COVER SHEET

4	3	3	7	0		

SEC Registration Number

F & J PRINCE

HOLDINGS CORPORATION

(Company's Full Name)

5TH FLOOR CITIBANK CENTER

8741 PASEO DE ROXAS MAKATI

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

Atty. Fina C. Tantuico

Contact Person

8927133 ● 8927137

Company Telephone Numbers

1	2		3	1

Month Day

Fiscal Year

0	4		1	2

Month Day

Annual Meeting

SEC FORM 17-Q

(AS OF 30 SEPTEMBER 2010)

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17.1(1) (A) (ii) THEREUNDER

Form Type

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total Number of Stockholders

Domestic

Foreign

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17(2)(b)THEREUNDER

1. For the quarterly period ended ……**30 September 2010**……

2. SEC Identification Number ……**43370**…… 3. BIR Tax Identification ……**000-829-097**……

4 *F & J Prince Holdings Corporation*
Exact name of registrant as specified in its charter

5. **Philippines**
Province, country or other jurisdiction of incorporation or organization

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

7. **5th Floor, Citibank Center Building**
8741 Paseo de Roxas, Makati City **1226**
Address of principal office Postal Code

8. **(632) 892-7133**
Registrant's telephone number, including area code

9. ……
Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 4 and 8 of the RSA

TITLE OF CLASS	NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AND AMOUNT OF DEBT OUTSTANDING
Class "A" Common	**292,610,118 Shares**
Class "B" Common	**189,217,535 Shares**

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

Yes [✓] No [ ]

If yes, state the name of such Stock Exchange and class/es of securities listed therein:

Philippine Stock Exchange **Common Shares, Class "A" and "B"**

....

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code (SRC) and RSA Rule 17(2)-(b) thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

    Yes [✓] No [ ]

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

    Yes [✓] No [ ]

PART I

FINANCIAL INFORMATION

Item I. <u>Financial Statements</u>.

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

(1) Unaudited Interim Balance Sheet as of 30 September 2010 and Audited Balance Sheet as of 31 December 2009 as Annex "A";

(2) Unaudited Interim Statement of Income and Retained Earnings for the nine (9) month period ending 30 September 2010 and the 9 month period ending 30 September 2009 as Annex "B";

(3) Unaudited Statement of Income and Retained Earnings for the three month period ending 30 September 2010 and three months period ending 30 September 2009 shown as Annex "C";

(4) Unaudited Interim Statement of Changes in Stockholders' Equity for the 9 month period ending 30 September 2010 and 30 September 2009 and Audited Statement of Changes in Stockholders' Equity for the year ending 31 December 2009 as Annex "D";

(5) Unaudited Interim Consolidated Cash Flow Statement for the 9 month period ending 30 September 2010 and the 9 month period ending 30 September 2009 as Annex "E";

(6) Interim Cash Flow for the quarterly periods ending 30 September 2010 and 30 September 2009, as Annex "F"; and

(7) Consolidated Balance Sheet as of 30 September 2010 and 31 December 2009 with vertical and horizontal percentage analysis as Annex "G".

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

(1) Management's Discussion and Analysis

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

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

1) In 2008, there was a loss on fair value changes on financial assets of P24.7 million as prices of listed securities owned by the Registrant and its subsidiary dropped sharply due to the worldwide financial crisis that depressed stock prices in global stock markets. In 2009, there was a gain of P17.2 million as stock markets recovered.

2) In 2008, there was a provision for impairment losses of P20.7 million as the remaining receivables due from MUDC to PIEI, a subsidiary of MCHC, was fully provided for. Thus, the Registrant's direct and indirect exposure to MUDC has been reduced on the books to almost nil. There was no provision in 2009 as the exposure had been fully provided for.

3) In 2008, there was a reported loss on disposal of HTM Investment of P7.4 million. This represents the loss realized upon maturity of an Equity-linked Note which resulted in the underlying equity being transferred to the investor. Because of the depressed stock prices, this loss represents the difference between the underlying cost of the equity and the closing stock price at December 31, 2008. There was no such loss in 2009 as the stock prices partly recovered their losses.

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

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

As of the third Quarter of 2010, the Registrant's subsidiary, Magellan Capital Holdings Corporation (MCHC) has leased out all the four units available for lease.

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

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

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

(ii) There are no known or anticipated events that would trigger direct or contingent financial obligation that is material to the Company including any default or acceleration of any obligation.

(iii) There are no material off-balance sheet transaction, arrangements, obligations (including contingent obligations) and other relationship of the Company with unconsolidated entities or other persons created during third quarter of 2010 or in prior periods.

(iv) There are no material commitments for capital expenditures, by the Company or its majority owned subsidiary.

(v) There are no trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable impact on net/revenues/income from continuing operations except for possible unrealized or realized foreign exchange gains from the dollar denominator investments or 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 third quarter of 2010 or in the third quarter of 2009 other than gain on disposal of AFS/HTM Investments or unrealized gains on trading securities.

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

Operating Results

Breakdown of Revenue for the Three Month Periods Ending September 30, 2010 and September 30, 2009 with Vertical and Horizontal Percentage Analysis is shown below:

(P000)	**Third Quarter Sept. 30 2010**	**Vertical Percentage Analysis Sept. 30 2010**	**Third Quarter Sept. 30 2009**	**Vertical Percentage Analysis Sept. 30 2009**	**Increase (Decrease) Amount Sept. 30 2010**	**Increase (Decrease) Percentage Sept. 30 2010**
INTEREST INCOME From Banks	P364	2.82%	P927	6.37%	(563)	(60.7%)
From Securities	6,993	54.23%	3,540	24.32%	3,543	100%
TOTAL	**P7,357**	**57.05%**	**P4,467**	**30.69%**	**2,890**	**65%**
RENT INCOME	600	4.65%	620	4.65%	(20)	(3.2%)
DIVIDEND INCOME	246	1.91%	283	1.90%	(37)	(13.1%)
GAIN ON DISPOSAL OF FIXED ASSETS	246	1.91%	-	-	246	-
UNREALIZED GAIN ON TRADING SECURITIES	3,606	27.97%	5,811	39,93%	(2,205)	(37.9%)
GAIN ON DISPOSAL OF FVPL INVESTMENTS	-	-	290	1.99%	(290)	-
GAIN ON DISPOSAL OF AFS/HTM INVESTMENT	840	6.51%	-	-	840	-
OTHER INCOME	-	-	3,083	21.18	(3,083)	-
TOTAL	**P12,894**	**100%**	**P14,554**	**100%**	**(1,660)**	**(11.4%)**

Revenues. Consolidated Revenues during the three month period ending September 30, 2010 totaled P12.9 million compared to P14.6 million during the same period in 2009. The lower revenue was mainly due to the absence of other income in the third quarter of 2010 compared to other income of P3.1 million in the third quarter of 2009. In addition, unrealized gain on trading securities in the third quarter of 2010 totaled P3.6 million, a reduction of P2.2 million from the P5.8 million in unrealized gain in trading securities in the third quarter of 2009. These items more than offset the P3.5 million increase in interest income due mainly to the shift to higher yielding bond investments from bank time deposits. Rental income was slightly lower in the third quarter of 2010 than the amount during the same period in 2009. Gains on disposal of AFS/HTM investments totaled P0.8 million in the third quarter of 2010 versus NIL in the third quarter of 2009. Gain on disposal of fixed asset totaled P0.25 million in the third quarter of 2010 versus NIL in the third quarter of 2009. Dividend income was P0.25 million in the third quarter of 2010 versus P0.28 million in the third quarter of 2009. As a result of the above, total revenue in the third quarter of 2010 totaled P12.9 million compared to P14.6 million in the third quarter of 2009.

Expenses. Consolidated general and administrative expenses totaled P7.4 million in the third quarter of 2010 compared to P4.7 million in the same period in 2009. The higher expenses in 2010 were due mainly to a higher foreign exchange loss as the appreciation of the Peso penalized the foreign exchange denominated bonds owned by the Registrant and its subsidiaries resulting in a net FX loss of P1.6 million in the third quarter of 2010 compared to P0.6 million in the third quarter of 2009. Amortization of unrealized losses on fair value of AFS investments totaled P1.1 million in the third quarter of 2010 versus NIL in the third quarter of 2009. Salaries, wages and benefits were at P1.78 million in the third quarter of 2010 compared to P1.52 million in the third quarter of 2009 mainly as a result of the above items, total expenses was P7.4 million in the third quarter of 2010 versus P4.7 million in the third quarter of 2009.

