN K. COKENG, 26 years old, Filipino citizen.
Assistant Treasurer and Director

Elected on July 28, 2011 for a one-year term.

Assistant Treasurer and Director, Magellan Capital Holdings Corporation; *Director and Treasurer*, Magellan Capital Corporation; *Director*, IPADS Developers, Inc.; Bachelor of Arts in Economics and Statistics, Boston University.

MARY K. COKENG, 59 years old, Filipino citizen.
Director

Re-elected on July 28, 2011 for a one-year term. Director since 2008.

Director, Essential Holdings, Limited, *Director*, Magellan Capital Holdings Corporation.

JOHNNY O. COBANKIAT, 60 years old, Filipino citizen.
Director

Re-elected on July 28, 2011 for 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, 60 years old, Filipino citizen.
Director

Re-elected July 28, 2011 for a one-year term. Director since 2001.

General Manager, Sunny Multi Products and Land Management Inc., Rocky's Construction Supplies and Marketing, Inc.; *Corporate Secretary*, Sunflare Horizon International, Inc.

JOHNSON TAN GUI YEE, 65 years old, Filipino citizen.
Director

Re-elected on July 28, 2011 for 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, 62 years old, Filipino citizen.
Director

Re-elected on July 28, 2011 for a one-year term. Director since 1997.

Chairman of the Board, R.A.V. Fishing Corporation; *President,* Vructi 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, 64 years old, Filipino citizen.
Director

Re-elected on July 28, 2011 for 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, 50 years old, Filipino citizen.
Corporate Secretary

Elected on July 28, 2011 for a one-year term.

Legal Counsel and Corporate Secretary, F & J Prince Holdings Corporation and its subsidiaries and affiliates (2002 up to the present); Magellan Capital Holdings Corporation and its subsidiaries, Magellan Utilities Development Corporation, Pointwest Technologies Corporation, Pointwest Innovations Corporation, Pinamucan Industrial Estates Inc; *Corporate Secretary*, Philippine Telegraph & Telephone Co. (PT&T), Capitol Wireless Inc. (Capwire), Philippine Wireless Inc. (Pocketbell), Republic Telecommunications Company (Retelcom), U.P. Law Alumni Foundation Inc. (UPLAF), *Former Assistant Vice-President and Corporate Secretary,* United Overseas Bank Philippines (2000-2001).

Term of Office. The directors of the Registrant were elected during the annual stockholders' meeting held on July 28, 2011. 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 Johnson U. Co. Mary K. Cokeng is the spouse of Robert Y. Cokeng. Mark Ryan K. Cokeng is the son of Robert and Mary Cokeng.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of F & J Prince Holdings Corporation and its subsidiaries is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with prescribed financial reporting framework indicated therein. This responsibility includes designing and the implementing 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.

The Board of Directors reviews and approves the financial statements and submit the same to the stockholders or members.

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

Signed under oath by the following:

ROBERT Y. COKENG
Chairman and Chief Executive Officer

JOHNSON U. CO
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this MAY 3 0 2012 day of May 2012, affiants exhibiting to me their Community Tax Certificates, as follows:

NAMES	COMMUNITY TAX CERTIFICATE NO.	DATE OF ISSUE	PLACE OF ISSUE
Robert Y. Cokeng	21899157	April 04, 2012	Makati City
Johnson U. Co	06506741	March 30, 2012	Quezon City

NOTARY PUBLIC

ATTY. SOCRATES G. MARANAN
NOTARY PUBLIC
UNTIL DECEMBER [illegible] 2013
IBP No. 840[illegible] [illegible]1-11
PTR No. 0317265, [illegible]9-11
NC. No. 2012-009/ ROA No. 31923

Doc. No. 471;
Page No. 95;
Book No. 22;
Series of 2012.

F & J Prince Holdings Corporation

Audited
Financial Statements
as of
December 31, 2011

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
F & J Prince Holdings Corporation

We have audited the accompanying consolidated financial statements of F & J Prince Holdings Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of F & J Prince Holdings Corporation and its subsidiaries as at December 31, 2011 and 2010, and their financial performance and cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group-A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174817, January 2, 2012, Makati City

April 13, 2012

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱1,042,203,697**	₱32,658,145
Financial assets at fair value through profit or loss (FVPL) (Note 5)	**52,372,641**	44,579,898
Short-term investments	**–**	6,812,561
Receivables (Note 6)	**58,321,799**	46,089,430
Current portion of available-for-sale (AFS) financial assets (Note 8)	**12,275,200**	–
Prepayments and other current assets	**5,326,761**	5,193,697
Total Current Assets	**1,170,500,098**	135,333,731
Noncurrent Assets		
Receivables from related parties (Note 17)	**3,904,790**	2,794,771
Investments in associates (Note 7)	**141,220,305**	137,446,329
AFS financial assets - net of current portion (Note 8)	**284,322,349**	335,598,819
Property and equipment (Note 10)	**31,430,909**	32,336,533
Investment properties (Notes 2 and 11)	**46,319,625**	414,394,525
Other noncurrent assets (Note 12)	**15,052,307**	14,494,294
Total Noncurrent Assets	**522,250,285**	937,065,271
TOTAL ASSETS	**₱1,692,750,383**	₱1,072,399,002
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 13)	**₱2,960,440**	₱2,932,506
Dividends payable (Note 16)	**299,484**	103,523
Income tax payable	**2,890,224**	874,773
Provision for legal obligation (Note 20)	**5,000,000**	–
Total Current Liabilities	**11,150,148**	3,910,802
Noncurrent Liabilities		
Deferred tax liabilities - net (Note 15)	**–**	20,353,400
Retirement benefit obligation (Note 14)	**3,990,168**	3,407,403
Total Noncurrent Liabilities	**3,990,168**	23,760,803
Total Liabilities	**15,140,316**	27,671,605
Equity (Note 16)		
Common stock	**481,827,653**	481,827,653
Additional paid-in capital	**144,759,977**	144,759,977
Treasury shares	**(96,336,907)**	(95,791,606)
Net unrealized valuation gains (losses) on AFS financial assets (Notes 8 and 9)	**(17,625,131)**	9,650,109
Retained earnings	**1,086,839,081**	456,317,114
Total Equity Attributable to Equity Holders of the Parent	**1,599,464,673**	996,763,247
Non-controlling Interests	**78,145,394**	47,964,150
Total Equity	**1,677,610,067**	1,044,727,397
TOTAL LIABILITIES AND EQUITY	**₱1,692,750,383**	₱1,072,399,002

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2011	2010	2009
INCOME			
Equity in net earnings of associates (Note 7)	**₱62,373,976**	₱56,304,636	₱33,307,272
Interest income (Notes 4, 8, 9 and 12)	**51,436,413**	29,490,392	19,839,504
Fair value gains on financial assets at FVPL (Note 5)	**3,446,692**	2,841,147	16,895,923
Rent (Note 20)	**3,232,389**	2,564,251	2,520,204
Dividend income (Notes 5 and 8)	**869,051**	772,395	965,467
Gain on disposal of transportation equipment (Note 10)	**311,961**	245,666	–
Gain on disposal of AFS and Held-to-Maturity (HTM) financial assets (Notes 8 and 9)	–	1,171,222	–
Gain on disposal of financial assets at FVPL (Note 5)	–	–	290,000
Others	**1,107,066**	277,067	595,538
	122,777,548	93,666,776	74,413,908
EXPENSES			
Net foreign exchange loss (Note 21)	**11,585,920**	15,956,733	9,945,929
Personnel expenses:			
Salaries and wages	**6,952,069**	6,986,229	6,160,688
Retirement benefits (Note 14)	**582,765**	651,707	512,291
Other employee benefits	**684,237**	682,552	611,597
Provision for legal obligation (Note 20)	**5,000,000**	–	–
Professional fees	**2,706,316**	2,570,867	2,620,347
Depreciation (Note 10)	**2,592,854**	3,393,396	3,153,399
Condominium dues	**1,987,084**	1,944,247	1,752,617
Taxes and licenses	**751,328**	704,203	690,427
Entertainment, amusement and recreation	**507,229**	446,209	429,377
Utilities	**395,227**	393,126	306,928
Loss on disposal of AFS financial assets (Note 8)	**332,013**	–	–
Bank charges	**235,907**	186,100	424,777
Provision for impairment losses on AFS financial assets (Note 8)	**60,000**	20,000	40,000
Amortization of unrealized losses on changes in fair value of AFS financial assets previously classified to HTM (Notes 8 and 9)	–	646,887	9,690,812
Others	**1,795,116**	1,560,496	1,816,738
	36,168,065	36,142,752	38,155,927
INCOME BEFORE INCOME TAX	**86,609,483**	57,524,024	36,257,981
PROVISION FOR INCOME TAX (Note 15)			
Current	**8,068,505**	1,602,602	1,209,460
Deferred	**(313,103)**	–	(615,723)
	7,755,402	1,602,602	593,737

(Forward)

	Years Ended December 31		
	2011	2010	2009
INCOME FROM CONTINUING OPERATIONS	**₱78,854,081**	₱55,921,422	₱35,664,244
INCOME (LOSS) FROM DISCONTINUED OPERATIONS - NET OF TAX (Note 2)	**610,275,517**	(605,335)	(597,074)
NET INCOME	**₱689,129,598**	₱55,316,087	₱35,067,170
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Continuing operations	**₱78,075,977**	₱55,607,836	₱36,187,891
Discontinued operations	**579,761,741**	(575,069)	(567,220)
	657,837,718	55,032,767	35,620,671
NET INCOME (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	**31,291,880**	283,320	(553,501)
	₱689,129,598	₱55,316,087	₱35,067,170
EARNINGS PER SHARE (Note 18)			
Basic Earnings (Loss) per Share, Attributable to Equity Holders of the Parent			
Continuing operations	**₱0.203**	₱0.144	₱0.094
Discontinued operations	**1.505**	(0.001)	(0.001)
Diluted Earnings (Loss) per Share, Attributable to Equity Holders of the Parent			
Continuing operations	**₱0.203**	₱0.144	₱0.094
Discontinued operations	**1.505**	(0.001)	(0.001)

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2011	2010	2009
NET INCOME	**₱689,129,598**	₱55,316,087	₱35,067,170
OTHER COMPREHENSIVE INCOME (LOSS) (Note 8)			
Net unrealized valuation gains (losses) on changes in fair value of AFS financial assets:			
Changes in fair value of AFS financial assets	**(28,836,746)**	7,906,023	3,640,279
Disposal of AFS financial assets	**113,388**	(924,938)	–
Reclassification of HTM to AFS financial assets	**–**	4,923,586	–
Amortization of unrealized losses on changes in fair value of AFS financial assets previously classified to HTM	**–**	646,887	9,690,812
Impairment loss on AFS financial assets	**–**	–	40,000
	(28,723,358)	12,551,558	13,371,091
TOTAL COMPREHENSIVE INCOME	**₱660,406,240**	₱67,867,645	₱48,438,261
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT FROM:			
Continuing operations	**₱50,800,737**	₱66,929,367	₱48,323,208
Discontinued operations	**579,761,741**	–	–
	630,562,478	66,929,367	48,323,208
Non-controlling interests	**29,843,762**	938,278	115,053
	₱660,406,240	₱67,867,645	₱48,438,261

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, 2011, 2010 AND 2009

	Attributable to Equity Holders of the Parent							
	Common Stock (Note 16)	Additional Paid-in Capital	Treasury Shares (Note 16)	Net Unrealized Valuation Gains (Losses) on AFS Financial Assets (Notes 8 and 16)	Retained Earnings (Note 16)	Total	Non-controlling Interests	Total Equity
Balances at January 1, 2009	₱481,827,653	₱144,759,977	(₱95,762,527)	(₱14,949,028)	₱385,191,695	₱901,067,770	₱46,670,642	₱947,738,412
Additional treasury shares	–	–	(29,079)	–	–	(29,079)	–	(29,079)
Net income	–	–	–	–	35,620,671	35,620,671	(553,501)	35,067,170
Other comprehensive income	–	–	–	12,702,537	–	12,702,537	668,554	13,371,091
Total comprehensive income	–	–	–	12,702,537	35,620,671	48,323,208	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	949,361,899	46,785,695	996,147,594
Net income	–	–	–	–	55,032,767	55,032,767	283,320	55,316,087
Other comprehensive income	–	–	–	11,896,600	–	11,896,600	654,958	12,551,558
Total comprehensive income	–	–	–	11,896,600	55,032,767	66,929,367	938,278	67,867,645
Dividends declared - ₱0.05 per share	–	–	–	–	(19,528,019)	(19,528,019)	240,177	(19,287,842)
Balances at December 31, 2010	481,827,653	144,759,977	(95,791,606)	9,650,109	456,317,114	996,763,247	47,964,150	1,044,727,397
Additional treasury shares	–	–	(545,301)	–	–	(545,301)	–	(545,301)
Net income	–	–	–	–	657,837,718	657,837,718	31,291,880	689,129,598
Other comprehensive loss	–	–	–	(27,275,240)	–	(27,275,240)	(1,448,118)	(28,723,358)
Total comprehensive income	–	–	–	(27,275,240)	657,837,718	630,562,478	29,843,762	660,406,240
Dividends declared - ₱0.07 per share	–	–	–	–	(27,315,751)	(27,315,751)	337,482	(26,978,269)
Balances at December 31, 2011	₱481,827,653	₱144,759,977	(₱96,336,907)	(₱17,625,131)	₱1,086,839,081	₱1,599,464,673	₱78,145,394	₱1,677,610,067

See accompanying Notes to Consolidated Financial Statements.

F & J PRINCE HOLDINGS CORPORATION

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

RETAINED EARNINGS AT BEGINNING OF YEAR, *as adjusted to available for dividend declaration*	**₱53,119,400**
NET INCOME ACTUALLY INCURRED DURING THE YEAR	
Net income during the period closed to retained earnings	**57,167,683**
Less: Fair value gains on financial assets at fair value through profit or loss	**7,228,773**
	49,938,910
DIVIDENDS DECLARED DURING THE PERIOD	**33,727,936**
RETAINED EARNINGS AT END OF YEAR AVAILABLE FOR DIVIDEND DECLARATION	**₱69,330,374**

Figures based on functional currency audited financial statements.

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱86,609,483**	₱57,524,024	₱36,257,981
Income (loss) from discontinued operations (Note 2)	**610,275,517**	(605,335)	(597,074)
	696,885,000	56,918,689	35,660,907
Adjustments for:			
Net unrealized foreign exchange loss	**8,418,520**	14,138,604	9,831,784
Provision for legal obligation (Note 20)	**5,000,000**	–	–
Depreciation (Note 10)	**2,592,854**	3,393,396	3,153,399
Retirement benefits expense (Note 14)	**582,765**	651,707	512,291
Amortization of unrealized loss on changes in fair value of AFS financial assets (Notes 8 and 9)	**–**	646,887	9,690,812
Provision for impairment losses on AFS financial assets (Note 8)	**60,000**	20,000	40,000
Gain on disposal of investment in subsidiary (Note 2)	**(703,174,875)**	–	–
Equity in net earnings of associates (Note 7)	**(62,373,976)**	(56,304,636)	(33,307,272)
Interest income (Note 4, 8 and 9)	**(51,436,413)**	(29,490,392)	(19,839,504)
Fair value gains on financial assets at FVPL (Note 5)	**(3,446,692)**	(2,841,147)	(16,895,923)
Dividend income (Notes 5and 8)	**(869,051)**	(772,395)	(965,467)
Loss (gain) on disposal of:			
AFS and HTM investments (Note 8)	**332,013**	(1,171,222)	–
Property and equipment (Note 10)	**(311,961)**	(245,666)	–
Financial assets at FVPL (Note 5)	**–**	–	(290,000)
Operating loss before working capital changes	**(107,741,816)**	(15,056,175)	(12,408,973)
Decrease (increase) in:			
Receivables	**118,279**	816,692	(34,423,865)
Prepayments and other current assets	**(248,368)**	(619,642)	(567,940)
Increase (decrease) in accounts payable and accrued expenses	**27,934**	159,252	(387,864)
Net cash flows used in operations	**(107,843,971)**	(14,699,873)	(47,788,642)
Dividends received	**38,369,137**	34,384,481	965,467
Interest received	**51,085,679**	27,572,780	17,032,437
Income taxes paid	**(5,393,553)**	–	(725,419)
Net cash flows from (used in) operating activities	**(23,782,708)**	47,257,388	(30,516,157)

(Forward)

	Years Ended December 31		
	2011	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of:			
Investment in subsidiary	**₱1,050,000,000**	₱–	₱–
AFS financial assets	**96,571,259**	80,876,113	–
Short-term investments	**6,812,561**	7,926,852	44,916,654
Financial assets at FVPL	**–**	–	1,262,999
Property and equipment	**311,961**	357,143	–
HTM investments	**–**	11,463,382	36,195,860
Fixed income deposits	**–**	4,637,376	–
Additions to:			
AFS financial assets (Note 8)	**(95,021,106)**	(126,052,760)	(160,407,550)
Investments in associate (Note 7)	**(17,500,000)**	–	(10,500,000)
Financial assets at FVPL (Note 5)	**(4,346,051)**	(8,130,902)	(4,746,201)
Property and equipment (Note 10)	**(1,687,230)**	(42,321)	(3,626,948)
Short-term investments	–	(500,000)	–
Fixed income deposits	–	–	(211,514)
Decrease (increase) in:			
Receivables from related parties	**(1,178,895)**	(1,228,184)	(919,770)
Other noncurrent assets	**38,836**	–	–
Return of deposit from associate (Note 7)	**26,600,000**	–	–
Dividends received	–	–	60,486,964
Net cash flows from (used in) investing activities	**1,060,601,335**	(30,693,301)	(37,549,506)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (Note 16)	**(26,782,308)**	(19,424,496)	–
Purchases of treasury shares (Note 16)	**(545,301)**	–	(29,079)
Net cash flows used in financing activities	**(27,327,609)**	(19,424,496)	(29,079)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,009,491,018**	(2,860,409)	(68,094,742)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**54,534**	(1,008,904)	3,263,815
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**32,658,145**	36,527,458	101,358,385
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱1,042,203,697**	₱32,658,145	₱36,527,458

See accompanying Notes to Consolidated Financial Statements.

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Organization
F & J Prince Holdings Corporation (the Parent 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 Parent Company's shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). The principal activities of its subsidiaries are described in Note 2.

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

Authorization for Issuance
The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on April 13, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value (see Notes 5 and 8) and investment properties which have been carried at revalued amounts considered to be their "deemed cost" (see Note 11). The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional currency.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippine SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

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 Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which became effective on January 1, 2011. Except as otherwise indicated, adoption of these changes in PFRS did not have any significant effect to the Group.

PAS 24, *Related Party Transactions (Amendment)*
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PAS 32, *Financial Instruments: Presentation (Amendment)*
The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

Improvements to PFRS (issued 2010)
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

PFRS 7, *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 22.

PAS 1, *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 8.

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

<u>New Accounting Standards, Interpretations and Amendments to the Existing Standards Effective Subsequent to December 31, 2011</u>

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 the consolidated financial statements when these become effective.

Effective in 2012

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

PAS 12, *Income Taxes - Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Properties*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

Effective Subsequent to 2012

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 19, *Employee Benefits (Amendment)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments to PAS 19 will have an impact on the Group's reported retirement benefit obligation and related employee benefit expense. The Group will quantify the effect when the amendments were adopted.

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

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

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the consolidated financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosure of Involvement with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge

accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-group balances and transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2011 and 2010, the Group has 94.37% 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, 2011 and 2010.

MCHC has investments in the following subsidiaries:

	Country of Incorporation	Percentage of Ownership 2011	2010	Cost of Investments 2011	2010
Pinamucan Industrial Estates, Inc. (PIEI)	Philippines	**100**	100	**₱91,925,556**	₱91,925,556
Malabrigo Corporation (MC)*	Philippines	**100**	100	**662,500**	662,500
Magellan Capital Realty Development Corporation (MCRDC)*	Philippines	**100**	100	**100,000**	100,000
Magellan Capital Trading Corporation (MCTC)*	Philippines	**100**	100	**62,500**	62,500
Batangas-Agro Industrial Development Corporation (BAID)*	Philippines	**–**	100	**–**	114,819,204
				92,750,556	207,569,760
Less allowance for impairment losses				**162,500**	162,500
				₱92,588,056	₱207,407,260

* *still in the preoperating stage*

MCHC's subsidiary, BAID, also has investment in the following wholly-owned companies:

	Country of Incorporation
Fruits of the East, Inc.*	Philippines
Samar Commodities Trading and Industrial Corporation*	Philippines
Tropical Aqua Resources, Inc.*	Philippines
United Philippine Oil Trading, Incorporated*	Philippines
King Leader Philippines, Inc.*	Philippines
The Hometel Integrated Management Corporation*	Philippines

* *Still in preoperating stage*

PIEI. PIEI was organized primarily as a real estate developer. PIEI was registered with the Philippine SEC on May 5, 1993 and started its commercial operations on July 14, 1994. The principal assets of PIEI are composed of investments in debt and equity securities classified as AFS financial assets. The fair value of PIEI's AFS financial assets amounted to ₱136.6 million and ₱128.9 million as of December 31, 2011 and 2010, respectively.

MC. MC was organized primarily to purchase, operate, maintain and sell coal mines and their products and by-products. MC was incorporated on August 31, 1993 and has not yet started commercial operations.

The principal asset of MC is an investment in a limited liability partnership (LLP) based in the United States of America. The partnership engages in owning, holding, selling, assigning, transferring, operating, leasing, mortgaging, pledging and otherwise dealing with the property and any interests in the property. The investment is carried at cost of $0.3 million adjusted for changes in foreign exchange rates.

MCRDC. MCRDC was organized to purchase, subscribe for, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts and obligations of any corporation or corporations, domestic or foreign. MCRDC was registered with the Philippine SEC on November 14, 1990 and has not yet started commercial operations.

MCTC. MCTC was organized to conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail all kinds of goods, commodities, wares and merchandise. MCTC was registered in the Philippine SEC on January 7, 1991 and has not yet started commercial operations.

BAID. BAID was organized to acquire, own, lease, hold, cultivate, develop, operate and maintain agricultural lands, grazing lands, farms, plantations, orchards, cattle and other ranches, and to plant, grow, cultivate and harvest agricultural crops and raise and breed cattle and other kinds of animals. BAID was incorporated on August 12, 1991 and has not yet started commercial operations.

The principal assets of BAID and its subsidiaries consist of parcels of land originally intended for the 300-megawatt gas-fired thermal power plant of Magellan Utilities Development Corporation (MUDC). These assets are reflected in the accounts of BAID and its subsidiaries as investment properties and are carried at an appraised value of ₱392.8 million as determined on January 4, 2005 by an independent firm of appraisers.

On June 17, 2011, MCHC entered into a Share Purchase Agreement (the Agreement) with J.G. Summit Holdings, Inc. (JGSHI) for the sale of its ownership interest in BAID. The total purchase price based on the Agreement amounted to ₱1.0 billion. Documentary stamp tax and capital gains tax related to the sale amounted to ₱0.09 million and ₱92.5 million, respectively. In addition, the Agreement provides that JGSHI shall pay MCHC the amount of ₱9.8 million to repay the advances made by MCHC to BAID and its subsidiaries. Proceeds from the sale of BAID were invested by the Group in short-term placements (see Note 4).

The net assets of BAID prior to disposal consist of the following:

Investment properties	₱368,074,900
Accounts payable and accrued expenses	(665,280)
Due to related parties	(9,882,366)
Deferred tax liabilities	(20,584,494)
Net assets	336,942,760
Satisfied by cash	1,040,117,635
Gain on disposal	₱703,174,875

Details of net income on disposal of BAID, presented as "Net income from discontinued operations" in the statement of income are as follows:

Gain on disposal	₱703,174,875
Less:	
Taxes	92,618,593
Costs and expenses	280,765
Net income from discontinued operations	₱610,275,517

Loss from discontinued operations amounted to ₱0.3 million, ₱0.6 million and ₱0.6 million in 2011, 2010 and 2009, respectively, representing general and administrative expenses of BAID. BAID has no current provision for income tax in 2011, 2010 and 2009 due to its net taxable loss position.

