COVER SHEET

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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

12	31
Month	Day

Fiscal Year

04	12
Month	Day

Annual Meeting

SEC FORM 17-Q
(AS OF 30 JUNE 2011)

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

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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 June 2011**

2. SEC Identification Number **43370** 3. BIR Tax Identification No. **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 1.   Financial Statements

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

(1) Unaudited Consolidated Interim Balance Sheet as of 30 June 2011 and Audited Consolidated Balance Sheet as of 31 December 2010 as Annex “A”;

(2) Unaudited Consolidated Interim Statement of Income and Summary of General and Administrative Expenses for the six (6) month period ending 30 June 2011 and the six (6) month period ending 30 June 2010 as Annex “B”;

(3) Unaudited Consolidated Interim Statement of Income and Summary of General and Administrative Expense for the three (3) month period from April 01 – June 30, 2011 and for the three (3) month period from April 01 – June 30, 2010 as Annex “C”;

(4) Unaudited Consolidated Interim Statement of Changes in Stockholders’ Equity for the six (6) month period ending 30 June 2011 and 30 June 2010 and Audited Consolidated Statement of Changes in Stockholders’ Equity as of 31 December 2010 as Annex “D”;

(5) Unaudited Consolidated Interim Cash Flow Statement for the six (6) month period ending 30 June 2011 and the six (6) month period ending 30 June 2010 as Annex “E”;

(6) Interim Consolidated Cash Flow Statement for the three (3) month period ending 30 June 2011 and 30 June 2010 as Annex “F”; and

(7) Consolidated Balance Sheet as of 30 June 2011 and December 31, 2010 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 increased by 25% in 2010 to P93.6 million from P74.9 million in 2009. Most of the increase was accounted for by the 69% increase in net earnings of associates to P56.3 million in 2010 from P33.3 million in 2009 as earnings at Pointwest Technologies Corporation set a new record at more than double the earnings in 2009. Interest income also increased by almost 40% to P28.4 million in 2010 from P20.3 million in 2009 as the Registrant's subsidiaries shifted investment into higher yielding bond investments from bank deposits as the financial crisis of 2008-2009 abated. Fair value gains on financial assets at FVPL were at P2.8 million in 2010 from P17.2 million in 2009 as the sharp gains on financial investments realized in the recovery of 2009 were not matched in 2010 which saw more stable markets. Rental income was slightly higher in 2010 at P2.6 million from P2.5 million in 2009. Gain on disposal of AFS and HTM investments of P1.2 million as well as amortization of discount of AFS and HTM investments of P1.0 million contributed to the increase in consolidated total revenue. Dividend income in 2010 was lower at P0.8 million in 2010 compared to P1.0 million in 2009. Other income was also slightly lower at P0.5 million in 2010 from P0.6 million in 2009.

Total Consolidated expenses of the Registrant fell to P37.0 million in 2010 from P39.8 million in 2009 due mainly to a reduction in amortization of unrealized losses on changes in Fair Value of AFS Investment previously classified as HTM Investments which dropped to P0.7 million in 2010 from P9.7 million in 2009. This more than offset the increase in net foreign exchange loss to P16.0 million in 2010 from P9.9 million in 2009 as the Peso strengthened further in 2010. This adversely affected the foreign exchange denominated bonds held by the Registrant and its subsidiaries.

As a result of the above changes in revenue and expenses, consolidated income before tax of the Registrant increased by 61% to P56.6 million in 2010 from P35.1 million in 2009. After provision for taxes, net income after tax in 2010 increased by 58% to P55.3 million from P35.1 million in 2009. Excluding the share of minority shareholders in the Registrant's subsidiary would result in net income attributable to stockholders of the Registrant of P55.0 million in 2010 from P35.6 million in 2009.

The Registrant's financial position remains strong and its ability to undertake its planned projects is not affected. As of December 31, 2010, the Registrant's consolidated cash and cash equivalents totalled P32.7 million compared to P36.5 million at the end of 2009. 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 P27.9 million including deferred income tax liabilities of P20.6 million and including retirement benefit obligations of P2.8 million against total equity of P996.7 million at year-end 2010.

The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders and PTC and BPOI which from time to time have availed of short term loans for normal working capital requirements. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of 2010 totalled P32.7 million compared to P36.5 million at the end of 2009 while total current assets totalled P135.5 million at year-end 2010 compared to P151.9 million at year-end 2009. 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 and 2010 started reinvesting its liquid resources thus resulting in higher interest income. On June 17, 2011 the Registrant's subsidiary, Magellan Capital Holdings Corporation, signed an agreement with J.G. Summit Holdings, Inc. to sell all its shares in Batangas Agro-Industrial Development Corporation (BAID) for the sum of One Billion Forty Million One Hundred Seventeen Thousand Six Hundred Thirty Four and 50/10 Pesos (₱ 1,040,117,634.50) payable in cash. BAID owns directly or through its subsidiaries 50 hectares of land fronting Batangas Bay in Pinamucan, Batangas and has a 10 hectare foreshore lease on the bay in front of its landholdings. This land was the intended site for the aborted power project of Magellan Utilities Development Corporation. This transaction was subsequently closed on July 18, 2011. As a result, the liquidity of the Registrant's subsidiary has increased substantially. Other than the transaction with J.G. Summit Holdings, Inc. described above and other than the normal fluctuation of the Peso exchange rate as well as the effect of the normal market fluctuations on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

(a) Operating Results and Financial Condition for the Second Quarter of 2011

(i) Other than the transaction with J.G. Summit Holdings, Inc. described above, 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 second 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) The transaction with J.G. Summit Holdings, Inc. would result in a material favorable impact on net revenues and net income in the third quarter of 2011. Other than that, 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 second quarter of 2011 or in the second quarter of 2010 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 second quarter of 2011 and second quarter of 2010.

Operating Results

Breakdown of Revenue for the Three Month Periods Ending June 30, 2011 and June 30, 2010 with Vertical and Horizontal Percentage Analysis is shown below:

(P000)	Second Quarter 2011	Vertical Percentage Analysis	Second Quarter 2010	Vertical Percentage Analysis	Increase (Decrease) Amount	Increase (Decrease) Percentage
INTEREST INCOME From Banks	P 510	3.4%	P 404	4.6%	106	26.2%
From Securities	8,283	55.6%	6,625	76.2%	1,658	25.0%
TOTAL	**P 8,793**	**59.0%**	**P7,029**	**80.8%**	**1,764**	**25.1%**
UNREALIZED GAIN ON TRADING SECURITIES	**3,591**	**24.1%**	**-**	**-**	**3,591**	**-**
DIVIDEND INCOME	454	3.0%	319	3.7%	135	42.3%
RENT INCOME	835	5.6%	578	6.6%	257	30.8%
OTHER INCOME	1,236	8.3%	773	8.9%	463	59.9%
TOTAL	**P 14,910**	**100%**	**P8,699**	**100%**	**6,211**	**71.4%**

Revenues. Consolidated revenues, during the 3 month period ended June 30, 2011 increased by 71.4% to P14.9 million compared to P8.7 million during the same 3 month period in 2010. The higher revenue was due mainly to unrealized gain on trading securities which totaled P3.6 million in 2011 compared to NIL in 2010. In addition, higher interest income which increased by P1.8 million due to higher investment in corporate bond securities and higher dividend income and higher rental income due to increase areas rented out in Citibank Center, all contributed to the higher revenue.

Expenses. Consolidated expenses in the second quarter of 2011 totaled P8.6 million compared to P7.0 million in the second quarter of 2010. As shown in Annex C, most of the increase was accounted for by P1.1 million in loss on disposal at AFS Investment and increase in net foreign exchange loss of P0.5 million.

Operating Income. Due to the factors discussed above, consolidated operating income in the second quarter of 2011 totaled P6.3 million compared to P1.7 million in the second quarter of 2010.

Net Income. Net income totaled P6.3 million during the second quarter of 2011 compared to P1.7 million in the second quarter of 2010. Net income in the second quarter of 2011 attributable to shareholders of the company totaled P6.0 million while P0.3 million was attributable to minority shareholders in the company's 94% owned subsidiary Magellan Capital Holdings Corporation (MCHC). In the second quarter of 2010, P1.6 million in net income was attributable to stockholders of the company while P83,364 was attributable to minority stockholders in MCHC.

Balance Sheet Accounts

Annex "F" shows the Vertical and Horizontal Percentage Analysis of Balance Sheet Account for June 30, 2011 compared to December 31, 2010.

ASSETS

Current Assets. Consolidated current assets as of June 30, 2011 totaled P343.9 million compared to P135.0 million as of December 31, 2010. Most of the increase was due to the increase in short-term investments of P196.6 million as the Registrant's subsidiary Magellan Capital Holdings Corporation (MCHC) received a P200 million down payment from J.G. Summit Holdings, Inc. for the purchase of all the shares of Batangas Agro-Industrial Development Corporation owned by MCHC. Cash and cash equivalents also increased by P37.6 million as dividend declared by the Registrant's affiliate in 2010 were collected in the second quarter of 2011. Dividends receivables dropped correspondingly by P37.5 million.

Receivables from Related Parties. This account increased to P2.9 million at the end of June 30, 2011 from P2.8 million at the end of 2010 due to advances to Magellan Utilities Development Corporation from Magellan Capital Holdings Corporation

Investments in Associates. This account which consists of investment in Pointwest Technologies Corporation and BPO International, Inc. remained at the same level at year-end 2010 and at June 30, 2011 at P137.4 million.

Fixed Income Deposits. This represents long term time deposit with banks which remained at P1.0 million from end of 2009 to June 30, 2011.

Available for Sale Investments. This account which consists mostly of medium term bonds and listed stock securities increased from P335.6 million at year-end 2010 to P337.7 million at June 30, 2011 due to additional bond investments.

Held to Maturity Investments. This account was NIL at year-end 2010 and as of June 30, 2011 as all the Registrant's bond investments are now classified as available for sale investments.

Property And Equipment. This account totaled P32.2 million as of June 30, 2011 compared to P32.3 million as of December 31, 2010 due to allowance for depreciation taken in the first half of 2011.

Investment in Property. This Account remained unchanged at P414.4 million from year-end 2010 to June 30, 2011.