Net Income. Due to the movements in the revenues and expenses discussed above, consolidated net income in the third quarter of 2010 totaled P5.5 million compared to P9.9 million in the third quarter of 2009. After deducting the share of minority shareholders in the Registrant's majority-owned subsidiary Magellan Capital Holdings Corporation, the consolidated net income attributable to the shareholders of the Registrant was P5.2 million in the third quarter of 2010 compared to P9.3 million in the third quarter of 2009.

Balance Sheet Accounts

Annex "A" shows the Consolidated Balance Sheet of the company while Annex "G" shows the Vertical and Horizontal Percentage Analysis of Balance Sheet Accounts for September 30, 2010 compared to December 31, 2009. The various balance sheet accounts are discussed below:

ASSETS

Current Assets. Consolidated current assets as of September 30, 2010 totaled P114.7 million compared to P152.0 million as of December 31, 2009. Part of the decrease was due to the decrease of cash and cash equivalents which dropped from P36.5 million as of December 31, 2009 to P27.0 million as of September 30, 2010. This resulted from management's decision to increase investments in higher yielding bond investments as the turmoil in the financial markets has abated. Net receivables also dropped to P8.4 million at end of September, 2010 from P42.2 million at end of 2009 as dividends declared by the Registrant's outsourcing affiliates were collected in 2010. These more than offset the increase in financial assets at fair value which rose from P34.4 million at year-end 2009 to P48.4 million at the end of September 2010. The payment of cash dividends in 2010 also resulted in the decrease of current assets.

Receivables from Related Parties. This account increased to P2.3 million as of September 30, 2010 from P1.5 million at year-end 2009, due to advances to Magellan Utilities Development Corporation (MUDC) by Magellan Capital Holdings Corporation (MCHC) to fund pre-operating expenses. The advances by MCHC to MUDC for 2009 and prior periods have been fully provided for.

Investments in Associates. This account which consists of the Registrant's investment in Pointwest Technologies Corporation and BPO International, Inc. remained unchanged from year-end 2009 to September 30, 2010 at P118.6 million. The Registrant's share in earnings of these affiliates are taken up at year-end.

Available for Sale Investments. This account which consists mostly of bond investments increased to P197.8 million at September 30, 2010 from P169.3 million at year-end 2009 as management decided to shift funds from bank deposits to higher yielding bond investments.

Held to Maturity Investments. These bond investments have historically been held to maturity by the company and its subsidiaries. Accordingly, in line with SEC Memorandum Circular No. 10, Series of 2008, dated November 14, 2008, the company's audit committee decided to reclassify them as Held to Maturity Investments. Thus, the bonds are carried at the value as of July 01, 2008 until maturity, and difference between maturity value and the value as of July 01, 2008 will be reported as a profit or loss accordingly. This account totaled P119.3 million as of September 30, 2010 compared to P116.7 million as of year-end 2009.

Property and Equipment. This account totaled P33.1 million as of September 30, 2010 compared to P35.8 million as of December 31, 2009 due to provision for depreciation during the period.

Investment in Property. This Account remained unchanged at P414.4.1 million from year-end 2009 to September 30, 2010.

Other Non-Current Assets. This account totalled P14.7 million as of September 30, 2010 slightly higher than at year-end 2009.

Total Assets. As a result of the foregoing, total assets decreased to P1016 million as of September 30, 2010 from P1022.3 million as of December 31, 2009.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities increased to P4.2 million as of September 30, 2010 from P2.8 million as of December 31, 2009 due mainly to increase in withholding taxes payable.

Non-Current Liabilities. Non-current liabilities remained fairly stable at P23.3 million at September 30, 2010, the same level as at year-end 2009. Retirement benefit obligation was unchanged at P2.8 million as of September 30, 2010 and at year-end 2009. The non-current liabilities as of September 30, 2010 also included deferred income tax liabilities of P20.6 million, the same level as at year-end 2009.

Stockholder's Equity. Total stockholders' equity decreased to P988.4 million at the end of September 2010 from P996.2 million at the end of 2009 due mainly to dividends paid to shareholders of the Registrant in the first 9 months of 2010. "Other reserves" represent the net provision made in 2009 for the effect of mark to market valuation on the Held to Maturity Investments held by the Registrant and its subsidiary. As the investments approach maturity, this reserve is reduced correspondingly. Minority interest which represents the share of minority shareholders of MCHC in the equity of MCHC totalled P47.3 million at the end of September 2010 compared to P46.8 million at the end of 2009 due to their share in net income realized by MCHC in the first 9 months of 2010. Total equity attributable to stockholders of the Registrant was P941.2 million as of September 30, 2010 compared to P949.4 million at the end of December 2009 due to the dividends paid out in 2010 partly offset by the net income accumulated in 2010.

Top Performance Indicators

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

1) Change in revenue
2) Change in net income
3) Earnings per share
4) Current ratio
5) Book value per share

Change in Revenues. Consolidated revenues in the third quarter of 2010 and 2009 are presented below in summary form:

(P 000)	3rd Quarter 2010	Percentage (%)	3rd Quarter 2009	Percentage (%)
Interest Income	P 7,357	57.1	P 4,467	30.69
Unrealized Gain on Trading Securities	3,606	28.0	5,811	39.93
Rental Income	600	4.7	620	4.26
Gains on Disposal of FVPL Investments	-	-	290	1.99
Gains on Disposal of AFS/HTM Investments	840	6.5	-	-
Gains on Disposal of Fixed Assets	246	1.9	-	-
Dividend Income	246	1.9	283	1.94
Other Income	-	-	3,083	21.18
Total Income	**P 12,895**	**100%**	**P 14,554**	**100%**

Total revenue decreased by 11.4% to P12.9 million in the third quarter of 2010 from P14.6 million in the third quarter of 2009. This was due mainly to reduction in other income from P3.1 million to nil and the reduction of unrealized gain on trading securities which fell to P3.6 million from P5.8 million. These items more than offset the increase in interest income of P2.9 million and the gain of P840,000 in the disposal of AFS/HTM investments. The slower rate of increase in listed stock prices accounted for the reduction in unrealized gain on trading securities while the shift to higher yielding bond investments from bank deposits accounts for the increase in interest income.

Change in Net Income. The income statement in the third quarter of 2010 and 2009 are shown in Annex "C" and summarized below:

(P 000)	3rd Quarter-2010	Percentage (%)	3rd Quarter-2009	Percentage (%)
Revenues	P 12,894	100%	P 14,554	100%
Expenses	7,422	57.6%	4,657	32.2%
Net Income	5,472	42.4%	9,867	67.8%
Attributable to:				
- Minority Interest	274	2.1%	559	3.8%
- Stockholders of Company	P 5,198	40.3%	P 9,308	64.0%

The Registrant realized a consolidated net income of P5.5 million in the third quarter of 2010 versus P9.9 million in the third quarter of 2009. After deducting the share of minority shareholders of MCHC, the company realized a net income of P5.2 million attributable to stockholders of the company in the third quarter of 2010 compared to a net income of P9.3 million attributable to stockholders of the company in the third quarter of 2009.

Earnings per Share. The net income per share attributable to shareholders of the Company during the third quarter of 2010 was P0.0135 per share compared to earnings per share of P0.024 in the third quarter of 2009 after deducting the shares held by subsidiaries of the Registrant.

Current Ratio. Current ratio as of September 30, 2010 was 27.3 X compared to 54.8 X as of December 31, 2009. The decrease was due mainly to decrease in cash and cash equivalents and in dividend receivables.

Book Value Per Share. Book value per share as of September 30, 2010 was P2.44 per share compared to P2.46 per share at year end 2009 after deducting the shares held by subsidiaries of the Registrant which in the consolidated financial accounts are classified as treasury shares. The reduction was due to payment of cash dividends in 2010.

