COVER SHEET

4 3 3 7 0

SEC Registration Number

F & J PRINCE HOLDINGS CORPORATION

(Company's Full Name)

5TH FLOOR CITIBANK CENTER 8741 PASEO DE ROXAS MAKATI

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

Atty. Fina C. Tantuico	8927133 ● 8927137
Contact Person	Company Telephone Numbers

1 2	3 1	0 4	1 2
Month	Day	Month	Day
Fiscal Year		Annual Meeting	

SEC FORM 17-Q
(AS OF 30 SEPTEMBER 2009)

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

Form Type

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total Number of Stockholders

Domestic

Foreign

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **30 September 2009**

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

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

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

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

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

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

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

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

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

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

Yes [✓] No [ ]

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

Philippine Stock Exchange	**Common Shares, Class “A” and “B”**

12. Indicate by check mark whether the registrant:

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

Yes [✓] No [ ]

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

Yes [✓] No [ ]

PART I

FINANCIAL INFORMATION

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

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

(1) Unaudited Interim Balance Sheet as of 30 September 2009 and Audited Balance Sheet as of 31 December 2008 as Annex “A”;

(2) Unaudited Interim Statement of Income and Retained Earnings for the nine (9) month period ending 30 September 2009 and the 9 month period ending 30 September 2008 as Annex “B”;

(3) Unaudited Statement of Income and Retained Earnings for the three month period ending 30 September 2009 and three months period ending 30 September 2008 shown as Annex “C”;

(4) Unaudited Interim Statement of Changes in Stockholders’ Equity for the 9 month period ending 30 September 2009 and 30 September 2008 and Audited Statement of Changes in Stockholders’ Equity for the year ending 31 December 2008 as Annex “D”;

(5) Unaudited Interim Consolidated Cash Flow Statement for the 9 month period ending 30 September 2009 and the 9 month period ending 30 September 2008 as Annex “E”;

(6) Interim Cash Flow for the quarterly periods ending 30 September 2009 and 30 September 2008, as Annex “F”; and

(7) Consolidated Balance Sheet as of 30 September 2009 and 31 December 2008 with vertical and horizontal percentage analysis as Annex “G”.

Item 2. <u>Managements Discussion and Analysis or Plan of Operation</u>

(1) Management's Discussion and Analysis

The Registrant's Consolidated Total Revenue increased by 125% in 2008 to P127.2 million from P56.3 million in 2007. Most of the increase was accounted for by the net foreign exchange gains of P70.3 million and by a sharp increase in equity in net earnings of associates which increased to P28.7 million in 2008 from P10.6 million in 2007. The marked depreciation of the Peso in 2008 versus the U.S. Dollar benefitted the dollar-denominated bonds held by the Registrant and its subsidiary and resulted in the substantial net foreign exchange gains. The sharp increase in equity in net earnings of associates was due to record earnings in 2008 at both Pointwest Technologies Corporation and Business Process Outsourcing International, the Registrant's outsourcing affiliates. Rental income also increased to P4.3 million in 2008 from P3.4 million in 2007 as some of the excess office space of MCHC was leased to PTC which was in the midst of an expansion of its work force which could not be accommodated until its permanent office space at the Ayala-UP Techno Park was fitted out.

Against the sharp increase in revenues, the following items in the expense column reduced somewhat the effect on net income:

1) Loss on fair value changes on financial assets of P24.7 million as prices of listed securities owned by the Registrant and its subsidiary dropped sharply due to the worldwide financial crisis that depressed stock prices in global stock markets.

2) Provision for impairment losses of P20.7 million as the remaining receivables due from MUDC to PIEI, a subsidiary of MCHC, was fully provided for. Thus, the Registrant's direct and indirect exposure to MUDC has been reduced on the books to almost nil.

3) Amortization of unrealized loss on changes in fair value of AFS Investments of P9.7 million. This represents part of the unrealized loss on AFS Investments before reclassification of AFS Investment to HTM (Hold to Maturity) Investments. This unrealized loss is amortized over the remaining life of the investment.

