F & J Prince Holdings Corporation

2012
First Quarter
Unaudited Financial Report

PART I
FINANCIAL INFORMATION

ITEM 1. <u>FINANCIAL STATEMENTS</u>

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.

ASSETS

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

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

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

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).

<u>Derecognition of Financial Assets and Liabilities</u>

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.

<u>Provisions</u>
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.

<u>Contingencies</u>
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 ₱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 **2011**	2010	Carrying amount of Investment **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		
	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

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	Past due but not impaired			
	Due nor Impaired	**<1 year**	**>1 year**	**Financial Assets**	**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	Past due but not impaired			
	Due nor 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

	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

F & J Prince Holdings Corporation

Memorandum: CORPORATE ACTIONS TAKEN FOR 2011

DATE	ACTION TAKEN
February 18, 2011 (Regular Board Meeting)	➢ Authorization for the President to approve the Audited Financial Statements for the year ending 2010 and to authorize its release by the Company's external auditor, SGV. ➢ Approval of the Corporation's Revised Manual on Corporate Governance. ➢ Authority to sell company vehicles.
April 04, 2011 (Special Board Meeting	➢ Authorization for the President to approve the Audited Financial Statements for the year ending 2010 and to authorize its release by the Company's external auditor, SGV. ➢ Authorization for the President to negotiate sale of real estate properties in Batangas owned by the corporation's subsidiaries.
July 28, 2011 (Organizational Meeting of the Board of Directors)	➢ Election of Corporate Officers & members of Audit Committee, Nomination Committee, and Compensation Committee.

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