PART II

OTHER INFORMATION

As of 30 September 2010, the following resolutions of the Board of Directors were reported under SEC Form 17-C:

1. The Annual Meeting of the Stockholders of the Registrant was held on 28 July 2010. At the said meeting, the stockholders comprising more than 2/3 of the Corporation's outstanding capital stock approved the following:

    a) the Minutes of the Annual Meeting of the Stockholders held on 23 July 2009;

    b) ratification of the corporation actions approved and adopted by the Board of Directors during the year 2009;

    c) the audited Financial Statements as of 31 December 2009;

    d) re-appointment of Sycip, Gorres Velayo & Co. as external auditor of the corporation.

2. Immediately after the adjournment of the Stockholders' Meeting, the Organizational Meeting of the Board of Directors was held on the same day. The election of the officers of the corporation, as well as members of various board committees was duly disclosed to the SEC and PSE, thru ODiSy online after the meeting and with confirmation copies filed on 29 July 2010, under SEC Form 17-C. The notices and other requirements for said meeting were complied with under the relevant SRC Rule.

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. ... **17 November 2010** ...

Principal Financial/Accounting Officer/Controller

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

Date ... **17 November 2010** ...

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3rd Quarter–30 September 2010

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

ANNEX "A"

ASSETS		UNAUDITED SEPT. 30, 2010		AUDITED DEC. 31,2009
Current Assets				
Cash and cash equivalents	P	27,036,254	P	36,527,458
Financial assets at fair value through profit or loss		48,388,107		34,376,068
Short-term investments		15,905,462		14,907,815
Receivables-net :				
Advances to Officers & Employees		8,000		3,500
Creditable Withheld Taxes		0		137,328
Dividends Receivable		0		34,237,500
Accounts Receivable		322,630		292,000
Management Fee Receivable		45,197,865		45,197,865
Accrued Interest Receivable		43,753,772		43,753,772
Others		9,245,569		8,677,292
Total Receivables		98,527,836		132,299,257
Allowance for doubtful accounts		90,110,187		90,110,187
Total Receivables-Net		8,417,649		42,189,070
Fixed income deposits		0		4,637,376
Held-to-maturity (HTM) investments		9,399,408		14,099,112
Prepaid expenses & other current assets:				
Input Tax		1,035,887		932,118
Prepaid Income Tax		400,000		400,000
Others		4,142,931		3,907,062
Total Prepaid expenses and other current assets		5,578,818		5,239,280
Total Current Assets	P	114,725,698	P	151,976,179
Non-current Assets				
Receivables from related parties-net		2,344,298		1,482,270
Investments in associates		118,641,693		118,641,693
Fixed income deposits		1,000,000		500,000
HTM investments-net		119,330,799		116,717,359
Available-for-sale (AFS) investments		197,753,508		169,255,633
Investment in property		414,394,525		414,394,525
Property and Equipment				
Building		47,014,750		47,014,750
Building Improvements		8,058,590		8,058,590
Transportation equipment		8,656,379		9,399,560
Furniture and fixtures		2,459,506		2,456,292
Total		66,189,225		66,929,192
Less: Accumulated depreciation		33,047,212		31,130,107
Net Book Value		33,142,013		35,799,085
Total Property and Equipment		33,142,013		35,799,085
Other non-current assets		14,659,433		13,494,294
Total Non-Current Assets		901,266,269		870,284,859
TOTAL ASSETS	P	1,015,991,967	P	1,022,261,038

LIABILITIES & STOCKHOLDERS' EQUITY		UNAUDITED SEPT. 30, 2010		AUDITED DEC. 31, 2009
Current Liabilities				
Accounts Payable and accrued expenses				
Accounts payable-trade		6,395		0
Accounts payable-others		764,683		945,279
Withholding taxes payable		1,650,762		137,090
SSS Premium Payable		9,520		10,929
HDMF Premium Payable		1,600		3,842
Philhealth Premium Payable		3,425		3,400
Deposit Payable		1,130,607		1,011,508
Output Vat Payable		306,711		27,521
Accrued expenses		330,495		633,685
Total Accounts payable and accrued expenses	**P**	**4,204,198**	**P**	**2,773,254**
Income Tax Payable				-
Total Current Liabilities	**P**	**4,204,198**	**P**	**2,773,254**
Non-Current Liabilities				
Deferred income tax liabilities-net		**20,584,494**		**20,584,494**
Payable to related parties		**0**		**0**
Retirement benefit obligation)		**2,755,696**		**2,755,696**
Total Non-Current Liabilities		**23,340,190**		**23,340,190**
Stockholders' Equity				
Capital stock		**481,827,653**		**481,827,653**
Additional paid in capital		**144,759,977**		**144,759,977**
Treasury shares		**(95,791,606)**		**(95,791,606)**
Other Reserves		**254,003**		**(2,246,491)**
Retained earnings		**410,122,272**		**420,812,366**
Total Equity Attributable to Stockholders of the Company		**941,172,299**		**949,361,899**
Minority Interest		**47,275,280**		**46,785,695**
Total Stockholders' Equity		**988,447,579**		**996,147,594**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**P**	**1,015,991,967**	**P**	**1,022,261,038**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS PERIOD ENDING SEPTEMBER 30, 2010 AND SEPTEMBER 30, 2009

		UNAUDITED SEPTEMBER 30, 2010		UNAUDITED SEPTEMBER 30, 2009
REVENUES				
Interest Income				
From Banks	P	963,925	P	3,285,785
From Securities		19,956,988		10,681,814
Total Interest Income		20,920,913		13,967,599
Unrealized gains on trading securities		4,769,317		14,533,059
Rental Income		1,797,631		1,905,839
Gains on disposal of AFS/HTM investments		3,503,786		0
Gains on disposal of fixed asset		245,666		
Gains on disposal of FVPL investments				290,000
Dividend Income		635,935		511,562
Other income		277,067		90,141
	P	32,150,315	P	31,298,200
EXPENSES				
Net foreign exchange loss		3,284,067		623,785
Amortization of unrealized losses on changes in fair value of AFS investments		2,415,825		
Salaries, wages and employees' benefits		4,974,772		4,645,458
Depreciation		2,548,811		1,779,270
Professional fees		1,637,955		1,622,463
Condominium dues		1,502,731		1,284,541
Amortization of premium on HTM investments				
Taxes and licenses		808,397		840,528
Entertainment, amusement and recreation		269,252		265,385
Unrealized loss on financial assets at FVPL		3,433,428		
Others		2,187,744		1,778,612
		23,062,982		12,840,042
NET INCOME	P	9,087,333	P	18,458,158
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	8,597,749	P	18,069,283
MINORITY INTERESTS		489,584		388,875
EARNINGS PER SHARE	P	0.0223	P	0.0470

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 NINE MONTHS PERIOD ENDING SEPTEMBER 30, 2010 AND SEPTEMBER 30, 2009

		UNAUDITED SEPTEMBER 30, 2010		UNAUDITED SEPTEMBER 30, 2009
NET INCOME	P	9,087,333	P	18,458,158
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		84,670		
Amortization of unrealized loss/gain on changes in fair value of AFS investments		2,415,825		(3,082,967)
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		2,500,495		(3,082,967)
TOTAL COMPREHENSIVE INCOME(LOSS)	P	11,587,828	P	15,375,191
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	11,008,437	P	14,606,431
MINORITY INTERESTS		579,391		768,760
	P	11,587,828	P	15,375,191

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 JULY 1-SEPT. 30, 2010 AND JULY 1-SEPT. 30, 2009

		UNAUDITED JULY 1-SEPT. 30, 2010		UNAUDITED JULY 1-SEPT. 30, 2009
REVENUES				
Interest Income				
From Banks	P	364,127	P	926,803
From Securities		6,993,206		3,540,631
Total Interest Income		7,357,333		4,467,434
Unrealized gains on trading securities		3,605,566		5,811,085
Rental Income		599,728		619,575
Gains on disposal of FVPL investments				290,000
Gains on disposal of AFS/HTM investments		839,880		
Gains on disposal of fixed asset		245,666		
Dividend Income		246,250		282,598
Other income		0		3,082,967
	P	12,894,423	P	14,553,659
EXPENSES				
Net foreign exchange loss		1,603,169		623,785
Amortization of unrealized losses on changes in fair value of AFS investments		1,076,691		-
Salaries, wages and employees' benefits		1,778,542		1,566,881
Depreciation		844,586		603,628
Professional fees		555,948		548,499
Condominium dues		519,252		470,280
Taxes and licenses		175,283		171,029
Entertainment, amusement and recreation		75,550		75,139
Others		793,903		627,655
		7,422,924		4,686,896
NET INCOME	P	5,471,499	P	9,866,763
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	5,197,924	P	9,308,304
MINORITY INTERESTS		273,575		558,459
EARNINGS PER SHARE	P	0.0135	P	0.0240