Other Non-Current Assets. This account totaled P13.5 million as of June 30, 2011 the same level as at year-end 2010.

Total Assets. As a result of the foregoing, total assets increased to P1,283.0 million as of June 30, 2011 from P1,072.6 million as of December 31, 2010.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities increased to P202.5 million as of June 30, 2011 from P3.9 million as of December 31, 2010 due mainly to the down payment received from J.G. Summit Holdings, Inc. which was booked temporarily as a deposit liability.

Non-Current Liabilities. Non-current liabilities which consists mostly of deferred tax liabilities was stable at P24.0 million as of June 30, 2011, the same level as at year-end 2010.

Stockholder's Equity. Total stockholder's equity increased to P1,056.5 million as of June 30, 2011 from P1,044.7 million at year-end 2010 due to the net income of P11.0 million generated in the first half of 2011 and the P0.4 million increase in other reserves due to increase in fair value of AFS investments in the first half of 2011. Total equity attributable to stockholders of the company totaled P1,008.2 million at June 30, 2011 from P996.8 million at December 31, 2010 due to the net income of P11.0 million attributable to stockholders of the company and the P0.4 million increase in fair value of AFS investments in the first half of 2011. Minority interest which represents the share of minority shareholders of Magellan Capital Holdings Corporation was P48.3 million at June 30, 2011 compared to P47.0 million at year-end 2010.

(a) Top Performance Indicators

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

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

Change in Revenues. Consolidated revenues in the second quarter of 2011 and 2010 are shown in Annex "C" and presented below in summary form:

(P 000)	2nd Quarter-2011	Percentage (%)	2nd Quarter-2010	Percentage (%)
Interest Income	P 8,793	59.0%	P 7,030	80.8%
Lease Rental Income	835	5.6%	578	6.6%
Dividend Income	454	3.0%	319	3.7%
Unrealized Gain on Trading Securities	3,591	24.1%	-	-
Other Income	1,236	8.3%	772	8.9%
Total Income	**P 14,910**	**100%**	**P 8,699**	**100%**

Total revenue increased by 71.4% in the second quarter of 2011 compared to the second quarter of 2010. This was due mainly to unrealized gain on trading securities of P3.6 million in the second quarter of 2011 as the prices of listed securities owned by the company increased. In addition, interest income increased by 25.1%% in the second quarter of 2011 compared to the second quarter of 2010 as the company and its subsidiary shifted some of its investable funds from lower risk bank deposits to higher yielding bond investments as the global financial crisis abated. Rental income also increased by 44% to P835 million as the office space in Citibank Center owned by MCHC was fully leased out in 2010.

Change in Net Income. The income statement in the second quarter of 2011 and 2010 are shown in Annex "C" and summarized below:

(P 000)	2nd Quarter-2011	Percentage (%)	2nd Quarter-2010	Percentage (%)
Revenues	P 14,910	100%	P 8,699	100%
Expenses	8,622	57.8%	7,032	80.8%
Net Income	6,288	42.2%	1,667	19.2%
Attributable to:				
- Minority Interest	314	2.1%	83	1.0%
- Stockholders of Company	P 5,974	40.1%	P 1,584	18.2%

The company realized a net income of P6.0 million attributable to stockholders of the company in the second quarter of 2011, an increase of 275% compared to a net income of P1.6 million attributable to stockholders of the company in the second quarter of 2010 due to the factors discussed in the preceding pages.

Earnings per Share. The income per share attrtibutable to shareholders of the Company during the second quarter of 2011 was P0.0155 per share compared to earnings per share of P.0041 in the second quarter of 2010.

Current Ratio. Current ratio as of June 30, 2011 was 1.7 X compared to 54.8 X as of December 31, 2010. The P200 million down payment from J.G. Summit Holdings, Inc. increased both current assets and current liabilities by P200 million and was the main reason for the decrease in the current ratio.

Book Value Per Share. Book value per share as of June 30, 2011 was P2.61 per share compared to P2.58 per share as of December 31, 2010 due mainly to the net income attributable to stockholders of the company realized in the second quarter of 2011.

PART II

OTHER INFORMATION

The Board of Directors of the Registrant approved the following:

1. <u>Special Meeting of the Board of Directors of the Corporation held on 04 April 2011:</u>

i) Approval of Audited FS for year ending 2010

The Board authorized the President, Mr. Robert Y. Cokeng to approve the audited Financial Statements for year ending 2010 and to approve its release by the Company's External Auditor, SGV & Co., pursuant to the reportorial requirements of the BIR and the SEC. [Pursuant to this authority, the Corporation's President, Mr. Robert Y. Cokeng approved the Audited financial Statements on 8 April 2011, and authorized its release by the Company's External Auditor SGV & Co.]

ii) Authority to negotiate sale of the shares of the Corporation's subsidiary, MCHC in Batangas Agro-Industrial Development Corporation (BAID)

Upon being informed of an offer to buy MCHC's shares in BAID, the Board authorized the Corporation's President, Mr. Robert Y. Cokeng, to negotiate with a number of interested parties for the sale of MCHC's shares in BAID. The Board also authorized all the nominees of the Corporation in the MCHC Board to approve the sale transaction negotiated by the President under terms and conditions most beneficial to the Corporation.

2. <u>Schedule of Annual Stockholders' Meeting</u>

Pursuant to the delegated authority given by the Board of Directors of the Corporation, for the President to set the date of the 2011 Annual Stockholders Meeting, the President set the Annual Stockholders Meeting of the Corporation to be held on 28 July 2011 (Thursday) at 3:00 p.m. at the Top of the Citi, 34th Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City.

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 August 2011** ....

Principal Financial/Accounting Officer/Controller

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

Date .... **17 August 2011** ....

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SEC Form 17-Q>2nd Quarter-2011

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2011 AND DECEMBER 31, 2010

ASSETS		UNAUDITED JUNE 30, 2011		AUDITED DEC. 31,2010
Current Assets				
Cash and cash equivalents	P	**69,597,053**	P	**32,658,145**
Financial assets at fair value through profit or loss		**55,949,811**		**44,579,898**
Short-term investments		**203,375,447**		**6,812,562**
Receivables-net :				
Advances to Officers & Employees		0		5,000
Creditable Withheld Taxes		0		0
Dividends Receivable		0		37,500,086
Accounts Receivable		624,573		602,062
Management Fee Receivable		45,197,865		45,197,865
Accrued Interest Receivable		43,753,772		43,753,772
Others		9,769,078		9,140,832
Total Receivables		**99,345,288**		**136,199,617**
Allowance for doubtful accounts		90,110,187		90,110,187
Total Receivables-Net		**9,235,101**		**46,089,430**
Fixed income deposits		**0**		**0**
Held-to-maturity (HTM) investments		**0**		**0**
Prepaid expenses & other current assets:				
Input Tax		4,309,191		4,419,122
Prepaid Income Tax		400,000		400,000
Others		1,011,889		605,668
Total Prepaid expenses and other current assets		**5,721,080**		**5,424,790**
Total Current Assets	P	**343,878,492**	P	**135,564,825**
Non-current Assets				
Receivables from related parties-net		**2,894,193**		**2,794,771**
Investments in associates		**137,446,329**		**137,446,329**
Fixed income deposits		**1,000,000**		**1,000,000**
HTM investments-net		**0**		**0**
Available-for-sale (AFS) investments		**337,656,965**		**335,598,819**
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		8,636,949		8,656,378
Furniture and fixtures		2,528,938		2,498,613
Total		66,239,227		66,228,331
Less: Accumulated depreciation		34,039,710		33,891,798
Net Book Value		32,199,517		32,336,533
Total Property and Equipment		**32,199,517**		**32,336,533**
Other non-current assets		**13,494,294**		**13,494,294**
Total Non-Current Assets		**939,085,823**		**937,065,271**
TOTAL ASSETS	P	**1,282,964,315**	P	**1,072,630,096**

LIABILITIES & STOCKHOLDERS' EQUITY		UNAUDITED JUNE 30, 2011		AUDITED DEC. 31, 2010
Current Liabilities				
Accounts Payable and accrued expenses				
Accounts payable-trade		6,395		0
Accounts payable-others		735,509		749,356
Withholding taxes payable		173,234		166,348
SSS Premium Payable		9,104		9,104
HDMF Premium Payable		2,000		1,600
Philhealth Premium Payable		3, 425		3,425
Deposit Payable		1,155,328		1,144,833
Output Vat Payable		35,741		27,521
Accrued expenses		264,100		830,319
Total Accounts payable and accrued expenses	P	**2,384,836**	P	**2,932,506**
Deposit Liability		**200,000,000**		
Dividends Payable		**103,523**		**103,523**
Income Tax Payable		**0**		**874,773**
Total Current Liabilities	P	**202,488,359**	P	**3,910,802**
Non-Current Liabilities				
Deferred income tax liabilities-net		**20,584,494**		**20,584,494**
Payable to related parties		**0**		**0**
Retirement benefit obligation)		**3,407,403**		**3,407,403**
Total Non-Current Liabilities		**23,991,897**		**23,991,897**
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		**10,073,535**		**9,650,109**
Retained earnings		**467,295,390**		**456,317,114**
Total Equity Attributable to Stockholders of the Company		**1,008,164,949**		**996,763,247**
Minority Interest		**48,319,110**		**47,964,150**
Total Stockholders' Equity		**1,056,484,059**		**1,044,727,397**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	P	**1,282,964,315**	P	**1,072,630,096**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ATLiao

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS PERIOD ENDING JUNE 30, 2011 AND JUNE 30, 2010