The net cash flows attributable to BAID are as follows:

	2011	2010	2009
Cash flows from (used in):			
Operating activities	**(₱187,628)**	(₱604,757)	(₱611,760)
Financing activities	**187,628**	604,757	611,760
Net effect on cash	**₱–**	₱–	₱–

Reclassification
Certain accounts in the 2010 and 2009 consolidated financial statements, including cost and expenses have been reclassified to conform to the current year consolidated financial statement presentation.

Transactions with non-controlling interests
Non-controlling interests represent the portion of net income or loss and net assets in MCHC not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to equity holders of the Parent Company. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interests is also recognized directly in equity.

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, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. 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. If the associate subsequently reports profits, the Group resumes recognizing its share of these profits only after its share of the profits equals the share of the losses not recognized.

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.

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

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Costs of Investment	
		2011	2010	**2011**	2010
MUDC	Philippines	**43**	43	**₱94,830,129**	₱94,830,129
Less allowance for impairment losses				**94,830,129**	94,830,129
				–	–
Business Process Outsourcing, International (BPO)					
Unquoted equity securities	Philippines	**35**	35	**33,205,006**	33,205,006
Deposit for stock subscription				**17,500,000**	26,600,000
				50,705,006	59,805,006
Pointwest Technologies Corporation (PTC)	Philippines	**30**	30	**40,725,000**	40,725,000
				₱91,430,006	₱100,530,006

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

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 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.

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

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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined 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, an impairment loss is recognized.

Discontinued Operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to re-sell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are represented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from continuing income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately 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
The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, is done using settlement date accounting.

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.

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, held-to-maturity (HTM) investments, and AFS financial assets. 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 these are expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as other noncurrent assets.

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.

The Group's investments in trading securities are classified under financial assets at FVPL as of December 31, 2011 and 2010.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets 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 by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. 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, 2011 and 2010, the Group's cash and cash equivalents, short-term investments, receivables, fixed income deposits and investment in LLP included under "Other noncurrent assets" and receivables from related parties are classified as loans and receivables.

HTM investments
HTM investments are quoted non-derivative 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 financial assets 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. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. 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.

The Group previously had financial assets classified as HTM investments that were reclassified to AFS financial assets due to the sale of a significant portion of the investments (see Note 9). The Group has no HTM investments as of December 31, 2011 and 2010.

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments.

After initial measurement, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component in the equity section of the consolidated statements of financial position until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

When the security is disposed of, the cumulative gain or loss previously recorded in equity is recognized as gain or loss in the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity instruments are recognized in the consolidated statement of income when the right to the payment has been established. AFS financial assets are classified as current if they are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets. The losses arising from impairment of AFS financial assets are recognized in the consolidated statement of income.

The Group's AFS financial assets consist of debt and equity securities as of December 31, 2011 and 2010.

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.

Derivative financial instruments
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 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, 2011 and 2010, the Group has no bifurcated embedded derivatives.

Financial liabilities
Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Financial liabilities are classified as current liabilities when these are 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. Otherwise, these are classified as noncurrent liabilities.

Other financial liabilities
Issued financial instruments or their components, which are not held for trading or 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. Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. 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 accounts payable and accrued expenses, dividends payable 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 financial assets
For AFS financial assets, 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 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 income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

Creditable Withholding Taxes (CWT)
CWT, included in "Prepayments and other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset.

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, comprising parcels of land, are held either to earn rental income or for capital appreciation or both. Investment properties are measured at cost, including transaction costs less any accumulated impairment in value. The carrying amount of the investment properties held by BAID and its subsidiaries as of December 31, 2010 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be "deemed cost" at the time of the Group's transition to PFRS, and determined on January 4, 2005 by an independent firm of appraisers.

Investment properties are derecognized when 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 statement of income in the period of the retirement or disposal.

Transfers are made to or from investment properties only when there are changes in use. For a transfer from investment property under the cost model to owner occupied property or inventories, no change in the carrying value amount of the property transferred and the transfers do not change the deemed cost for subsequent accounting of that property for measurement or disclosure purposes.

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 the 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.

Capital Stock and Additional Paid-in Capital
The Group has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

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.

Retained Earnings
The amount included in retained earnings includes income attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

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.

Fair value gains on financial assets at FVPL
Financial assets at FVPL which consist of equity securities are stated at fair values based on the current market quotations. The difference between the aggregate market values of investments in securities at respective reporting dates and the carrying value is shown as "Fair value gains or losses on financial assets at FVPL" account in the statement of income.

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

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

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 present value 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, if any, 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.

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 even if that right is not explicitly specified in the arrangement.

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.

Group as a lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessors retain all significant risks and rewards of ownership of these properties which are leased out on operating lease.

Foreign Currency Transactions
The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' 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. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

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 tax
Deferred tax is provided using the 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 tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred 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 tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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 is 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 19).

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.

Judgments
Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries 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 revenue and expenses of the Group.

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 statement of financial position.

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 22).

Operating Lease - The Group as a Lessor
The Group entered into various lease agreements as a lessor. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating lease due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the lessee has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that at the inception of the lease, it is reasonable and certain that the option will be exercised;

c. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and

d. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

Operating Lease - Group as a Lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessors retain all significant risks and rewards of ownership of these properties which are leased out on operating lease.

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 advise 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 20).

<u>Estimates and Assumptions</u>
Determination of Fair Values of Financial Instruments
The Group carries 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 either income and loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statement of financial position 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 liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 amounted to ₱52.4 million and ₱44.6 million as of December 31, 2011 and 2010, respectively (see Note 5). The carrying amount of the Group's AFS financial assets amounted to ₱296.6 million and ₱335.6 million as of December 31, 2011 and 2010, respectively (see Note 8).

Estimating Allowance for Impairment Losses on Loans and Receivables
The Group reviews its loans and receivables (cash and cash equivalents, short-term investments, receivables, fixed income deposits and investment in LLP included under "Other noncurrent assets" and receivables from related parties) 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.

For 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 trade 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 in "Receivables". These allowances are re-evaluated and adjusted as additional information is received. The allowance for impairment losses on receivables from related parties amounted to ₱186.4 million as of December 31, 2011 and 2010 while the allowance for impairment losses on receivables from third parties amounted to ₱1.1 million as of December 31, 2011 and 2010 (see Notes 6 and 17). No provision for impairment losses on receivables was recognized in 2011 and 2010. The Group's current receivables, net of allowance for impairment losses, amounted to ₱58.3 million and ₱46.1 million as of December 31, 2011 and 2010, respectively (see Note 6). The Group's noncurrent receivables from related parties, net of allowance for impairment losses, amounted to ₱3.9 million and ₱2.8 million as of December 31, 2011 and 2010, respectively (see Note 17).

Estimating Impairment of AFS Equity Financial Assets
The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The balance of the Group's allowance for impairment losses on investment in equity securities amounted to ₱10.7 million and ₱10.6 million as of December 31, 2011 and 2010, respectively (see Notes 8 and 21). The carrying amount of the Group's AFS equity financial assets amounted to ₱15.3 million and ₱18.8 million as of December 31, 2011 and 2010, respectively (see Note 8).

Estimating Impairment of Nonfinancial Assets
The Group determines whether investments in associates, investment properties, property and equipment and other non-current assets are impaired whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94.8 million as of December 31, 2011 and 2010. The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flows 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 amounted to ₱141.2 million and ₱137.4 million as of December 31, 2011 and 2010, respectively (see Note 7).

The carrying amount of the Group's property and equipment amounted to ₱31.4 million and ₱32.3 million as of December 31, 2011 and 2010, respectively (see Note 10). The carrying amount of the Group's investment properties amounted to ₱46.3 million and ₱414.4 million as of December 31, 2011 and 2010 (see Note 11). No provision for impairment losses on the Group's nonfinancial assets was recognized in 2011 and 2010.

Estimating 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.

Estimating Retirement Benefit Obligation
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 ₱0.6 million, ₱0.7 million and ₱0.5 million in 2011, 2010 and 2009, respectively. The carrying amount of the Group's retirement benefit obligation amounted to ₱4.0 million and ₱3.4 million as of December 31, 2011 and 2010, respectively (see Note 14).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred 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 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 tax assets to be utilized. The Group recognized deferred tax assets amounting to ₱15.3 million and ₱17.5 million as of December 31, 2011 and 2010, respectively (see Note 15). The Group has unrecognized deferred tax assets on temporary differences and carryforward of unused MCIT and unused NOLCO as of December 31, 2011 and 2010 (see Note 15).

Estimating Provision for Legal Obligation
The Group's estimate of provision for legal obligations has been developed by management. The Group's management currently does not believe the provision will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates of provisions. In 2011, the Group recognized provision for legal obligations amounting to ₱5.0 million, for claims arising from lawsuits filed by third parties which are either pending decision by the courts or are subject to settlement obligations (see Note 20).

4. Cash and Cash Equivalents

	2011	2010
Cash on hand	**₱9,000**	₱9,000
Cash in banks	**12,178,204**	15,840,243
Short-term placements (see Note 2)	**1,030,016,493**	16,808,902
	₱1,042,203,697	₱32,658,145

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 ranging from 1.5% to 6.5% in 2011 and 2.0% to 6.5% in 2010. Interest income earned from cash and cash equivalents amounted to ₱23.1 million, ₱1.5 million and ₱4.3 million in 2011, 2010 and 2009, respectively.

5. Financial Assets at FVPL

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

The carrying value of financial assets at FVPL includes net unrealized gain on fair value changes amounting to ₱3.4 million, ₱2.8 million and ₱16.9 million in 2011, 2010 and 2009, respectively.

Fair value changes are presented under "Fair value gains on financial assets at FVPL" in the consolidated statements of income. Net cumulative unrealized gains on financial assets at FVPL amounted to ₱23.4 million and ₱19.9 million as of December 31, 2011 and December 31, 2010 respectively.

The rollforward of the Group's financial assets at FVPL is as follows:

	2011	2010
Cost:		
Balances at beginning of year	**₱24,666,386**	₱16,535,484
Additions	**4,346,051**	8,130,902
Balances at end of year	**29,012,437**	24,666,386
Changes in fair value:		
Balances at beginning of year	**19,913,512**	17,072,365
Fair value gains	**3,446,692**	2,841,147
Balances at end of year	**23,360,204**	19,913,512
	₱52,372,641	₱44,579,898

Dividend income earned on investments in financial assets at FVPL amounted to ₱0.5 million, ₱0.4 million and ₱0.7 million in 2011, 2010 and 2009, respectively, presented as "Dividend income" in the consolidated statements of income.

In 2009, the Group sold certain financial assets at FVPL with a carrying value of ₱1.0 million for ₱1.3 million, resulting to a gain of ₱0.3 million presented as "Gain on disposal of financial assets at FVPL" in the consolidated statements of income.

6. **Receivables**

	2011	2010
Third parties:		
Accrued interest (see Note 8)	**₱8,964,487**	₱8,613,753
Others	**379,839**	508,813
Related parties:		
Dividends receivable (see Notes 7 and 17)	**49,500,000**	37,500,000
Management fees (see Note 17)	**45,197,865**	45,197,865
Accrued interest (see Note 17)	**43,753,772**	43,753,772
Others (see Note 17)	**636,023**	625,414
	148,431,986	136,199,617
Less allowance for impairment losses	**90,110,187**	90,110,187
	₱58,321,799	₱46,089,430

Accrued interest receivables from third parties pertain to interest earned on investments in AFS debt securities and short-term placements that are expected to be collected within one year.

The terms and conditions related to receivables from related parties are discussed in Notes 7 and 17.

The breakdown of allowance for impairment losses on receivables are as follows:

Third parties		₱1,120,789
Related parties (see Note 17):		
Management fees	₱45,197,865	
Accrued interest	43,753,772	
Others	37,761	88,989,398
Total		₱90,110,187

There were no movements in the allowance for impairment losses on receivables in 2011 and 2010.

7. Investments in Associates

	2011	2010
Unquoted equity securities:		
Acquisition cost	**₱168,760,135**	₱168,760,135
Accumulated equity in net earnings:		
As at beginning of year	**36,916,323**	18,111,687
Equity in net earnings for the year	**62,373,976**	56,304,636
Dividends declared	**(49,500,000)**	(37,500,000)
As at end of year	**49,790,299**	36,916,323
	218,550,434	205,676,458
Less allowance for impairment losses	**94,830,129**	94,830,129
	123,720,305	110,846,329
Deposit for future stock subscription:		
As at beginning of year	**26,600,000**	26,600,000
Return of deposit	**(26,600,000)**	–
Deposit made	**17,500,000**	–
As at end of year	**17,500,000**	26,600,000
	₱141,220,305	₱137,446,329

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Carrying amount of Investment	
		2011	2010	**2011**	2010
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	**54,856,448**	63,803,645
PTC	Philippines	**30**	30	**86,363,857**	73,642,684
				₱141,220,305	₱137,446,329

MUDC
The Group has a 43% interest in MUDC. As of December 31, 2011, 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, 2011 and 2010, MUDC has project development costs of ₱207.1 million. The recoverability of these assets and the ultimate success of MUDC's future operations are dependent upon the signing of these agreements. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt on MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2011 and 2010, MUDC has incurred significant losses, which resulted in deficit of ₱437.9 million and ₱436.7 million, respectively, and capital deficiency of ₱257.0 million and ₱255.8 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Consequently, the Group has discontinued recognizing its share of further losses of ₱94.8 million as of December 31, 2011 and 2010. Additional losses are provided for by the Group to the extent that it has made payments on behalf of MUDC to satisfy MUDC's obligations that the Group has guaranteed or otherwise committed.

The Group has assessed that its investment in and advances to MUDC amounting to ₱94.8 million and ₱89.0 million, respectively, is impaired since management believes that it will no longer recover from such investment and advances. Accordingly, the Group provided a full allowance for impairment losses on its investment and receivables from MUDC due to non-recoverability of the project development costs incurred in 2004.

The summarized financial information of MUDC is as follows:

	2011	2010
Current assets	**₱213,379**	₱337,622
Noncurrent assets	**16,144,645**	17,155,644
Total assets	**16,358,024**	17,493,266
Current liabilities	**315,631**	310,732
Noncurrent liabilities	**273,047,234**	272,972,544
Total liabilities	**273,362,865**	273,283,276
Revenues	**450**	–
Expenses	**1,215,280**	1,198,847
Net loss	**1,214,830**	1,198,847

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 ₱15.9 million, ₱12.6 million and ₱12.0 million in 2011, 2010 and 2009, respectively. Investment in BPO includes goodwill of ₱23.4 million.

On August 26, 2009, the BOD of BPO approved the declaration of cash dividends amounting to ₱40.0 million or ₱142.86 per share of BPO's common stocks as of record date December 5, 2008. The Group recognized dividend income of ₱14.0 million in 2009. Another cash dividend declaration was approved by the BOD of BPO on December 31, 2009 amounting to ₱12.0 million or ₱42.86 per share of BPO's common stocks as of record date December 31, 2009, to be paid on or before April 15, 2010. The Group recognized dividend income amounting to ₱4.2 million in 2009.

On December 17, 2010, the BOD of BPO approved the declaration of cash dividends amounting to ₱30.0 million or ₱107.14 per share of BPO's common stocks as of record date December 17, 2010. The Group recognized dividend income amounting to ₱10.5 million in 2010. The dividends were collected on March 29, 2011 (see Note 6).

On December 22, 2011, the BOD of BPO approved the declaration of cash dividends amounting to ₱45.0 million or ₱160.71 per share of BPO's common stocks as of record date December 21, 2011. The Group recognized dividend income amounting to ₱15.8 million in 2011. The dividends are expected to be collected in 2012 (see Note 6).

In 2011, BPO returned the deposit previously obtained from its stockholders, including the Parent Company. On October 25, 2011, the BOD of BPO approved the increase of BPO's authorized capital stock from ₱100.0 million dividend into 1,000,000 shares, with par value of ₱100.0 to ₱300.0 million, divided into 3 million shares with par value of ₱100, subject to the approval of the SEC. On January 19, 2012, BPO's application was reviewed by the SEC's Company Registration and Monitoring Department (CMRD) and was cleared from any pending penalties.

In compliance with the minimum subscription requirement for the application of the increase of BPO's capital stock, its stockholders, including the Parent Company, deposited a total amount of ₱50.0 million, representing 25% of the minimum subscription of the capital increase. The Parent Company maintained its percentage ownership over BPO by providing a deposit amounting to ₱17.5 million.

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.

The Group's equity in net earnings from PTC amounted to ₱46.5 million, ₱43.7 million and ₱21.3 million in 2011, 2010 and 2009, respectively.

On December 15, 2009, the BOD of PTC approved the declaration of cash dividends amounting to ₱100.1 million or ₱0.89 per share of PTC's common stocks as of record date December 30, 2009, to be paid on or before June 30, 2010. The Group recognized dividend income amounting to ₱30.0 million in 2009. The dividends were received in full in 2010.

On December 10, 2010, the BOD of PTC approved the declaration of cash dividends amounting to ₱90.0 million or ₱0.80 per share of PTC's common stocks as of record date December 31, 2010. The Group recognized dividend income amounting to ₱27.0 million in 2010. The dividends were collected in April 1, 2011 (see Note 6).

On December 9, 2011, the BOD of PTC approved the declaration of cash dividends amounting to ₱112.5 million or ₱1.00 per share of PTC's common stocks as of record date December 31, 2011. The Group recognized dividend income amounting to ₱33.8 million in 2011. The dividends are expected to be collected in 2012 (see Note 6).

The summarized combined financial information of the Group's associates are as follows:

	2011	2010	2009
Current assets	**₱680,212,811**	₱592,291,218	₱500,154,566
Noncurrent assets	**129,951,162**	119,349,729	129,690,718
Total assets	**810,163,973**	711,640,947	629,845,284
Current liabilities	**363,663,607**	291,712,005	463,875,359
Noncurrent liabilities	**328,855,379**	316,948,208	123,333,362
Total liabilities	**692,518,986**	608,660,213	587,208,721
Revenues	**1,172,525,720**	984,411,729	768,026,030
Expenses	**945,582,999**	791,551,137	646,946,034
Net income	**199,125,661**	183,729,869	104,224,699

8. AFS Financial Assets

	2011	2010
Current:		
Debt securities	**₱12,275,200**	₱–
Non-current:		
Debt securities	**269,051,727**	316,807,808
Equity securities - net of allowance for impairment losses of ₱10.7 million and ₱10.6 million as of December 31, 2011 and 2010, respectively	**15,270,622**	18,791,011
	₱296,597,549	₱335,598,819

Investments in debt securities
Investments in debt securities are denominated in US dollar, Australian dollar, Brazil real, Turkish lira, Euro, Chinese yuan and Philippine peso 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 rates range from 6.0% to 13.6% per annum. Value dates of the investments range from August 4, 2009 to December 7, 2011 and maturity dates range from April 20, 2012 to perpetuity. Interests on investments are received and settled semi-annually in US dollar.

As discussed in Note 9, the Group reclassified certain investment in debt securities from AFS financial assets to HTM investments on July 1, 2008. On March 19, 2010, the Group reclassified back the entire balance of its HTM investments to AFS financial assets following the sale of a significant portion of its HTM investments (see Note 9).

Interest income earned from AFS financial assets amounted to ₱28.3 million, ₱26.6 million and ₱4.7 million in 2011, 2010 and 2009, respectively.

The Group recognized loss on disposal of AFS debt financial assets amounting to ₱0.3 million in 2011 and gain on disposal amounting to ₱0.6 million in 2010.

Investments in equity securities
Investments 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 ₱0.06 million, ₱0.02 million and ₱0.04 million in 2011, 2010 and 2009, respectively. Allowance for impairment losses on AFS equity securities amounted to ₱10.7 million and ₱10.6 million as of December 31, 2011 and 2010, respectively.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of December 31, 2011 and 2010.

Dividend income earned on AFS in equity securities amounted to ₱0.4 million, ₱0.4 million and ₱0.3 million in 2011, 2010 and 2009, respectively, presented as "Dividend income" in the consolidated statement of income.

Movements in the net unrealized valuation gains (losses) on AFS financial assets are as follows:

2011

	Parent	**Non-controlling Interests**	**Total**
Balances at beginning of year	**₱9,650,109**	**₱536,722**	**₱10,186,831**
Changes in fair value of AFS financial assets	**(27,382,959)**	**(1,453,787)**	**(28,836,746)**
Disposal of AFS financial assets	**107,719**	**5,669**	**113,388**
Balances at end of year	**(₱17,625,131)**	**(₱911,396)**	**(₱18,536,527)**

2010

	Parent	Non-controlling Interests	Total
Balances at beginning of year	(₱2,246,491)	(₱118,236)	(₱2,364,727)
Changes in fair value of AFS financial assets	7,483,342	422,681	7,906,023
Reclassification of HTM investments to AFS	4,677,406	246,180	4,923,586
Amortization of unrealized losses on changes in fair value of AFS financial assets previously reclassified to HTM (see Note 8)	614,543	32,344	646,887
Disposal of AFS financial assets	(878,691)	(46,247)	(924,938)
Balances at end of year	₱9,650,109	₱536,722	₱10,186,831

Net unrealized valuation losses on AFS financial assets presented in the equity section of the consolidated statement of financial position as of December 31, 2011 amounted to ₱17.6 million. Net unrealized evaluation gains on AFS financial assets amounted to ₱9.8 million as of December 31, 2010.

9. **HTM Investments**

In 2008, the Group reclassified certain financial assets included under “AFS financial assets” to “HTM investments” in the 2008 consolidated statement of financial position. On July 1, 2008, the Group identified financial assets for which it had a clear change of intent to hold until maturity rather than to exit or trade in the short term.

As of reclassification date, the 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 ₱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 financial assets amounted to ₱25.4 million which was presented as “Net unrealized valuation gains (losses) on AFS financial assets” in the 2008 consolidated statement of financial position and was amortized over the remaining life of the investment using the effective interest rate method. Had the reclassification not been made, the Group’s equity would have included an additional unrealized loss on changes in fair value of AFS financial assets amounting to ₱24.8 million as of December 31, 2009.

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

Debt securities	July 1, 2008	December 31, 2008	December 31, 2009	March 19, 2010
Carrying value	₱172,878,859	₱147,038,766	₱107,330,192	₱107,330,192
Fair value	166,365,932	117,605,654	112,077,009	112,077,009

After the reclassification, the Group recognized amortization of the net unrealized loss on changes in fair value of the reclassified AFS financial assets amounting to ₱0.6 million and ₱9.7 million in 2010 and 2009, respectively, and is presented as “Amortization of unrealized losses on changes in fair value of AFS financial assets previously reclassified to HTM” in the consolidated statements of comprehensive income.

On March 19, 2010, however, the Group sold a significant amount of its HTM investments amounting to ₱10.7 million. The Group recognized gain on disposal amounting to ₱0.5 million in 2010. Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity. Therefore, following the stated provisions, the Group’s remaining portfolio of HTM investments was reclassified to AFS and was remeasured at fair value. The Group recognized a gain of ₱4.9 million for the difference between the fair values and amortized costs of the reclassified investments (see Note 8).

The above investments of the Group earn interest ranging from 7.4% to 9.1% in 2010 and have contractual maturity dates of less than 10 years. Interest income earned amounted to ₱1.3 million and ₱10.9 million in 2010 and 2009, respectively.