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 JULY 1-SEPT. 30, 2010 AND JULY 1-SEPT. 30, 2009

		UNAUDITED JULY 1-SEPT. 30, 2010		UNAUDITED JULY 1-SEPT. 30, 2009
NET INCOME	P	5,471,499	P	9,866,763
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		305,992		
Amortization of unrealized losses on changes in fair value of AFS investments		1,076,691		(3,082,967)
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		1,382,683		(3,082,967)
TOTAL COMPREHENSIVE INCOME(LOSS)	P	6,854,182	P	6,783,796
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	6,511,473	P	6,444,606
MINORITY INTERESTS		342,709		339,190
	P	6,854,182	P	6,783,796

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

ANNEX "D"

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS SEPT. 30, 2010 AND SEPT. 30, 2009
AND THE YEAR ENDED DECEMBER 31, 2009

		UNAUDITED SEPT. 30, 2010	UNAUDITED SEPT. 30, 2009	AUDITED DEC. 31, 2009
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		(95,791,606)	(95,762,527)	(95,791,606)
Other Reserves		254,003	(10,992,591)	(2,246,491)
SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES				
RETAINED EARNINGS				
Balance at beginning of period		420,812,365	385,191,694	385,191,695
Cash dividends declared and paid		(19,287,842)		
Net Income		8,597,749	18,069,283	35,620,671
Balance at end of period		410,122,272	403,260,977	420,812,366
		941,172,299	923,093,489	949,361,899
Minority Interests		47,275,280	47,059,517	46,785,695
TOTAL STOCKHOLDERS' EQUITY		P 988,447,579 P	970,153,006 P	996,147,594

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDING SEPT. 30, 2010 AND SEPT. 30, 2009

		UNAUDITED SEPT. 30, 2010		UNAUDITED SEPT. 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	P	8,597,749	P	18,069,283
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority Interest		489,584		388,875
Depreciation and amortization		1,917,105		1,779,270
Unrealized loss/gain on changes in fair value of AFS/FVPL		84,670		3,956,437
Amortization of unrealized loss/gain on FV of AFS inv.		2,415,825		-
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		33,771,421		502,728
Prepaid expenses and other current assets		(339,538)		(910,246)
Increase (decrease) in accounts payable and accrued expenses		1,430,944		(613,084)
Net cash provided by operating activities		48,367,760		23,173,263
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions/disposals of property and equipment		739,967		(3,626,947)
AFS/HTM/other investments and financial assets (FVPL)		(37,283,922)		43,716,313
Decrease (increase) in:				
Receivable from related parties		(862,028)		(498,489)
Other assets		(1,165,139)		1,557,418
Net cash provided by (used in) investing activities		(38,571,122)		41,148,295
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Cash dividends declared and paid		(19,287,842)		0
Payable to related parties		0		0
Income tax payable		0		(78,100)
Net cash provided by (used in) financing activities		(19,287,842)		(78,100)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P	(9,491,204)	P	64,243,458
CASH AND CASH EQUIVALENTS, BEGINNING		36,527,458		101,358,385
CASH AND CASH EQUIVALENTS, ENDING	P	27,036,254	P	165,601,843

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 JULY 1-SEPT.30, 2010 AND JULY 1-SEPT. 30, 2009

		UNAUDITED JULY 1-SEPT.30, 2010		UNAUDITED JULY 1-SEPT. 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	P	5,197,924	P	9,308,304
Adjustments to reconcile net income to net				
cash provided by operating activities:				
Minority interest		273,575		558,459
Depreciation and amortization		212,879		603,628
Unrealized loss/gain on changes in fair value of AFS and FVPL		305,992		
Amortization of unrealized loss/gain on changes of FV of AFS inv.		1,076,691		873,470
Decrease (increase) in:				
Receivables		796,436		408,789
Subscription receivable from exercise of warrants				
Prepaid expenses and other current assets		(126,202)		(820,155)
Increase (decrease) in:				
Accounts payable and accrued expenses		1,781,566		(364,990)
Net cash provided by operating activities		9,518,861		10,567,505
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions/disposals of property and equipment		743,181		(3,626,947)
AFS/HTM/other investments and financial assets (FVPL)		(11,104,977)		(18,642,404)
Decrease (increase) in:				
Receivables from related parties		(194,052)		(249,041)
Other assets		(65,396)		0
Net cash provided by (used in) investing activities		(10,621,244)		(22,518,392)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Cash dividends declared and paid		(19,287,842)		0
Redemption of bonds		0		0
Payable to related parties		0		0
Income tax payable		0		0
Net cash provided by (used in) financing activities		(19,287,842)		0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P	**(20,390,225)**	P	**(11,950,887)**
CASH AND CASH EQUIVALENTS, BEGINNING		**47,426,479**		**177,552,730**
CASH AND CASH EQUIVALENTS, ENDING	P	**27,036,254**	P	**165,601,843**

F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF SEPT. 30, 2010 AND DECEMBER 31, 2009
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX G"

	UNAUDITED SEPT. 30, 2010	VERTICAL PERCENTAGE ANALYSIS SEPT.30, 2010	AUDITED DEC. 31,2009	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2009	INCREASE (DECREASE) AMOUNT SEPT.30, 2010	INCREASE (DECREASE) PERCENTAGE ANALYSIS SEPT. 30, 2010
ASSETS						
Current Assets						
Cash and cash equivalents	27,036,254	2.66%	36,527,458	3.57%	(9,491,204)	-25.98%
Financial assets at fair value through fair value thru profit or loss (FVPL)	48,388,107	4.75%	34,376,068	3.36%	14,012,039	40.76%
Short-term investments	15,905,462	1.56%	14,907,815	1.47%	997,647	6.69%
Receivables :						
Advances to Officers & Employees	8,000	0.00%	3,500	0.00%	4,500	128.57%
Creditable Withheld Taxes	0	0.00%	137,328	0.01%	(137,328)	-100.00%
Accounts Receivable	322,630	0.03%	292,000	0.03%	30,630	10.49%
Dividends Receivable	0	0.00%	34,237,500	3.35%	(34,237,500)	-100.00%
Management Fee Receivable	45,197,865	4.46%	45,197,865	4.42%	0	0.00%
Accrued Interest Receivable	43,753,772	4.31%	43,753,772	4.28%	0	0.00%
Others	9,245,569	0.91%	8,677,292	0.85%	568,277	6.55%
Total Receivables	98,527,836	9.71%	132,299,257	12.94%	(33,771,421)	-25.53%
Allowance for doubtful accounts	90,110,187	-8.87%	90,110,187	-8.81%	0	0.00%
Total Receivables-Net	8,417,649	0.84%	42,189,070	4.13%	(33,771,421)	-80.05%
Fixed income deposits	0	0.00%	4,637,376	0.45%	(4,637,376)	-100.00%
Held-to-maturity investments	9,399,408	0.93%	14,099,112	1.38%	(4,699,704)	-33.33%
Prepaid expenses & other current assets:						
Others	4,142,931	0.41%	3,907,062	0.38%	235,869	6.04%
Input Tax	1,035,887	0.10%	932,218	0.09%	103,669	11.12%
Prepaid Income Tax	400,000	0.04%	400,000	0.04%	0	0.00%
Total Prepaid expenses & other current assets	5,578,818	0.55%	5,239,280	0.51%	339,538	6.48%
Total Current Assets	114,725,698	11.29%	151,976,179	14.87%	(37,250,481)	-24.51%
Non-current Assets						
Receivables from related parties	2,344,298	0.23%	1,482,270	0.14%	862,028	58.16%
Investments in associates	118,641,693	11.68%	118,641,693	11.61%	0	0.00%
Fixed income deposits	1,000,000	0.10%	500,000	0.05%	500,000	100.00%
HTM investments	119,330,799	11.74%	116,717,359	11.42%	2,613,440	2.24%
Available -for-sale (AFS) investments	197,753,508	19.46%	169,255,633	16.56%	28,497,875	16.84%
Investment in properties	414,394,525	40.79%	414,394,525	40.54%	0	0.00%
Property and Equipment						
Building	47,014,750	4.63%	47,014,750	4.60%	0	0.00%
Building Improvements	8,058,590	0.79%	8,058,590	0.79%	0	0.00%
Transportation equipment	8,656,379	0.85%	9,399,560	0.92%	(743,181)	-7.91%
Furniture and fixtures	2,459,506	0.24%	2,456,292	0.24%	3,214	0.13%
Total Property and Equipment	68,189,225	6.51%	66,929,192	6.55%	(739,967)	-1.11%
Less: accumulated depreciation	33,047,212	-3.24%	31,130,107	-3.05%	1,917,105	6.16%
Net Book Value	33,142,013	3.27%	35,799,085	3.50%	(2,657,072)	-7.42%
Total Property and Equipment	33,142,013	3.27%	35,799,085	3.50%	(2,657,072)	-7.42%
Deferred income tax assets-net	0	0.00%	0	0.00%	0	0.00%
Other Assets – net	14,659,433	1.44%	13,494,294	1.32%	1,165,139	8.63%
Total Non-Current Assets	901,266,269	88.71%	870,284,859	85.13%	30,981,410	3.56%
TOTAL ASSETS	1,015,991,967	100.00%	1,022,261,038	100.00%	(6,269,071)	-0.61%