4) Loss on disposal of HTM Investment of P9.7 million. This represents the loss realized upon maturity of an Equity-linked Note which resulted in the underlying equity being transferred to the investor. Because of the depressed stock prices, this loss represents the difference between the underlying cost of the equity and the closing stock price at December 31, 2008.

In spite of the above, the Registrant still reported a consolidated net income attributable to equity holders of the Registrant of P23.3 million in 2008 compared to a loss of P32.2 million in 2007. Including the share of the minority shareholders of MCHC of P1.0 million would increase the net income for the Group to P24.3 million in 2008 compared to a loss of P35.0 million in 2007.

The Registrant's financial position remains strong and its ability to undertake its planned projects is not affected. As of September 30, 2009, the Registrant's consolidated cash and cash equivalents totalled P165.6 million compared to P101.4 million at the end of 2008. The Registrant and its subsidiary has decided to build up its liquidity in response to the financial crisis that is gripping world financial markets. The Registrant and its subsidiary are essentially debt free with total consolidated liabilities of P5.4 million not including deferred income tax liabilities of P20.6 million against total equity of P947.7 million.

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

Due to the worldwide financial crisis and the uncertainty in the local property market, the registrant and its subsidiary are putting on hold its plans to develop its landholdings in Fort Bonifacio and the land holdings of one of its major shareholder in Pasig.

The Registrant and its subsidiary and affiliates are now substantially debt free except for MUDC which has loans and advances from its principal shareholders and PTC and BPOI which have availed of short term loans for normal working capital requirements. The Registrant and its subsidiaries have more than enough cash resources to meet any expected requirements in the next twelve months. Consolidated cash and cash equivalents at the end of September 2009 totalled P165.8 million compared to P101.4 million at the end of 2008 while total current assets totalled P218.2 million at the end of September 2009 compared to P198.1 million at year-end 2008. The Registrant has been increasing its liquidity in the face of the worldwide financial crisis. Other than the normal fluctuation of the Peso exchange rate as well as the effect of the financial crisis on the value of stock and bond holdings owned by the Registrant and its subsidiary, the Registrant is not aware of any trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in its liquidity increasing or decreasing in any material way. Likewise, the Registrant does not know of any trends, events or uncertainties that have or that are reasonably expected to have a material favorable or unfavorable impact on the revenues or income from continuing operations.

Operating Results and Financial Condition for the Third Quarter of 2009

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

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

(iii) There are no material off-balance sheet transaction, arrangements, obligations (including contingent obligations) and other relationship of the Company with unconsolidated entities or other persons created during third quarter of 2009 or in prior periods.

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

(v) There are no trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable impact on net/revenues/income from continuing operations except for possible unrealized or realized foreign exchange gains from the dollar denominator investments or the Company and its majority owned subsidiary. These are generally recognized in the year-end Audited Financial Statements except for realized foreign exchange gain which are reported in the period realized.

(vi) The Company did not realize any non-operating income in the third quarter of 2009 or in the third quarter of 2008 income.

The following is a detailed discussion of the Registrant's operations and financial condition during the third quarter of 2009 and third quarter of 2008 based on the unaudited financial statements.

Operating Results

Breakdown of Revenue for the Three Month Periods Ending September 30, 2009 and September 30, 2008 with Vertical and Horizontal Percentage Analysis is shown below:

(P000)	Third Quarter Sept. 30 2009	Vertical Percentage Analysis Sept. 30 2009	Third Quarter Sept. 30 2008	Vertical Percentage Analysis Sept. 30 2008	Increase (Decrease) Amount Sept. 30 2009	Increase (Decrease) Percentage Sept. 30 2009
INTEREST INCOME From Banks	P927	6.37%	P1,627	7.20%	(700)	(43.0%)
From Securities	3,540	24.32%	4,256	18.82%	(716)	(16.8%)
TOTAL	**P4,467**	**30.69%**	**P5,883**	**26.02%**	**(1,416)**	**(24.1%)**
RENT INCOME	620	4.26%	1,094	4.84%	(474)	(43.3%)
DIVIDEND INCOME	283	1.94%	7	0.03%	276	3,942%
UNREALIZED FX GAIN	-	-	15,626	69.11%	(15,626)	-
UNREALIZED GAIN ON TRADING SECURITIES	5,811	39.93%	-	-	5,811	-
GAIN ON DISPOSAL OF FVPL INVESTMENTS	290	1.99%	-	-	290	-
OTHER INCOME	3,083	21.18%	-	-	3,083	-
TOTAL	**P14,554**	**100%**	**P22,610**	**100%**	**(8,056)**	**(35.6%)**