10. **Property and Equipment**

As of December 31, 2011:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	**₱47,014,750**	**₱8,058,590**	**₱8,656,378**	**₱2,498,613**	**₱66,228,331**
Additions	**–**	**–**	**1,578,570**	**108,660**	**1,687,230**
Disposals	**–**	**–**	**(1,598,000)**	**–**	**(1,598,000)**
Balances at end of year	**47,014,750**	**8,058,590**	**8,636,948**	**2,607,273**	**66,317,561**
Accumulated depreciation:					
Balances at beginning of year	**19,276,760**	**7,051,332**	**5,154,694**	**2,409,012**	**33,891,798**
Depreciation	**1,880,590**	**162,289**	**515,558**	**34,417**	**2,592,854**
Disposals	**–**	**–**	**(1,598,000)**	**–**	**(1,598,000)**
Balances at end of year	**21,157,350**	**7,213,621**	**4,072,252**	**2,443,429**	**34,886,652**
Net book value	**₱25,857,400**	**₱844,969**	**₱4,564,696**	**₱163,844**	**₱31,430,909**

As of December 31, 2010:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱9,399,560	₱2,456,292	₱66,929,192
Additions	–	–	–	42,321	42,321
Disposals	–	–	(743,182)	–	(743,182)
Balances at end of year	47,014,750	8,058,590	8,656,378	2,498,613	66,228,331
Accumulated depreciation:					
Balances at beginning of year	17,396,170	6,270,306	5,073,979	2,389,652	31,130,107
Depreciation	1,880,590	781,026	712,420	19,360	3,393,396
Disposals	–	–	(631,705)	–	(631,705)
Balances at end of year	19,276,760	7,051,332	5,154,694	2,409,012	33,891,798
Net book value	₱27,737,990	₱1,007,258	₱3,501,684	₱89,601	₱32,336,533

In 2011, the Group sold fully depreciated transportation equipment with cost of ₱1.6 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.3 million. In 2010, the Group sold transportation equipment with a net book value of ₱0.1 million for ₱0.4 million.

11. **Investment Properties**

Investment properties as of December 31, 2011 and 2010 consist of land held MCHC situated in Fort Bonifacio, Taguig City, Metro Manila and is carried at cost in the consolidated statements of financial position. This land is currently held by the Group for an undetermined future use. Based on the latest appraisal report dated February 25, 2011, the fair value of this property amounts to ₱129.7 million, which exceeds its carrying amount.

Investment properties as of December 31, 2010 also include 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. The carrying amount of the investment properties as of December 31, 2010 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be “deemed cost” at the time of the Group’s transition to PFRS, and determined on January 4, 2005 by an independent firm of appraisers. As discussed in Note 2, the Group sold its ownership interest in BAID and its subsidiaries, which resulted to a net gain on sale of ₱610.3 million, presented as “Income from discontinued operations” in the consolidated statement of income.

The fair value of the land held by BAID and its subsidiaries, which has been determined based on valuations performed by Cuervo Appraisers, Inc. as of July 27, 2010 and February 25, 2011, exceeded their carrying amounts. The aggregate fair value of the parcels of land as of December 31, 2010 amounted to ₱975.9 million.

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.

12. Other Noncurrent Assets

	2010	2010
Investment in LLP	**₱10,960,000**	₱11,028,434
Fixed income deposits	**1,000,000**	1,000,000
Deposits	**596,629**	696,646
Others	**2,495,678**	1,769,214
	₱15,052,307	₱14,494,294

Investment in LLP pertains to MC's investment carried at cost and adjusted for changes in the foreign exchange rates. Deposits consist of security and utility deposits. Fixed income deposit pertains to the Company's time deposit in Xavier Punla Rural Bank. Fixed income deposit earns interest at the rate of 10% per annum. Interest income earned amounted to ₱0.1 million in 2011 and 2010.

13. Accounts Payable and Accrued Expenses

	2011	2010
Deposits payable (see Note 20)	**₱1,170,028**	₱1,144,383
Accounts payable	**968,951**	1,215,351
Accrued expenses	**821,461**	572,772
	₱2,960,440	₱2,932,506

Deposits payable pertain to deposits made by tenants for the lease of the Group's surplus condominium spaces and will be returned to the lessee after the lease term. Accounts payable are generally noninterest-bearing payables to third party contractors. Accrued expenses include accrual of professional fees, withholding taxes and other government payables. The above balances are noninterest-bearing and are payable within one year.

14. Retirement Benefits Cost

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, 2011, 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 statements of financial position for the plan.

The composition of retirement benefits expense recognized in the consolidated statements of income is as follows:

	2011	2010	2009
Current service cost	**₱291,294**	₱433,822	₱353,352
Interest cost on benefit obligation	**222,859**	201,939	158,732
Net actuarial losses	**68,612**	15,946	207
Net benefit expense	**₱582,765**	₱651,707	₱512,291

The amounts recognized in the consolidated statements of financial position as retirement benefit obligation are as follows:

	2011	2010
Present value of obligation	**₱4,734,779**	₱4,031,877
Unrecognized net actuarial losses	**(744,611)**	(624,474)
Retirement benefit obligation	**₱3,990,168**	₱3,407,403

Changes in the present value of defined benefit obligation (present value of obligation) are as follows:

	2011	2010
Balances at beginning of year	**₱4,031,877**	₱3,022,933
Current service cost	**291,294**	433,822
Interest cost on benefit obligation	**222,859**	201,939
Actuarial loss on obligation	**188,749**	373,183
Balances at end of year	**₱4,734,779**	₱4,031,877

Movements in the retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

	2011	2010
Beginning balances	**₱3,407,403**	₱2,755,696
Net periodic benefit expense	**582,765**	651,707
Ending balances	**₱3,990,168**	₱3,407,403

The Group’s retirement plan is unfunded as of December 31, 2011.

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

	2011	2010
Discount rate	**5.35%**	6.10%
Salary increase rate	**5.00%**	5.00%
Average working lives of employees	**4**	4

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

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**₱4,734,779**	₱4,031,877	₱3,022,933	₱2,278,988	₱1,761,148
Actuarial (gain) loss on obligation	**188,749**	373,183	(226,113)	(366,349)	100,019
Experience adjustments on plan liabilities - (gains) losses	**145,732**	257,211	228,402	(232,511)	(100,019)
Change in assumptions	**43,017**	115,972	(454,515)	(133,838)	–

15. **Income Taxes**

Provision for (benefit from) income tax consists of:

	2011	2010	2009
Current:			
Regular corporate income tax	**₱3,442,517**	₱851,404	₱615,723
Final tax on interest income	**4,601,077**	293,696	541,956
MCIT	**24,911**	457,502	51,781
Deferred	**(313,103)**	–	(615,723)
	₱7,755,402	₱1,602,602	₱593,737

The Group's current provision for income tax represents regular corporate income tax, MCIT and final tax on interest income.

The components of net deferred tax liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Recognized directly in income:		
Allowance for impairment losses on receivables and AFS financial assets	**₱15,300,221**	₱17,299,672
MCIT	–	231,094
	15,300,221	17,530,766
Deferred tax liabilities:		
Recognized directly in equity:		
Share in revaluation increment on investment properties of BAID Group (see Note 11)	–	20,584,494
Recognized directly in income:		
Unrealized foreign exchange gains	**15,300,221**	17,299,672
	15,300,221	37,884,166
Net deferred tax liabilities	**₱–**	₱20,353,400

No deferred tax assets were recognized on the following deductible temporary differences, carryforward of unused MCIT and unused NOLCO because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

	2011	2010
Allowance for impairment losses on receivables and AFS financial assets	**₱147,136,527**	₱140,411,690
Allowance for impairment losses on investment in MUDC	**94,830,129**	94,830,129
Unrealized valuation loss on AFS financial assets	**23,174,387**	18,056,510
Unrealized foreign exchange loss	**3,360,468**	2,917,092
NOLCO	**5,571,943**	8,709,654
Provision for legal obligation	**5,000,000**	–
Retirement benefit obligation	**3,990,168**	3,407,403
Net unrealized valuation loss on foreign financial assets at FVPL	**3,155,336**	–
MCIT	**86,857**	375,178
Unamortized discount on AFS financial assets	**–**	259,968

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

	2011	2010	2009
Provision for income tax at statutory tax rate of 30.0%	**₱209,065,500**	₱17,075,607	₱10,698,272
Additions to (reductions in) income tax resulting from:			
Gain on disposal of subsidiary subject to capital gains tax	**(183,110,780)**	–	–
Equity in net earnings of associates	**(18,712,193)**	(16,891,391)	(9,992,182)
Interest income subjected to final tax	**(2,332,270)**	(164,592)	(736,494)
Nontaxable loss on fair value changes of financial assets at FVPL	**(1,980,608)**	(852,344)	(5,068,777)
Dividend income exempt from tax	**(120,573)**	(113,686)	(194,923)
Movement of unrecognized deferred tax assets	**3,464,270**	1,549,395	5,877,419
Expired NOLCO	**1,383,893**	881,129	–
Unallowable entertainment, amusement and representations	**70,134**	50,378	77,206
Nondeductible expenses	**27,900**	–	20,216
Expired MCIT	**129**	68,106	–
Non taxable gain on sale of financial assets at FVPL	**–**	–	(87,000)
	₱7,755,402	₱1,602,602	₱593,737

As of December 31, 2011, 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	Expirations/ Disposals	Ending Balance
2008	2009-2011	₱2,808,964	₱–	(₱2,808,964)	₱–
2009	2010-2012	3,375,362	–	(1,189,912)	2,185,450
2010	2011-2013	2,525,328	–	(614,100)	1,911,228
2011	2012-2014	–	1,475,265	–	1,475,265
		₱8,709,654	₱1,475,265	₱4,612,976	₱5,571,943

NOLCO pertaining to BAID Group amounting to ₱2.0 was derecognized from the consolidated financial statements upon disposal of the Group's ownership interest in BAID during the year.

MCIT:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applications	Expirations	Ending Balance
2008	2009-2011	₱301,603	₱–	(₱301,474)	(₱129)	₱–
2009	2010-2012	51,781	–	–	–	51,781
2010	2011-2013	252,888	–	(242,723)	–	10,165
2011	2012-2014	–	24,911	–	–	24,911
		₱606,272	₱24,911	(₱544,197)	(₱129)	₱86,857

16. **Equity**

a. Common Stock

The details of the Group's capital stock (number of shares and amounts) follow:

	2011	2010
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 common stock outstanding is owned by citizens of the Philippines. 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	June 3, 2007
	48,103,272		
Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to May 8, 2008	May 8, 2008
	48,103,273		
	96,206,545		

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. There have been no movements since 2008.

b. Treasury shares

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

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, shares of stock amounting to ₱0.7 million were declared delinquent and sold at a 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 ₱0.05 million.

In 2011, MCHC purchased additional shares of the Parent Company. The cost to acquire 346,000 units of Class A shares and 66,000 units of Class B shares amounted to ₱0.5 million.

c. Net unrealized valuation gains (losses) on AFS financial assets

Net unrealized valuation losses on AFS financial assets presented in the equity section of the consolidated statements of financial position amounted to ₱17.6 million as of December 31, 2011 and net unrealized valuation gains on AFS financial assets amounted to ₱9.7 million as of December 31, 2010 (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 ₱96.3 million and ₱95.8 million as of December 31, 2011 and 2010.

The retained earnings balance as of December 31, 2010 also includes the revaluation increment on investment properties of ₱62.8 million, which is not available for distribution. Upon sale of BAID, the revaluation increment on BAID's investment properties was derecognized and the entire retained earnings balance became available for dividend declaration.

On July 28, 2010, the BOD declared a regular cash dividend amounting to ₱0.05 per share held or ₱19.3 million (385,756,826 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of August 27, 2010, payable on or before September 23, 2010. Of the total amount declared, ₱19.2 million have been paid in 2010 and ₱356 in 2011.

On July 28, 2011, the BOD declared a regular cash dividend amounting to ₱0.07 per share held or ₱27.0 million (385,403,826 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 10, 2011, payable on or before September 15, 2011. Of the total amount declared, ₱26.8 million have been paid out in 2011.

17. 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 corporate or individual entities.

A summary of receivable balances and transactions with related parties follows:

	Current (see Note 6)		Noncurrent	
Related Parties	**2011**	2010	**2011**	2010
MUDC	**₱88,951,637**	₱88,951,637	**₱101,277,366**	₱100,165,260
PTC	**33,750,000**	27,000,000	**–**	–
BPO	**15,750,000**	10,500,000	**–**	–
Others	**636,023**	625,414	**500**	2,587
	139,087,660	127,077,051	**101,277,866**	100,167,847
Less allowance for impairment losses	**88,989,398**	88,989,398	**97,373,076**	97,373,076
	₱50,098,262	₱38,087,653	**₱3,904,790**	₱2,794,771

There were no movements in allowance for impairment losses in 2011 and 2010.

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 period 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, 2011 and 2010, management fees receivable from MUDC amounted to ₱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 noninterest-bearing long-term advances to MUDC amounting to ₱49.1 million, including accumulated unpaid interest as of December 31, 2011 and 2010. In 2004, the loan and unpaid interest was fully provided with an allowance for impairment loss since management believes that it is not likely to be collected in the future.

c. In 2006, total noninterest-bearing long-term advances to related parties amounting to ₱56.8 million, including the unamortized discount of ₱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 the Group's key management personnel comprised mainly of short-term employee benefits and amounted to ₱6.2 million in 2011 and 2010.

18. Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing the net income 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 and share data used in computing basic and diluted earnings per share for the years ended December 31:

	2011	2010	2009
Net income from continuing operations attributable to equity holders of the parent	**₱78,075,977**	₱55,607,836	₱36,187,891
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	**385,344,826**	385,756,826	385,756,826
Basic and diluted earnings per share	**₱0.203**	₱0.144	₱0.094
Net income from discontinued operations attributable to equity holders of the parent	**₱579,761,741**	(₱575,069)	(₱567,220)
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	**385,344,826**	385,756,826	385,756,826
Basic and diluted earnings per share	**₱1.505**	(₱0.001)	(₱0.001)

19. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Parent Company and its subsidiaries, is to invest in real and personal properties. MCHC's subsidiary, BAID, which was disposed during the year, was engaged in real estate business which, as of December 31, 2010, has 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.

20. Commitments and Contingencies

a. The Group leases an insignificant portion of its condominium spaces. The Group recognized rental income amounting to ₱3.2 million in 2011, ₱2.6 million in 2010 and ₱2.5 million in 2009. Future minimum rental income of ₱3.5 million from existing rental agreements will be recognized in 2012. The lease agreements have terms of one to two years and can be renewed upon the written agreement of the Group and the lessees.

b. The Group is currently involved in legal litigations covering various labor cases. In 2011, the Group recognized provision for legal obligation amounting to ₱5.0 million, for claims arising from lawsuits filed by a third party, which is pending decision by the courts. Probable cost has been estimated in consultation with the Group's legal counsel.

c. Aside from the case discussed above, in the ordinary course of business, the Group is a plaintiff in various litigations and claims. The Group believes, based on information currently available and the advice of 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 estimates or in the effectiveness of the strategies relating to these litigations and claims.

21. **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 and AFS financial assets. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial instruments such as cash and cash equivalents, receivables, receivables from related parties, investment in LLP included under other noncurrent assets 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 statements of financial position. The Group's financial assets are not covered by collateral from counterparties.

Credit risk concentration profile
The Group has no significant concentrations of credit risk.

Credit quality
As of December 31, 2011 and 2010, the credit quality per class of financial assets are as follows:

2011

	Neither past due nor impaired		Past due		
	High grade	**Standard grade**	**but not impaired**	**Individually impaired**	**Total**
Loans and receivables:					
Cash and cash equivalents	**₱1,042,194,697**	**₱–**	**₱–**	**₱–**	**₱1,042,194,697**
Receivables	**58,321,799**	–	–	**90,110,187**	**148,431,986**
Receivables from related parties	**1,110,019**	**2,794,771**	–	**97,373,076**	**101,277,866**
Fixed income deposits	**1,000,000**	–	–	–	**1,000,000**
Investment in LLP	**10,960,000**	–	–	–	**10,960,000**
Financial assets at FVPL	**52,372,641**	–	–	–	**52,372,641**
AFS financial assets	**296,597,549**	–	–	**10,654,000**	**307,251,549**
	₱1,462,556,705	**₱2,794,771**	**₱–**	**₱198,137,263**	**₱1,663,488,739**

2010

	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Individually impaired	Total
Loans and receivables:					
Cash and cash equivalents	₱32,649,145	₱–	₱–	₱–	₱32,649,145
Short-term investments	6,812,561	–	–	–	6,812,561
Receivables	46,089,430	–	–	90,110,187	136,199,617
Receivables from related parties	1,312,501	1,482,270	–	97,373,076	100,167,847
Fixed income deposits	1,000,000	–	–	–	1,000,000
Investment in LLP	11,028,434	–	–	–	11,028,434
Financial assets at FVPL	44,579,898	–	–	–	44,579,898
AFS financial assets	335,598,819	–	–	10,594,000	346,192,819
	₱479,070,788	₱1,482,270	₱–	₱198,077,263	₱678,630,321

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. There are no standard grade financial assets as of December 31, 2011 and 2010.

Aging Analysis
Aging analysis per class of financial assets as of December 31, 2011 and 2010 are as follows:

2011

	Neither Past Due nor Impaired	**Past due but not impaired**			
		<1 year	**>1 year**	**Financial Assets**	**Total**
Loans and receivables:					
Cash and cash equivalents	**₱1,042,194,697**	**₱–**	**₱–**	**₱–**	**₱1,042,194,697**
Receivables	**58,321,799**	**–**	**–**	**90,110,187**	**148,431,986**
Receivables from related parties	**1,110,019**	**2,794,771**	**–**	**97,373,076**	**101,277,866**
Fixed income deposits	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Investment in LLP	**10,960,000**	**–**	**–**	**–**	**10,960,000**
Financial assets at FVPL	**52,372,641**	**–**	**–**	**–**	**52,372,641**
AFS financial assets	**296,597,549**	**–**	**–**	**10,654,000**	**307,251,549**
	₱1,462,556,705	**₱2,794,771**	**₱–**	**₱198,137,263**	**₱1,663,488,739**

2010

	Neither Past Due nor Impaired	Past due but not impaired			
		<1 year	>1 year	Impaired Financial Assets	Total
Loans and receivables:					
Cash and cash equivalents	₱32,649,145	₱–	₱–	₱–	₱32,649,145
Short-term investments	6,812,561	–	–	–	6,812,561
Receivables	46,089,430	–	–	90,110,187	136,199,617
Receivables from related parties	1,312,501	1,482,270	–	97,373,076	100,167,847
Fixed income deposits	1,000,000	–	–	–	1,000,000
Investment in LLP	11,028,434	–	–	–	11,028,434
Financial assets at FVPL	44,579,898	–	–	–	44,579,898
AFS financial assets	335,598,819	–	–	10,594,000	346,192,819
	₱479,070,788	₱1,482,270	₱–	₱198,077,263	₱678,630,321

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 nonmoving accounts receivable, accounts of defaulted companies and accounts from closed companies.

The carrying amount of the Group's financial assets as at December 31, 2011 and 2010 are as follows:

2011

	Receivables	**Receivables from related parties**	**AFS financial assets**	**Total**
Nominal amounts	**₱148,431,986**	**₱101,277,866**	**₱307,251,549**	**₱556,961,401**
Less allowance for impairment losses	**90,110,187**	**97,373,076**	**10,654,000**	**198,137,263**
At December 31, 2011	**₱58,321,799**	**₱3,904,790**	**₱296,597,549**	**₱358,824,138**

2010

	Receivables	Receivables from related parties	AFS financial assets	Total
Nominal amounts	₱136,199,617	₱100,167,847	₱346,192,819	₱582,560,283
Less allowance for impairment losses	90,110,187	97,373,076	10,594,000	198,077,263
At December 31, 2010	₱46,089,430	₱2,794,771	₱335,598,819	₱384,483,020

Movement in allowance for impairment losses account:

	Receivables	Receivables from related parties	AFS financial assets	Total
At January 1, 2010	₱90,110,187	₱97,373,076	₱10,574,000	₱198,057,263
Provision for the year	–	–	20,000	20,000
At December 31, 2010	90,110,187	97,373,076	10,594,000	198,077,263
Provision for the year	–	–	60,000	60,000
At December 31, 2011	₱90,110,187	₱97,373,076	₱10,654,000	₱198,137,263

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱0.06 million, ₱0.02 million and ₱0.04 million in 2011, 2010 and 2009, 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, 2011 and 2010 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.

2011

	On demand	< 1 year	> 1 year	Total
Financial assets:				
Cash and cash equivalents	**₱12,187,204**	**₱1,030,016,493**	**₱–**	**₱1,042,203,697**
Receivables	**58,321,799**	**–**	**–**	**58,321,799**
Receivables from related parties	**–**	**–**	**3,904,790**	**3,904,790**
Financial assets at FVPL	**52,372,641**	**–**	**–**	**52,372,641**
Fixed income deposits	**–**	**–**	**1,000,000**	**1,000,000**
AFS financial assets	**296,597,549**	**–**	**–**	**296,597,549**
Total financial assets	**419,479,193**	**1,030,016,493**	**4,904,790**	**1,454,400,476**
Financial liabilities:				
Accounts payable and accrued expenses	**2,738,137**	**–**	**–**	**2,738,137**
Dividends payable	**299,484**	**–**	**–**	**299,484**
Total financial liabilities	**3,037,621**	**–**	**–**	**3,037,621**
	₱416,441,572	**₱1,030,016,493**	**₱4,904,790**	**₱1,451,362,855**

2010

	On demand	< 1 year	> 1 year	Total
Financial assets:				
Cash and cash equivalents	₱15,849,243	₱16,808,902	₱–	₱32,658,145
Short-term investments	6,812,561	–	–	6,812,561
Receivables	46,089,430	–	–	46,089,430
Receivables from related parties	–	–	2,794,771	2,794,771
Financial assets at FVPL	44,579,898	–	–	44,579,898
Fixed income deposits	–	–	1,000,000	1,000,000
AFS financial assets	335,598,819	–	–	335,598,819
Total financial assets	448,929,951	16,808,902	3,794,771	469,533,624
Financial liabilities:				
Accounts payable and accrued expenses	2,716,605	–	–	2,716,605
Dividends payable	103,523	–	–	103,523
Total financial liabilities	2,820,128	–	–	2,820,128
	₱446,109,823	₱16,808,902	₱3,794,771	₱466,713,496

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 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 financial assets in debt securities (see Note 8):

	2011	2010
Change in interest rate (in basis points)		
+10%	**₱28,132,693**	₱31,680,781
–10%	**(28,132,693)**	(31,680,781)

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.

In the normal course of business, the Group enters into transactions denominated in US dollar and other foreign currencies. 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 to these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent as of December 31 are as follows:

US Dollar:

	2011		2010	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash and cash equivalents	**$859,264**	**₱37,670,134**	$482,872	₱21,169,108
Receivables	**92,374**	**4,049,676**	195,324	8,563,004
Short-term investments	**–**	**–**	155,396	6,812,561
Financial assets at FVPL	**228,710**	**10,026,646**	–	–
AFS financial assets	**3,908,280**	**171,338,995**	6,444,500	282,526,880
Other noncurrent assets	**250,000**	**10,960,000**	251,561	11,028,434
	$5,338,628	**₱234,045,451**	$7,529,653	₱330,099,987

The exchange rate of the Philippine peso vis-à-vis the US dollar is ₱43.84 as of December 31, 2011 and 2010.

Other Foreign Currencies:

	2011			
	Currency	**Exchange Rate**	**Original Currency**	**Peso Equivalent**
Cash and cash equivalents	**EUR**	**56.84**	**10,897**	**₱619,385**
	HKD	**5.65**	**26,226**	**148,177**
	AUD	**44.32**	**3,750**	**166,200**
AFS financial assets	**EUR**	**56.84**	**168,102**	**9,554,918**
	HKD	**5.65**	**1,951,500**	**11,025,975**
	AUD	**44.32**	**73,682**	**3,265,586**
	BRL	**23.30**	**831,965**	**19,384,785**
	TRY	**22.94**	**300,992**	**6,904,756**
	RMB	**6.94**	**3,231,000**	**22,423,140**
Financial assets at FVPL	**HKD**	**5.65**	**666,000**	**3,762,900**
				₱77,255,822

	2010			
	Currency	Exchange Rate	Original Currency	Peso Equivalent
Cash and cash equivalents	EUR	58.03	11,801	₱684,812
	HKD	5.64	51,900	292,716
	AUD	44.64	3,750	167,400
AFS financial assets	EUR	58.03	222,902	12,935,003
	HKD	5.64	2,400,000	13,536,000
	AUD	44.64	79,724	3,558,879
	BRL	25.88	361,480	9,355,102
				₱40,529,912

The Group has no foreign currency denominated monetary liabilities as of December 31, 2011 and 2010.