	UNAUDITED SEPT. 30, 2010	VERTICAL PERCENTAGE ANALYSIS SEPT. 30, 2010	AUDITED DEC. 31,2009	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2009	INCREASE (DECREASE) AMOUNT SEPT. 30, 2010	INCREASE (DECREASE) PERCENTAGE ANALYSIS SEPT.30, 2010
LIABILITIES & STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable and accrued expenses						
Accounts payable-trade	6,395	0.00%	0	0.00%	6,395	0.00%
Accounts payable-others	764,683	0.08%	945,279	0.09%	(180,596)	-19.11%
Withholding taxes payable	1,650,762	0.16%	137,090	0.01%	1,513,672	1,104.14%
SSS Premium Payable	9,520	0.00%	10,929	0.00%	(1,409)	-12.89%
HDMF Premium Payable	1,600	0.00%	3,842	0.00%	(2,242)	-58.36%
Philhealth Premium Payable	3,425	0.00%	3,400	0.00%	25	0.74%
Deposit Payable	1,130,607	0.11%	1,011,508	0.10%	119,099	11.77%
Output Vat Payable	306,711	0.03%	27,521	0.01%	279,190	1,014.46%
Accrued expenses	330,495	0.03%	633,685	0.06%	(303,190)	-47.85%
Total Accounts payable & accrued expenses	**4,204,198**	**0.41%**	**2,773,254**	**0.27%**	**1,430,944**	**51.60%**
Income Tax Payable	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
Total Current Liabilities	**4,204,198**	**0.41%**	**2,773,254**	**0.27%**	**1,430,944**	**51.60%**
Non-Current Liabilities						
Deferred tax liabilities-net	**20,584,494**	**2.03%**	**20,584,494**	**2.01%**	**0**	**0.00%**
Payable to related parties	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
Retirement benefit obligation	**2,755,696**	**0.27%**	**2,755,696**	**0.27%**	**0**	**0.00%**
Total Non-Current Liabilities	**23,340,190**	**2.30%**	**23,340,190**	**2.28%**	**0**	**0.00%**
Stockholders' Equity						
Capital stock	481,827,653	47.42%	481,827,653	47.13%	0	0.00%
Additional paid in capital	144,759,977	14.25%	144,759,977	14.16%	0	0.00%
Other reserves	254,003	0.03%	(2,246,491)	-0.22%	2,500,494	111.31%
Treasury shares	(95,791,606)	-9.43%	(95,791,606)	-9.37%	0	0.00%
Retained earnings	410,122,272	40.37%	420,812, 366	41.17%	(10,690,094)	-2.54%
Total Equity Attributable to Stock-holders of the Company	**941,172,299**	**92.64%**	**949,361,899**	**92.87%**	**(8,189,600)**	**-0.86%**
Minority Interest	**47,275,280**	**4.65%**	**46,785,695**	**4.58%**	**489,585**	**1.05%**
Total Stockholders' Equity	**988,447,579**	**97.29%**	**996,147,594**	**97.45%**	**(7,700,015)**	**-0.77%**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**1,015,991,967**	**100.00%**	**1,022,261,038**	**100.00%**	**(6,269,071)**	**-0.61%**

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

1. Corporate Information

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

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

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

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

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

- PFRS 7 Amendments, *Improving Disclosures about Financial Instruments*
  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the

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

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

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

New Standards and Interpretations

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

Amendments to Standards

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

<u>New Accounting Standards, Interpretations and Amendments to the Existing Standards Effective Subsequent to December 31, 2009</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 consolidated financial statements when these become effective.

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

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

- Philippine Interpretation IFRIC 17, *Distributions of Non-Cash Assets to Owners*
  This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the interpretation to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

Amendments to Standards

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

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

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

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3 (Revised). The amendment is effective for annual periods beginning on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either ‘finance’ or ‘operating’ in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:

- that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
- that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
- that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

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

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

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

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

(Forward)

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

** still in the preoperating stage*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities and generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

Investments in Associates

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

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

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

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

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

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

The following are the Group's associates:

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

Business Combinations and Goodwill

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

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

Financial assets
Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, HTM investments, and AFS investments. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the consolidated statement of income.

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

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

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

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

Day 1 Profit or Loss
When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

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

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

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

Offsetting Financial Instruments

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

Impairment of Nonfinancial Assets

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

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

For nonfinancial assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's estimated recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its estimated recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

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

Common Stock
Common stock is classified as equity.

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

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

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

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

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

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

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

Retirement Benefits

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

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

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

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

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

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

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

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

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

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

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

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

Provisions

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

Contingencies

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

Earnings (Loss) Per Share

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

Segment Reporting

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

Events After the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and Assumptions

Fair values of financial assets and liabilities

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

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

The fair values of the Group's financial instruments are presented in Note 21 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL is ₱48,388,107 and ₱34,376,068 as of September 30, 2010 and December 31, 2009, respectively (see Note 5). The carrying amount of the Group's AFS investments is ₱197,753,508 and ₱169,255,633 as of September 30, 2010 and December 31, 2009, respectively (see, Note 9). The carrying amount of the Group's HTM investments is ₱128,730,207 and ₱130,816,471 as of September 30, 2010 and December 31, 2009. (see Note 8).

Income taxes
There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected taxes to be paid in the future based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable is nil as of September 30, 2010 and December 31, 2009, respectively.

Realizability of deferred income tax assets
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized. The Group has unrecognized deferred income tax assets on temporary differences amounting to ₱264,465,224 which remains unchanged as of September 30, 2010 and December 31, 2009 respectively (see Note 14).

Useful lives of property and equipment
The estimated useful lives used as bases for depreciating the Group's property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets. The carrying amount of the Group's property and equipment is ₱33,142,013 and ₱35,799,085 as of September 30, 2010 and December 31, 2009, respectively (see Note 10).

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

On receivables from related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded. These allowances are re-evaluated and adjusted as additional information is received. The balance of the Group's allowance for impairment losses on receivables and receivables from related parties remains unchanged at ₱198,057,263 as of September 30, 2010 and December 31, 2009 , respectively (see Notes 6 and 16). The carrying amount of the Group's receivables, net of allowance for impairment losses, is ₱8,417,649 and ₱ 42,189,070 as of September 30, 2010 and December 31, 2009, respectively (see Note 6). The carrying amount of the Group's receivables from related parties, net of allowance for impairment losses, is ₱2,344,298 and ₱1,482,270 as of September 30, 2010 and December 31, 2009, respectively (see Note 16).

Pension and other retirement benefits
The determination of the obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations. Retirement benefits expense recognized amounted to ₱512,291, ₱512,503, and ₱465,359 in 2009, 2008 and 2007, respectively. The carrying amount of the Group's retirement benefit obligations remains unchanged at ₱2,755,696 as of September 30, 2010 and December 31, 2009, respectively (see Note 13).