		UNAUDITED JUNE 30, 2011		UNAUDITED JUNE 30, 2010
REVENUES				
Interest Income				
From Banks	P	599,147	P	599,798
From Securities		15,329,118		12,963,782
Total Interest Income		15,928,265		13,563,580
Unrealized gains on trading securities		4,229,885		1,163,751
Rental Income		1,666,598		1,197,903
Gains on disposal of AFS/HTM investments		1,122,003		2,663,906
Dividend Income		480,624		389,685
Other income		1,530,004		277,067
	P	24,957,379	P	19,255,892
EXPENSES				
Net foreign exchange loss		1,189,908		1,680,898
Amortization of unrealized losses on changes in fair value of AFS investments		0		1,339,134
Salaries, wages and employees' benefits		3,570,167		3,536,010
Depreciation		1,745,911		1,704,225
Professional fees		1,122,184		1,082,007
Condominium dues		983,987		983,479
Amortization of premium on HTM investments				
Taxes and licenses		694,048		633,114
Entertainment, amusement and recreation		230,891		193,702
Unrealized loss on financial assets at FVPL		1,607,100		3,433,428
Losses on disposal of AFS investments		1,139,207		
Others		1,340,743		1,054,060
		13,624,146		15,640,057
NET INCOME	P	11,333,233	P	3,615,835
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	10,978,273	P	3,294,479
MINORITY INTERESTS		354,960		321,356
EARNINGS PER SHARE	P	0.0284	P	0.0085

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 SIX MONTHS PERIOD ENDING JUNE 30, 2011 AND JUNE 30, 2010

		UNAUDITED JUNE 30, 2011		UNAUDITED JUNE 30, 2010
NET INCOME	**P**	**11,333,233**	**P**	**3,615,835**
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		**423,427**		**(221,323)**
Amortization of unrealized losses on changes in fair value of AFS investments		**-**		**1,339,134**
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		423,427		**1,117,811**
TOTAL COMPREHENSIVE INCOME(LOSS)	**P**	**11,756,660**	**P**	**4,733,646**
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	**P**	**11,168,827**	**P**	**4,496,964**
MINORITY INTERESTS		**587,833**		**236,682**
	P	**11,756,660**	**P**	**4,733,646**

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 APRIL 1-JUNE 30, 2011 AND APRIL 1-JUNE 30, 2010

		UNAUDITED APRIL 1-JUNE 30, 2011		UNAUDITED APRIL 1-JUNE 30, 2010
REVENUES				
Interest Income				
From Banks	P	510,331	P	404,433
From Securities		8,282,921		6,625,318
Total Interest Income		**8,793,252**		**7,029,751**
Unrealized gains on trading securities		**3,590,580**		**0**
Rental Income		**835,827**		**578,327**
Gains on disposal of AFS/HTM investments		**0**		**495,660**
Dividend Income		**454,392**		**318,660**
Other income		**1,236,214**		**277,067**
	P	**14,910,265**	**P**	**8,699,465**
EXPENSES				
Net foreign exchange loss		**1,082,974**		**582,634**
Amortization of unrealized losses on changes in fair value of AFS investments		**0**		**669,567**
Salaries, wages and employees' benefits		**2,054,262**		**1,762,622**
Depreciation		**901,325**		**850,779**
Professional fees		**550,302**		**516,169**
Condominium dues		**494,008**		**483,834**
Amortization of premium on HTM investments				
Taxes and licenses		**172,941**		**155,362**
Entertainment, amusement and recreation		**151,495**		**139,307**
Unrealized loss on financial assets at FVPL		**1,403,029**		**1,315,739**
Losses on disposal of AFS investments		**1,139,207**		**0**
Others		**671,902**		**556,175**
		8,621,445		**7,032,188**
NET INCOME	**P**	**6,288,820**	**P**	**1,667,277**
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	**P**	**5,974,379**	**P**	**1,583,913**
MINORITY INTERESTS		**314,441**		**83,364**
EARNINGS PER SHARE	**P**	**0.0155**	**P**	**0.0041**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

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Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS PERIOD APRIL 1-JUNE 30, 2011 AND APRIL 1-JUNE 30, 2010

		UNAUDITED APRIL 1-JUNE 30, 2011		UNAUDITED APRIL 1-JUNE JUNE 30, 2010
NET INCOME	P	6,288,820	P	1,667,277
OTHER COMPREHENSIVE INCOME(LOSS)				
Changes in fair value of AFS investments		195,109		(283,311)
Amortization of unrealized losses on changes in fair value of AFS investments		-		669,567
Disposal of AFS investment				
Impairment loss on AFS investments				
Others				
		195,109		386,256
TOTAL COMPREHENSIVE INCOME(LOSS)	P	6,483,929	P	2,053,533
TOTAL COMPREHENSIVE INCOME(LOSS) ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	6,159,733	P	1,950,856
MINORITY INTERESTS		324,196		102,677
	P	6,483,929	P	2,053,533

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 SIX MONTHS ENDED JUNE 30, 2011 AND JUNE 30, 2010
AND THE YEAR ENDED DECEMBER 31, 2010

		UNAUDITED JUNE 30, 2011		UNAUDITED JUNE 30, 2010		AUDITED DEC. 31, 2010
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)		(95,791,606)		(95,791,606)
Other Reserves		10,073,536		(1,128,680)		9,650,109
SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES						
RETAINED EARNINGS						
Balance at beginning of period		456,317,116		420,812,365		420,812,366
Net Income		10,978,273		3,294,479		55,032,767
Dividends declared						(19,528,019)
Balance at end of period		467,295,389		424,106,844		456,317,114
		1,008,164,949		953,774,188		996,763,247
Minority Interests		48,319,110		47,107,051		47,964,150
TOTAL STOCKHOLDERS' EQUITY	P	1,056,484,059	P	1,000,881,239	P	1,044,727,397

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

ANNEX "E"

F & J PRINCE HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDING JUNE 30, 2011 AND JUNE 30, 2010

		UNAUDITED JUNE 30, 2011		UNAUDITED JUNE 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	P	10,978,273	P	3,294,479
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority Interest		354,960		321,356
Depreciation and amortization		147,912		1,704,224
Unrealized loss/gain on changes in fair value of AFS/FVPL		423,427		(221,323)
Amortization of unrealized loss/gain on FV of AFS inv.				1,339,134
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		36,854,329		32,974,985
Prepaid expenses and other current assets		(296,290)		(213,336)
Increase (decrease) in accounts payable and accrued expenses		(547,670)		(350,622)
Net cash provided by operating activities		47,914,941		38,848,897
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment		(10,896)		(3,214)
AFS/HTM investments and financial assets (FVPL)		(209,990,945)		(26,178,943)
Decrease (increase) in:				
Receivable from related parties		(99,422)		(667,976)
Other assets		-		(1,099,743)
Net cash provided by (used in) investing activities		(210,101,263)		(27,949,876)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Deposit liability		200,000,000		
Payable to related parties		0		0
Income tax payable		(874,770)		0
Net cash provided by (used in) financing activities		199,125,230		0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P	36,938,908	P	10,899,021
CASH AND CASH EQUIVALENTS, BEGINNING		36,658,145		36,527,458
CASH AND CASH EQUIVALENTS, ENDING	P	69,597,053	P	47,426,479

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 APRIL 1-JUNE 30, 2011 AND APRIL 1-JUNE 30, 2010

		UNAUDITED APRIL 1-JUNE 30, 2011		UNAUDITED APRIL 1-JUNE 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	P	5,974,379	P	1,583,913
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest		314,441		83,364
Depreciation and amortization		3,327		850,779
Unrealized loss/gain on changes in fair value of AFS and FVPL		195,109		(283,311)
Amortization of unrealized loss/gain on changes of FV of AFS inv.		-		669,567
Decrease (increase) in:				
Receivables		26,657,631		3,926,716
Subscription receivable from exercise of warrants				
Prepaid expenses and other current assets		(88,468)		(178,461)
Increase (decrease) in:				
Accounts payable and accrued expenses		(495,585)		(461,644)
Net cash provided by operating activities		32,560,834		6,190,923
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment		869,875		(3,214)
AFS investments and financial assets (FVPL)		(191,796,114)		(6,037,406)
Decrease (increase) in:				
Receivables from related parties		246,196		(293,934)
Other assets		-		(666,856)
Net cash provided by (used in) investing activities		(190,680,043)		(7,001,410)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Deferred credits				
Deposit liability		200,000,000		0
Payable to related parties		0		0
Income tax payable		(406,108)		0
Net cash provided by (used in) financing activities		199,593,892		0
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**P**	**41,474,683**	**P**	**(810,487)**
CASH AND CASH EQUIVALENTS, BEGINNING		**28,122,370**		**48,236,966**
CASH AND CASH EQUIVALENTS, ENDING	**P**	**69,597,053**	**P**	**177,552,730**

F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2011 AND DECEMBER 31, 2010
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX G"