As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses amounting to ₱11.6 million and ₱16.0 million in 2011 and 2010, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies exchange rates based on past foreign currencies exchange rates and macroeconomic forecasts for 2011, with all other variables held constant, of the Group's 2011 and 2010 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:

		Effect on income before tax	
Original Currency	Percentage	Strengthened	Weakened
2011			
US dollar	**5%**	**₱11,702,273**	**(₱11,702,273)**
Hongkong dollar (HKD)	**5%**	**746,853**	**(746,853)**
E.M.U euro (EUR)	**5%**	**508,715**	**(508,715)**

(Forward)

Original Currency	Percentage	Effect on income before tax Strengthened	 Weakened
2011			
Australia dollar (AUD)	**5%**	**₱171,589**	**(₱171,589)**
Brazil real (BRL)	**5%**	**969,239**	**(969,239)**
Turkish lira (TRY)	**5%**	**345,238**	**(345,238)**
Chinese yuan (RMB)	**5%**	**1,121,157**	**(1,121,157)**

Original Currency	Percentage	Effect on income before tax Strengthened	 Weakened
2010			
US dollar	5%	₱16,504,999	(₱16,504,999)
E.M.U euro (EUR)	5%	680,991	(680,991)
Hongkong dollar (HKD)	5%	691,436	(691,436)
Australia dollar (AUD)	5%	186,314	(186,314)
Brazil real (BRL)	5%	467,775	(467,775)

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 investments 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, NYSE and HKEx indices 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 2011 and 2010, with all other variables held constant, of the Group's income before income tax and equity:

Effect on income before income tax:

	2011	2010
Financial assets at FVPL:		
Change in stock market index (%)		
+10%	**₱5,237,053**	₱3,172,609
–10%	**(5,237,053)**	(3,172,609)

Effect on equity:

	2011	2010
Investment in equity securities (AFS):		
Change in club share prices (%)		
+10%	**₱284,150**	₱298,000
–10%	**(284,150)**	(298,000)

22. Financial Instruments

Categories of Financial Instruments

2011

	Financial assets			
	Loans and receivables	**Financial assets at FVPL**	**AFS financial assets**	**Total**
ASSETS				
Current:				
Cash on hand and in banks	**₱12,187,204**	**₱–**	**₱–**	**₱12,187,204**
Short-term placements	**1,030,016,493**	**–**	**–**	**1,030,016,493**
Listed debt securities	**–**	**–**	**12,275,200**	**12,275,200**
Listed equity securities	**–**	**52,372,641**	**–**	**52,372,641**
Receivable from third parties	**8,223,537**	**–**	**–**	**8,223,537**
Receivable from related parties	**50,098,262**	**–**	**–**	**50,098,262**
Noncurrent:				
Receivable from related parties	**3,904,790**	**–**	**–**	**3,904,790**
Fixed income deposits	**1,000,000**	**–**	**–**	**1,000,000**
Investment in LLP	**10,960,000**	**–**	**–**	**10,960,000**
Listed debt securities	**–**	**–**	**269,051,727**	**269,051,727**
Listed equity securities	**–**	**–**	**15,270,622**	**15,270,622**
TOTAL	**₱1,116,390,286**	**₱52,372,641**	**₱296,597,549**	**₱1,465,360,476**

2010

	Financial assets			
	Loans and receivables	Financial assets at FVPL	AFS financial assets	Total
ASSETS				
Current:				
Cash on hand and in banks	₱15,849,243	₱–	₱–	₱15,849,243
Short-term placements	16,808,902	–	–	16,808,902
Listed equity securities	–	44,579,898	–	44,579,898
Short-term investments	6,812,561	–	–	6,812,561
Receivable from third parties	8,001,777	–	–	8,001,777
Receivable from related parties	38,087,324	–	–	38,087,324
Noncurrent:				
Receivable from related parties	2,794,771	–	–	2,794,771
Fixed income deposits	1,000,000	–	–	1,000,000
Investment in LLP	11,028,434	–	–	11,028,434
Listed debt securities	–	–	316,807,808	316,807,808
Listed equity securities	–	–	18,791,011	18,791,011
TOTAL	₱100,383,012	₱44,579,898	₱335,598,819	₱480,561,729

2011

	Other financial liabilities	Total
LIABILITIES		
Current:		
Accounts payable and accrued expenses:		
Deposits payable	**₱1,170,028**	**₱1,170,028**
Accounts payable	**968,951**	**968,951**
Accrued expenses	**599,158**	**599,158**
Dividends payable	**299,484**	**299,484**
TOTAL	**₱3,037,621**	**₱3,037,621**

2010

	Other financial liabilities	Total
LIABILITIES		
Current:		
Accounts payable and accrued expenses:		
Deposits payable	₱1,144,383	₱1,144,383
Accounts payable	1,215,351	1,215,351
Accrued expenses	356,872	356,872
Dividends payable	103,523	103,523
TOTAL	₱2,820,129	₱2,820,129

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:

	2011		2010	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Current:				
Loans and receivables:				
Cash and cash equivalents	**₱1,042,203,697**	**₱1,042,203,697**	₱32,658,145	₱32,658,145
Short-term investments	**–**	**–**	6,812,561	6,812,561
Receivables	**58,321,799**	**58,321,799**	46,089,430	46,089,430
Financial assets at FVPL	**52,372,641**	**52,372,641**	44,579,898	44,579,898
AFS financial assets				
Debt securities	**12,275,000**	**12,275,000**	–	–
Noncurrent:				
Loans and receivables:				
Receivable from related parties	**3,904,790**	**3,309,144**	2,794,771	2,368,450
Fixed income deposits	**1,000,000**	**826,446**	1,000,000	751,315
Investment in LLP	**10,960,000**	**10,960,000**	11,028,434	11,028,434
AFS financial assets:				
Debt securities	**269,051,727**	**269,051,727**	316,807,808	316,807,808
Equity securities	**15,270,622**	**15,270,622**	18,791,011	18,791,011

(Forward)

	2011		2010	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial liabilities:				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	**₱1,170,028**	**₱1,170,028**	₱1,144,383	₱1,144,383
Accounts payable	**968,951**	**968,951**	1,215,351	1,215,351
Accrued expenses	**599,158**	**599,158**	356,872	356,872
Dividends payable	**299,484**	**299,484**	103,523	103,523

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, 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 financial assets 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 2011 and 2010. 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 2010. 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 8% to 10% in 2010 and 6.8% to 8.1% in 2010.

The fair value of receivables from related parties classified as noncurrent in the consolidated statements of financial position is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2011 and 2010.

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).

2011

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL	**₱52,372,641**	**₱–**	**–**	**₱52,372,641**
AFS financial assets:				
Private debt securities	**269,051,727**	**–**	**–**	**269,051,727**
Listed equity securities	**15,270,622**	**–**	**–**	**15,270,622**
	₱336,694,990	**₱–**	**₱–**	**₱336,694,990**

2010

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱44,579,898	₱–	₱–	₱44,579,898
AFS financial assets:				
Private debt securities	316,807,808	–	–	316,807,808
Listed equity securities	18,791,011	–	–	18,791,011
	₱380,178,717	₱–	₱–	₱380,178,717

As of December 31, 2011 and 2010, 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.

23. 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, 2011 and 2010. The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is computed as 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 financial assets.

	2011	2010
Accounts payable and accrued expenses	**₱2,960,440**	₱2,932,506
Less cash and cash equivalents	**1,042,203,697**	32,658,145
Net debt	**(1,039,243,257)**	(29,725,639)
Equity attributable to equity holders of the parent	**1,599,464,673**	996,763,247
Unrealized losses on changes in fair value of AFS financial assets	**17,625,131**	9,650,109
Total capital	**1,617,089,804**	1,006,413,356
Total capital and net debt	**₱577,846,547**	₱976,687,717
Gearing ratio	**(179.85%)**	(3.04%)

24. **Note to Statements of Cash Flows**

In 2011, the non-cash activities of the Group pertain to application of MCIT and set-up of provision for legal obligation.

In 2010, the non-cash activity of the Group pertains to the reclassification of investment in debt securities of about ₱127.2 million from HTM investment to AFS financial assets due to tainting provisions under PAS 39 as discussed in Note 9.

In 2009, noncash activities pertain to the reclassification of deposits under "Other noncurrent assets" amounting to ₱46.3 million to investment properties when the certificate of title was obtained by the Group (see Note 11).

SGV & Co
Ernst & Young

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www.sgv.com.ph

BOA/PRC Reg. No. 0001,
January 25, 2010, valid until December 31, 2012
SEC Accreditation No. 0012-FR-2 (Group A),
February 4, 2010, valid until February 3, 2013

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 its subsidiaries as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated April 13, 2012. 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 the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group-A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174817, January 2, 2012, Makati City

April 13, 2012

F&J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2011

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2011:

PFRSs and PIC Q & As	Adopted/Not Adopted/ Not Applicable
PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*	Adopted
PFRS 2, *Share-based Payment*	Not applicable
PFRS 3, *Business Combinations*	Adopted
PFRS 4, *Insurance Contracts*	Not applicable
PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*	Adopted
PFRS 6, *Exploration for and Evaluation of Mineral Resources*	Not applicable
PFRS 7, *Financial Instruments: Disclosures*	Adopted
PFRS 8, *Operating Segments*	Adopted
PAS 1, *Presentation of Financial Statements*	Adopted
PAS 2, *Inventories*	Adopted
PAS 7, *Statement of Cash Flows*	Adopted
PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*	Adopted
PAS 10, *Events after the Reporting Period*	Adopted
PAS 11, *Construction Contracts*	Not applicable
PAS 12, *Income Taxes*	Adopted
PAS 16, *Property, Plant and Equipment*	Adopted
PAS 17, *Leases*	Adopted
PAS 18, *Revenue*	Adopted
PAS 19, *Employee Benefits*	Adopted
PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*	Not applicable

PFRSs and PIC Q & As	**Adopted/Not Adopted/ Not Applicable**
PAS 21, *The Effects of Changes in Foreign Exchange Rates*	Adopted
PAS 23, *Borrowing Costs*	Not applicable
PAS 24, *Related Party Disclosures*	Adopted
PAS 26, *Accounting and Reporting by Retirement Benefit Plans*	Not applicable
PAS 27, *Consolidated and Separate Financial Statements*	Adopted
PAS 28, *Investments in Associates*	Adopted
PAS 29, *Financial Reporting in Hyperinflationary Economies*	Not applicable
PAS 31, *Interests in Joint Ventures*	Not applicable
PAS 32, *Financial Instruments: Presentation*	Adopted
PAS 33, *Earnings per Share*	Adopted
PAS 34, *Interim Financial Reporting*	Not applicable
PAS 36, *Impairment of Assets*	Adopted
PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*	Adopted
PAS 38, *Intangible Assets*	Not applicable
PAS 39, *Financial Instruments: Recognition and Measurement*	Adopted
PAS 40, *Investment Property*	Adopted
PAS 41, *Agriculture*	Not applicable
Philippine Interpretation IFRIC–1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Not applicable
Philippine Interpretation IFRIC–2, *Members' Shares in Co-operative Entities and Similar Instruments*	Not applicable
Philippine Interpretation IFRIC–4, *Determining whether an Arrangement contains a Lease*	Adopted
Philippine Interpretation IFRIC–5, *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Not applicable
Philippine Interpretation IFRIC–6, *Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*	Not applicable
Philippine Interpretation IFRIC–7, *Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies*	Not applicable
Philippine Interpretation IFRIC–9, *Reassessment of Embedded*	Not applicable

PFRSs and PIC Q & As	Adopted/Not Adopted/ Not Applicable
Derivatives	
Philippine Interpretation IFRIC–10, *Interim Financial Reporting and Impairment*	Not applicable
Philippine Interpretation IFRIC–12, *Service Concession Arrangements*	Not applicable
Philippine Interpretation IFRIC–13, *Customer Loyalty Programmes*	Not applicable
Philippine Interpretation IFRIC–14, PAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Not applicable
Philippine Interpretation IFRIC–16, *Hedges of a Net Investment in a Foreign Operation*	Not applicable
Philippine Interpretation IFRIC–17, *Distributions of Non-cash Assets to Owners*	Not applicable
Philippine Interpretation IFRIC–18, *Transfers of Assets from Customers*	Not applicable
Philippine Interpretation IFRIC–19, *Extinguishing Financial Liabilities with Equity Instruments*	Not applicable
Philippine Interpretation SIC–7, *Introduction of the Euro*	Not applicable
Philippine Interpretation SIC–10, *Government Assistance - No Specific Relation to Operating Activities*	Not applicable
Philippine Interpretation SIC–12, *Consolidation - Special Purpose Entities*	Not applicable
Philippine Interpretation SIC–13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	Not applicable
Philippine Interpretation SIC–15, *Operating Leases - Incentives*	Not applicable
Philippine Interpretation SIC–21, *Income Taxes - Recovery of Revalued Non-Depreciable Assets*	Not applicable
Philippine Interpretation SIC–25, *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*	Not applicable
Philippine Interpretation SIC–27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*	Adopted
Philippine Interpretation SIC–29, *Service Concession Arrangements: Disclosures*	Not applicable
Philippine Interpretation SIC–31, *Revenue - Barter Transactions Involving Advertising Services*	Not applicable
Philippine Interpretation SIC–32, *Intangible Assets - Web Site Costs*	Not applicable

PFRSs and PIC Q & As	Adopted/Not Adopted/ Not Applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 - Revenue recognition for sales of property units under pre-completion contracts	Not applicable
PIC Q&A No. 2006-02: PAS 27.10(d) - Clarification of criteria for exemption from presenting consolidated financial statements	Adopted
PIC Q&A No. 2007-03: PAS 40.27 - Valuation of bank real and other properties acquired (ROPA)	Not applicable
PIC Q&A No. 2008-01 (Revised): PAS 19.78 - Rate used in discounting post-employment benefit obligations	Adopted
PIC Q&A No. 2008-02: PAS 20.43 - Accounting for government loans with low interest rates under the amendments to PAS 20	Not applicable
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 - Financial statements prepared on a basis other than going concern	Not applicable
PIC Q&A No. 2010-01: PAS 39.AG71-72 - Rate used in determining the fair value of government securities in the Philippines	Adopted
PIC Q&A No. 2010-02: PAS 1R.16 - Basis of preparation of financial statements	Adopted
PIC Q&A No. 2011-01: PAS 1.10(f) - Requirements for a Third Statement of Financial Position	Not applicable

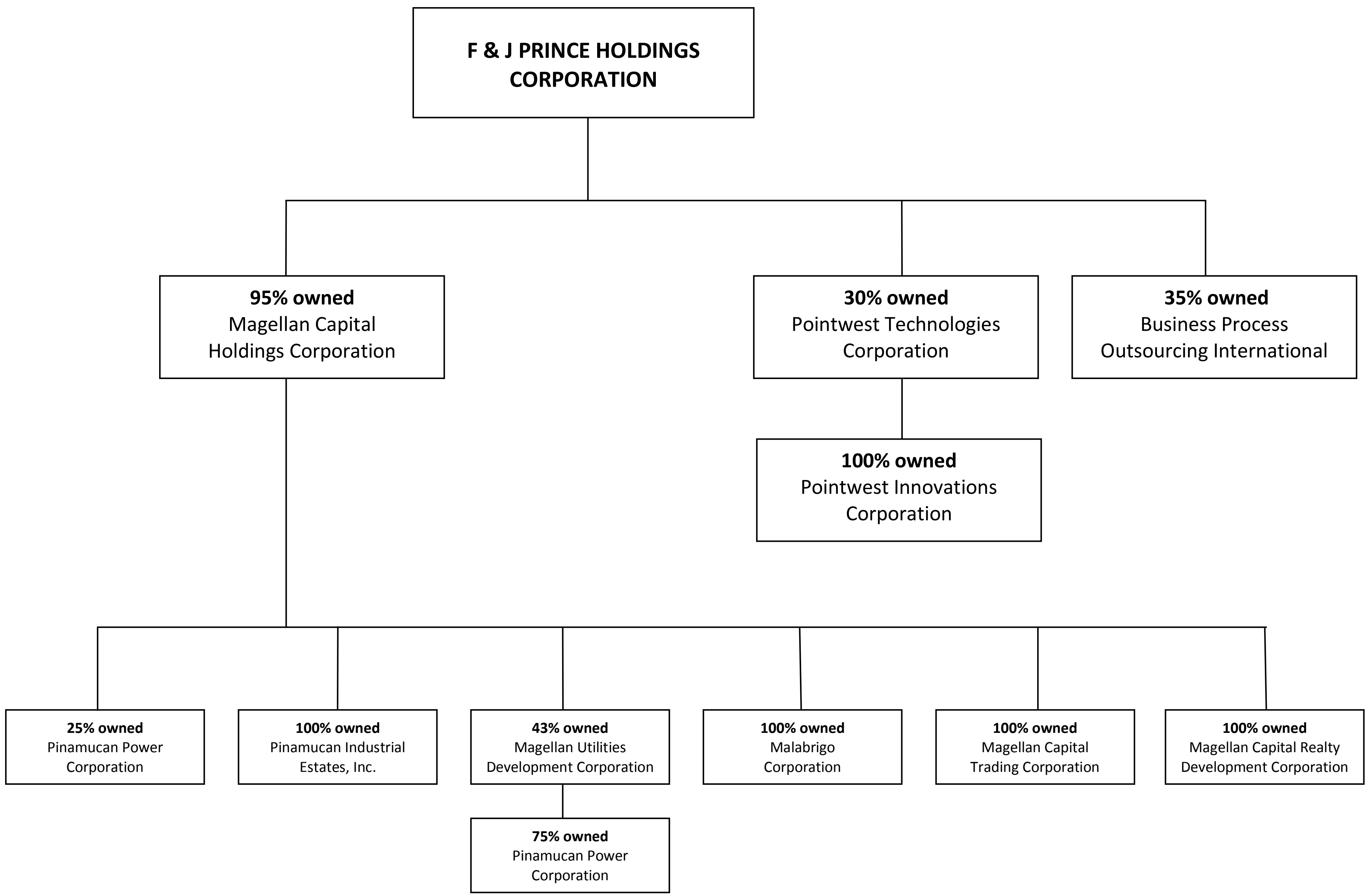
F & J Prince Holdings Corporation

KEY RATIOS

		December 2010	December 2011
LIQUIDITY RATIOS			
Current ratio	Current assets / Current liabilities	34.61	104.98
Acid test ratio	Cash + Marketable Securities + Accounts Receivable + Other Liquid Assets / Current liabilities	3.28	103.4
SOLVENCY RATIOS			
Debt to equity ratio	Total liabilities / Total equity	.026	0.009
Asset to equity ratio	Total assets / Total equity	1.03	1.01
Net debt to equity ratio	Debt-cash & cash equivalents / Total equity	0.0	0.0
Gearing ratio	Debt-cash & cash equivalents / Total equity + (Debt – cash & cash equivalents)	0	0
Interest coverage ratio [1]	EBIT / Interest expense	N.A.	N.A.
PROFITABILITY RATIOS			
Operating Margin	Operating Profit / Total revenues	61.4%	70.5%
Return on Equity	Net income after tax / Total equity	5.5%	41.1%

[1] No interest expense

SCHEDULE OF SUBSIDIARIES AND ASSOCIATES



F & J Prince Holdings Corporation

2012
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 2012 and Audited Consolidated Balance Sheet as of 31 December 2011 as Annex “A”;

(2) Unaudited Interim Statement of Income and Retained Earnings for the three (3) month period ending 31 March 2012 and the three (3) month period ending 31 March 2011 as Annex “B”;

(3) Unaudited Interim Statement of Changes in Stockholders’ Equity for the three (3) months ending 31 March 2012 and 2011 and Audited Statement of Changes in Stockholders’ Equity for the year ending 31 December 2011 as Annex “C”;

(4) Unaudited Interim Cash Flow Statement for the three (3) month period ending 31 March 2012 and the three (3) month period ending 31 March 2011 as Annex “D”;

(5) Interim Cash Flow for the quarterly periods ending 30 June and 30 September 2011, Audited Cash Flow Statement for the year ended 31 December 2011 as Annex “E”;

(6) Consolidated Balance Sheet as of 31 March 2012 and 31 December 2011 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 increased by 31% in 2011 to ₱122.8 million from ₱93.7 million in 2010. This does not include the extraordinary income after tax of ₱610.3 million derived from the sale by Magellan Capital Holdings Corporation (MCHC) of all its shares in Batangas Agro-Industrial Development Corporation (BAID). Most of the increase in revenue was accounted for by the 74% increase in interest income from ₱29.5 million in 2010 to ₱51.4 million in 2011. The increase in interest income was due mainly to the interest earned on the proceeds of the sale of the BAID shares. Equity in net earnings of associates also increased by 10.8% to ₱62.4 million in 2011 from ₱56.3 million in 2010 as the two outsourcing affiliates of the Registrant continue to show record revenues and profits. Fair value gain of financial assets at FVPL improved to ₱3.4 million in 2011 from ₱2.8 million in 2010 as listed stock investment owned by the Registrant and its subsidiaries continue to increase in value as the stock market has been improving. Rental income also increased to ₱3.2 million in 2011 from ₱2.6 million in 2010 as a previously vacant office unit was rented out. Dividend income increased slightly to ₱0.9 million in 2011 from ₱0.8 million in 2010. Gain on disposal of transport equipment and of surplus equipment accounted for the balance of the improvement in total consolidated revenue.

Total consolidated expenses of the Registrant was almost unchanged at ₱36.2 million in 2011 compared to ₱36.1 million in 2010. Unrealized foreign exchange losses of ₱11.6 million in 2011 was lower than the ₱16.0 million in 2010. However, provision for legal obligation of ₱5 million to cover potential cost of settling legal suits offset the improvement in unrealized fx losses. The other items in consolidated expenses only moved slightly compared to 2010 so that total consolidated expenses was almost the same in 2011 as in 2010.

As a result of the above, total consolidated income before tax from continuing operation in 2011 totalled ₱86.6 million, an improvement of 50.6% over the ₱57.5 million in 2010. After provision for income tax, total consolidated net income after tax from continuing operations totalled ₱78.9 million in 2011, a 41% improvement over the ₱55.9 million in 2010.

However, when we include the ₱610.3 million after tax income from the sale of the BAID shares, total consolidated net income for 2011 increased substantially to ₱689.1 million compared to ₱55.3 million in 2010. Net income attributable to equity holders of the parent from continuing operations totaled ₱78.1 million while net income from discontinued operations (from the sale of the BAID shares) attributable to equity holders of the Registrant totalled ₱579.8 million in 2011. In sum, total net income attributable to equity holders of the Registrant was ₱657.8 million compared to ₱55.0 million in 2010.

Net income attributable to non-controlling interest, namely minority shareholder of Magellan Capital Holdings Corporation, totalled ₱31.3 million in 2011 compared to ₱0.3 million in 2010.

The Registrant's financial position is very strong as it has substantial cash resources available to undertake its planned projects. As of December 31, 2011, the Registrant's consolidated cash and cash equivalent totaled over ₱1 billion compared to ₱32.7 billion as of December 31, 2010. The Registrant and its subsidiary is planning to undertake development of MCHC's land in Fort Bonifacio into an income producing building as well as to acquire income producing properties as well as additional land for development. The Registrant and its subsidiary are debt free with total consolidated liabilities of ₱15.1 million compared to total equity of ₱1.7 billion as of the end of 2011.