Revenues. Consolidated Revenues, during the 3 month period ending September 30, 2009, totalled P14.6 million compared to P22.6 million during the same period in 2008. The higher revenue in 2008 was due to unrealized FX gain of P15.6 million in the third quarter of 2008 due to the effect of the peso depreciation on the company's foreign exchange denominated bonds. In the third quarter of 2009, however, the Registrant and its subsidiary had an unrealized gain on trading securities of P5.9 million due to the recovery of the prices of listed securities owned by the Registrant and its subsidiary. Rent income was lower in the third quarter of 2009 at P0.6 million compared to P1.1 million in the third quarter of 2008 as Pointwest Technologies Corporation, the Registrant's affiliate, gave up part of the area it leased from the Registrant's subsidiary, Magellan Capital Holdings Corporation, to move to bigger premises at the UP-Ayala Technopark. Other income of P3.0 million in the third quarter of 2009 was due mainly to reversal of amortization of provision on unrealized loss on Held to Maturity Investment which was erroneously expensed in the first two quarters of 2009.

Expenses. Consolidated General and Administrative Expenses totalled P4.7 million in the third quarter of 2009 compared to P9.9 million in the third quarter of 2008. The higher expenses in 2008 was due mainly to the provision of about P6 million to account for the falling prices of listed securities owned by the Registrant and its subsidiary as stock markets around the world reacted to the financial crisis that erupted in September of 2008. In 2009, the Philippine stock market has largely recovered leading to an unrealized gain on trading securities of P5.8 million in the third quarter of 2009 which is reported as part of revenue.

Net Income. Due to the reasons discussed above, consolidated net income in the third quarter of 2009 totalled P9.9 million compared to P12.7 million in the same period in 2008. After deducting of the share of minority interest, the consolidated net income attributable to shareholders of the Registrant in the third quarter of 2009 totalled P9.3 million compared to P11.7 million in the third quarter of 2008. The minority interest represents the share of minority shareholders of the Registrant's majority owned subsidiary, Magellan Capital Holdings Corporation (MCHC).

Balance Sheet Accounts

Annex "A" shows the Consolidated Balance Sheet of the company while Annex "G" shows the Vertical and Horizontal Percentage Analysis of Balance Sheet Accounts for September 30, 2009 compared to December 31, 2008. The various balance sheet accounts are discussed below:

<u>ASSETS</u>

Current Assets. Consolidated current assets as of September 30, 2009 totalled P218.2 million compared to P198.1 million as of December 31, 2008. Most of the increase was due to the increase of cash and cash equivalents which rose from P101.4 million as of December 31, 2008 to P165.6 million as of September 30, 2009. This resulted from maturity of some longer-term bond investments and the management's decision to raise liquidity in response to the turmoil in the financial markets.

Receivables from Related Parties. This account increased to P0.9 million as of September 30, 2009 from P0.4 at year-end 2008, due to advances to Magellan Utilities Development Corporation (MUDC) by Magellan Capital Holdings Corporation (MCHC) to fund pre-operating expenses. The advances by MCHC to MUDC for 2008 and prior periods have been fully provided for.

Investments in Associates. This account which consists of the Registrant's investment in Pointwest Technologies Corporation and BPO International, Inc. remained unchanged from year-end 2008 to September 30, 2009 at P106.6 million. The Registrant's share in earnings of these affiliates are taken up at year-end.

Available for Sale Investments. This account which consists mostly of bond investments stayed at about P8.0 million at the end of September 30, 2009, about the same level as at year-end 2008.