	UNAUDITED JUNE 30, 2011	VERTICAL PERCENTAGE ANALYSIS JUNE 30, 2011	AUDITED DEC. 31,2010	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2010	INCREASE (DECREASE) AMOUNT JUNE 30, 2011	INCREASE (DECREASE) PERCENTAGE ANALYSIS JUNE 30, 2011
ASSETS						
Current Assets						
Cash and cash equivalents	69,597,053	5.42%	32,658,145	3.04%	36,938,908	113.11%
Financial assets at fair value through fair value thru profit or loss (FVPL)	55,949,811	4.36%	44,579,898	4.16%	11,369,913	25.50%
Short-term investments	203,375,447	15.85%	6,812,562	0.65%	196,562,885	2,885.30%
Receivables :						
Advances to Officers & Employees	0	0.00%	5,000	0.00%	(5,000)	-100.00%
Creditable Withheld Taxes	0	0.00%	0	0.00%	0	0.00%
Accounts Receivable	624,573	0.05%	602,062	0.05%	22,511	3.74%
Dividends Receivable	0	0.00%	37,500,086	3.50%	(37,500,086)	-100.00%
Management Fee Receivable	45,197,865	3.52%	45,197,865	4.21%	0	0.00%
Accrued Interest Receivable	43,753,772	3.41%	43,753,772	4.08%	0	0.00%
Others	9,769,078	0.76%	9,140,832	0.85%	628,246	6.87%
Total Receivables	99,345,288	7.74%	136,199,617	12.69%	(36,854,329)	-27.06%
Allowance for doubtful accounts	90,110,187	-7.02%	90,110,187	-8.40%	0	0.00%
Total Receivables-Net	9,235,101	0.72%	46,089,430	4.29%	(36,854,329)	-79.96%
Fixed income deposits	0	0.00%	0	0.00%	0	0.00%
Held-to-maturity investments	0	0.00%	0	0.00%	0	0.00%
Prepaid expenses & other current assets:						
Others	1,011,889	0.08%	605,668	0.05%	406,221	67.07%
Input Tax	4,309,191	0.34%	4,419,122	0.41%	(109,931)	-2.49%
Prepaid Income Tax	400,000	0.04%	400,000	0.04%	0	0.00%
Total Prepaid expenses & other current assets	5,721,080	0.45%	5,424,790	0.50%	296,290	5.46%
Total Current Assets	343,878,492	26.80%	135,564,825	12.64%	208,313,667	153.66%
Non-current Assets						
Receivables from related parties	2,894,193	0.23%	2,794,771	0.26%	99,422	3.56%
Investments in associates	137,446,329	10.71%	137,446,329	12.82%	0	0.00%
Fixed income deposits	1,000,000	0.08%	1,000,000	0.09%	0	0.00%
HTM investments	0	0.00%	0	0.00%	0	0.00%
Available -for-sale (AFS) investments	337,656,965	26.32%	335,598,819	31.29%	2,058,146	0.61%
Investment in properties	414,394,525	32.30%	414,394,525	38.63%	0	0.00%
Property and Equipment						
Building	47,014,750	3.66%	47,014,750	4.38%	0	0.00%
Building Improvements	8,058,590	0.63%	8,058,590	0.75%	0	0.00%
Transportation equipment	8,636,949	0.67%	8,656,378	0.81%	(19,429)	-0.22%
Furniture and fixtures	2,528,938	0.20%	2,498,613	0.23%	30,325	1.21%
Total Property and Equipment	66,239,227	5.16%	66,228,331	6.17%	10,896	0.02%
Less: accumulated depreciation	34,039,710	-2.65%	33,891,798	-3.16%	147,912	0.44%
Net Book Value	32,199,517	2.51%	32,336,533	3.01%	(137,016)	-0.42%
Total Property and Equipment	32,199,517	2.51%	32,336,533	3.01%	(137,016)	-0.42%
Deferred income tax assets-net	0	0.00%	0	0.00%	0	0.00%
Other Assets – net	13,494,294	1.05%	13,494,294	1.26%	0	0.00%
Total Non-Current Assets	939,085,823	73.20%	937,065,271	87.36%	2,020,552	0.22%
TOTAL ASSETS	1,282,964,315	100.00%	1,072,630,096	100.00%	210,334,219	19.61%

	UNAUDITED JUNE 30, 2011	VERTICAL PERCENTAGE ANALYSIS JUNE 30, 2011	AUDITED DEC. 31,2010	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2010	INCREASE (DECREASE) AMOUNT JUNE 30, 2011	INCREASE (DECREASE) PERCENTAGE ANALYSIS JUNE 30, 2011
LIABILITIES & STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable and accrued expenses						
Accounts payable-trade	6,395	0.00%	**0**	**0.00%**	6,395	0.00%
Accounts payable-others	735,509	0.06%	**749,356**	**0.06%**	(13,847)	-1.85%
Withholding taxes payable	173,234	0.01%	**166,348**	**0.02%**	6,886	4.14%
SSS Premium Payable	9,104	0.00%	**9,104**	**0.00%**	0	0.00%
HDMF Premium Payable	2,000	0.00%	**1,600**	**0.00%**	400	25.00%
Philhealth Premium Payable	3,425	0.00%	**3,425**	**0.00%**	0	0.00%
Deposit Payable	1,155,328	0.09%	**1,144,833**	**0.11%**	10,495	0.92%
Output Vat Payable	35,741	0.00%	**27,521**	**0.00%**	8,220	29.87%
Accrued expenses	264,100	0.02%	**830,319**	**0.08%**	(566,219)	-68.19%
Total Accounts payable & accrued expenses	**2,384,836**	**0.18%**	**2,932,506**	0.27%	**(547,670)**	**-18.68%**
Deposit Liability	**200,000,000**	**15.59%**	**0**	0.00%	**200,000,000**	**100.00%**
Dividends Payable	**103,523**	**0.01%**	**103,523**	0.01%	**0**	**0.00%**
Income Tax Payable	**0**	**0.00%**	**874,773**	0.08%	**(874,773)**	**0.00%**
Total Current Liabilities	**202,488,359**	**15.78%**	**3,910,802**	0.36%	**198,577,557**	**5,077.67%**
Non-Current Liabilities						
Deferred tax liabilities-net	**20,584,494**	**1.60%**	**20,584,494**	1.92%	**0**	**0.00%**
Payable to related parties	**0**	**0.00%**	**0**	0.00%	**0**	**0.00%**
Retirement benefit obligation	**3,407,403**	**0.27%**	**3,407,403**	0.32%	**0**	**0.00%**
Total Non-Current Liabilities	**23,991,897**	**1.87%**	**23,991,897**	2.24%	**0**	**0.00%**
Stockholders' Equity						
Capital stock	481,827,653	37.56%	**481,827,653**	**44.92%**	0	0.00%
Additional paid in capital	144,759,977	11.28%	**144,759,977**	**13.50%**	0	0.00%
Other reserves	10,073,535	0.79%	**9,650,109**	**0.90%**	423,426	4.39%
Treasury shares	(95,791,606)	-7.47%	**(95,791,606)**	**-8.93%**	0	0.00%
Retained earnings	467,295,390	36.42%	**456,317,114**	**42.54%**	10,978,276	2.41%
Total Equity Attributable to Stock-holders of the Company	**1,008,164,949**	**78.58%**	**996,763,247**	92.93%	**11,401,702**	**1.14%**
Minority Interest	**48,319,110**	**3.77%**	**47,964,150**	4.47%	**354,960**	**0.74%**
Total Stockholders' Equity	**1,056,484,059**	**82.35%**	**1,044,727,397**	97.40%	**11,756,662**	**1.13%**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**1,282,964,315**	**100.00%**	**1,072,630,096**	**100.00%**	**210,334,219**	**19.61%**

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 principal activities of its subsidiary is described in Note 2.

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, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were authorized for release by the President of the Company on April 8, 2011, pursuant to a resolution by the Board of Directors (BOD) dated April 4, 2011.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at 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) as adopted by the Philippine SEC. PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS and Philippine Interpretations which became effective on January 1, 2010. Except as otherwise indicated, adoption of these changes in PFRS did not have any significant effect to the Group:

PFRS 2, *Share-based Payment (Amendment) - Group Cash-settled Share-based Payment Transactions*
The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of January 1, 2010.

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

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. 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) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

PAS 39*, Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*

The amendment 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.

Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRS

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

Improvements to PFRS 2008

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or the financial performance of the Group.

Improvements to PFRS 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 Segments*, 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 7, *Statement of Cash Flows*, states that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 36, *Impairment of Assets*, amendment 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.

Other amendments resulting from the 2009 Improvements to PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 2, *Share-based Payment*
- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

<u>New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2010</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 PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements. The relevant disclosures will be included in the notes to the consolidated financial statements when these become effective.

Effective in 2011

PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

PAS 32, *Financial Instruments: Presentation (Amendment) - Classification of Rights Issues*
The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement*
The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS 2010
Improvements to IFRS is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below, are considered to have a reasonable possible impact on the Company:

- PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Effective in 2012

PAS 12, *Income Taxes (Amendment) Deferred Tax: Recovery of Underlying Assets*
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

PFRS 7, *Financial Instruments: Disclosures (Amendments) Disclosures Transfers of Financial Assets*
The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Philippine Interpretation IFRIC 15, *Agreement for 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.

Effective in 2013

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In

subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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 at 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, 2010, 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, 2010 and 2009.

MCHC has investments in the following subsidiaries as of December 31, 2010 and 2009:

	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
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*

Basis of consolidation from January 1, 2010

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All

intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.
Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

Basis of consolidation prior to January 1, 2010
Whenever applicable, the above requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to January 1, 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investment at January 1, 2010 has not been restated.

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

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

Under the equity method, 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 from January 1, 2010

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

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

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

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

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

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

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

Business combinations prior to January 1, 2010
In comparison to the abovementioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognized if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

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

Financial Instruments
The Group recognizes a financial asset or a financial liability in the consolidated 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 assets and financial liabilities are recognized at fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

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

Financial assets
Financial assets, within the scope of PAS 39, are classified into the following categories: financial asset at FVPL, loans and receivables, 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, 2010 and 2009, the Group's investments in trading securities are classified under financial assets at FVPL.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS 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 by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2010 and 2009, 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 non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS 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. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2010 and 2009, 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 unquoted equity securities are carried at cost, net of impairment. 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.

AFS investments are classified as current of these are expected to be realized within 12 months from the reporting date, otherwise, these are classified as non-current assets.

As of December 31, 2010 and 2009, 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 Valuation techniques include discounted cash flow methodologies, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

Derivative Financial Instruments
Derivative instruments (including embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Gains and losses from changes in fair value of derivatives not accounted as hedges 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, 2010 and 2009, 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, 2010 and 2009, the Group has no financial liabilities at FVPL.

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

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

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

Derecognition of Financial Assets and Liabilities

Financial asset

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liability

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

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

Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Assets carried at amortized cost

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of the discounting is not material. The carrying amount of the asset is reduced either directly or through use of an allowance account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial assets, together with the associated allowance accounts, is written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. The amount of the loss shall be recognized in the consolidated statement of income.

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

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

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

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

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

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

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

Day 1 Profit or Loss

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

Reclassification of Financial Instruments

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

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

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

Offsetting Financial Instruments

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

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

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

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

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

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

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

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

Investment Properties
Investment properties are measured initially at cost, including transaction cost less any impairment in value. After initial recognition, items of investment property are carried at cost less any accumulated impairment losses. 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.

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.

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

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

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

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

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

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

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

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

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

Leases

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

a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
d) there is a substantial change to the asset.

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

Group as a lessor

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

Costs and expenses

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

Personnel costs

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

Professional fees

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

Foreign Currency Transactions

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

Income Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Judgments</u>

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 revenue and expenses of the Group.

Classification of financial instruments

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

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

Contingencies

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

<u>Estimates and Assumptions</u>

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 ₱55,949,811 and ₱44,579,898 as of June 30, 2011 and December 31, 2010 , respectively (see Note 5). The carrying amount of the Group's AFS investments is ₱337,656,965 and ₱335,598,819 as of June 30, 2011 and December 31, 2010 , respectively (see Note 9). The carrying amount of the Group's HTM investments is nil as of June 30, 2011 and December 31, 2010 (see Note 8).