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

The balance of the Group's allowance for impairment losses on investment in equity securities remains unchanged at ₱10,574,000 as of September 30, 2010 and December 31, 2009, respectively (see Notes 9 and 20). The carrying amount of the Group's AFS investments is ₱197,753,508 and ₱ 169,255,633 as of September 30, 2010 and December 31, 2009, respectively (see Note 9).

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

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94,830,129 remains unchanged as of September 30, 2010 and December 31, 2009 respectively. The impairment is based on the Group's assessment of the fair value of the investment in MUDC using the discounted cash flow method. The Group has fully provided an allowance for impairment in its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC is now carried at nil. The carrying amount of

the Group's investments in associates remains unchanged at ₱118,641,693 as of September 30, 2010 and December 31, 2009, respectively (see Note 7).
The carrying amount of the Group's property and equipment is ₱33,142,013 and ₱35,799,085 as of September 30, 2010 and December 31, 2009, respectively (see Note 10). The carrying amount of the Group's investment properties remains unchanged at ₱414,394,525 as of September 30, 2010 and December 31, 2009 (see Note 11).

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

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

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis (see Notes 20 and 21).

Contingencies
In the ordinary course of business, the Group is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims has been developed in consultation with internal and external counsels handling the Group's defense in these matters and is based upon analysis of potential results. Although there can be no assurances, the Group believes, based on information currently available and the 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 19).

4. Cash and Cash Equivalents

	September 2010	December 2009
Cash on hand and with banks	**₱17,749,840**	₱2,964,124
Short-term placements	**9,286,414**	33,563,334
	₱27,036,254	₱36,527,458

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

Interest income earned from cash and cash equivalents amounted to about ₱1.2 million and about ₱ 19.0 million in 2009 and 2008, respectively.

5. **Financial Assets at FVPL**

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

Financial assets at FVPL which include unrealized gain/loss on fair value changes is ₱48,388,107 and ₱34,376,068 as of September 30, 2010 and December 31, 2009 respectively.

6. **Receivables -** net

	September 2010	December 2009
Third parties		
Accrued interest	**₱8,208,016**	₱7,784,248
Dividend receivable (see Note 7)	**0**	34,237,500
Others	**747,614**	736,492
Related parties:		
Management fees (see Note 16)	**45,197,865**	45,197,865
Accrued interest (see Note 16)	**43,753,772**	43,753,772
Others	**620,569**	589,380
	98,527,836	132,299,257
Less allowance for impairment losses	**90,110,187**	90,110,187
	₱8,417,649	₱42,189,070

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

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

		Related Parties (see Note 16)			
	Third parties	Management fees	Accrued interest	Others	**Total**
At January 1, 2007	₱1,178,095	₱45,197,865	₱25,194,478	₱37,762	**₱71,608,200**
Recovery during the year	(557,306)	–	–	–	**(557,306)**
At December 31, 2007	620,789	45,197,865	25,194,478	37,762	**71,050,894**
Provision during the year	500,000	–	19,959,293	–	**20,459,293**
At December 31, 2008	1,120,789	45,197,865	45,153,771	37,762	**91,510,187**
Written-off during the year	–	–	(1,400,000)	–	**(1,400,000)**
At March 31, 2010 and December 31, 2009	₱1,120,789	₱45,197,865	₱43,753,771	₱37,762	**₱90,110,187**

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

7. Investments in Associates

	September 2010	December 2009
Unquoted equity stocks:		
Cost:		
Acquisition cost	**₱164,470,640**	₱164,470,640
Additional investment	**10,500,000**	10,500,000
	174,970,640	174,970,640
Accumulated equity in net earnings:		
At beginning of year	**45,291,380**	45,291,380
Equity in net earnings for the year	**33,307,272**	33,307,272
Dividends received	**(60,486,964)**	(60,486,964)
At end of year	**18,111,688**	18,111,688
	193,082,328	193,082,328
Less allowance for impairment losses	**94,830,129**	94,830,129
	98,252,199	98,252,199
Advances	**20,389,494**	20,389,494
	₱118,641,693	₱118,641,693

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

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

MUDC

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

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

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

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

BPO

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

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

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

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

PTC

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

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

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

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

Summarized combined financial information of associates follow:

	2009	2008	2007
Current assets	**₱500,154,566**	₱447,686,260	₱329,925,142
Noncurrent assets	**129,690,718**	170,278,593	97,117,196
Total assets	**629,845,284**	617,964,853	427,042,338
Current liabilities	**463,875,359**	408,466,465	337,167,528

Noncurrent liabilities	**123,333,362**	109,687,063	104,562,093
Total liabilities	**587,208,721**	518,153,528	441,729,621
Revenues	**768,026,030**	758,598,623	652,956,694
Expenses	**646,946,034**	668,545,239	620,142,526
Net income	**104,224,699**	90,053,384	32,814,168

8. HTM Investments

As of September 30, 2010 and December 31, 2009, the Company has HTM investments pertaining to debt securities at amortized costs amounting to ₱128,730,207 and ₱130,816,471, respectively.

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

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

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

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

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

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

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

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

The current portion of the HTM investments is ₱9,399,408 and ₱14,099,112 as of September 30, 2010 and December 31, 2009, respectively.

In September, 2010 HTM investments with face value of $292,197 (equivalent to about ₱14.0 million) have been disposed.

Interest income earned from HTM investments amounted to about ₱11.2 million and about ₱10.9 million in September, 2010 and December, 2009 respectively.

9. AFS Investments

	September 2010	December 2009
Investment in debt securities	**₱187,607,944**	₱159,110,069
Investment in equity securities	**10,145,564**	10,145,564
	₱197,753,508	₱169,255,633

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

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

Net unrealized losses/gains on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets as of September 30, 2010 and December 31, 2009 amounted to ₱254,003 and ₱2,246,491, respectively.

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

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

As of September 30, 2010:

	Parent	Minority Interests	**Total**
Beginning balance	(₱2,246,491)	(₱118,237)	**(₱2,364,728)**
Changes in fair value of AFS investments	84,669	4,456	**89,125**
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	2,415,825	127,149	**2,542,974**
Impairment loss on AFS investments			
Ending balance	₱ 254,003	₱ 13,368	**₱ 267,371**

As of December 31, 2009:

	Parent	Minority Interests	**Total**
Beginning balance	(₱14,949,028)	(₱786,791)	**(₱15,735,819)**
Changes in fair value of AFS investments	3,458,265	182,014	**3,640,279**
Amortization of unrealized losses on changes in fair value of AFS investments for the year (see Note 8)	9,206,272	484,540	**9,690,812**
Impairment loss on AFS investments	38,000	2,000	**40,000**
Ending balance	(₱2,246,491)	(₱118,237)	**(₱2,364,728)**

Investment in equity securities

Investment in equity securities consist of proprietary club shares and investments in quoted shares of stock which the Group has neither control nor significant influence. The Group recognized provision for impairment losses amounting to ₱40,000 and ₱250,000 in 2009 and 2008, respectively.

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

10. **Property and Equipment**

As of September 30, 2010:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	**Total**
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱9,399,560	₱2,456,292	**₱66,929,192**
Additions for the year	–	–	–	3,214	**3,214**
Disposals for the year			(743,181)		**(743,181)**
Balances at end of year	47,014,750	8,058,590	8,656,379	2,459,506	**66,189,225**
Accumulated depreciation:					
Balances at beginning of year	17,396,170	6,270,306	5,073,979	2,389,652	**31,130,107**
Depreciation	1,410,442	585,769	537,412	15,187	**2,548,810**
Disposal			(631,705)		**(631,705)**
Balances at end of year	18,806,612	6,856,075	4,979,686	2,404,839	**33,047,212**
Net book value	₱28,208,138	₱1,202,515	₱3,676,693	₱54,667	**₱33,142,013**

As of December 31, 2009:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	**Total**
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱5,828,221	₱2,400,683	**₱63,302,244**
Additions during the year	–	–	3,571,339	55,609	**3,626,948**
Balances at end of year	47,014,750	8,058,590	9,399,560	2,456,292	**66,929,192**
Accumulated depreciation:					
Balances at beginning of year	15,515,580	5,489,281	4,602,142	2,369,705	**27,976,708**
Depreciation	1,880,590	781,025	471,837	19,947	**3,153,399**
Balances at end of year	17,396,170	6,270,306	5,073,979	2,389,652	**31,130,107**
Net book value	₱29,618,580	₱1,788,284	₱4,325,581	₱66,640	**₱35,799,085**

In September, 2010, the Company sold one of its motor vehicles with the acquisition cost of P750,000 and net book value of P111,477 for P 400,000. As a result of the disposal and after taking into account the depreciated value of the transportation equipment, it gained P 245,666 from the sale.