Held to Maturity Investments. This is a new account set up in 2008 under which bond investments held by the company and its subsidiaries are now carried. These bond investments in the year-end 2007 audited financial statements were carried as Available for Sale Investments. These bond investments have historically been held to maturity by the company and its subsidiaries. Accordingly, in line with SEC Memorandum Circular No. 10, Series of 2008, dated November 14, 2008, the company's audit committee decided to reclassify them as Held to Maturity Investments. Thus, the bonds are carried at the value as of July 01, 2008 until maturity, and difference between maturity value and the value as of July 01, 2008 will be reported as a profit or loss accordingly. This account totalled P203.5 million reflecting the value as of July 01, 2008. This compares with the P210.2 million under available for sale investment at year-end 2007. The difference is due to maturity of some bond investments as well as mark to market adjustments from December 31, 2007 to July 01, 2008. Since the end of 2008, the market prices on these bonds have generally recovered to levels above the cost of the Registrant.

Property and Equipment. This account totalled P37.2 million as of September 30, 2009 compared to P35.3 million as of December 31, 2008 due to purchase of additional equipment.

Investment in Property. This Account remained unchanged at P368.1 million from year-end 2008 to September 30, 2009.

Other Non-Current Assets. This account totalled P58.3 million as of September 30, 2009 slightly lower than at year-end 2008. This represents mainly payment for a lot in Fort Bonifacio purchased by Magellan Capital Holdings Corporation. The transfer of title has since been completed and this is expected to be moved to the Investment in Property account.

Total Assets. As a result of the foregoing, total assets increased to P996.1 million as of September 30, 2009 from P974.4 million as of December 31, 2008.

LIABILITIES AND EQUITY

Current Liabilities. Current liabilities decreased to P2.5 million as of September 30, 2009 from P3.2 million as of December 31, 2008 due mainly to reduction in accounts payable and accrued expenses.

Non-Current Liabilities. Non-current liabilities remained fairly stable at P22.8 million at September 30, 2009, the same level as at year-end 2008. Retirement benefit obligation was unchanged at P2.2 million as of September 30, 2009 and at year-end 2008. The non-current liabilities as of September 30, 2009 consisted of deferred income tax liabilities of P20.6 million and retirement benefit obligation of P2.2 million.

Stockholder's Equity. Total stockholders' equity increased to P970.2 million at the end of September 2009 from P947.7 million at the end of 2008 due mainly to P18.1 million in net income attributable to shareholders of the Registrant in the first 9 months of 2009. "Other reserves" represent the net provision made in 2008 for the effect of mark to market valuation on the Held to Maturity Investments held by the Registrant and its subsidiary. As the investments approach maturity, this reserve is reduced correspondingly. Minority interest which represents the share of minority shareholders of MCHC in the equity of MCHC totalled P47.1 million at the end of September 2009 compared to P46.7 million at the end of 2008 due to their share in net income realized by MCHC in the first 9 months of 2009. Total equity attributable to stockholders of the Registrant was P923.1 million as of September 30, 2009 compared to P901.1 million at the end of December 2008.

Top Performance Indicators

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

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

Change in Revenues. Consolidated revenues in the third quarter of 2009 and 2008 are presented below in summary form:

(P 000)	3rd Quarter 2009	Percentage (%)	3rd Quarter 2008	Percentage (%)
Interest Income	P 4,467	30.69	P 5,883	26.02
Rent Income	620	4.26	1,094	4.84
Dividends	283	1.94	7	0.03
Unrealized FX Gain	-	-	15,626	69.11
Unrealized Gain on Trading Securities	5,811	39.93	-	-
Gain on Disposal of FVPL Investment	290	1.99	-	-
Other Income	3,083	21.18	-	-
Total Income	**P 14,554**	**100%**	**P 22,610**	**100%**

Total revenue decreased by 35.6% in the third quarter of 2009 to P14.6 million from P22.6 million in the third quarter of 2008. This was mainly due to unrealized FX gain of P15.6 million reported in the third quarter of 2008 due to the sharp depreciation of the Peso which favorably affected the foreign exchange denominated investments of the Registrant in 2008. In 2009, the Peso-Dollar exchange rate has been more stable. However, the stock market had recovered in 2009 compared to the depressed levels at the latter part of 2008. As a result, the Registrant reported an unrealized gain on trading securities of P5.8 million in the third quarter of 2009 versus a provision for unrealized loss on trading securities of P6.0 million in the third quarter of 2008 which was reported as part of expenses.