Allowance for impairment losses on loans and receivables
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 trade receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded. These allowances are re-evaluated and adjusted as additional information is received. The balance of the Group's allowance for impairment losses on receivables and receivables from related parties is ₱186,362,474 as of June 30, 2011 and December 31, 2010 (see Notes 6 and 16). The carrying amount of the Group's receivables, net of allowance for impairment losses, is ₱9,235,101 and ₱46,089,430 as of June 30, 2011 and December 31, 2010 respectively (see Note 6). The carrying amount of the Group's receivables from related parties, net of allowance for impairment losses, is ₱2,894,193 and ₱2,794,771 of June 30, 2011 and December 31, 2010 respectively (see Note 16).

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 ₱10,594,000 as of June 30, 2011 and December 31, 2010 , respectively (see Notes 9 and 20). The carrying amount of the Group's AFS investments is ₱337,656,965 and ₱335,598,819 as of June 30, 2011 and December 31, 2010 respectively (see Note 9).

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

The Group recognized impairment loss on its investment in MUDC, an associate, amounting to ₱94,830,129 as of December 31, 2010 and 2009. 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 ₱137,446,329 as of June 30, 2011 and December 31, 2010 respectively (see Note 7).

The carrying amount of the Group's property and equipment is ₱32,199,517 and ₱32,336,533 as of June 30, 2011 and December 31, 2010 , respectively (see Note 10). The carrying amount of the Group's investment properties is ₱414,394,525 as of June 30, 2011 and December 31, 2010 (see Note 11).

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 ₱32,199,517 and ₱32,336,533as of June 30, 2011 and December 31, 2010 , respectively (see Note 10).

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 ₱651,707, ₱512,291 and ₱512,503 million in 2010, 2009 and 2008, respectively. The carrying amount of the Group's retirement benefit obligations remains unchanged at ₱3,407,403 as of June 30, 2011 and December 31, 2010 , respectively (see Note 13).

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 ₱269,198,718 and ₱264,465,224 as of December 31, 2010 and 2009, respectively (see Note 14).

4. **Cash and Cash Equivalents**

	June, 2011	December, 2010
Cash on hand and with banks	**₱24,091,287**	**₱15,849,243**
Short-term placements	**45,505,766**	**16,808,902**
	₱69,597,053	**₱32,658,145**

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso, made for varying periods of up to three months or less depending on the immediate cash requirements of the Group and earn interest at the respective bank rates from 2.0% to 6.5% in 2010 and 2009. Interest income earned from cash and cash equivalents amounted to ₱1.2 million in 2010 and 2009.

5. **Financial Assets at FVPL**

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

The carrying value of financial assets at FVPL is ₱55,949,811 and ₱44,579,898 as of June 30, 2011 and December 31, 2010 respectively.

6. **Receivables**

	June , 2011	December, 2010
Third parties		
Accrued interest	**₱9,341,877**	**₱8,613,753**
Others	**427,201**	**508,813**
Related parties:		
Management fees (see Note 16)	**45,197,865**	**45,197,865**
Accrued interest (see Note 16)	**43,753,772**	**43,753,772**
Dividend receivable (see Note 7)	**-**	**37,500,086**
Others	**624,573**	**625,328**
	99,345,288	**136,199,617**
Less allowance for impairment losses	**90,110,187**	**90,110,187**
	₱9,235,101	**₱46,089,430**

Receivables from third parties consist of mainly of accrued interest receivable.

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, 2008	₱620,789	₱45,197,865	₱25,194,478	₱37,762	**₱71,050,894**
Provision during the year	500,000	–	19,959,293	–	**20,459,293**
At December 31, 2008	1,120,789	45,197,865	45,153,771	37,762	**91,510,187**
Written-off during the year	–	–	(1,400,000)	–	**(1,400,000)**
At December 31, 2009 and 2010	₱1,120,789	₱45,197,865	₱43,753,771	₱37,762	**₱90,110,187**

There is no movement in the allowance for impairment losses on receivables as of June 30, 2011.

7. **Investments in Associates**

	June, 2011	December, 2010
Unquoted equity stocks:		
Cost:		
Acquisition cost	**₱174,970,640**	**₱174,970,640**
Additional investment	**–**	**–**
	174,970,640	**174,970,640**
Accumulated equity in net earnings:		
At beginning of year	**18,111,688**	**18,111,688**
Equity in net earnings for the year	**56,304,636**	**56,304,636**
Dividends received	**(37,500,000)**	**(37,500,000)**
At end of year	**36,916,324**	**36,916,324**
	211,886,964	**211,886,964**
Less allowance for impairment losses	**94,830,129**	**94,830,129**
	117,056,835	**117,056,835**
Advances	**20,389,494**	**20,389,494**
	₱137,446,329	**₱137,446,329**

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

	Country of Incorporation	Percentage of Ownership		Carrying amount of Investment	
		2010	2009	**2010**	2009
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	**63,803,645**	61,736,094
PTC	Philippines	30	30	**73,642,684**	56,905,599
				₱137,446,329	₱118,641,693

MUDC
The Group has a 43% interest in MUDC. As of December 31, 2010, 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, 2010 and 2009, MUDC has project development costs of ₱207.1 million recorded in its books. 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, 2010 and 2009, MUDC has incurred significant losses, which resulted to a deficit of ₱436.7 million and ₱435.5 million, respectively, and capital deficiency of ₱255.8 million and ₱ 254.6 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 ₱94.8 million is impaired since management believes that it is probable that the Group will no longer recover such investment and advances.

Accordingly, the Group provided a full allowance for impairment losses on its receivables from MUDC due to the 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 ₱12.6 million, ₱12.0 million and ₱9.5 million in 2010, 2009 and 2008, respectively. Investment in BPO includes goodwill of ₱23.4 million.

On August 26, 2009, the BOD of BPO approved the declaration of cash dividends amounting to ₱40.0 million or ₱142.86 per share of BPO's common stocks as of record date December 5, 2008. The Group recognized dividend income of ₱14.0 million. Another cash dividend declaration was approved by the BOD of BPO on December 31, 2009 amounting to ₱12.0 million or ₱42.86 per share of BPO's common stocks as of record date December 31, 2009, to be paid on or before April 15, 2010. The Group recognized dividend receivable/income amounting to ₱4.2 million in 2010 (see Note 6).

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

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

The Group's equity in net earnings from PTC amounted to ₱43.7 million, ₱21.3 million and ₱19.2 million in 2010, 2009 and 2008, respectively.

On December 15, 2009, the BOD of PTC approved the declaration of cash dividends amounting to ₱100.1 million or ₱0.89 per share of PTC's common stocks as of record date December 30, 2009, to be paid on or before June 30, 2010. The Group recognized dividend receivable/income amounting to ₱30.0 million in 2009 (see Note 6).

On December 10, 2010, the BOD of PTC approved the declaration of cash dividends amounting to ₱90.0 million or ₱0.89 per share of PTC's common stocks as of record date December 31, 2010, to be paid on or before June 30, 2011. The Group recognized dividend receivable amounting to ₱27.0 million in 2010 (see Note 6). In April, 2011, the Group received cash dividends in the amount of P 27 million.

Summarized combined financial information of associates follow:

	2010	2009	2008
Current assets	**₱592,291,218**	₱500,154,566	₱447,686,260
Noncurrent assets	**119,349,729**	129,690,718	170,278,593
Total assets	**711,640,947**	629,845,284	617,964,853
Current liabilities	**291,712,005**	463,875,359	408,466,465
Noncurrent liabilities	**316,948,208**	123,333,362	109,687,063
Total liabilities	**608,660,213**	587,208,721	518,153,528
Revenues	**984,411,729**	768,026,030	758,598,623
Expenses	**791,551,137**	646,946,034	668,545,239
Net income	**183,729,869**	104,224,699	90,053,384

8. HTM Investments

In 2008, the Group reclassified certain financial assets included under "AFS Investments" to "HTM investments" in the 2008 consolidated balance sheet. On July 1, 2008, the Group identified financial assets for which it had a clear change of intent to hold until maturity rather than to exit or trade in the short term. The disclosures below detail the impact of the reclassifications on the Group.

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 $4.3 million (equivalent to ₱193.7 million). Ranges of effective interest rates were determined based on effective interest rates of the investments.

As of July 1, 2008, the unrealized losses on changes in fair value of the Group's reclassified AFS investments amounted to ₱25.4 million (including the share of non-controlling interest of

₱1.3 million), which is presented as "Net unrealized valuation gains (losses) on 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 loss on changes in fair value of AFS investments amounting to ₱24.8 million as of December 31, 2009.

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

Debt securities	July 1, 2008	December 31, 2008	December 31, 2009	March 19,2010
Carrying Value	₱193,907,662	₱176,046,092	₱130,816,471	₱127,170,226
Fair Value	193,662,715	138,557,051	136,178,292	132,093,811

After reclassification, the Group recognized amortization of the net unrealized loss on changes in fair value of the reclassified AFS investments amounting to ₱646,887 and ₱9,690,812 in 2010 and 2009, respectively, and is presented as "Amortization of unrealized losses on changes in fair value of AFS investments" in the consolidated statements of income. As of December 31, 2010 and 2009, the unamortized unrealized losses on changes in fair value of the reclassified AFS investments amounted to₱3,342,285 and ₱6,045,007, respectively.

On March 19, 2010, however, the Group sold a significant amount of its HTM investments amounting to ₱10.7 million. Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years, if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity. Therefore, following the stated provisions, the Group's remaining portfolio of HTM investments was reclassified as AFS and was remeasured at fair value. The Group recognized fair value gains of ₱4,923,585 for the difference between fair values and amortized costs of the reclassified securities.

The HTM investments of the Group amounted to ₱14,099,112 as of December 31, 2009 with a fair value of ₱136,178,292, respectively (see Note 21).

The above investments of the Group earn interest ranging from 7.4% to 10.8% in 2010 and 2009 and have contractual maturity dates of less than 10 years. Interest income earned from amounted to ₱1.33 million and ₱10.9 million in 2010 and 2009, respectively.