The Registrant's financial position has been strengthened by recent developments and its ability to undertake its planned projects is even stronger. 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 from time to time 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 2011 totalled ₱1,042 million compared to ₱32.6 million at the end of 2010 while total current assets totalled ₱1.17 billion at year-end 2011 compared to ₱135.3 million at year-end 2010. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations 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 2012

(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 2012 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 2012 or in the first quarter of 2011 aside from unrealized gains on trading securities, gains on disposal of AFS/HTM investments, and unrealized foreign exchange gains.

The following is a detailed discussion of the Registrant's operations and financial condition during the first quarter of 2012 and first quarter of 2011.

Operating Results

Breakdown of Revenue for the Three Month Periods Ending March 31, 2012 and March 31, 2011 with Vertical and Horizontal Percentage Analysis:

(P000)	FIRST QUARTER MARCH 31, 2012	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2012	FIRST QUARTER MARCH 31, 2011	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2011	INCREASE (DECREASE) AMOUNT MARCH 31, 2012	INCREASE (DECREASE) PERCENTAGE MARCH 31, 2012
INTEREST INCOME						
From Banks	9,024	34.3%	87	0.9%	8,937	10,272%
From Securities	6,819	26.0%	7,046	70.1%	(227)	(3.2%)
TOTAL	**15,843**	**60.3%**	**₱7,135**	**71.0%**	**8,768**	**22.0%**
Dividend Income	68	0.3%	26	0.3%	42	61.5%
Rent Income	876	3.3%	831	8.2%	45	5.4%
Unrealized Gain on Trading Securities	9,487	36.1%	639	6.3%	8,848	1385%
Gains on Disposal of AFS/HTM	-	-	1,122	11.2%	(1,122)	-
Unrealized FX Gain	-	-	116	1.2%	(116)	-
Other Income	-	-	178	1.8%	(178)	-
TOTAL	**₱ 26,276**	**100%**	**₱ 10,047**	**100%**	**₱ 16,229**	**61.5%**

Revenues. Consolidated Revenues, during the 3 month period ended March 31, 2012, totaled ₱26.3 million compared to the ₱10.9 million during the same 3 month period in 2011 or an increase of 61.5%. The higher revenue was mainly due to higher interest income which increased by ₱8.7 million or 22% higher than the interest income in the first quarter of 2011 and to unrealized gain on trading securities which increased by ₱8.8 million or 1385% higher than in the first quarter of 2011. The higher interest income was derived from the proceeds of the sale of the shares of Batangas Agro-Industrial Development Corporation (BAID) by Magellan Capital Holdings Corporation (MCHC) in July of 2011. Increase in the prices of listed equities owned by the Registrant and its subsidiaries accounted for the increase in unrealized gain on trading securities.

Expenses. Consolidated General and Administrative Expenses in the first quarter of 2012 totaled ₱7.1 million which was higher than the ₱5.0 million in the first quarter of 2011. Higher salaries and wages which resulted from the MCHC absorbing the employees of Magellan Utilities Development Corporation (MUDC) and higher taxes and licenses accounted for most of the increase.

Operating Income. As a result of the factors discussed above, consolidated operating income in first quarter 2012 totaled ₱19.2 million compared to a ₱5.0 million net income in the same period of 2011.

Net Income. Net income totaled ₱19.2 million during the first quarter of 2012 compared to net income of ₱5.0 million in the first quarter of 2011. The net income in the first quarter of 2012 attributable to shareholders of the Company totaled ₱18.5 million while ₱642,741 net income was attributable to minority shareholders in the company's majority owned subsidiary Magellan Capital Holdings Corporation. In the first quarter of 2011, ₱4.8 million net income was attributable to shareholders of the company and ₱0.3 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, 2012 compared to December 31, 2011.

<u>ASSETS</u>

Current Assets. Consolidated current assets as of March 31, 2012 totaled ₱1,174.1 million compared to ₱1,170.5 million as of December 31, 2011. Most of the decrease was due to the decrease of current portion of AFS financial assets.

Receivables from Related Parties. This account stayed level at ₱3.9 million at March 31, 2012, the same level as at year-end 2011.

Investments in Associates. This account which consists of investment in Pointwest Technologies Corporation and BPO International, Inc. remained unchanged from year-end 2011 to March 31, 2012 at ₱141.2 million as equity in net earnings of associates are taken up at year-end.

Available for Sale Investments. This account which consists mostly of listed securities and corporate bonds increased to ₱302.3 million as of March 31, 2012 from ₱284.3 million at year-end 2011 as proceeds of some maturing corporate bonds were used to purchase other bonds.

Property And Equipment. This account totaled ₱30.8 million as of March 31, 2012 compared to ₱31.4 million as of December 31, 2011 due to allowance for deprecation in the first quarter of 2012.

Investment in Property. This Account remained unchanged at ₱46.3 million from year-end 2011 to March 31, 2012.

Other Non-Current Assets. This account totaled ₱15.1 million as of March 31, 2012, the same level as at year-end 2011.

Total Assets. As a result of the foregoing, total assets increased to ₱1,713.7 million as of March 31, 2012 from ₱1,692.8 million as of December 31, 2011.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities was at about the same level of ₱11.2 million as of March 31, 2012 and as of December 31, 2011.

Non-Current Liabilities. Non-current liabilities which consists mostly of retirement benefits obligation was stable at ₱4.0 million as of March 31, 2012, the same level as at year-end 2011.

Stockholder's Equity. Total stockholder's equity increased to ₱1,698.5 million as of March 31, 2012 from ₱1,677.6 million at year-end 2011 due to the net income of ₱19.2 million generated in the first quarter of 2012. Total equity attributable to stockholders of the company totaled ₱1,619.7 million at March 31, 2012 from ₱1,599.5 million at December 31, 2011 due to the net income of ₱18.5 million attributable to stockholders of the company. Minority interest which represents the share of minority shareholders of Magellan Capital Holdings Corporation was ₱78.8 million at March 31, 2012 compared to ₱78.1 million at December 31, 2011 due to their share of earnings generated in the first quarter of 2012 of ₱0.6 million.

(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 2012 and 2011 are shown in Annex "B" and presented below in summary form:

(P 000)	1st Quarter-2012	Percentage (%)	1st Quarter-2011	Percentage (%)
Interest Income	₱ 15,844	60.3%	₱ 7,135	71.0%
Lease Rental Income	877	3.3%	831	8.3%
Dividend Income	68	0.3%	26	0.3%
Unrealized Gain on trading securities	9,487	36.1%	639	6.4%
Other Income	-	-	1,416	14.0%
Total Income	**₱ 26,276**	**100%**	**₱ 10,047**	**100%**

Total revenue increased by ₱61.5% in the first quarter of 2012 to ₱26.3 million from ₱10.1 million in the first quarter of 2011. Higher interest income was due to interest derived from the proceeds of the sale of the BAID shares. Higher unrealized gain on trading securities resulted from higher prices of listed securities held by the Registrant and its subsidiary.

Change in Net Income. The income statement in the first quarter of 2012 and 2011 are shown in Annex "B" and summarized below:

(P 000)	1st Quarter-2012	Percentage (%)	1st Quarter-2011	Percentage (%)
Revenues	₱ 26,276	100%	₱ 10,047	100%
Expenses	7,123	27.1%	5,003	49.8%
Net Income	19,153	72.9%	5,044	50.2%
Attributable to:				
- Minority Interest	643	2.4%	256	2.5%
- Stockholders of Company	₱ 18,510	70.5%	₱ 4,788	47.7%

The Registrant realized a net income of ₱19.2 million in the first quarter of 2012 compared to ₱5.0 million in the first quarter of 2011. Net income of ₱18.5 million was attributable to stockholders of the company in the first quarter of 2012 compared to ₱4.8 million in the first quarter of 2011.

Earnings Per Share. The net income per share attributable to shareholders of the Company during the first quarter of 2012 was ₱0.048 per share compared to net income per share of ₱0.0124 in the first quarter of 2011 due to the increase in net income generated in the first quarter of 2012.

Current Ratio. Current ratio as of March 31, 2012 was 105.2 X compared to 105 X as of December 31, 2011. The increase was due mainly to decrease in current liabilities.

Book Value Per Share. Book value per share as of March 31, 2012 was ₱4.20 per share compared to ₱4.15 as of December 31, 2011 due to the net income attributable to stockholders of the company realized in the first quarter of 2012.

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 .... **18 May 2012**

Principal Financial/Accounting Officer/Controller

Signature and Title........ **JOHNSON U. CO, Vice President and Treasurer**

Date .... **18 May 2012**

My Docs>F&J>2012 Files>SEC Form 17Q>
1st Quarter>31 March 2012>17-q-1ST Quarter 2012

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2012 AND DECEMBER 31, 2011

ANNEX "A"
Page 1

ASSETS		UNAUDITED MARCH 31, 2012		AUDITED DECEMBER 31,2011
Current Assets				
Cash and cash equivalents	P	1,044,940,273	P	1,042,203,697
Financial assets at fair value through profit or loss		61,859,349		52,372,641
Short-term investments		0		0
Receivables-net :				
Advances to Officers & Employees		0		2,500
Creditable Withheld Taxes		46,698		0
Dividends Receivable		49,500,000		49,500,0000
Accounts Receivable		619,678		619,178
Management Fee Receivable		45,197,865		45,197,865
Accrued Interest Receivable		43,753,772		43,753,772
Others		10,302,761		9,358,671
Total Receivables		149,420,774		148,431,986
Allowance for doubtful accounts		90,110,187		90,110,187
Total Receivables-Net		59,310,587		58,321,799
Fixed income deposits		0		0
Current portion of AFS financial assets		2,630,400		12,275,200
Prepaid expenses & other current assets:				
Input Tax		3,380,870		3,361,352
Prepaid Income Tax		400,000		400,000
Others		1,565,409		1,565,409
Total Prepaid expenses and other current assets		5,346,279		5,326,761
Total Current Assets	P	1,174,086,888	P	1,170,500,098
Non-current Assets				
Receivables from related parties-net		3,905,734		3,904,790
Investments in associates		141,220,305		141,220,305
Fixed income deposits		0		0
Available-for-sale (AFS) investments–net of current portion		302,316,599		284,322,349
Investment in property		46,319,625		46,319,625
Property and Equipment				
Building		47,014,750		47,014,750
Building Improvements		8,058,590		8,058,590
Transportation equipment		8,638,948		8,638,948
Furniture and fixtures		2,607,273		2,607,273
Total		66,317,561		66,317,561
Less: Accumulated depreciation		35,545,771		34,886,652
Net Book Value		30,771,790		31,430,909
Total Property and Equipment		30,771,790		31,430,909
Other non-current assets		15,052,311		15,052,307
Total Non-Current Assets		539,586,364		522,250,285
TOTAL ASSETS	P	1,713,673,252	P	1,692,750,383

LIABILITIES & STOCKHOLDERS' EQUITY		UNAUDITED MARCH 31, 2012		AUDITED DECEMBER 31, 2011
Current Liabilities				
Accounts Payable and accrued expenses				
Accounts payable-trade		6,395		0
Accounts payable-others		735,509		968,951
Withholding taxes payable		198,171		167,095
SSS Premium Payable		16,682		9,104
HDMF Premium Payable		2,100		1,200
Philhealth Premium Payable		5,725		3,400
Deposit Payable		1,178,392		1,170,028
Output Vat Payable		39,324		33,281
Accrued expenses		784,127		607,381
Total Accounts payable and accrued expenses	P	**2,966,425**	P	**2,960,440**
Dividends Payable		**299,484**		**299,484**
Income Tax Payable		**2,890,224**		**2,890,224**
Provision for legal obligation		**5,000,000**		**5,000,000**
Total Current Liabilities	P	**11,156,133**	P	**11,150,148**
Non-Current Liabilities				
Deferred income tax liabilities-net		**0**		**0**
Payable to related parties		**0**		**0**
Retirement benefit obligation)		**3,990,168**		**3,990,168**
Total Non-Current Liabilities		**3,990,168**		**3,990,168**
Stockholders' Equity				
Capital stock		**481,827,653**		**481,827,653**
Additional paid in capital		**144,759,977**		**144,759,977**
Treasury shares		**(96,336,907)**		**(96,336,907)**
Other Reserves		**(15,861,209)**		**(17,625,131)**
Retained earnings		**1,105,349,302**		**1,086,839,081**
Total Equity Attributable to Stockholders of the Company		**1,619,738,816**		**1,599,464,673**
Minority Interest		**78,788,135**		**78,145,394**
Total Stockholders' Equity		**1,698,526,951**		**1,677,610,067**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	P	**1,713,673,252**	P	**1,692,750,383**

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, 2012 AND MARCH 31, 2011

		UNAUDITED MARCH 31, 2012		UNAUDITED MARCH 31, 2011
REVENUES				
Interest Income				
From Banks	P	9,024,476	P	86,816
From Securities		6,819,372		7,046,197
Total Interest Income		15,843,848		7,135,013
Unrealized gains on trading securities		9,486,708		639,305
Rental Income		876,695		830,771
Gains on disposal of AFS/HTM investments		0		1,122,003
Dividend Income		68,366		26,232
Net unrealized foreign exchange gain		0		115,457
Other income		0		178,333
	P	26,275,616	P	10,047,114
EXPENSES				
Net foreign exchange loss		225,700		175,810
Amortization of unrealized losses on changes in fair value of AFS investments		0		0
Salaries, wages and employees' benefits		2,226,253		1,515,905
Depreciation		729,122		844,586
Professional fees		482,593		571,882
Condominium dues		467,158		489,979
Loss on disposal of AFS financial assets		179,350		
Taxes and licenses		2,239,035		521,107
Entertainment, amusement and recreation		64,276		79,396
Unrealized loss on financial assets at FVPL		0		204,071
Others		509,167		599,965
		7,122,654		5,002,701
NET INCOME	P	19,152,962	P	5,044,413
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	18,510,221	P	4,788,307
MINORITY INTERESTS		642,741		256,106
EARNINGS PER SHARE	P	0.048	P	0.0124

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, 2012 AND MARCH 31, 2011

		UNAUDITED MARCH 31, 2012		UNAUDITED MARCH 31, 2011
NET INCOME	P	19,152,962	P	5,044,413
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		(1,763,922)		228,318
Amortization of unrealized losses on changes in fair value of AFS investments		-		-
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		(1,763,922)		228,318
TOTAL COMPREHENSIVE INCOME(LOSS)	P	17,389,040	P	5,272,731
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	16,519,588	P	5,009,094
MINORITY INTERESTS		869,452		263,637
	P	17,389,040	P	5,272,731

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, 2012 AND MARCH 31, 2011
AND THE YEAR ENDED DECEMBER 31, 2011

		UNAUDITED MARCH 31, 2012		UNAUDITED MARCH 31, 2011		AUDITED DEC. 31, 2011
CAPITAL STOCK						
Balance at beginning of year	P	481,827,653	P	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		144,759,977		144,759,977		144,759,977
Treasury Shares		(96,336,907)		(95,791,606)		(96,336,907)
Other Reserves		(15,861,209)		9,878,427		(17,625,131)
SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES						
RETAINED EARNINGS						
Balance at beginning of period		1,086,839,081		456,317,114		456,317,114
Net Income		18,510,221		4,788,307		657,837,718
Dividends declared						(27,315,751)
Balance at end of period		1,105,349,302		461,105,421		1,086,839,081
		1,619,738,816		1,001,779,872		1,599,464,673
Minority Interests		78,788,135		48,220,259		78,145,394
TOTAL STOCKHOLDERS' EQUITY	P	1,698,526,951	P	1,050,000,131	P	1,677,610,067

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

ANNEX "D"

F & J PRINCE HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS PERIOD ENDING MARCH 31, 2012 AND MARCH 31, 2011

		UNAUDITED MARCH 31, 2012		UNAUDITED MARCH 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	P	18,510,221	P	4,788,307
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority Interest		642,741		256,106
Depreciation and amortization		659,119		144,585
Amortization of unrealized loss/gain on FV of AFS inv.		1,763,922		228,318
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		(988,788)		10,196,698
Prepaid expenses and other current assets		(19,518)		(207,822)
Increase (decrease) in accounts payable and accrued expenses		5,985		(52,085)
Net cash provided by operating activities		20,573,682		15,354,107
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions/disposals of property and equipment		0		(880,771)
AFS/HTM investments and financial assets (FVPL)		(17,836,158)		(18,194,828)
Decrease (increase) in:				
Receivable from related parties		(944)		(345,618)
Other assets		(4)		0
Net cash provided by (used in) investing activities		(17,837,106)		(19,421,217)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Deferred credits				
Payable to related parties		0		0
Income tax payable		0		(468,665)
Net cash provided by (used in) financing activities		0		(468,665)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P	2,736,576	P	(4,535,775)
CASH AND CASH EQUIVALENTS, BEGINNING		1,042,203,697		32,658,145
CASH AND CASH EQUIVALENTS, ENDING	P	1,044,940,273	P	28,122,370

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, 2011 AND SEPTEMBER 30, 2011

		UNAUDITED SEPTEMBER 30, 2011		UNAUDITED JUNE 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	P	575,942,006	P	10,978,273
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest		30,354,533		354,960
Depreciation and amortization		1,003,920		147,912
Unrealized loss/gain on changes in fair value of AFS/FVPL		(111,330)		423,427
Amortization of unrealized loss/gain on FV of AFS inv.		-		-
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		37,206,246		36,854,329
Prepaid expenses and other current assets		(241,173)		(296,290)
Increase (decrease) in:				
Accounts payable and accrued expenses		1,550,708		(547,670)
Net cash provided by operating activities		645,704,910		47,914,941
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions/disposals of property and equipment		-		(10,896)
Investment in property		368,074,900		
AFS/HTM/other investments and financial assets (FVPL)		(987,453,660)		(209,990,945)
Decrease (increase) in:				
Receivables from related parties		(885,828)		(99,422)
Other assets		-		-
Net cash provided by (used in) investing activities		(620,264,588)		(210,101,263)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Cash dividends declared and paid		(27,002,979)		0
Deposit liability		0		200,000,000
Dividends payable		(355)		0
Income tax payable		(874,772)		(874,770)
Net cash provided by (used in) financing activities		(27,878,106)		199,125,230
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**P**	**(2,437,784)**	**P**	**36,938,908**
CASH AND CASH EQUIVALENTS, BEGINNING		**32,658,145**		**32,658,145**
CASH AND CASH EQUIVALENTS, ENDING	**P**	**30,220,361**	**P**	**69,597,053**

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2011

		Audited
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax from continuing operations	P	86,609,483
Income (loss) from discontinued operations		610,275,517
Adjustments for:		
Net unrealized foreign exchange losses (gains)		8,418,520
Provision for legal obligation		5,000,000
Depreciation		2,592,854
Retirement expense		582,765
Provision for impairment losses on AFS financial assets		60,000
Gain on disposal of investment in subsidiary		(703,174,875)
Dividend income		(869,051)
Losses(gains) on fair value changes of financial assets at FVPL		(3,446,692)
Equity in net losses (earnings) of associates		(62,373,976)
Interest income		(51,436,413)
Loss(gain) on disposal of property and equipment		(311,961)
Loss(gain) on disposal of AFS and HTM investments		332,013
Operating loss before working capital changes		(107,741,816)
Decrease (increase) in:		
Receivables		118,279
Prepaid expenses and other current assets		(248,368)
Increase (decrease) in accounts payable and accrued expense		27,934
Net cash flows used in operations		(107,843,971)
Dividends received		38,369,137
Interest received		51,085,679
Income taxes paid		(5,393,553)
Net cash flows from operating activities		(23,782,708)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of:		
Investment in subsidiary		1,050,000,000
AFS financial assets		96,571,259
Short-term investments		6,812,561
Fixed income deposits		-
Property and equipment		311,961
Addition to:		
AFS financial assets		(95,021,106)
Investments in associates		(17,500,000)
Return of deposit from associate		26,600,000
Financial assets at FVPL		(4,346,051)
Property and equipment		(1,687,230)
Increase(decrease) in receivable from related parties		(1,178,895)
Increase(decrease) in other non-current assets		38,836
Net cash flows from (used in) investing activities		1,060,601,335
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid		(26,782,308)
Purchase of treasury shares		(545,301)
Net cash flows from financing activities		(27,327,609)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,009,491,018**
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		**54,534**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**32,658,145**
CASH AND CASH EQUIVALENTS AT END OF YEAR	P	**1,042,203,697**

F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2012 AND DECEMBER 31, 2011
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX F"

	UNAUDITED MARCH 31, 2012	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2012	AUDITED DEC. 31,2011	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2011	INCREASE (DECREASE) AMOUNT MARCH 31, 2012	INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2012
ASSETS						
Current Assets						
Cash and cash equivalents	1,044,940,273	60.97%	1,042,203,697	61.57%	2,736,576	0.26%
Financial assets at fair value through fair value thru profit or loss (FVPL)	61,859,349	3.61%	52,372,641	3.10%	9,486,708	18.11%
Short-term investments	-	-	-	-	–	-
Receivables :						
Advances to Officers & Employees	0	0.00%	2.500	0.00%	(2,500)	-100.00%
Creditable Withheld Taxes	46,698	0.00%	0	0.00%	46,698	0.00%
Accounts Receivable	619,678	0.03%	619,178	0.04%	500	0.08%
Dividends Receivable	49,500,000	2.90%	49,500,000	2.92%	0	0.00%
Management Fee Receivable	45,197,865	2.65%	45,197,865	2.67%	0	0.00%
Accrued Interest Receivable	43,753,772	2.55%	43,753,772	2.58%	0	0.00%
Others	10,302,761	0.60%	9,358,671	0.56%	944,090	10.09%
Total Receivables	149,420,774	8.73%	148,431,986	8.77%	988,788	0.67%
Allowance for doubtful accounts	90,110,187	-5.26%	90,110,187	-5.32%	0	0.00%
Total Receivables-Net	59,310,587	3.47%	58,321,799	3.45%	988,788	1.70%
Fixed income deposits	0	0.00%	0	0.00%	0	0.00%
Current portion of AFS investments	2,630,400	0.15%	12,275,200	0.73%	(9,644,800)	-46.10%
Prepaid expenses & other current assets:						
Others	1,565,409	0.09%	1,565,409	0.08%	0	0.00%
Input Tax	3,380,870	0.20%	3,361,352	0.20%	19,518	0.58%
Prepaid Income Tax	400,000	0.02%	400,000	0.02%	0	0.00%
Total Prepaid expenses & other current assets	5,346,279	0.31%	5,326,761	0.30%	19,518	0.37%
Total Current Assets	1,174,086,888	68.51%	1,170,500,098	69.15%	3,586,790	0.31%
Non-current Assets						
Receivables from related parties	3,905,734	0.23%	3,904,790	0.23%	944	0.02%
Investments in associates	141,220,305	8.24%	141,220,305	8.33%	0	0.00%
Fixed income deposits	0	0.00%	0	0.00%	0	0.00%
Available -for-sale (AFS) investments	302,316,599	17.64%	284,322,349	16.80%	17,994,250	6.33%
Investment in properties	46,319,625	2.70%	46,319,625	2.74%	0	0.00%
Property and Equipment						
Building	47,014,750	2.75%	47,014,750	2.78%	0	0.00%
Building Improvements	8,058,590	0.47%	8,058,590	0.48%	0	0.00%
Transportation equipment	8,636,948	0.50%	8,636,948	0.51%	0	0.00%
Furniture and fixtures	2,607,273	0.15%	2,607,273	0.15%	0	0.00%
Total Property and Equipment	66,317,561	3.87%	66,317,561	3.92%	0	0.00%
Less: accumulated depreciation	35,545,771	-2.07%	34,886,652	-2.06%	659,119	1.89%
Net Book Value	30,771,790	1.80%	31,430,909	1.86%	(659,119)	-2.10%
Total Property and Equipment	30,771,790	1.80%	31,430,909	1.86%	(659,119)	-2.10%
Deferred income tax assets-net	0	0.00%	0	0.00%	0	0.00%
Other Assets – net	15,052,311	0.88%	15,052,307	0.89%	4	0.00%
Total Non-Current Assets	539,586,364	31.49%	522,250,285	30.85%	17,336,079	3.32%
TOTAL ASSETS	1,713,673,252	100.00%	1,692,750,383	100.00%	20,922,869	1.24%

	UNAUDITED MARCH 31, 2012	VERTICAL PERCENTAGE ANALYSIS MARCH 31, 2012	AUDITED DEC. 31,2011	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2011	INCREASE (DECREASE) AMOUNT MARCH 31, 2012	INCREASE (DECREASE) PERCENTAGE ANALYSIS MARCH 31, 2012
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	735,509	0.03%	968,951	0.05%	(233,442)	-24.09%
Withholding taxes payable	198,171	0.01%	167,095	0.01%	31,076	18.60%
SSS Premium Payable	16,682	0.00%	9,104	0.00%	7,578	83.24%
HDMF Premium Payable	2,100	0.00%	1,200	0.00%	900	75.00%
Philhealth Premium Payable	5,725	0.00%	3,400	0.00%	2,325	68.38%
Deposit Payable	1,178,392	0.07%	1,170,028	0.07%	8,364	0.71%
Output Vat Payable	39,324	0.00%	33,281	0.00%	6,043	18.16%
Accrued expenses	784,127	0.05%	607,381	0.04%	176,746	29.10%
Total Accounts payable & accrued expenses	2,966,425	0.16%	2,960,440	0.17%	5,985	0.20%
Dividends Payable	299,484	0.02%	299,484	0.01%	0	0.00%
Income Tax Payable	2,890,224	0.17%	2,890,224	0.17%	0	0.00%
Provision for legal obligation	5,000,000	0.30%	5,000,000	0.30%	0	0.00%
Total Current Liabilities	11,156,133	0.65%	11,150,148	0.65%	5,985	0.05%
Non-Current Liabilities						
Deferred tax liabilities-net	0	0.00%	0	0.00%	0	0.00%
Payable to related parties	0	0.00%	0	0.00%	0	0.00%
Retirement benefit obligation	3,990,168	0.24%	3,990,168	0.24%	0	0.00%
Total Non-Current Liabilities	3,990,168	0.24%	3,990,168	0.24%	0	0.00%
Stockholders' Equity						
Capital stock	481,827,653	28.12%	481,827,653	28.46%	0	0.00%
Additional paid in capital	144,759,977	8.44%	144,759,977	8.55%	0	0.00%
Other reserves	(15,861,209)	-0.93%	(17,625,131)	-1.04%	1,763,922	-10.01%
Treasury shares	(96,336,907)	-5.62%	(96,336,907)	-5.69%	0	0.00%
Retained earnings	1,105,349,302	64.50%	1,086,839,081	64.21%	18,510,221	1.70%
Total Equity Attributable to Stock-holders of the Company	1,619,738,816	94.51%	1,599,464,673	94.49%	20,274,143	1.27%
Minority Interest	78,788,135	4.60%	78,145,394	4.62%	642,741	0.82%
Total Stockholders' Equity	1,698,526,951	99.11%	1,677,610,067	99.11%	20,916,884	1.25%
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	1,713,673,252	100.00%	1,692,750,383	100.00%	20,922,869	1.24%

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Organization
F & J Prince Holdings Corporation (the Parent 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 Parent Company's shares of stock are listed in and traded through the Philippine Stock Exchange (PSE). The principal activities of its subsidiaries are described in Note 2.