11. Investment Properties

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

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

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

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

12. Accounts Payable and Accrued Expenses

	September 2010	December 2009
Deposits payable	**₱1,130,607**	₱1,011,508
Accrued expenses	**330,495**	633,685
Others	**2,743,096**	1,128,061
	₱4,204,198	₱2,773,254

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

13. **Retirement Benefits**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of September 30, 2010, there is no movement in retirement benefit obligation.

14. Income Taxes

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

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

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

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

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

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

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

NOLCO:

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

MCIT:

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

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

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

15. **Equity**

a. Common stock

	September 2010	December 2009
Common stock - ₱1 par value		
Class A		
Authorized - 600 million shares		
Issued and outstanding - 292,610,118 shares	**₱292,610,118**	₱292,610,118
Class B		
Authorized - 400 million shares		
Issued and outstanding - 189,217,535 shares	**189,217,535**	189,217,535
	₱481,827,653	₱481,827,653

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

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

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

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

	Number of Shares	Exercise Periods	Expiration Dates
First Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,633	June 4, 2002 to	June 3, 2007
	48,103,272	June 3, 2007	
Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to	May 8, 2008
	48,103,273	May 8, 2008	
	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 as of December 31, 2009 and 2008.

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

b. Treasury shares

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

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

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

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

Unrealized losses/gains on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets amounted to ₱254,003 and ₱2,246,491 as of September 30, 2010 and December 31, 2009, respectively (see Notes 8 and 9).

d. Retained earnings

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

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

On July 28, 2010, the board of directors of the Company approved the declaration of cash dividend at P.05 per share on 292,610,118 Class A and 189,217,535 Class B shares amounting to P 19,287,842 with record date of August 27, 2010 and payable date on September 23, 2010.

16. **Related Party Transactions**

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

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

	Current		Noncurrent	
	Receivables (see Note 6)		Receivables from Related Parties	
Related Parties	**September, 2010**	December 2009	**September, 2010**	December 2009
MUDC	**₱97,768,466**	₱88,951,637	**₱99,716,830**	₱98,271,241
Others	**620,569**	589,380	**544**	584,105
	98,389,035	89,541,017	**99,717,374**	98,855,346
Less allowance for impairment losses	**(90,110,187)**	(88,989,398)	**(97,373,076)**	(97,373,076)
	₱8,278,848	₱551,619	**₱2,344,298**	₱1,482,270

As of September 30, 2010, there is no movement in the allowance for impairment losses on receivables.

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

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

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

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

b. MCHC has existing non-interest bearing long-term advances to MUDC of about ₱43.8 million and about ₱45.2 million, including accumulated interest not yet paid to MCHC, as of December 31, 2009 and 2008, respectively. In 2004, the Group ceased to accrue interest receivable on the said advances.

c. MCHC leases out a portion of its condominium unit to PIEI for a period of two years from October 1, 2008 to September 30, 2010. Monthly rentals, inclusive of VAT, amounted to ₱21,381. Lease revenue from rentals of PIEI amounted to about ₱0.2 million in 2009 and 2008.

d. In 2006, total non-interest bearing long-term advances to related parties amounting to about ₱56.8 million, including the unamortized discount of about ₱23.4 million as of December 31, 2005, was fully provided with allowance for impairment losses, since management believes that the entire balance is not likely to be collected in the future.

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

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

17. Earnings (Loss) Per Share

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

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

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

	2009	2008	2007
Net income (loss) attributable to equity holders of the parent	**₱35,620,671**	₱23,284,773	(₱32,157,375)
Weighted average number of	**386,036,047**	386,065,126	386,143,326

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

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

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

18. **Segment Information**

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

19. **Commitments and Contingencies**

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Group believes, based on information currently available and the 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 future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings.

Also, MCHC entered into a contract to buy a certain parcel of land within a specifically controlled and planned development area known as the Bonifacio Global City, located in Fort Bonifacio, Taguig, Metro Manila owned by Fort Bonifacio Development Corporation. The Group has made deposits amounting to ₱46,319,625 as of December 31, 2008 included under “Other noncurrent assets” in the consolidated balance sheets. The lot was delivered on March 5, 2009, when the transfer certificate title was obtained and this was subsequently classified as part of the investment property carried at cost in the 2009 consolidated balance sheets (see Note 11).

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

20. **Financial Risk Management Objectives and Policies**

Risk Management Structure

BOD

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

Financial Risk Management Objectives and Policies

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

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

Credit Risk

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

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

Credit risk management

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

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

Credit risk exposures

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

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

Credit quality
As of September 30, 2010 and December 31, 2009, the credit quality per class of financial assets follows:

September 2010:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	**Total**
	High grade	Standard grade			
Loans and receivables:					
Cash and cash equivalents	₱27,036,254	₱–	₱–	₱–	**₱27,036,254**
Short-term investments	15,905,462	–	–	–	**15,905,462**
Receivables	8,417,649	–	–	90,110,187	**98,527,836**
Fixed income deposits	1,000,000	–	–	–	**1,000,000**
Receivables from related parties	2,344,298	–	–	97,373,076	**99,717,374**
Financial assets at FVPL	48,388,107	–	–	–	**48,388,107**
HTM investments	128,730,207	–	–	–	**128,730,207**
AFS investments	197,753,508	–	–	10,574,000	**208,327,508**
	₱429,575,485	₱–	₱–	₱198,057,263	**₱627,632,748**

December 2009:

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

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

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

The carrying amount of the Group's financial assets as at September 30, 2010 and December 31, 2009 and the movement of the allowance used to record the impairment are as follows:

September 2010:

	Receivables	Receivables from related parties	AFS investments	**Total**
Nominal amounts	₱98,527,836	₱99,717,374	₱208,327,508	₱406,572,718
Less allowance for impairment losses	90,110,187	97,373,076	10,574,000	198,057,263
At September 30, 2010	₱8,417,649	₱2,344,298	₱197,753,508	₱208,515,455

December 2009:

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

Movement in allowance for impairment losses account:

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

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

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

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

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

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

As of September 30, 2010

	Total carrying value	On demand	< 1 year	**Total**
Accounts payable and accrued expenses	₱2,232,180	₱–	₱2,232,180	**₱2,232,180**
Financial assets:				
Cash and cash equivalents	**₱27,036,254**	**₱27,036,254**	₱–	**₱27,036,254**
Short-term investments	**15,905,462**	**15,905,462**	**–**	**15,905,462**
Receivables	**8,417,649**	**8,417,649**	**–**	**8,417,649**
Financial assets at FVPL	**48,388,107**	**48,388,107**	**–**	**48,388,107**
AFS investments	**197,753,508**	**197,753,508**	**–**	**197,753,508**
Total financial assets	₱297,500,980	₱297,500,980	₱–	**₱297,500,980**

As of December 31, 2009

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

<u>*Market Risks*</u>
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

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

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

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

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

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

	September 2010	December 2009
Change in interest rate (in basis points)		
+10%	**(₱18,760,794)**	(₱15,911,007)
–10%	**₱18,760,794**	15,911,007

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

b. Foreign currency risk

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

The Group holds cash denominated in US dollar for working capital purposes amounting to $89,071 (₱3,909,861) and $34,909 (₱1,329,224) as of September 30, 2010 and December 31, 2009, respectively.

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

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

	September 2010		December 2009	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash and cash equivalents	**$89,071**	**₱3,909,861**	$759,537	₱35,090,595
Receivables	**177,396**	**7,786,975**	166,470	7,690,894
Short-term investments	**351,049**	**15,409,647**	281,722	13,015,573
AFS investments	**4,137,088**	**181,601,615**	3,443,941	159,110,069
HTM investments	**2,777,806**	**121,934,572**	2,831,525	130,816,471
Other noncurrent assets	**250,000**	**10,974,000**	250,000	11,550,000
	$7,782,410	**₱341,616,670**	$7,733,195	₱357,273,602

The Group has no foreign currency denominated monetary liabilities as of September 30, 2010 and December 31, 2009.