9. AFS Investments

	June, 2011	December, 2010
Debt securities	**₱318,865,954**	**₱316,807,808**
Equity securities	**18,791,011**	**18,791,011**
	₱337,656,965	**₱335,598,819**

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 maturity dates range from March 9, 2011 to September 4, 2019. Interests on investments are received and settled semi-annually in US dollar.

As discussed in Note 8, on July 1, 2008, the Group reclassified certain investment in debt securities from AFS investments to HTM investments. On March 19, 2010, the Group reclassified back the entire balance of its HTM investments to AFS investments following the sale of a significant portion of its HTM investments (see Note 8).
Net unrealized valuation gains on AFS investments presented in the equity section of the consolidated balance sheets as of June 30, 2011 amounted to ₱10,073,535. Net unrealized valuation gains on AFS investments amounted to ₱9,650,109 as of December 31, 2010.

Interest income earned from AFS investments amounted to ₱15.3 million and ₱5.7 million for June 30, 2011 and December 31, 2010, respectively.

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

As of June 30, 2011:

	Parent	Non-controlling Interests	Total
Beginning balance	**₱9,650,108**	**₱507,900**	**₱10,158,008**
Changes in fair value of AFS investments	**423,427**	**22,286**	**445,713**
Reclassification of HTM investments to AFS			
Amortization of unrealized losses on changes in fair value of AFS investments previously reclassified to HTM (see Note 8)			
Disposal of AFS investments			
Ending balance	**₱10,073,535**	**₱530,186**	**₱10,603,721**

As of December 31, 2010:

	Parent	Non-controlling Interests	Total
Beginning balance	**(₱2,246,492)**	**(₱118,236)**	**(₱2,364,728)**
Changes in fair value of AFS investments	**7,483,342**	**422,681**	**7,906,023**
Reclassification of HTM investments to AFS	**4,677,406**	**246,180**	**4,923,586**
Amortization of unrealized losses on changes in fair value of AFS investments previously reclassified to HTM (see Note 8)	**614,543**	**32,344**	**646,887**
Disposal of AFS investments	**(878,691)**	**(46,247)**	**(924,938)**
Ending balance	**₱9,650,108**	**₱536,722**	**₱10,186,830**

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 ₱20,000 and ₱40,000 in 2010 and 2009, respectively.

The fair market values of these listed shares are determined by reference to published quotations in an active market as of June 30, 2011 and December 31, 2010.

10. Property and Equipment

As of June 30, 2011:

	Condominium	Condominium Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Total
Cost:					
Balances at beginning of year	₱47,014,750	₱8,058,590	₱8,656,378	₱2,498,613	₱66,228,331
Additions during the year	–	–	1,578,571	30,325	1,608,896
Disposals during the year	–	–	(1,598,000)	–	(1,598,000)
Balances at end of year	47,014,750	8,058,590	8,636,949	2,528,938	66,239,227
Accumulated depreciation:					
Balances at beginning of year	19,276,760	7,051,332	5,154,694	2,409,012	33,891,798
Depreciation	940,295	390,513	402,636	12,468	1,745,912
Disposals during the year	–	–	(1,598,000)	–	(1,598,000)
Balances at end of year	20,217,055	7,441,845	3,959,330	2,421,480	34,039,710
Net book value	₱26,797,695	₱616,745	₱4,677,619	107,458	₱32,199,517

As of December 31, 2010:

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

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, 2010 and 2009 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 July 27, 2010 and February 25, 2011, exceeded its carrying costs. 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, 2010 amounted to ₱975.9 million.

Investment properties also include land held by MCHC situated in Fort Bonifacio, Taguig. This land is currently held by the Company for an undetermined future use. Based on the latest appraisal report dated February 25, 2011, the fair value of this property amounts to ₱129.7 million.

12. **Accounts Payable and Accrued Expenses**

	June, 2011	December , 2010
Deposits payable	**₱1,155,328**	**₱1,144,384**
Accrued expenses	**460,884**	**360,210**
Others	**768,624**	**1,427,912**
	₱2,384,836	**₱2,932,506**

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 and other government payables.

Deposit liability of ₱200,000,000 as of June 30, 2011 represents down payment from JG Summit Holdings, Inc. on the sale of 25,000,000 shares of stock investment of Magellan Capital Holdings Corporation with Batangas Agro Industrial Development and its subsidiaries.

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, 2010, 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.

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

	2010	2009	2008
Current service cost	**₱433,822**	₱353,352	₱389,703
Interest cost on benefit obligation	**201,939**	158,732	122,008
Net actuarial losses	**15,946**	207	6,792
Net benefit expense	**₱651,707**	₱512,291	₱518,503

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

	2010	2009
Present value of obligations	**₱4,031,877**	₱3,022,933
Unrecognized net actuarial losses	**(624,474)**	(267,237)
Retirement benefit obligations	**₱3,407,403**	₱2,755,696

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

	2010	2009
Present value of obligations at beginning of year	**₱3,022,933**	₱2,284,736
Current service cost	**433,822**	353,352
Interest cost on benefit obligation	**201,939**	158,732
Net actuarial losses on obligation	**373,183**	226,113
Present value of obligations at end of year	**₱4,031,877**	₱3,022,933

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

	2010	2009
Beginning balances	**₱2,755,696**	₱2,243,405
Net periodic pension costs	**651,707**	512,291
Ending balances	**₱3,407,403**	₱2,755,696

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

	2010	2009	2008
Discount rate	**6.10%**	8.8%	9.0%
Salary increase rate	**5.00%**	5.0%	3.0%

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

	2010	2009	2008	2007	2006
Unfunded defined benefit obligations	**₱3,407,403**	₱2,755,696	₱2,243,405	₱1,724,902	₱1,259,543
Experience adjustments on plan liabilities - losses (gains)	**373,183**	(228,402)	–	100,019	(97,583)

14. **Income Taxes**

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

	2010	2009
Deferred income tax assets:		
Recognized directly in income:		
Allowance for impairment losses on receivables and AFS investments	**₱17,299,672**	₱20,626,093
Deferred income tax liabilities:		
Recognized directly in equity:		
Share in revaluation increment on investment properties of MCHC's subsidiaries (see Note 11)	**20,584,494**	20,584,494
Recognized directly in income:		
Net unrealized foreign exchange gains	**17,299,672**	20,626,093
	37,884,166	41,210,587
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 not probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

	2010	2009
Allowance for impairment losses on receivables and AFS investments	**₱140,411,689**	₱129,303,620
Allowance for impairment losses on investments in associates	**94,830,129**	94,830,129
Unamortized unrealized losses on changes in fair value of AFS investments	**18,056,511**	17,409,624
NOLCO	**8,709,654**	18,690,285
Retirement benefit obligations	**3,407,403**	2,755,696
Unrealized FOREX Loss	**2,917,092**	–
Amortization of premium on HTM investments	**259,968**	1,054,380
MCIT	**606,272**	421,490
	₱269,198,718	₱264,465,224

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:

	2010	2009	2008
Provision for (benefit from) income tax at effective statutory tax rate of 30.0% in 2010 and 2009 and 35.0% in 2008	**₱16,987,498**	₱10,535,685	₱16,040,853
Additions to (reductions in) income tax resulting from:			
Unrecognized deferred income tax assets	**1,549,395**	5,877,419	13,239,945
Expired NOLCO	**881,129**	–	–
Expired MCIT	**68,106**	–	–
Unallowable EAR	**50,378**	77,206	73,482
Equity in net earnings of associates	**(16,891,391)**	(9,992,182)	(10,044,981)
Nontaxable gain (loss) on fair value changes of financial assets at FVPL	**(852,344)**	(5,068,777)	8,645,047
Interest income subjected to final tax	**(370,179)**	(1,115,863)	(2,061,895)
Dividend income exempt from tax	**(113,686)**	(194,923)	(347,293)
Nondeductible expenses	**–**	20,216	420
Change in recognized deferred income tax assets	**–**	–	(492,871)
Effect of changes in tax rates	**–**	–	(3,521,205)
Non taxable gain on sale of financial assets at FVPL	**–**	(87,000)	–
	₱1,308,906	₱51,781	₱21,531,502

As of December 31, 2010, 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
2007	2008-2010	₱2,937,095	₱–	₱–	(₱2,937,095)	₱–
2008	2009-2011	12,377,828	–	(9,568,864)	–	2,808,964
2009	2010-2012	3,375,362	–	–	–	3,375,362
2010	2011-2013	–	2,525,328	–	–	2,525,328

		₱18,690,285	₱2,525,328	(₱9,568,864)	(₱2,937,095)	₱8,709,654

MCIT:

Year of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2007	2008-2010	₱68,106	₱–	₱–	(₱68,106)	₱–
2008	2009-2011	301,603	–	–	–	301,603
2009	2010-2012	51,781	–	–	–	51,781
2010	2011-2013	–	252,888	–	–	252,888
		₱421,490	₱252,888	₱–	(₱68,106)	₱606,272

Republic Act (RA) No. 9337

RA No. 9337, which became effective on November 1, 2005, amended various provisions in the 1997 National Internal Revenue Code. The reforms introduced by RA No. 9337 included the increase in the corporate income tax rate from 32% to 35% beginning November 1, 2005, with a reduction thereof to 30% beginning January 1, 2009. RA No. 9337 also provided for the increase in unallowable interest rate from 38% to 42% beginning November 1, 2005, with a reduction thereof to 33% beginning January 1, 2009.

15. **Equity**

a. Common stock

	2010	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. Class B shares may be issued, transferred or sold to any person, corporation, partnership or association regardless of nationality.

b. Treasury shares

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. In 2005, additional 260,000 Class A shares and 20,000 Class B shares were transferred by the transfer agent to PIEI. For consolidation purposes, the costs of these shares are presented under the "Treasury shares" account in the equity section of the consolidated 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, shares of stock amounting to ₱715,312 were declared delinquent and sold at a public auction on October 9, 2003. There was only one bidder, PIEI, to whom the delinquent shares were sold, and in whose favor a certificate of sale was issued. In 2004, additional 60,000 shares of stock of the Group were sold to PIEI at ₱48,100.

c. Net unrealized valuation gains (losses) on AFS investments

Net unrealized valuation gains on AFS investments presented in the equity section of the consolidated balance sheets amounted to ₱10,073,535 as of June 30, 2011 and net unrealized valuation gains/losses on AFS investments amounted to ₱9,650,109 as of December 31, 2010 (see Notes 8 and 9).

d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱95,791,606 as of December 31, 2010 and 2009.