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

Authorization for Issuance
The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the Group) as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on April 13, 2012.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value (see Notes 5 and 8) and investment properties which have been carried at revalued amounts considered to be their "deemed cost" (see Note 11). The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' functional currency.

Statement of Compliance
The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as adopted by the Philippine SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

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 Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS which became effective on January 1, 2011. Except as otherwise indicated, adoption of these changes in PFRS did not have any significant effect to the Group.

PAS 24, *Related Party Transactions (Amendment)*
PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

PAS 32, *Financial Instruments: Presentation (Amendment)*
The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement (Amendment)*
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

Improvements to PFRS (issued 2010)
Improvements to PFRS, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

PFRS 3, *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011. The Group, however, adopted these as of January 1, 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of PFRS 3.

PFRS 7, *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 22.

PAS 1, *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 8.

Other amendments resulting from the 2010 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 34, *Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

<u>New Accounting Standards, Interpretations and Amendments to the Existing Standards Effective Subsequent to December 31, 2011</u>

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 the consolidated financial statements when these become effective.

Effective in 2012

PFRS 7, *Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

PAS 12, *Income Taxes - Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Properties*, should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

Effective Subsequent to 2012

PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

The amendments to PAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

PAS 19, *Employee Benefits (Amendment)*
Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013. The adoption of these amendments to PAS 19 will have an impact on the Group's reported retirement benefit obligation and related employee benefit expense. The Group will quantify the effect when the amendments were adopted.

PAS 27, *Separate Financial Statements (as revised in 2011)*
As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*
As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the consolidated financial position or performance.

PFRS 10, *Consolidated Financial Statements*
PFRS 10 replaces the portion of PAS 27, *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 11, *Joint Arrangements*
PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

PFRS 12, *Disclosure of Involvement with Other Entities*
PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

PFRS 13, *Fair Value Measurement*
PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge

accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The 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. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and Magellan Capital Holdings Corporation (MCHC) and its subsidiaries (MCHC Group) as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011.

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies for like transactions and other events in similar circumstances. All intra-group balances and transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

As of December 31, 2011 and 2010, the Group has 94.37% 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, 2011 and 2010.

MCHC has investments in the following subsidiaries:

	Country of Incorporation	Percentage of Ownership		Cost of Investments	
		2011	2010	**2011**	2010
Pinamucan Industrial Estates, Inc. (PIEI)	Philippines	**100**	100	**₱91,925,556**	₱91,925,556
Malabrigo Corporation (MC)*	Philippines	**100**	100	**662,500**	662,500
Magellan Capital Realty Development Corporation (MCRDC)*	Philippines	**100**	100	**100,000**	100,000
Magellan Capital Trading Corporation (MCTC)*	Philippines	**100**	100	**62,500**	62,500
Batangas-Agro Industrial Development Corporation (BAID)*	Philippines	**–**	100	**–**	114,819,204
				92,750,556	207,569,760
Less allowance for impairment losses				**162,500**	162,500
				₱92,588,056	₱207,407,260

* *still in the preoperating stage*

MCHC's subsidiary, BAID, also has investment in the following wholly-owned companies:

	Country of Incorporation
Fruits of the East, Inc.*	Philippines
Samar Commodities Trading and Industrial Corporation*	Philippines
Tropical Aqua Resources, Inc.*	Philippines
United Philippine Oil Trading, Incorporated*	Philippines
King Leader Philippines, Inc.*	Philippines
The Hometel Integrated Management Corporation*	Philippines

* *Still in preoperating stage*

PIEI. PIEI was organized primarily as a real estate developer. PIEI was registered with the Philippine SEC on May 5, 1993 and started its commercial operations on July 14, 1994. The principal assets of PIEI are composed of investments in debt and equity securities classified as AFS financial assets. The fair value of PIEI's AFS financial assets amounted to ₱136.6 million and ₱128.9 million as of December 31, 2011 and 2010, respectively.

MC. MC was organized primarily to purchase, operate, maintain and sell coal mines and their products and by-products. MC was incorporated on August 31, 1993 and has not yet started commercial operations.

The principal asset of MC is an investment in a limited liability partnership (LLP) based in the United States of America. The partnership engages in owning, holding, selling, assigning, transferring, operating, leasing, mortgaging, pledging and otherwise dealing with the property and any interests in the property. The investment is carried at cost of $0.3 million adjusted for changes in foreign exchange rates.

MCRDC. MCRDC was organized to purchase, subscribe for, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of shares of stock, bonds, debentures, notes, evidence of indebtedness and other securities, contracts and obligations of any corporation or corporations, domestic or foreign. MCRDC was registered with the Philippine SEC on November 14, 1990 and has not yet started commercial operations.

MCTC. MCTC was organized to conduct and carry on the business of buying, selling, distributing, marketing at wholesale and retail all kinds of goods, commodities, wares and merchandise. MCTC was registered in the Philippine SEC on January 7, 1991 and has not yet started commercial operations.

BAID. BAID was organized to acquire, own, lease, hold, cultivate, develop, operate and maintain agricultural lands, grazing lands, farms, plantations, orchards, cattle and other ranches, and to plant, grow, cultivate and harvest agricultural crops and raise and breed cattle and other kinds of animals. BAID was incorporated on August 12, 1991 and has not yet started commercial operations.

The principal assets of BAID and its subsidiaries consist of parcels of land originally intended for the 300-megawatt gas-fired thermal power plant of Magellan Utilities Development Corporation (MUDC). These assets are reflected in the accounts of BAID and its subsidiaries as investment properties and are carried at an appraised value of ₱392.8 million as determined on January 4, 2005 by an independent firm of appraisers.

On June 17, 2011, MCHC entered into a Share Purchase Agreement (the Agreement) with J.G. Summit Holdings, Inc. (JGSHI) for the sale of its ownership interest in BAID. The total purchase price based on the Agreement amounted to ₱1.0 billion. Documentary stamp tax and capital gains tax related to the sale amounted to ₱0.09 million and ₱92.5 million, respectively. In addition, the Agreement provides that JGSHI shall pay MCHC the amount of ₱9.8 million to repay the advances made by MCHC to BAID and its subsidiaries. Proceeds from the sale of BAID were invested by the Group in short-term placements (see Note 4).

The net assets of BAID prior to disposal consist of the following:

Investment properties	₱368,074,900
Accounts payable and accrued expenses	(665,280)
Due to related parties	(9,882,366)
Deferred tax liabilities	(20,584,494)
Net assets	336,942,760
Satisfied by cash	1,040,117,635
Gain on disposal	₱703,174,875

Details of net income on disposal of BAID, presented as "Net income from discontinued operations" in the statement of income are as follows:

Gain on disposal	₱703,174,875
Less:	
Taxes	92,618,593
Costs and expenses	280,765
Net income from discontinued operations	₱610,275,517

Loss from discontinued operations amounted to ₱0.3 million, ₱0.6 million and ₱0.6 million in 2011, 2010 and 2009, respectively, representing general and administrative expenses of BAID. BAID has no current provision for income tax in 2011, 2010 and 2009 due to its net taxable loss position.

The net cash flows attributable to BAID are as follows:

	2011	2010	2009
Cash flows from (used in):			
Operating activities	**(₱187,628)**	(₱604,757)	(₱611,760)
Financing activities	**187,628**	604,757	611,760
Net effect on cash	**₱–**	₱–	₱–

Reclassification
Certain accounts in the 2010 and 2009 consolidated financial statements, including cost and expenses have been reclassified to conform to the current year consolidated financial statement presentation.

Transactions with non-controlling interests
Non-controlling interests represent the portion of net income or loss and net assets in MCHC not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from total equity attributable to equity holders of the Parent Company. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interests is also recognized directly in equity.

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, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. 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. If the associate subsequently reports profits, the Group resumes recognizing its share of these profits only after its share of the profits equals the share of the losses not recognized. 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.

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

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Costs of Investment	
		2011	2010	**2011**	2010
MUDC	Philippines	**43**	43	**₱94,830,129**	₱94,830,129
Less allowance for impairment losses				**94,830,129**	94,830,129
				–	–
Business Process Outsourcing, International (BPO)					
Unquoted equity securities	Philippines	**35**	35	**33,205,006**	33,205,006
Deposit for stock subscription				**17,500,000**	26,600,000
				50,705,006	59,805,006
Pointwest Technologies Corporation (PTC)	Philippines	**30**	30	**40,725,000**	40,725,000
				₱91,430,006	₱100,530,006

<u>Business Combinations and Goodwill</u>
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

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 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.

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

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, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined 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, an impairment loss is recognized.

<u>Discontinued Operations</u>
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that had been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to re-sell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of income and consolidated statement of comprehensive income are represented as if the operation had been discontinued from the start of the comparative period. In the consolidated statement of income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from continuing income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

<u>Cash and Cash Equivalents</u>
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

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

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.

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, held-to-maturity (HTM) investments, and AFS financial assets. 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 these are expected to be realized within 12 months after the reporting date or within the normal operating cycle, whichever is longer. Otherwise, these are classified as other noncurrent assets.

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.

The Group's investments in trading securities are classified under financial assets at FVPL as of December 31, 2011 and 2010.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS financial assets 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 by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. 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, 2011 and 2010, the Group's cash and cash equivalents, short-term investments, receivables, fixed income deposits and investment in LLP included under "Other noncurrent assets" and receivables from related parties are classified as loans and receivables.

HTM investments
HTM investments are quoted non-derivative 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 financial assets 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. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. 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.

The Group previously had financial assets classified as HTM investments that were reclassified to AFS financial assets due to the sale of a significant portion of the investments (see Note 9). The Group has no HTM investments as of December 31, 2011 and 2010.

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets, or loans and receivables. AFS financial assets are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. These include equity investments.

After initial measurement, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component in the equity section of the consolidated statements of financial position until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

When the security is disposed of, the cumulative gain or loss previously recorded in equity is recognized as gain or loss in the consolidated statement of income. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS equity instruments are recognized in the consolidated statement of income when the right to the payment has been established. AFS financial assets are classified as current if they are expected to be realized within 12 months from the reporting date. Otherwise, these are classified as

noncurrent assets. The losses arising from impairment of AFS financial assets are recognized in the consolidated statement of income.
The Group's AFS financial assets consist of debt and equity securities as of December 31, 2011 and 2010.

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.

Derivative financial instruments
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 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, 2011 and 2010, the Group has no bifurcated embedded derivatives.

Financial liabilities
Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

Financial liabilities are classified as current liabilities when these are 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. Otherwise, these are classified as noncurrent liabilities.

Other financial liabilities
Issued financial instruments or their components, which are not held for trading or 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. Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. 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 accounts payable and accrued expenses, dividends payable 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 financial assets
For AFS financial assets, 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 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 income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable value.

Creditable Withholding Taxes (CWT)
CWT, included in "Prepayments and other current assets" account in the consolidated statement of financial position, are amounts withheld from income subject to expanded withholding taxes. CWTs can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current asset.

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, comprising parcels of land, are held either to earn rental income or for capital appreciation or both. Investment properties are measured at cost, including transaction costs less any accumulated impairment in value. The carrying amount of the investment properties held by BAID and its subsidiaries as of December 31, 2010 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be "deemed cost" at the time of the Group's transition to PFRS, and determined on January 4, 2005 by an independent firm of appraisers.

Investment properties are derecognized when 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 statement of income in the period of the retirement or disposal.

Transfers are made to or from investment properties only when there are changes in use. For a transfer from investment property under the cost model to owner occupied property or inventories, no change in the carrying value amount of the property transferred and the transfers do not change the deemed cost for subsequent accounting of that property for measurement or disclosure purposes.

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 the 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.

Capital Stock and Additional Paid-in Capital
The Group has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of tax, from the proceeds.

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the shareholders.

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.

Retained Earnings
The amount included in retained earnings includes income attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's BOD. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

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.

Fair value gains on financial assets at FVPL
Financial assets at FVPL which consist of equity securities are stated at fair values based on the

current market quotations. The difference between the aggregate market values of investments in securities at respective reporting dates and the carrying value is shown as "Fair value gains or losses on financial assets at FVPL" account in the statement of income.

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

<u>Expenses</u>
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are generally recognized when the services are used or the expenses arise.

<u>Retirement Benefits</u>
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 present value 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, if any, 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.

<u>Leases</u>
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 even if that right is not explicitly specified in the arrangement.

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.

Group as a lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessors retain all significant risks and rewards of ownership of these properties which are leased out on operating lease.

Foreign Currency Transactions
The consolidated financial statements are presented in Philippine peso, which is the Parent Company and its subsidiaries' 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. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

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 tax
Deferred tax is provided using the 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 tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred 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 tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of income. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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

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

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

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 is 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 19).

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.

Judgments
Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Parent Company and its subsidiaries 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 revenue and expenses of the Group.

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 statement of financial position.

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 22).

Operating Lease - The Group as a Lessor
The Group entered into various lease agreements as a lessor. The Group has determined that it retains all significant risks and rewards of ownership of these properties which are leased out on operating lease due to the following:

a. the ownership of the asset does not transfer at the end of the lease term;

b. the lessee has no option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that at the inception of the lease, it is reasonable and certain that the option will be exercised;

c. the lease term is not for the major part of the economic life of the asset even if title is not transferred; and

d. at the inception of the lease, the present value of the minimum lease payments does not amount to at least substantially all of the fair value of the leased asset.

Operating Lease - Group as a Lessee
The Group has entered into various lease agreements as a lessee. The Group has determined that the lessors retain all significant risks and rewards of ownership of these properties which are leased out on operating lease.

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 advise 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 20).

Estimates and Assumptions
Determination of Fair Values of Financial Instruments
The Group carries 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 either income and loss or amount disclosed.

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statement of financial position 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 liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 amounted to ₱61.9 million and ₱52.4 million as of March 31, 2012 and December 31, 2011, respectively (see Note 5). The carrying amount of the Group's AFS financial assets amounted to ₱304.9 million and ₱296.6 million as of March 31, 2012 and December 31, 2011 , respectively (see Note 8).

Estimating Allowance for Impairment Losses on Loans and Receivables
The Group reviews its loans and receivables (cash and cash equivalents, short-term investments, receivables, fixed income deposits and investment in LLP included under "Other noncurrent assets" and receivables from related parties) 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.

For 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 trade 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 in "Receivables". These allowances are re-evaluated and adjusted as additional information is received. The allowance for impairment losses on receivables from related parties amounted to ₱186.4 million as of March 31, 2012 and December 31, 2011 while the allowance for impairment losses on receivables from third parties amounted to ₱1.1 million as of March 31, 2012 and December 31, 2011 (see Notes 6 and 17). No provision for impairment losses on receivables was recognized in March, 2012 and December, 2011. The Group's current receivables, net of allowance for impairment losses, amounted to ₱59.3 million and ₱58.3 million as of March 31, 2012 and December 31, 2011 , respectively (see Note 6). The Group's noncurrent receivables from related parties, net of allowance for impairment losses, amounted to ₱3.9 million as of March 31, 2012 and December 31, 2011, respectively (see Note 17).

Estimating Impairment of AFS Equity Financial Assets
The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than six (6) months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The balance of the Group's allowance for impairment losses on investment in equity securities amounted to ₱10.7 million as of March 31, 2012 and December 31, 2011 , respectively (see Notes 8 and 21). The carrying amount of the Group's AFS equity financial assets amounted to ₱15.3 million as of March 31, 2012 and December 31, 2011, respectively (see Note 8).

Estimating Impairment of Nonfinancial Assets
The Group determines whether investments in associates, investment properties, property and equipment and other non-current assets are impaired whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94.8 million as of March 31, 2012 and December 31, 2011. The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flows 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 amounted to ₱141.2 million as of March 31, 2012 and December 31, 2011 , respectively (see Note 7).

The carrying amount of the Group's property and equipment amounted to ₱30.8 million and ₱32.3 million as of March 31, 2012 and December 31, 2011, respectively (see Note 10). The carrying amount of the Group's investment properties amounted to ₱46.3 million as of March 31, 2012 and December 31, 2011 (see Note 11). No provision for impairment losses on the Group's nonfinancial assets was recognized in March, 2012 and December, 2011.

Estimating 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.

Estimating Retirement Benefit Obligation
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 ₱0.6 million, ₱0.7 million and ₱0.5 million in 2011, 2010 and 2009, respectively. The carrying amount of the Group's retirement benefit obligation amounted to ₱4.0 million as of March 31, 2012 and December 31, 2011 , respectively (see Note 14).

Estimating Realizability of Deferred Tax Assets
The Group reviews the carrying amounts of deferred 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 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 tax assets to be utilized. The Group recognized deferred tax assets amounting to ₱15.3 million and ₱17.5 million as of December 31, 2011 and 2010 , respectively (see Note 15). The Group has unrecognized deferred tax assets on temporary differences and carryforward of unused MCIT and unused NOLCO as of December 31, 2011 and 2010 (see Note 15).

Estimating Provision for Legal Obligation
The Group's estimate of provision for legal obligations has been developed by management. The Group's management currently does not believe the provision will have a material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates of provisions. In 2011, the Group recognized provision for legal obligations amounting to ₱5.0 million, for claims arising from lawsuits filed by third parties which are either pending decision by the courts or are subject to settlement obligations (see Note 20).

4. Cash and Cash Equivalents

	March, 2012	December, 2011
Cash on hand	**₱9,000**	₱9,000
Cash in banks	**10,021,131**	15,840,243
Short-term placements (see Note 2)	**1,034,910,142**	16,808,902
	₱1,044,940,273	₱32,658,145

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 ranging from 1.5% to 6.5% in 2011 and 2.0% to 6.5% in 2010. Interest income earned from cash and cash equivalents amounted to ₱23.1 million, ₱1.5 million and ₱4.3 million in 2011, 2010 and 2009, respectively.

5. Financial Assets at FVPL

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

The carrying value of financial assets at FVPL includes net unrealized gain on fair value changes amounting to ₱3.4 million, ₱2.8 million and ₱16.9 million in 2011, 2010 and 2009, respectively. Fair value changes are presented under “Fair value gains on financial assets at FVPL” in the consolidated statements of income. Net cumulative unrealized gains on financial assets at FVPL amounted to ₱23.4 million and ₱19.9 million as of December 31, 2011 and December 31, 2010 respectively.

The rollforward of the Group’s financial assets at FVPL is as follows:

	March, 2012	December, 2011
Cost:		
Balances at beginning of year	**₱24,666,386**	₱24,666,386
Additions	**4,346,051**	4,346,051
Balances at end of year	**29,012,437**	29,012,437
Changes in fair value:		
Balances at beginning of year	**23,360,204**	19,913,512
Fair value gains	**9,486,708**	3,446,692
Balances at end of year	**32,846,912**	23,360,204
	₱61,859,349	₱52,372,641

Dividend income earned on investments in financial assets at FVPL amounted to ₱0.5 million, ₱0.4 million and ₱0.7 million in 2011, 2010 and 2009, respectively, presented as “Dividend income” in the consolidated statements of income.

In 2009, the Group sold certain financial assets at FVPL with a carrying value of ₱1.0 million for ₱1.3 million, resulting to a gain of ₱0.3 million presented as “Gain on disposal of financial assets at FVPL” in the consolidated statements of income.

6. **Receivables**

	March, 2012	December, 2011
Third parties:		
Accrued interest (see Note 8)	**₱9,885,077**	₱8,964,487
Others	**447,037**	379,839
Related parties:		
Dividends receivable (see Notes 7 and 17)	**49,500,000**	49,500,000
Management fees (see Note 17)	**45,197,865**	45,197,865
Accrued interest (see Note 17)	**43,753,772**	43,753,772
Others (see Note 17)	**637,023**	636,023
	149,420,774	148,431,986
Less allowance for impairment losses	**90,110,187**	90,110,187
	₱59,310,587	₱58,321,799

Accrued interest receivables from third parties pertain to interest earned on investments in AFS debt securities and short-term placements that are expected to be collected within one year.

The terms and conditions related to receivables from related parties are discussed in Notes 7 and 17.

The breakdown of allowance for impairment losses on receivables are as follows:

Third parties		₱1,120,789
Related parties (see Note 17):		
Management fees	₱45,197,865	
Accrued interest	43,753,772	
Others	37,761	88,989,398
Total		₱90,110,187

There were no movements in the allowance for impairment losses on receivables in 2011 and 2010.