The exchange rate of the Philippine peso vis-à-vis the US dollar further strengthened to ₱46.20 as of December 31, 2009 from ₱47.52 as of December 31, 2008. As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses of ₱9,945,929 in 2009, foreign exchanges gains of ₱70,445,458 in 2008 and foreign exchange losses of ₱52,796,047 in 2007.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2009, with all other variables held constant, of the Group's 2009 and 2008 income before income tax. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

US Dollar	Effect on income before income tax
September 2010	
Strengthened by 3%	**₱10,248,500**
Weakened by 3%	**(10,248,500)**
December 2009	
Strengthened by 15%	₱10,718,208
Weakened by 15%	(10,718,208)

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

c. Equity price risk

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

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

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

Effect on income before income tax:

	September 2010	December 2009
Financial assets at FVPL:		
Change in stock market index (%)		
+10%	**₱3,123,646**	₱2,992,025
–10%	**(3,123,646)**	(2,992,025)

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

Effect on equity:

	September 2010	December 2009
Investment in equity securities:		
Change in club share prices (%)		
+10%	**₱306,200**	₱249,200
–10%	**(306,200)**	(249,200)

21. **Financial Instruments**

Categories of Financial Instruments

As of September 30, 2010:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	**Total**
ASSETS						
Current:						
Cash on hand and in banks	₱17,749,840	₱–	₱–	₱–	₱–	**₱17,749,840**
Short-term placements	9,286,414	–	–	–	–	**9,286,414**
Listed debt securities	–	–	9,399,408	–	–	**9,399,408**
Listed equity securities	–	48,388,107	–	–	–	**48,388,107**
Short-term investments	15,905,462	–	–	–	–	**15,905,462**
Receivable from third parties	8,278,848	–	–	–	–	**8,278,848**
Receivable from related parties	138,801	–	–	–	–	**138,801**
Fixed income deposits	–	–	–	–	–	**–**
Prepayments and other current assets	–	–	–	–	5,578,818	**5,578,818**
Noncurrent:						
Receivable from related parties	2,344,298	–	–	–	–	**2,344,298**
Investments in associates	–	–	–	–	118,641,693	**118,641,693**
Fixed income deposits	1,000,000	–	–	–	–	**1,000,000**
Listed debt securities	–	–	119,330,799	187,607,944	–	**306,938,743**
Listed equity securities	–	–	–	10,145,564	–	**10,145,564**
Property and equipment	–	–	–	–	33,142,013	**33,142,013**
Investment properties	–	–	–	–	414,394,525	**414,394,525**
Other noncurrent assets	–	–	–	–	14,659,433	**14,659,433**
TOTAL	₱54,703,663	₱48,388,107	₱128,730,207	₱197,753,508	₱586,416,482	**₱1,015,991,967**

As of December 31, 2009:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	Total
ASSETS						
Current:						
Cash on hand and in banks	₱2,964,124	₱–	₱–	₱–	₱–	**₱2,964,124**
Short-term placements	33,563,334	–	–	–	–	**33,563,334**
Listed equity securities	–	–	14,099,112	–	–	**14,099,112**
Listed equity securities	–	34,376,068	–	–	–	**34,376,068**
Short-term investments	14,907,815	–	–	–	–	**14,907,815**
Receivables from third parties	41,637,451	–	–	–	–	**41,637,451**
Receivable from related parties	551,619	–	–	–	–	**551,619**
Fixed income deposits	4,637,376	–	–	–	–	**4,637,376**
Prepayments and other current assets	–	–	–	–	5,239,280	**5,239,280**
Noncurrent:						
Receivable from related parties	1,482,270	–	–	–	–	**1,482,270**

Investments in associates	–	–	–	–	118,641,693	**118,641,693**
Fixed income deposits	500,000	–	–	–	–	**500,000**
Listed debt securities	–	–	116,717,359	159,110,069	–	**275,827,428**
Listed equity securities	–	–	–	10,145,564	–	**10,145,564**
Property and equipment	–	–	–	–	35,799,085	**35,799,085**
Investment properties	–	–	–	–	414,394,525	**414,394,525**
Other noncurrent assets	–	–	–	–	13,494,294	**13,494,294**
TOTAL	₱100,243,989	₱34,376,068	₱130,816,471	₱169,255,633	₱587,568,877	**₱1,022,261,038**

As of September 30, 2010:

	Other financial liabilities	Non-financial liabilities	**Total**
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,130,607	₱–	**₱1,130,607**
Accrued expenses	330,495	–	**330,495**
Others	771,078	1,972,018	**2,743,096**
Noncurrent:			
Retirement benefit obligations	–	2,755,696	**2,755,696**
Deferred income tax liabilities	–	20,584,494	**20,584,494**
TOTAL	₱2,232,180	₱25,312,208	**₱27,544,388**

As of December 31, 2009:

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

Fair Values

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

Fair values and carrying amount comparison of financial instruments as of September 30 are as follows:

	September 2010		December 2009	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Current:				
Cash and cash equivalents	**₱27,036,254**	**₱27,036,254**	₱36,527,458	₱36,527,458
Financial assets at FVPL	**48,388,107**	**48,388,107**	34,376,068	34,376,068
Short-term investments	**15,905,462**	**15,905,462**	14,907,815	14,907,815
Receivables	**8,417,649**	**8,417,649**	42,189,070	42,189,070
Fixed income deposits	**0**	**0**	4,637,376	4,637,376
HTM investments				
Debt securities	**9,399,048**	**9,810,875**	14,099,112	14,510,939

	September 2010		December 2009	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Noncurrent:				
Receivable from related parties	**2,344,298**	**2,344,298**	1,482,270	1,207,568
Fixed income deposits	**1,000,000**	**1,000,000**	500,000	566,113
AFS investments:				
Debt securities	**187,607,944**	**187,607,944**	159,110,069	159,110,069
Equity securities	**10,145,564**	**10,145,564**	10,145,564	10,145,564
HTM investments:				
Debt securities	**119,330,799**	**130,333,282**	116,717,359	121,667,353
Financial liabilities:				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	**1,130,607**	**1,130,607**	1,011,508	1,011,508
Accrued expenses	**330,495**	**330,495**	633,685	633,685
Others	**2,743,096**	**2,743,096**	945,280	945,280

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

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

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

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

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

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

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

As of September 30, 2010:

	Level 1	Level 2	Level 3	**Total**
Financial assets at FVPL	₱48,388,107	₱–	₱–	**₱48,388,107**
AFS financial assets:				
Private debt securities	187,607,944	–	–	**187,607,944**
Listed equity securities	10,145,564	–	–	**10,145,564**
	₱246,141,615	₱–	₱–	**₱246,141,615**

As of December 31, 2009:

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

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

22. Capital Management

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

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

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

	September 2010	December 2009
Accounts payable and accrued expenses	**₱4,204,198**	₱2,773,254
Less cash and cash equivalents	**27,036,254**	36,527,458
Net debt	**(22,832,056)**	(33,754,204)
Equity attributable to equity holders of the parent	**941,172,299**	949,361,899
Unrealized losses/gains on changes in fair value of AFS investments	**(254,003)**	2,246,491
Total capital	**940,918,296**	951,608,390
Total capital and net debt	**₱918,086,240**	₱917,854,186
Gearing ratio	**(2.49%)**	(3.68%)

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

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

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

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2010

Name	Beginning Balance	Additions	Deductions		Current 30 days	60 days or over	Over 120 days	Ending Balance
			Amount Collected	Amount Written-Off				
Magellan Capital Realty Development Corp.	14,064	4,978					19,042	19,042
Magellan Capital Corporation	260,144	6,078					266,222	266,222
Magellan Capital Trading Corporation	14,064	4,978					19,042	19,042
Pointwest Technologies Corp.	(250)	6,480	6,480				(250)	(250)
Business Process Outsourcing International	3,852	851,752	837,656		12,353		5,595	17,948
Pinamucan Power Corp.	126	500					626	626
	292,000	874,766	844,136		12,353		310,277	322,630