The retained earnings balance as of December 31, 2010 and 2009 also includes the revaluation increment on investment properties of ₱62,793,927, which is not available for distribution until realized.

On July 28, 2010, the BOD declared a regular cash dividend amounting to ₱0.05 per share held or ₱24,091,383 (481,827,653 shares multiplied by ₱0.05 cash dividend per share) to stockholders as of record date of August 27, 2010, payable on or before September 23, 2010. Of the total amount declared, ₱23,987,860 have been paid out as of December 31, 2010. Dividend income recognized by MCHC and its subsidiary from this declaration amounted to ₱4,803,541, of which ₱240,177 pertains to the share of non-controlling interests.

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 corporate or individual entities.

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

	Current (see Note 6)		Noncurrent	
Related Parties	**June, 2011**	Dec., 2010	**June, 2011**	Dec., 2010
MUDC	**₱88,951,636**	**₱88,951,636**	**₱100,266,675**	**₱100,165,260**
Others	**37,762**	**37,500,086**	**594**	**2,587**
	88,989,398	**126,451,722**	**100,267,269**	**100,167,847**
Less allowance for impairment losses	**(88,989,398)**	**(88,989,398)**	**(97,373,076)**	**(97,373,076)**
	₱ -	**₱37,462,324**	**₱2,894,193**	**₱2,794,771**

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

	Current	Noncurrent	**Total**
At January 01, 2009	₱90,389,398	₱97,373,076	**₱187,762,474**
Written-off during the year	(1,400,000)	–	**(1,400,000)**
At December 31, 2009 and 2010	₱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, 2010 and 2009, 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 ₱43.8 million, including accumulated unpaid interest, as of December 31, 2010 and 2009. In 2004, the Group ceased to accrue interest receivable on the said advances.

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

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

	2010	2009	2008
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 Per Share

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

Diluted earnings per share amounts are calculated by dividing the net income (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 per share for the years ended December 31:

	2010	2009	2008
Net income attributable to equity holders of the parent	**₱55,032,767**	₱35,620,671	₱23,284,773
Weighted average number of ordinary shares outstanding for basic earnings per share	**386,036,047**	386,036,047	386,065,126
Basic and diluted earnings per share	**₱0.143**	₱0.092	₱0.060

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, 2010, 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

a. The Group leases its surplus condominium spaces. Future minimum rental income of ₱6.2 million, ₱5.9 million and ₱5.7 million from existing rental agreements will be recognized in 2011, 2012 and 2013, respectively.

b. 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.

20. Financial Risk Management Objectives and Policies

<u>Risk Management Structure</u>
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 instruments 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 June 30, 2011 and December 31, 2010 , the credit quality per class of financial assets follows:

As of June 30, 2011:

	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Individually impaired	Total
Loans and receivables:					
Cash and cash equivalents	**₱69,597,053**	**₱–**	**₱–**	**₱–**	**₱69,597,053**
Short-term investments	**203,375,447**	**–**	**–**	**–**	**203,375,447**
Receivables	**9,235,101**	**–**	**–**	**90,110,187**	**99,345,288**
Fixed income deposits	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Receivables from related parties	**2,894,193**	**–**	**–**	**97,373,076**	**100,267,269**
Financial assets at FVPL	**55,949,811**	**–**	**–**	**–**	**55,949,811**
HTM investments	–	**–**	**–**	**–**	**–**
AFS investments	**337,656,965**	**–**	**–**	**10,594,000**	**348,250,965**
	₱679,708,570	**₱–**	**₱–**	**198,077,263**	**877,785,833**

As of December 31, 2010:

	Neither past due nor impaired		Past due		
	High grade	Standard grade	but not impaired	Individually impaired	Total
Loans and receivables:					
Cash and cash equivalents	**₱32,649,145**	**₱–**	**₱–**	**₱–**	**₱32,649,145**
Short-term investments	**6,812,562**	**–**	**–**	**–**	**6,812,562**
Receivables	**46,089,430**	**–**	**–**	**90,110,187**	**136,199,617**
Fixed income deposits	**1,000,000**	**–**	**–**	**–**	**1,000,000**
Receivables from related parties	**2,794,771**	**–**	**–**	**97,373,076**	**100,167,847**
Financial assets at FVPL	**44,579,898**	**–**	**–**	**–**	**44,579,898**
HTM investments	–	**–**	**–**	**–**	**–**
AFS investments	**335,598,819**	**–**	**–**	**10,594,000**	**346,192,819**
	₱469,524,625	**₱–**	**₱–**	**198,077,263**	**667,601,888**

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

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

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

As of June 30, 2011:

	Receivables	Receivables from related parties	AFS investments	Total
Nominal amounts	**₱99,345,288**	**₱100,267,269**	**₱348,250,965**	**₱547,863,522**
Less allowance for impairment losses	**90,110,187**	**97,373,076**	**10,594,000**	**198,077,263**
At June 30, 2011	**₱9,235,101**	**₱2,894,193**	**₱337,656,965**	**₱349,786,259**

As of December 31, 2010:

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

Movement in allowance for impairment losses account:

	Receivables	Receivables from related parties	AFS investments	Total
At January 1, 2009	₱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
Provision during the year	–	–	20,000	20,000
At December 31, 2010	₱90,110,187	₱97,373,076	₱10,594,000	₱198,077,263

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 ₱20,000, ₱40,000 and ₱20,709,293 in 2010, 2009 and 2008, respectively.

<u>Liquidity Risk</u>
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, 2010 and 2009 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 June 30, 2011:

	On demand	< 1 year	> 1 year	Total
Accounts payable and accrued expenses	**₱2,161,332**	**₱–**	**₱–**	**₱2,161,332**
Deposit liability	**200,000,000**			**200,000,000**
Dividends payable	**103,523**	**–**	**–**	**103,523**
Total financial liabilities	**₱202,264,855**	**₱–**	**₱–**	**₱202,264,855**
Financial assets:				
Cash and cash equivalents	**₱69,597,053**	**₱–**	**₱–**	**₱69,597,053**
Short-term investments	**203,375,447**	**–**	**–**	**203,375,447**
Receivables	**6,340,908**	**–**	**–**	**6,340,908**
Financial assets at FVPL	**55,949,811**	**–**	**–**	**55,949,811**
Fixed income deposits	**–**	**–**	**1,000,000**	**1,000,000**
AFS investments	**337,656,965**	**–**	**–**	**337,656,965**
Total financial assets	**₱672,920,184**	**₱–**	**₱1,000,000**	**₱673,920,184**

As of December 31, 2010:

	On demand	< 1 year	> 1 year	Total
Accounts payable and accrued expenses	**₱2,716,605**	**₱–**	**₱–**	**₱2,716,605**
Dividends payable	**103,523**	**–**	**–**	**103,523**
Total financial liabilities	**₱2,820,128**	**₱–**	**₱–**	**₱2,820,128**
Financial assets:				
Cash and cash equivalents	**₱32,658,145**	**₱–**	**₱–**	**₱32,658,145**
Short-term investments	**6,812,562**	**–**	**–**	**6,812,562**
Receivables	**48,884,201**	**–**	**–**	**48,884,201**
Financial assets at FVPL	**44,579,898**	**–**	**–**	**44,579,898**
Fixed income deposits	**–**	**–**	**1,000,000**	**1,000,000**
AFS investments	**335,598,819**	**–**	**–**	**335,598,819**
Total financial assets	**₱468,533,625**	**₱–**	**₱1,000,000**	**₱469, 533,625**

Market Risks

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

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

a. Interest rate risk

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

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

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

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

	June , 2011	December, 2010
Change in interest rate (in basis points)		
+10%	**(₽31,886,595)**	**(₽31,887,334)**
–10%	**31,886,595**	**31,887,334**

b. Foreign currency risk

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

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

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

US Dollar:

	June, 2011		December, 2010	
	US Dollar	**Peso Equivalent**	US Dollar[1]	Peso Equivalent
Cash and cash equivalents	**$570,510**	**₱24,813,762**	**$482,872**	**₱21,169,108**
Receivables	**188,614**	**8,203,577**	**195,324**	**8,563,004**
Short-term investments	**75,222**	**3,271,706**	**155,396**	**6,812,561**
AFS investments	**6,970,710**	**303,184,061**	**–**	**–**
HTM investments	**–**	**–**	**6,444,500**	**282,526,880**
Other noncurrent assets	**251,561**	**10,941,394**	**251,561**	**11,028,434**
	8,056,617	**₱350,414,500**	**$7,529,653**	**₱330,099,987**

[1]USD=₱43.84

Other Foreign Currencies:

	June, 2011			
	Currency	**Exchange Rate**	**Original Currency**	**Peso Equivalent**
Cash and cash equivalents	**EUR**	**62.78**	**-**	**₱ -**
	HKD	**5.59**	**-**	**-**
	AUD	**46.46**	**-**	**-**
AFS investments	**EUR**	**62.78**	**171,435**	**10,762,689**
	HKD	**5.59**	**2,520,000**	**14,086,800**
	AUD	**46.46**	**82,227**	**3,820,266**
	RMB	**6.73**	**3,029,164**	**20,386,274**
	BRL	**27.53**	**319,923**	**8,807,481**
				₱57,863,510

	December, 2010			
	Currency	**Exchange Rate**	**Original Currency**	**Peso Equivalent**
Cash and cash equivalents	**EUR**	**58.03**	**11,801**	**₱684,875**
	HKD	**5.64**	**51,900**	**292,685**
	AUD	**44.64**	**3,750**	**167,399**
AFS investments	**EUR**	**58.03**	**222,902**	**12,935,809**
	HKD	**5.64**	**2,400,000**	**13,534,560**
	AUD	**44.64**	**79,724**	**3,538,776**
	BRL	**25.88**	**361,480**	**9,356,259**
				₱40,510,363

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

The exchange rate of the Philippine peso vis-à-vis the US dollar further strengthened to ₱43.84 as of December 31, 2010 from ₱46.20 as of December 31, 2009. As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange losses of ₱15,956,366 in 2010 and ₱9,945,929 in 2009 and foreign exchange gains of ₱70,445,458 in 2008.