7. Investments in Associates

	March, 2012	December, 2011
Unquoted equity securities:		
Acquisition cost	**₱168,760,135**	₱168,760,135
Accumulated equity in net earnings:		
As at beginning of year	**36,916,323**	36,916,323
Equity in net earnings for the year	**62,373,976**	62,373,976
Dividends declared	**(49,500,000)**	(49,500,000)
As at end of year	**49,790,299**	49,790,299
	218,550,434	218,550,434
Less allowance for impairment losses	**94,830,129**	94,830,129
	123,720,305	123,720,305
Deposit for future stock subscription:		
As at beginning of year	**26,600,000**	26,600,000
Return of deposit	**(26,600,000)**	(26,600,000)
Deposit made	**17,500,000**	17,500,000
As at end of year	**17,500,000**	17,500,000
	₱141,220,305	₱141,220,305

The Group has equity interest in the unquoted equity securities of and additional deposits for stock subscription to the following associates as of December 31:

	Country of Incorporation	Percentage of Ownership		Carrying amount of Investment	
		2011	2010	**2011**	2010
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	**54,856,448**	63,803,645
PTC	Philippines	**30**	30	**86,363,857**	73,642,684
				₱141,220,305	₱137,446,329

MUDC
The Group has a 43% interest in MUDC. As of December 31, 2011, 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, 2011 and 2010, MUDC has project development costs of ₱207.1 million. The recoverability of these assets and the ultimate success of MUDC's future operations are dependent upon the signing of these agreements. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt on MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2011 and 2010, MUDC has incurred significant losses, which resulted in deficit of ₱437.9 million and ₱436.7 million, respectively, and capital deficiency of ₱257.0 million and ₱255.8 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Consequently, the Group has discontinued recognizing its share of further losses of ₱94.8 million as of December 31, 2011 and 2010. Additional losses are provided for by the Group to the extent that it has made payments on behalf of MUDC to satisfy MUDC's obligations that the Group has guaranteed or otherwise committed.

The Group has assessed that its investment in and advances to MUDC amounting to ₱94.8 million and ₱89.0 million, respectively, is impaired since management believes that it will no longer recover from such investment and advances. Accordingly, the Group provided a full allowance for impairment losses on its investment and receivables from MUDC due to non-recoverability of the project development costs incurred in 2004.

The summarized financial information of MUDC is as follows:

	2011	2010
Current assets	**₱213,379**	₱337,622
Noncurrent assets	**16,144,645**	17,155,644
Total assets	**16,358,024**	17,493,266
Current liabilities	**315,631**	310,732
Noncurrent liabilities	**273,047,234**	272,972,544
Total liabilities	**273,362,865**	273,283,276
Revenues	**450**	–
Expenses	**1,215,280**	1,198,847
Net loss	**1,214,830**	1,198,847

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 ₱15.9 million, ₱12.6 million and ₱12.0 million in 2011, 2010 and 2009, respectively. Investment in BPO includes goodwill of ₱23.4 million.

On August 26, 2009, the BOD of BPO approved the declaration of cash dividends amounting to ₱40.0 million or ₱142.86 per share of BPO's common stocks as of record date December 5, 2008.

The Group recognized dividend income of ₱14.0 million in 2009. Another cash dividend declaration was approved by the BOD of BPO on December 31, 2009 amounting to ₱12.0 million or ₱42.86 per share of BPO's common stocks as of record date December 31, 2009, to be paid on or before April 15, 2010. The Group recognized dividend income amounting to ₱4.2 million in 2009.

On December 17, 2010, the BOD of BPO approved the declaration of cash dividends amounting to ₱30.0 million or ₱107.14 per share of BPO's common stocks as of record date December 17, 2010. The Group recognized dividend income amounting to ₱10.5 million in 2010. The dividends were collected on March 29, 2011 (see Note 6).

On December 22, 2011, the BOD of BPO approved the declaration of cash dividends amounting to ₱45.0 million or ₱160.71 per share of BPO's common stocks as of record date December 21, 2011. The Group recognized dividend income amounting to ₱15.8 million in 2011. The dividends are expected to be collected in 2012 (see Note 6).

In 2011, BPO returned the deposit previously obtained from its stockholders, including the Parent Company. On October 25, 2011, the BOD of BPO approved the increase of BPO's authorized capital stock from ₱100.0 million dividend into 1,000,000 shares, with par value of ₱100.0 to ₱300.0 million, divided into 3 million shares with par value of ₱100, subject to the approval of the SEC. On January 19, 2012, BPO's application was reviewed by the SEC's Company Registration and Monitoring Department (CMRD) and was cleared from any pending penalties.

In compliance with the minimum subscription requirement for the application of the increase of BPO's capital stock, its stockholders, including the Parent Company, deposited a total amount of ₱50.0 million, representing 25% of the minimum subscription of the capital increase. The Parent Company maintained its percentage ownership over BPO by providing a deposit amounting to ₱17.5 million.

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.

The Group's equity in net earnings from PTC amounted to ₱46.5 million, ₱43.7 million and ₱21.3 million in 2011, 2010 and 2009, respectively.

On December 15, 2009, the BOD of PTC approved the declaration of cash dividends amounting to ₱100.1 million or ₱0.89 per share of PTC's common stocks as of record date December 30, 2009, to be paid on or before June 30, 2010. The Group recognized dividend income amounting to ₱30.0 million in 2009. The dividends were received in full in 2010.

On December 10, 2010, the BOD of PTC approved the declaration of cash dividends amounting to ₱90.0 million or ₱0.80 per share of PTC's common stocks as of record date December 31, 2010. The Group recognized dividend income amounting to ₱27.0 million in 2010. The dividends were collected in April 1, 2011 (see Note 6).

On December 9, 2011, the BOD of PTC approved the declaration of cash dividends amounting to ₱112.5 million or ₱1.00 per share of PTC's common stocks as of record date December 31, 2011. The Group recognized dividend income amounting to ₱33.8 million in 2011. The dividends are expected to be collected in 2012 (see Note 6).

The summarized combined financial information of the Group's associates are as follows:

	2011	2010	2009
Current assets	**₱680,212,811**	₱592,291,218	₱500,154,566
Noncurrent assets	**129,951,162**	119,349,729	129,690,718
Total assets	**810,163,973**	711,640,947	629,845,284
Current liabilities	**363,663,607**	291,712,005	463,875,359
Noncurrent liabilities	**328,855,379**	316,948,208	123,333,362
Total liabilities	**692,518,986**	608,660,213	587,208,721
Revenues	**1,172,525,720**	984,411,729	768,026,030
Expenses	**945,582,999**	791,551,137	646,946,034
Net income	**199,125,661**	183,729,869	104,224,699

8. AFS Financial Assets

	March, 2012	December, 2011
Current:		
Debt securities	**₱2,630,400**	₱12,275,200
Non-current:		
Debt securities	**287,045,977**	269,051,727
Equity securities - net of allowance for impairment losses of ₱10.7 million and ₱10.6 million as of December 31, 2011 and 2010, respectively	**15,270,622**	15,270,622
	₱304,946,999	₱296,597,549

Investments in debt securities

Investments in debt securities are denominated in US dollar, Australian dollar, Brazil real, Turkish lira, Euro, Chinese yuan and Philippine peso 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 rates range from 6.0% to 13.6% per annum. Value dates of the investments range from August 4, 2009 to December 7, 2011 and maturity dates range from April 20, 2012 to perpetuity. Interests on investments are received and settled semi-annually in US dollar.

As discussed in Note 9, the Group reclassified certain investment in debt securities from AFS financial assets to HTM investments on July 1, 2008. On March 19, 2010, the Group reclassified back the entire balance of its HTM investments to AFS financial assets following the sale of a significant portion of its HTM investments (see Note 9).

Interest income earned from AFS financial assets amounted to ₱28.3 million, ₱26.6 million and ₱4.7 million in 2011, 2010 and 2009, respectively.

The Group recognized loss on disposal of AFS debt financial assets amounting to ₱0.3 million in 2011 and gain on disposal amounting to ₱0.6 million in 2010.

Investments in equity securities
Investments 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 ₱0.06 million, ₱0.02 million and ₱0.04 million in 2011, 2010 and 2009, respectively. Allowance for impairment losses on AFS equity securities amounted to ₱10.7 million and ₱10.6 million as of December 31, 2011 and 2010, respectively.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of December 31, 2011 and 2010.

Dividend income earned on AFS in equity securities amounted to ₱0.4 million, ₱0.4 million and ₱0.3 million in 2011, 2010 and 2009, respectively, presented as "Dividend income" in the consolidated statement of income.

Movements in the net unrealized valuation gains (losses) on AFS financial assets are as follows:

March, 2012

	Parent	**Non-controlling Interests**	**Total**
Balances at beginning of year	**(₱17,625,131)**	**(₱911,396)**	**(₱18,536,527)**
Changes in fair value of AFS financial assets	**1,763,922**	**91,211**	**1,855,133**
Disposal of AFS financial assets			
Balances at end of year	**(₱15,861,209)**	**(₱820,185)**	**(₱16,681,394)**

December, 2011

	Parent	Non-controlling Interests	Total
Balances at beginning of year	**₱9,650,109**	**₱536,722**	**₱10,186,831**
Changes in fair value of AFS financial assets	**(27,382,959)**	**(1,453,787)**	**(28,836,746)**
Disposal of AFS financial assets	**107,719**	**5,669**	**113,388**
Balances at end of year	**(₱17,625,131)**	**(₱911,396)**	**(₱18,536,527)**

Net unrealized valuation losses on AFS financial assets presented in the equity section of the consolidated statement of financial position as of March 31, 2012 amounted to ₱15.8 million. Net unrealized evaluation losses on AFS financial assets amounted to ₱17.6 million as of December 31, 2011.

9. HTM Investments

In 2008, the Group reclassified certain financial assets included under "AFS financial assets" to "HTM investments" in the 2008 consolidated statement of financial position. On July 1, 2008, the Group identified financial assets for which it had a clear change of intent to hold until maturity rather than to exit or trade in the short term.

As of reclassification date, the 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

₱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 financial assets amounted to ₱25.4 million which was presented as "Net unrealized valuation gains (losses) on AFS financial assets" in the 2008 consolidated statement of financial position and was amortized over the remaining life of the investment using the effective interest rate method. Had the reclassification not been made, the Group's equity would have included an additional unrealized loss on changes in fair value of AFS financial assets amounting to ₱24.8 million as of December 31, 2009.

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

Debt securities	July 1, 2008	December 31, 2008	December 31, 2009	March 19, 2010
Carrying value	₱172,878,859	₱147,038,766	₱107,330,192	₱107,330,192
Fair value	166,365,932	117,605,654	112,077,009	112,077,009

After the reclassification, the Group recognized amortization of the net unrealized loss on changes in fair value of the reclassified AFS financial assets amounting to ₱0.6 million and ₱9.7 million in 2010 and 2009, respectively, and is presented as "Amortization of unrealized losses on changes in fair value of AFS financial assets previously reclassified to HTM" in the consolidated statements of comprehensive income.

On March 19, 2010, however, the Group sold a significant amount of its HTM investments amounting to ₱10.7 million. The Group recognized gain on disposal amounting to ₱0.5 million in 2010. Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity. Therefore, following the stated provisions, the Group's remaining portfolio of HTM investments was reclassified to AFS and was remeasured at fair value. The Group recognized a gain of ₱4.9 million for the difference between the fair values and amortized costs of the reclassified investments (see Note 8).

The above investments of the Group earn interest ranging from 7.4% to 9.1% in 2010 and have contractual maturity dates of less than 10 years. Interest income earned amounted to ₱1.3 million and ₱10.9 million in 2010 and 2009, respectively.

10. Property and Equipment

As of March 31, 2012:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	**₱47,014,750**	**8,058,590**	**8,636,948**	**2,607,273**	**66,317,561**
Additions	**–**	**–**	**-**	**-**	**-**
Disposals	**–**	**–**	**-**	**-**	**-**
Balances at end of year	**47,014,750**	**8,058,590**	**8,636,948**	**2,607,273**	**66,317,561**
Accumulated depreciation:					
Balances at beginning of year	**21,157,350**	**7,213,621**	**4,072,252**	**2,443,429**	**34,886,652**
Depreciation	**400,145**	**61,219**	**187,428**	**10,327**	**659,119**
Disposals	**–**	**–**	**-**	**–**	**-**
Balances at end of year	**21,557,495**	**7,274,840**	**4,259,680**	**2,453,756**	**35,545,771**
Net book value	**₱25,457,255**	**₱783,750**	**₱4,377,268**	**₱153,517**	**₱30,771,790**

As of December 31, 2011:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱8,656,378	₱2,498,613	₱66,228,331
Additions	–	–	1,578,570	108,660	1,687,230
Disposals	–	–	(1,598,000)	–	(1,598,000)
Balances at end of year	47,014,750	8,058,590	8,636,948	2,607,273	66,317,561
Accumulated depreciation:					
Balances at beginning of year	19,276,760	7,051,332	5,154,694	2,409,012	33,891,798
Depreciation	1,880,590	162,289	515,558	34,417	2,592,854
Disposals	–	–	(1,598,000)	–	(1,598,000)
Balances at end of year	21,157,350	7,213,621	4,072,252	2,443,429	34,886,652
Net book value	₱25,857,400	₱844,969	₱4,564,696	₱163,844	₱31,430,909

In 2011, the Group sold fully depreciated transportation equipment with cost of ₱1.6 million. This resulted to a gain equal to the proceeds from the sale amounting to ₱0.3 million. In 2010, the Group sold transportation equipment with a net book value of ₱0.1 million for ₱0.4 million.

11. Investment Properties

Investment properties as of December 31, 2011 and 2010 consist of land held MCHC situated in Fort Bonifacio, Taguig City, Metro Manila and is carried at cost in the consolidated statements of financial position. This land is currently held by the Group for an undetermined future use. Based on the latest appraisal report dated February 25, 2011, the fair value of this property amounts to ₱129.7 million, which exceeds its carrying amount.

Investment properties as of December 31, 2010 also include 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. The carrying amount of the investment properties as of December 31, 2010 represents the revalued amount that is equal to the fair value at the date of revaluation, considered to be "deemed cost" at the time of the Group's transition to PFRS, and determined on January 4, 2005 by an independent firm of appraisers. As discussed in Note 2, the Group sold its ownership interest in BAID and its subsidiaries, which resulted to a net gain on sale of ₱610.3 million, presented as "Income from discontinued operations" in the consolidated statement of income.

The fair value of the land held by BAID and its subsidiaries, which has been determined based on valuations performed by Cuervo Appraisers, Inc. as of July 27, 2010 and February 25, 2011, exceeded their carrying amounts. The aggregate fair value of the parcels of land as of December 31, 2010 amounted to ₱975.9 million.

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.

12. Other Noncurrent Assets

	March, 2012	December, 2011
Investment in LLP	**₱10,960,000**	₱10,960,000
Fixed income deposits	**1,000,000**	1,000,000
Deposits	**596,629**	596,629
Others	**2,495,682**	2,495,678
	₱15,052,311	₱15,052,307

Investment in LLP pertains to MC's investment carried at cost and adjusted for changes in the foreign exchange rates. Deposits consist of security and utility deposits. Fixed income deposit pertains to the Company's time deposit in Xavier Punla Rural Bank. Fixed income deposit earns interest at the rate of 10% per annum. Interest income earned amounted to ₱0.1 million in 2011 and 2010.

13. Accounts Payable and Accrued Expenses

	March, 2012	December, 2011
Deposits payable (see Note 20)	**₱1,178,392**	₱1,170,028
Accounts payable	**980,920**	968,951
Accrued expenses	**807,113**	821,461
	₱2,966,425	₱2,960,440

Deposits payable pertain to deposits made by tenants for the lease of the Group's surplus condominium spaces and will be returned to the lessee after the lease term. Accounts payable are generally noninterest-bearing payables to third party contractors. Accrued expenses include accrual of professional fees, withholding taxes and other government payables. The above balances are noninterest-bearing and are payable within one year.

14. Retirement Benefits Cost

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, 2011, 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 statements of financial position for the plan.

The composition of retirement benefits expense recognized in the consolidated statements of income is as follows:

	2011	2010	2009
Current service cost	**₱291,294**	₱433,822	₱353,352
Interest cost on benefit obligation	**222,859**	201,939	158,732
Net actuarial losses	**68,612**	15,946	207
Net benefit expense	**₱582,765**	₱651,707	₱512,291

The amounts recognized in the consolidated statements of financial position as retirement benefit obligation are as follows:

	2011	2010
Present value of obligation	**₱4,734,779**	₱4,031,877
Unrecognized net actuarial losses	**(744,611)**	(624,474)
Retirement benefit obligation	**₱3,990,168**	₱3,407,403

Changes in the present value of defined benefit obligation (present value of obligation) are as follows:

	2011	2010
Balances at beginning of year	**₱4,031,877**	₱3,022,933
Current service cost	**291,294**	433,822
Interest cost on benefit obligation	**222,859**	201,939
Actuarial loss on obligation	**188,749**	373,183
Balances at end of year	**₱4,734,779**	₱4,031,877

Movements in the retirement benefit obligation recognized in the consolidated statements of financial position are as follows:

	2011	2010
Beginning balances	**₱3,407,403**	₱2,755,696
Net periodic benefit expense	**582,765**	651,707
Ending balances	**₱3,990,168**	₱3,407,403

The Group's retirement plan is unfunded as of December 31, 2011.

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

	2011	2010
Discount rate	**5.35%**	6.10%
Salary increase rate	**5.00%**	5.00%
Average working lives of employees	**4**	4

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

	2011	2010	2009	2008	2007
Present value of defined benefit obligation	**₱4,734,779**	₱4,031,877	₱3,022,933	₱2,278,988	₱1,761,148
Actuarial (gain) loss on obligation	**188,749**	373,183	(226,113)	(366,349)	100,019
Experience adjustments on plan liabilities - (gains) losses	**145,732**	257,211	228,402	(232,511)	(100,019)
Change in assumptions	**43,017**	115,972	(454,515)	(133,838)	–

15. Income Taxes

Provision for (benefit from) income tax consists of:

	2011	2010	2009
Current:			
Regular corporate income tax	**₱3,442,517**	₱851,404	₱615,723
Final tax on interest income	**4,601,077**	293,696	541,956
MCIT	**24,911**	457,502	51,781
Deferred	**(313,103)**	–	(615,723)
	₱7,755,402	₱1,602,602	₱593,737

The Group's current provision for income tax represents regular corporate income tax, MCIT and final tax on interest income.

The components of net deferred tax liabilities as of December 31, 2011 and 2010 are as follows:

	2011	2010
Deferred tax assets:		
Recognized directly in income:		
Allowance for impairment losses on receivables and AFS financial assets	**₱15,300,221**	₱17,299,672
MCIT	**–**	231,094
	15,300,221	17,530,766
Deferred tax liabilities:		
Recognized directly in equity:		
Share in revaluation increment on investment properties of BAID Group (see Note 11)	**–**	20,584,494
Recognized directly in income:		
Unrealized foreign exchange gains	**15,300,221**	17,299,672
	15,300,221	37,884,166
Net deferred tax liabilities	**₱–**	₱20,353,400

No deferred tax assets were recognized on the following deductible temporary differences, carryforward of unused MCIT and unused NOLCO because management believes that it is not probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized.

	2011	2010
Allowance for impairment losses on receivables and AFS financial assets	**₱147,136,527**	₱140,411,690
Allowance for impairment losses on investment in MUDC	**94,830,129**	94,830,129
Unrealized valuation loss on AFS financial assets	**23,174,387**	18,056,510
Unrealized foreign exchange loss	**3,360,468**	2,917,092
NOLCO	**5,571,943**	8,709,654
Provision for legal obligation	**5,000,000**	–
Retirement benefit obligation	**3,990,168**	3,407,403
Net unrealized valuation loss on foreign financial assets at FVPL	**3,155,336**	–
MCIT	**86,857**	375,178
Unamortized discount on AFS financial assets	**–**	259,968

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

	2011	2010	2009
Provision for income tax at statutory	**₱209,065,500**	₱17,075,607	₱10,698,272

	2011	2010	2009
tax rate of 30.0%			
Additions to (reductions in) income tax resulting from:			
Gain on disposal of subsidiary subject to capital gains tax	**(183,110,780)**	–	–
Equity in net earnings of associates	**(18,712,193)**	(16,891,391)	(9,992,182)
Interest income subjected to final tax	**(2,332,270)**	(164,592)	(736,494)
Nontaxable loss on fair value changes of financial assets at FVPL	**(1,980,608)**	(852,344)	(5,068,777)
Dividend income exempt from tax	**(120,573)**	(113,686)	(194,923)
Movement of unrecognized deferred tax assets	**3,464,270**	1,549,395	5,877,419
Expired NOLCO	**1,383,893**	881,129	–
Unallowable entertainment, amusement and representations	**70,134**	50,378	77,206
Nondeductible expenses	**27,900**	–	20,216
Expired MCIT	**129**	68,106	–
Non taxable gain on sale of financial assets at FVPL	**–**	–	(87,000)
	₱7,755,402	₱1,602,602	₱593,737

As of December 31, 2011, 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	Expirations/ Disposals	Ending Balance
2008	2009-2011	₱2,808,964	₱–	(₱2,808,964)	₱–
2009	2010-2012	3,375,362	–	(1,189,912)	2,185,450
2010	2011-2013	2,525,328	–	(614,100)	1,911,228
2011	2012-2014	–	1,475,265	–	1,475,265
		₱8,709,654	₱1,475,265	₱4,612,976	₱5,571,943

NOLCO pertaining to BAID Group amounting to ₱2.0 was derecognized from the consolidated financial statements upon disposal of the Group's ownership interest in BAID during the year.

MCIT:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applications	Expirations	Ending Balance
2008	2009-2011	₱301,603	₱–	(₱301,474)	(₱129)	₱–
2009	2010-2012	51,781	–	–	–	51,781
2010	2011-2013	252,888	–	(242,723)	–	10,165
2011	2012-2014	–	24,911	–	–	24,911
		₱606,272	₱24,911	(₱544,197)	(₱129)	₱86,857

16. **Equity**

a. Common Stock

The details of the Group's capital stock (number of shares and amounts) follow:

	2011	2010
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 common stock outstanding is owned by citizens of the Philippines. 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	June 3, 2007
	48,103,272		
Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to May 8, 2008	May 8, 2008
	48,103,273		
	96,206,545		

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. There have been no movements since 2008.

b. Treasury shares

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

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, shares of stock amounting to ₱0.7 million were declared delinquent and sold at a 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 ₱0.05 million.

In 2011, MCHC purchased additional shares of the Parent Company. The cost to acquire 346,000 units of Class A shares and 66,000 units of Class B shares amounted to ₱0.5 million.

c. Net unrealized valuation gains (losses) on AFS financial assets

Net unrealized valuation losses on AFS financial assets presented in the equity section of the consolidated statements of financial position amounted to ₱15.8 million as of March 31, 2012 and net unrealized valuation losses/ gains on AFS financial assets amounted to ₱17.6 million as of December 31, 2011 (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 ₱96.3 million and ₱95.8 million as of December 31, 2011 and 2010.

The retained earnings balance as of December 31, 2010 also includes the revaluation increment on investment properties of ₱62.8 million, which is not available for distribution. Upon sale of BAID, the revaluation increment on BAID's investment properties was derecognized and the entire retained earnings balance became available for dividend declaration.

On July 28, 2010, the BOD declared a regular cash dividend amounting to ₱0.05 per share held or ₱19.3 million (385,756,826 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of August 27, 2010, payable on or before September 23, 2010. Of the total amount declared, ₱19.2 million have been paid in 2010 and ₱356 in 2011.

On July 28, 2011, the BOD declared a regular cash dividend amounting to ₱0.07 per share held or ₱27.0 million (385,403,826 shares multiplied by ₱0.07 cash dividend per share) to stockholders as of record date of August 10, 2011, payable on or before September 15, 2011. Of the total amount declared, ₱26.8 million have been paid out in 2011.

17. 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 corporate or individual entities.

A summary of receivable balances and transactions with related parties follows:

	Current (see Note 6)		Noncurrent	
Related Parties	**March, 2012**	December, 2011	**March, 2012**	December, 2011
MUDC	**₱88,951,637**	₱88,951,637	**₱101,277,366**	₱101,277,366
PTC	**33,750,000**	33,750,000	**–**	–
BPO	**15,750,000**	15,750,000	**–**	–
Others	**636,023**	636,023	**1,444**	500
	139,087,660	139,087,660	**101,278,810**	101,277,866
Less allowance for impairment losses	**88,989,398**	88,989,398	**97,373,076**	97,373,076
	₱50,098,262	₱50,098,262	**₱3,905,734**	₱3,904,790

There were no movements in allowance for impairment losses in 2011 and 2010.