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 2010 and 2009 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
June , 2011	
Strengthened by 5%	**₱17,520,725**
Weakened by 5%	**(17,520,725)**
December, 2010	
Strengthened by 5%	**₱16,505,003**
Weakened by 5%	**(16,505,003)**

		Effect on income before tax	
Original Currency	Percentage	Strengthened	Weakened
June, 2011			
E.M.U euro (EUR)	**13%**	**1,399,150**	**(1,399,150)**
Hongkong dollar (HKD)	**16%**	**2,253,888**	**(2,253,888)**
Australia Dollar (AUD)	**9%**	**343,824**	**(343,824)**
Brazil Real (BRL)	**3%**	**264,224**	**(264,224)**
RMB dollar (RMB)	**5%**	**1,019,314**	**(1,019,314)**

		Effect on income before tax	
Original Currency	Percentage	Strengthened	Weakened
December, 2010			
E.M.U euro (EUR)	**13%**	**1,770,689**	**(1,770,689)**
Hongkong dollar (HKD)	**16%**	**829,635**	**(829,635)**
Australia Dollar (AUD)	**9%**	**333,556**	**(333,556)**
Brazil Real (BRL)	**3%**	**280,688**	**(280,688)**

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:

	June , 2011	December, 2010
Financial assets at FVPL:		
Change in stock market index (%)		
+10%	**₱3,531,456**	**₱3,172,609**
–10%	**(3,531,456)**	**(3,172,609)**

Effect on equity:

	June, 2011	December, 2010
Investment in equity securities(AFS):		
Change in club share prices (%)		
+10%	**₱310,000**	**₱298,000**
–10%	**(310,000)**	**(298,000)**

21. Financial Instruments

Categories of Financial Instruments

As of June 30, 2011:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	Total
ASSETS						
Current:						
Cash on hand and in banks	₱24,091,287	₱–	₱–	₱–	₱–	₱24,091,287
Short-term placements	45,505,766	–	–	–	–	45,505,766
Listed debt securities	–	–	–	–	–	–
Listed equity securities	–	55,949,811	–	–	–	55,949,811
Short-term investments	203,375,447	–	–	–	–	203,375,447
Receivable from third parties	9,235,101	–	–	–	–	9,235,101
Receivable from related parties	–	–	–	–	–	–
Fixed income deposits	–	–	–	–	–	–
Prepayments and other current assets	–	–	–	–	5,721,080	5,721,080
Noncurrent:						
Receivable from related parties	2,894,193	–	–	–	–	2,894,193
Investments in associates	–	–	–	–	137,446,329	137,446,329
Fixed income deposits	1,000,000	–	–	–	–	1,000,000
Listed debt securities	–	–	–	318,865,954	–	318,865,954
Listed equity securities	–	–	–	18,791,011	–	18,791,011
Property and equipment	–	–	–	–	32,199,517	32,199,517
Investment properties	–	–	–	–	414,394,525	414,394,525
Other noncurrent assets	–	–	–	–	13,494,294	13,494,294
TOTAL	₱286,101,794	₱55,949,811	₱–	₱337,656,965	₱603,255,745	₱1,282,964,315

As of December 31, 2010:

	Financial assets					
	Loans and receivables	Financial assets at FVPL	HTM investments	AFS investments	Nonfinancial assets	Total
ASSETS						
Current:						
Cash on hand and in banks	₱15,849,243	₱–	₱–	₱–	₱–	₱15,849,243
Short-term placements	16,808,902	–	–	–	–	16,808,902
Listed debt securities	–	–	–	–	–	–
Listed equity securities	–	44,579,898	–	–	–	44,579,898
Short-term investments	6,812,562	–	–	–	–	6,812,562
Receivable from third parties	8,001,778	–	–	–	–	8,001,778
Receivable from related parties	38,087,652	–	–	–	–	38,087,652
Fixed income deposits	–	–	–	–	–	–
Prepayments and other current assets	–	–	–	–	5,424,790	5,424,790
Noncurrent:						
Receivable from related parties	2,794,771	–	–	–	–	2,794,771
Investments in associates	–	–	–	–	137,446,329	137,446,329
Fixed income deposits	1,000,000	–	–	–	–	1,000,000
Listed debt securities	–	–	–	316,807,808	–	316,807,808
Listed equity securities	–	–	–	18,791,011	–	18,791,011
Property and equipment	–	–	–	–	32,336,533	32,336,533
Investment properties	–	–	–	–	414,394,525	414,394,525
Other noncurrent assets	–	–	–	–	13,494,294	13,494,294
TOTAL	₱89,354,908	₱44,579,898	₱–	₱335,598,819	₱603,096,471	₱1,072,630,096

As of June 30, 2011:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,155,328	₱–	₱1,155,328
Accrued expenses	460,884	–	460,884
Others	735,509	33,115	768,624
Dividends payable	103,523	–	103,523
Deposit liability	200,000,000	–	200,000,000
Noncurrent:			
Retirement benefit obligations	–	3,407,403	3,407,403
Deferred income tax liabilities	–	20,584,494	20,584,494
TOTAL	₱202,455,244	₱24,025,012	₱226,480,256

As of December 31, 2010:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,144,384	₱–	₱1,144,384
Accrued expenses	360,210	–	360,210
Others	1,212,011	215,901	1,427,912
Dividends payable	103,523	–	103,523
Income tax payable	–	874,773	874,773

	Other financial liabilities	Non-financial liabilities	Total
Noncurrent:			
Retirement benefit obligations	**–**	**3,407,403**	**3,407,403**
Deferred income tax liabilities	**–**	**20,584,494**	**20,584,494**
TOTAL	**₱2,820,128**	**₱25,082,571**	**₱27,902,699**

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 June 30, 2011 and December 31, 2010 are as follows:

	June , 2011		December , 2010	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Current:				
Loans and receivables:				
Cash and cash equivalents	**₱69,597,053**	**₱69,597,053**	**₱32,658,145**	**₱32,658,145**
Short-term investments	**203,375,447**	**203,375,447**	**6,812,562**	**6,812,562**
Receivables	**9,235,101**	**9,235,101**	**46,089,430**	**46,089,430**
Fixed income deposits	**–**	**–**	**–**	**–**
Financial assets at FVPL	**55,949,811**	**55,949,811**	**44,579,898**	**44,579,898**
HTM investments				
Debt securities	**–**	**–**	**–**	**–**
Loans and receivables:				
Receivable from related parties	**2,894,193**	**2,467,872**	**2,794,771**	**2,368,450**
Fixed income deposits	**1,000,000**	**1,000,000**	**1,000,000**	**751,315**
AFS investments:				
Debt securities	**318,865,954**	**318,865,954**	**316,807,808**	**316,807,808**
Equity securities	**18,791,011**	**18,791,011**	**18,791,011**	**18,791,011**
HTM investments:				
Debt securities	**–**	**–**	**–**	**–**
Financial liabilities:				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	**1,155,328**	**1,155,328**	**1,144,384**	**1,144,384**
Accrued expenses	**264,100**	**264,100**	**360,210**	**360,210**
Others	**735,509**	**735,509**	**1,212,011**	**1,212,011**
Dividends payable	**103,523**	**103,523**	**103,523**	**103,523**
Deposit liability	**200,000,000**	**200,000,000**		

The Group has determined that the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued expenses, reasonably approximate their fair values because these are short-term in nature or the fair value difference is not material. Financial assets at FVPL and AFS 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 2010 and 2009. The carrying value of short-term investments approximates its fair value due to its short-term nature.

Fixed income deposits represent fixed rate time deposits denominated in US dollar and earn interest annually at 3.25% to 10.0% in 2010. For fixed income deposits maturing within one year, the carrying amount approximates its fair value due to its short-term nature. For fixed income deposits maturing beyond one year, fair value is calculated by computing the present value of future cash flows using current market rates ranging from 8% to 10% in 2010 and 6.8% to 8.1% in 2010.

The fair value of 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% in2010 and 2009.

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 June 30, 2011:

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL	**₱55,949,811**	**₱–**	**₱–**	**₱55,949,811**
AFS financial assets:				
Private debt securities	**318,865,954**	**–**	**–**	**318,865,954**
Listed equity securities	**18,791,011**	**–**	**–**	**18,791,011**
	₱393,606,776	**₱–**	**₱–**	**₱393,606,776**

As of December 31, 2010:

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

As of December 31, 2010 and 2009, 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, 2010, 2009 and 2008. The Group is not exposed to externally imposed capital requirements.

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

	June, 2011	December, 2010
Accounts payable and accrued expenses	**₱2,384,836**	**₱2,932,506**
Less cash and cash equivalents	**69,597,053**	**32,658,145**
Net debt	**(67,212,217)**	**(29,725,639)**
Equity attributable to equity holders of the parent	**1,008,164,949**	**996,763,247**
Unrealized losses on changes in fair value of AFS investments	**(10,073,535)**	**(9,650,109)**
Total capital	**998,091,414**	**987,113,138**
Total capital and net debt	**₱930,879,197**	**₱957,387,499**
Gearing ratio	**(7.22%)**	**(3.10%)**

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

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

In 2010, the non-cash activity of the Group pertains to the reclassification of investment in debt securities of about ₱127.2 million from HTM investment to AFS investments due to tainting provisions under PAS 39 as discussed in Note 8.

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
AS OF JUNE 30, 2011

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.	137,531	5,105				5,105	137,531	142,636
Magellan Capital Corporation	295,800	6,205				5,105	296,900	302,005
Magellan Capital Trading Corporation	146,536	5,106				5,106	146,536	151,642
Magellan Utilities Development Corp.	21,569						21,569	21,569
Business Process Outsourcing Int'l.		621,529	615,934				5,595	5,595
Pinamucan Power Corporation	626	500				500	626	1,126
	602,062	638,445	615,934			15,816	608,757	624,573