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 period 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, 2011 and 2010, management fees receivable from MUDC amounted to ₱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 noninterest-bearing long-term advances to MUDC amounting to ₱49.1 million, including accumulated unpaid interest as of December 31, 2011 and 2010. In 2004, the loan and unpaid interest was fully provided with an allowance for impairment loss since management believes that it is not likely to be collected in the future.

c. In 2006, total noninterest-bearing long-term advances to related parties amounting to ₱56.8 million, including the unamortized discount of ₱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 the Group's key management personnel comprised mainly of short-term employee benefits and amounted to ₱6.2 million in 2011 and 2010.

18. Earnings per Share

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

Diluted earnings per share amounts are calculated by dividing the net income 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 and share data used in computing basic and diluted earnings per share for the years ended December 31:

	2011	2010	2009
Net income from continuing operations attributable to equity holders of the parent	**₱78,075,977**	₱55,607,836	₱36,187,891
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	**385,344,826**	385,756,826	385,756,826
Basic and diluted earnings per share	**₱0.203**	₱0.144	₱0.094
Net income from discontinued operations attributable to equity holders of the parent	**₱579,761,741**	(₱575,069)	(₱567,220)
Weighted average number of ordinary shares outstanding for basic and diluted earnings per share	**385,344,826**	385,756,826	385,756,826
Basic and diluted earnings per share	**₱1.505**	(₱0.001)	(₱0.001)

19. Segment Information

As mentioned in Notes 1 and 2, the primary purpose of the Parent Company and its subsidiaries, is to invest in real and personal properties. MCHC's subsidiary, BAID, which was disposed during the year, was engaged in real estate business which, as of December 31, 2010, has 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.

20. Commitments and Contingencies

a. The Group leases an insignificant portion of its condominium spaces. The Group recognized rental income amounting to ₱3.2 million in 2011, ₱2.6 million in 2010 and ₱2.5 million in 2009. Future minimum rental income of ₱3.5 million from existing rental agreements will be recognized in 2012. The lease agreements have terms of one to two years and can be renewed upon the written agreement of the Group and the lessees.

b. The Group is currently involved in legal litigations covering various labor cases. In 2011, the Group recognized provision for legal obligation amounting to ₱5.0 million, for claims arising from lawsuits filed by a third party, which is pending decision by the courts. Probable cost has been estimated in consultation with the Group's legal counsel.

c. Aside from the case discussed above, in the ordinary course of business, the Group is a plaintiff in various litigations and claims. The Group believes, based on information currently available and the advice of 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 estimates or in the effectiveness of the strategies relating to these litigations and claims.

21. 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 and AFS financial assets. The main purpose of these financial instruments is to place excess cash in income-earning investments. The Group has various other financial instruments such as cash and cash equivalents, receivables, receivables from related parties, investment in LLP included under other noncurrent assets 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 statements of financial position. The Group's financial assets are not covered by collateral from counterparties.

Credit risk concentration profile
The Group has no significant concentrations of credit risk.

Credit quality
As of March 31, 2012 and December 31, 2011, the credit quality per class of financial assets are as follows:

March, 2012

	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Individually impaired	Total
Loans and receivables:					
Cash and cash equivalents	**₱1,044,940,273**	**₱–**	**₱–**	**₱–**	**₱1,044,940,273**
Receivables	**59,310,587**	**–**	**–**	**90,110,187**	**149,420,774**
Receivables from related parties	**1,110,019**	**2,795,715**	**–**	**97,373,076**	**101,278,810**
Fixed income deposits	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Investment in LLP	**10,960,000**	**–**	**–**	**–**	**10,960,000**
Financial assets at FVPL	**61,859,349**	**–**	**–**	**–**	**61,859,349**
AFS financial assets	**304,946,999**	**–**	**–**	**10,654,000**	**315,600,999**
	₱1,484,127,227	**₱2,795,715**	**₱–**	**₱198,137,263**	**₱1,685,060,205**

December, 2011

	Neither past due nor impaired		Past due		
		Standard	but not	Individually	
	High grade	grade	impaired	impaired	Total
Loans and receivables:					
Cash and cash equivalents	₱1,042,194,697	₱–	₱–	₱–	₱1,042,194,697
Receivables	58,321,799	–	–	90,110,187	148,431,986
Receivables from related parties	1,110,019	2,794,771	–	97,373,076	101,277,866
Fixed income deposits	1,000,000	–	–	–	1,000,000
Investment in LLP	10,960,000	–	–	–	10,960,000
Financial assets at FVPL	52,372,641	–	–	–	52,372,641
AFS financial assets	296,597,549	–	–	10,654,000	307,251,549
	₱1,462,556,705	₱2,794,771	₱–	₱198,137,263	₱1,663,488,739

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. There are no standard grade financial assets as of December 31, 2011 and 2010.

Aging Analysis
Aging analysis per class of financial assets as of March 31, 2012 and December 31, 2011 are as follows:

March, 2012

	Neither Past Due nor Impaired	**Past due but not impaired**		**Financial Assets**	**Total**
		<1 year	**>1 year**		
Loans and receivables:					
Cash and cash equivalents	**₱1,044,940,273**	**₱–**	**₱–**	**₱–**	**₱1,044,940,273**
Receivables	**59,310,587**	**–**	**–**	**90,110,187**	**149,420,774**
Receivables from related parties	**1,110,019**	**2,795,715**	**–**	**97,373,076**	**101,278,810**
Fixed income deposits	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Investment in LLP	**10,960,000**	**–**	**–**	**–**	**10,960,000**
Financial assets at FVPL	**61,859,349**	**–**	**–**	**–**	**61,859,349**
AFS financial assets	**304,946,999**	**–**	**–**	**10,654,000**	**315,600,999**
	₱1,484,127,227	**₱2,795,715**	**₱–**	**₱198,137,263**	**₱1,685,060,205**

December, 2011

	Neither Past Due nor Impaired	Past due but not impaired		Financial Assets	Total
		<1 year	>1 year		
Loans and receivables:					
Cash and cash equivalents	₱1,042,194,697	₱–	₱–	₱–	₱1,042,194,697
Receivables	58,321,799	–	–	90,110,187	148,431,986
Receivables from related parties	1,110,019	2,794,771	–	97,373,076	101,277,866

	Neither Past Due nor Impaired	Past due but not impaired <1 year	>1 year	Financial Assets	Total
Fixed income deposits	1,000,000	–	–	–	1,000,000
Investment in LLP	10,960,000	–	–	–	10,960,000
Financial assets at FVPL	52,372,641	–	–	–	52,372,641
AFS financial assets	296,597,549	–	–	10,654,000	307,251,549
	₱1,462,556,705	₱2,794,771	₱–	₱198,137,263	₱1,663,488,739

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 nonmoving accounts receivable, accounts of defaulted companies and accounts from closed companies.

The carrying amount of the Group's financial assets as at March 31, 2012 and December 31, 2011 are as follows:

March, 2012

	Receivables	**Receivables from related parties**	**AFS financial assets**	**Total**
Nominal amounts	**₱149,420,774**	**₱101,278,810**	**₱315,600,999**	**₱566,300,583**
Less allowance for impairment losses	**90,110,187**	**97,373,076**	**10,654,000**	**198,137,263**
At March, 2012	**₱59,310,587**	**₱3,905,734**	**₱304,946,999**	**₱368,163,320**

December, 2011

	Receivables	Receivables from related parties	AFS financial assets	Total
Nominal amounts	₱148,431,986	₱101,277,866	₱307,251,549	₱556,961,401
Less allowance for impairment losses	90,110,187	97,373,076	10,654,000	198,137,263
At December 31, 2011	₱58,321,799	₱3,904,790	₱296,597,549	₱358,824,138

Movement in allowance for impairment losses account:

	Receivables	Receivables from related parties	AFS financial assets	Total
At January 1, 2010	₱90,110,187	₱97,373,076	₱10,574,000	₱198,057,263
Provision for the year	–	–	20,000	20,000
At December 31, 2010	90,110,187	97,373,076	10,594,000	198,077,263
Provision for the year	–	–	60,000	60,000
At December 31, 2011	₱90,110,187	₱97,373,076	₱10,654,000	₱198,137,263

The total provision for impairment losses on the financial assets recognized in the consolidated statements of income amounted to ₱0.06 million, ₱0.02 million and ₱0.04 million in 2011, 2010 and 2009, 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, 2011 and 2010 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.

March, 2012

	On demand	**< 1 year**	**> 1 year**	**Total**
Financial assets:				
Cash and cash equivalents	**₱10,030,131**	**₱1,034,910,142**	**₱–**	**₱1,044,940,273**
Receivables	**59,310,587**	**–**	**–**	**59,310,587**
Receivables from related parties	**–**	**–**	**3,905,734**	**3,905,734**
Financial assets at FVPL	**61,859,349**	**–**	**–**	**61,859,349**
Fixed income deposits	**–**	**–**	**1,000,000**	**1,000,000**
AFS financial assets	**304,946,999**	**–**	**–**	**304,946,999**
Total financial assets	**436,147,066**	**1,034,910,142**	**4,905,734**	**1,475,962,942**
Financial liabilities:				
Accounts payable and accrued expenses	**2,704,423**	**–**	**–**	**2,704,423**
Dividends payable	**299,484**	**–**	**–**	**299,484**
Total financial liabilities	**3,003,907**	**–**	**–**	**3,003,907**
	₱433,143,159	**₱1,034,910,142**	**₱4,905,734**	**₱1,472,959,035**

December, 2011

	On demand	< 1 year	> 1 year	Total
Financial assets:				
Cash and cash equivalents	₱12,187,204	₱1,030,016,493	₱–	₱1,042,203,697
Receivables	58,321,799	–	–	58,321,799
Receivables from related parties	–	–	3,904,790	3,904,790
Financial assets at FVPL	52,372,641	–	–	52,372,641
Fixed income deposits	–	–	1,000,000	1,000,000
AFS financial assets	296,597,549	–	–	296,597,549
Total financial assets	419,479,193	1,030,016,493	4,904,790	1,454,400,476
Financial liabilities:				
Accounts payable and accrued expenses	2,738,137	–	–	2,738,137
Dividends payable	299,484	–	–	299,484
Total financial liabilities	3,037,621	–	–	3,037,621
	₱416,441,572	₱1,030,016,493	₱4,904,790	₱1,451,362,855

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 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 financial assets in debt securities (see Note 8):

	March, 2012	December, 2011
Change in interest rate (in basis points)		
+10%	**₱28,967,638**	**₱28,132,693**
–10%	**(28,967,638)**	**(28,132,693)**

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.

In the normal course of business, the Group enters into transactions denominated in US dollar and other foreign currencies. 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 to these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent as of December 31 are as follows:

US Dollar:

	March 31, 2012		December 31, 2011	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash and cash equivalents	**$342,452**	**₱14,725,436**	$859,264	₱37,670,134
Receivables	**178,064**	**7,656,752**	92,374	4,049,676
Short-term investments	**–**	**–**	–	–
Financial assets at FVPL	**285,080**	**12,258,440**	228,710	10,026,646
AFS financial assets	**4,355,751**	**187,297,293**	3,908,280	171,338,995
Other noncurrent assets	**250,000**	**10,750,000**	250,000	10,960,000
	$5,411,347	**₱232,687,921**	$5,338,628	₱234,045,451

The exchange rate of the Philippine peso vis-à-vis the US dollar is ₱43.84 as of December 31, 2011 and 2010.

Other Foreign Currencies:

	March, 2012			
	Currency	**Exchange Rate**	**Original Currency**	**Peso Equivalent**
Cash and cash equivalents	**EUR**	**57.19**	**10,897**	**₱623,199**
	HKD	**5.54**	**26,226**	**145,292**
	AUD	**44.66**	**3,750**	**167,475**
AFS financial assets	**EUR**	**57.19**	**151,313**	**8,653,590**
	HKD	**5.54**	**2,074,312**	**11,491,688**
	AUD	**44.66**	**78,530**	**3,507,150**
	BRL	**23.44**	**622,058**	**14,581,040**
	TRY	**24.06**	**384,339**	**9,247,196**
	RMB	**6.31**	**4,156,002**	**26,224,373**
Financial assets at FVPL	**HKD**	**5.54**	**677,437**	**3,753,000**
				₱78,394,003

	December, 2011			
	Currency	Exchange Rate	Original Currency	Peso Equivalent
Cash and cash equivalents	EUR	56.84	10,897	₱619,385
	HKD	5.65	26,226	148,177
	AUD	44.32	3,750	166,200
AFS financial assets	EUR	56.84	168,102	9,554,918
	HKD	5.65	1,951,500	11,025,975
	AUD	44.32	73,682	3,265,586
	BRL	23.30	831,965	19,384,785
	TRY	22.94	300,992	6,904,756
	RMB	6.94	3,231,000	22,423,140
Financial assets at FVPL	HKD	5.65	666,000	3,762,900
				₱77,255,822

The Group has no foreign currency denominated monetary liabilities as of March 31, 2012 and December 31, 2011.

As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses amounting to ₱11.6 million and ₱16.0 million in 2011 and 2010, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies exchange rates based on past foreign currencies exchange rates and macroeconomic forecasts for 2011, with all other variables held constant, of the Group's 2011 and 2010 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:

		Effect on income before tax	
Original Currency	Percentage	Strengthened	Weakened
March, 2012			
US dollar	**5%**	**₱11,634,396**	**(₱11,634,396)**
Hongkong dollar (HKD)	**5%**	**769,499**	**(769,499)**
E.M.U euro (EUR)	**5%**	**463,839**	**(463,839)**
Australia dollar (AUD)	**5%**	**₱183,731**	**(₱183,731)**
Brazil real (BRL)	**5%**	**729,052**	**(729,052)**
Turkish lira (TRY)	**5%**	**462,360**	**(462,360)**
Chinese yuan (RMB)	**5%**	**1,311,219**	**(1,311,219)**

		Effect on income before tax	
Original Currency	Percentage	Strengthened	Weakened
December, 2011			
US dollar	5%	₱11,702,273	(₱11,702,273)
Hongkong dollar (HKD)	5%	746,853	(746,853)
E.M.U euro (EUR)	5%	508,715	(508,715)
Australia dollar (AUD)	5%	₱171,589	(₱171,589)
Brazil real (BRL)	5%	969,239	(969,239)
Turkish lira (TRY)	5%	345,238	(345,238)
Chinese yuan (RMB)	5%	1,121,157	(1,121,157)

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 investments 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, NYSE and HKEx indices 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 March, 2012 and December, 2011, with all other variables held constant, of the Group's income before income tax and equity:

Effect on income before income tax:

	March, 2012	December, 2011
Financial assets at FVPL:		
Change in stock market index (%)		
+10%	**₱6,185,935**	₱5,237,053

–10%	**(6,185,935)**	(5,237,053)

Effect on equity:

	March, 2012	December, 2011
Investment in equity securities (AFS):		
Change in club share prices (%)		
+10%	**₱284,800**	₱284,150
–10%	**(284,800)**	(284,150)

22. Financial Instruments

Categories of Financial Instruments

March, 2012

	Financial assets			
	Loans and receivables	**Financial assets at FVPL**	**AFS financial assets**	**Total**
ASSETS				
Current:				
Cash on hand and in banks	**₱10,030,131**	**₱–**	**₱–**	**₱10,030,131**
Short-term placements	**1,034,910,142**	**–**	**–**	**1,034,910,142**
Listed debt securities	**–**	**–**	**2,630,400**	**2,630,400**
Listed equity securities	**–**	**61,859,349**	**–**	**61,859,349**
Receivable from third parties	**9,212,325**	**–**	**–**	**9,212,325**
Receivable from related parties	**50,098,262**	**–**	**–**	**50,098,262**
Noncurrent:				
Receivable from related parties	**3,905,734**	**–**	**–**	**3,905,734**
Fixed income deposits	**1,000,000**	**–**	**–**	**1,000,000**
Investment in LLP	**10,960,000**	**–**	**–**	**10,960,000**
Listed debt securities	**–**	**–**	**287,045,977**	**287,045,977**
Listed equity securities	**–**	**–**	**15,270,622**	**15,270,622**
TOTAL	**₱1,120,116,594**	**₱61,859,349**	**₱304,946,999**	**₱1,486,922,942**

December , 2011

	Financial assets			
	Loans and receivables	Financial assets at FVPL	AFS financial assets	Total
ASSETS				
Current:				
Cash on hand and in banks	₱12,187,204	₱–	₱–	₱12,187,204
Short-term placements	1,030,016,493	–	–	1,030,016,493
Listed debt securities	–	–	12,275,200	12,275,200
Listed equity securities	–	52,372,641	–	52,372,641
Receivable from third parties	8,223,537	–	–	8,223,537
Receivable from related parties	50,098,262	–	–	50,098,262
Noncurrent:				
Receivable from related parties	3,904,790	–	–	3,904,790

	Financial assets			
	Loans and receivables	Financial assets at FVPL	AFS financial assets	Total
Fixed income deposits	1,000,000	–	–	1,000,000
Investment in LLP	10,960,000	–	–	10,960,000
Listed debt securities	–	–	269,051,727	269,051,727
Listed equity securities	–	–	15,270,622	15,270,622
TOTAL	₱1,116,390,286	₱52,372,641	₱296,597,549	₱1,465,360,476

March, 2012

	Other financial liabilities	**Total**
LIABILITIES		
Current:		
Accounts payable and accrued expenses:		
Deposits payable	**₱1,178,392**	**₱1,178,392**
Accounts payable	**980,920**	**980,920**
Accrued expenses	**545,111**	**545,111**
Dividends payable	**299,484**	**299,484**
TOTAL	**₱3,003,907**	**₱3,003,907**

December, 2011

	Other financial liabilities	Total
LIABILITIES		
Current:		
Accounts payable and accrued expenses:		
Deposits payable	**₱1,170,028**	**₱1,170,028**
Accounts payable	**968,951**	**968,951**
Accrued expenses	**599,158**	**599,158**
Dividends payable	**299,484**	**299,484**
TOTAL	**₱3,037,621**	**₱3,037,621**

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:

	March, 2012		December, 2011	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Current:				
Loans and receivables:				
Cash and cash equivalents	**₱1,044,940,273**	**₱1,044,940,273**	₱1,042,203,697	₱1,042,203,697
Short-term investments	**–**	**–**	–	–

	March, 2012		December, 2011	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Receivables	**59,310,587**	**59,310,587**	58,321,799	58,321,799
Financial assets at FVPL	**61,859,349**	**61,859,349**	52,372,641	52,372,641
AFS financial assets				
Debt securities	**2,630,400**	**2,630,400**	12,275,000	12,275,000
Noncurrent:				
Loans and receivables:				
Receivable from related parties	**3,905,734**	**3,310,088**	3,904,790	3,309,144
Fixed income deposits	**1,000,000**	**826,446**	1,000,000	826,446
Investment in LLP	**10,960,000**	**10,960,000**	10,960,000	10,960,000
AFS financial assets:				
Debt securities	**287,045,977**	**287,045,977**	269,051,727	269,051,727
Equity securities	**15,270,622**	**15,270,622**	15,270,622	15,270,622
Financial liabilities:				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	**₱1,178,392**	**₱1,178,392**	₱1,170,028	₱1,170,028
Accounts payable	**980,920**	**980,920**	968,951	968,951
Accrued expenses	**545,111**	**545,111**	599,158	599,158
Dividends payable	**299,484**	**299,484**	299,484	299,484

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, 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 financial assets 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 2011 and 2010. 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 2010. 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 8% to 10% in 2010 and 6.8% to 8.1% in 2010.

The fair value of receivables from related parties classified as noncurrent in the consolidated statements of financial position is calculated by computing the present value of future cash flows using current market rates ranging from 6.8% to 8.4% in 2011 and 2010.

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).

March, 2012

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL	**₱61,859,349**	**₱–**	**–**	**₱61,859,349**
AFS financial assets:				
Private debt securities	**287,045,977**	**–**	**–**	**287,045,977**
Listed equity securities	**15,270,622**	**–**	**–**	**15,270,622**
	₱364,175,948	**₱–**	**₱–**	**₱364,175,948**

December, 2011

	Level 1	Level 2	Level 3	Total
Financial assets at FVPL	₱52,372,641	₱–	–	₱52,372,641
AFS financial assets:				
Private debt securities	269,051,727	–	–	269,051,727
Listed equity securities	15,270,622	–	–	15,270,622
	₱336,694,990	₱–	₱–	₱336,694,990

As of December 31, 2011 and 2010, 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.

23. 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, 2011 and 2010. The Group is not exposed to externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is computed as 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 financial assets.

	March, 2012	December, 2011
Accounts payable and accrued expenses	**₱2,966,425**	₱2,960,440
Less cash and cash equivalents	**1,044,940,273**	1,042,203,697
Net debt	**(1,041,973,848)**	(1,039,243,257)
Equity attributable to equity holders of the parent	**1,619,738,816**	1,599,464,673
Unrealized losses on changes in fair value of AFS financial assets	**15,861,209**	17,625,131
Total capital	**1,635,600,025**	1,617,089,804
Total capital and net debt	**₱593,626,177**	₱577,846,547
Gearing ratio	**(175.53%)**	(179.85%)

24. **Note to Statements of Cash Flows**

In 2011, the non-cash activities of the Group pertain to application of MCIT and set-up of provision for legal obligation.

In 2010, the non-cash activity of the Group pertains to the reclassification of investment in debt securities of about ₱127.2 million from HTM investment to AFS financial assets due to tainting provisions under PAS 39 as discussed in Note 9.

In 2009, noncash activities pertain to the reclassification of deposits under “Other noncurrent assets” amounting to ₱46.3 million to investment properties when the certificate of title was obtained by the Group (see Note 11).

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
AS OF MARCH 31, 2012

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 Corporation	142,686						142,686	142,686
Magellan Capital Corporation	302,055	500				500	302,055	302,555
Magellan Capital Trading Corporation	151,692						151,692	151,692
Magellan Utilities Development Corp.	21,569						21,569	21,569
Pinamucan Power Corporation	1,176						1,176	1,176
	619,678	500				500	619,178	619,678

DIRECTORY/BANKERS

EXECUTIVE OFFICES:
5th Floor, Citibank Center
8741 Paseo de Roxas, Makati City 1226
Tel. Nos.: 8927133 • 8927137 • 8929443

LEGAL COUNSEL:
ATTY. FINA C. TANTUICO
5th Floor, Citibank Center
8741 Paseo de Roxas, Makati City

AUDITORS:
SYCIP GORRES VELAYO & CO.
Certified Public Accountants
6760 Ayala Avenue, Makati City

TRANSFER AGENT:
RCBC STOCK TRANSFER
Ground Floor, West Wing
Grepalife Building
Sen. Gil Puyat Avenue, Makati City

LISTED AT:
THE PHILIPPINE STOCK EXCHANGE, INC.
- PSE Center, Tektite Towers
  Julia Vargas Avenue
  Ortigas Center, Pasig City
- PSE Plaza, Ayala Triangle
  Ayala Avenue, Makati City

BANKERS:

BANK OF SINGAPORE
22nd Floor, Tower One and Exchange Plaza
Ayala Triangle, Ayala Avenue, 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
Mezzanine Floor, BDO Executive Tower
8751 Paseo de Roxas, Makati City

SECURITY BANK
Greenhills Branch
37 Greenhills Mansions, Anapolis Street,
Greenhills, San Juan City

METROPOLITAN BANK & TRUST CO.
Meralco Branch
Ground Floor, Ortigas Building
Ortigas Avenue, Pasig City

PHILIPPINE BANK OF COMMUNICATIONS
Meralco Avenue Branch
Ground Floor, Horizon Condominium
Meralco Avenue, 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