Change in Net Income. The income statement in the third quarter of 2009 and 2008 are shown in Annex "C" and summarized below:

(P 000)	3rd Quarter-2009	Percentage (%)	3rd Quarter-2008	Percentage (%)
Revenues	P 14,554	100%	P 22,610	100%
Expenses	4,687	32.2%	9,903	43.8%
Net Income	9,867	67.8%	12,706	56.2%
Attributable to:				
- Minority Interest	559	3.8%	994	4.4%
- Stockholders of Company	P 9,308	64.0%	P 11,712	51.8%

The Registrant realized a consolidated net income of P9.9 million in the third quarter of 2009 versus P12.7 million in the third quarter of 2008. After deducting the share of minority shareholders of MCHC, the company realized a net income of P9.3 million attributable to stockholders of the company in the third quarter of 2009 compared to a net income of P11.2 million attributable to stockholders of the company in the third quarter of 2008.

Earnings per Share. The net income per share attributable to shareholders of the Company during the third quarter of 2009 was P0.024 per share compared to earnings per share of P0.03 in the third quarter of 2008 after deducting the shares held by subsidiaries of the Registrant.

Current Ratio. Current ratio as of September 30, 2009 was 69.4 X compared to 51.7 X as of December 31, 2008. The increase was due mainly to increase in cash and cash equivalents.

Book Value Per Share. Book value per share as of September 30, 2009 was P2.39 per share compared to P2.33 per share at year end 2008. After deducting the shares held by subsidiaries of the Registrant which in the consolidated financial accounts are classified as treasury shares.

DISCUSSION OF THE COMPANY'S FINANCIAL INVESTMENTS

The Company and its consolidated majority owned subsidiaries hold investments in financial instruments which consist of:

1) Bank deposits both Peso and Dollar denominated; which totalled P165.6 million in Peso equivalent at September 30, 2009.

2) Bond investments, mainly dollar denominated, issued by foreign and domestic companies which have in the past been held to maturity; which totalled P194.2 million at September 30, 2009.

3) Stocks listed in the Philippine Stock Exchange; and the Hong Kong Stock Exchange of which P27.4 million were PSE-listed and P8.0 million were listed in the Hong Kong Stock Exchange.

In the last quarter of 2008, the Global Financial Markets were in turmoil as stock and bond prices plummeted around the world. As a result, the Registrant made provisions based on mark to market rules for its stock and bond holdings. However, these were more than offset by foreign exchange gains resulting from the sharp depreciation of the Peso in 2008 which favorably affected the Registrant's dollar denominated bond investments. In 2009, the foreign exchange rate has been fairly stable. However, the stock and bond prices have largely recovered leading to a reversal of the provisions made last year. None of the bond investments held by the Registrant and its subsidiary experienced any default and the market prices of the bonds are on average above the cost to the Registrant as of September 30, 2009.

Details on the company's financial investments and the possible exposure to currency, credit, interest and liquidity risks are discussed in Note No. 19 of the Notes to the Financial Statements.

PART II

OTHER INFORMATION

As of 30 September 2009, the following resolutions of the Board of Directors were reported under SEC Form 17-C:

1. The Annual Meeting of the Stockholders of the Registrant was held on 23 July 2009. At the said meeting, the stockholders comprising more than 2/3 of the Corporation's outstanding capital stock approved the following:

   a) the Minutes of the Annual Meeting of the Stockholders held on 28 July 2008;

   b) ratification of the corporation actions approved and adopted by the Board of Directors during the year 2008;

   c) the audited Financial Statements as of 31 December 2008;

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

2. Immediately after the adjournment of the Stockholders' Meeting, the Organizational Meeting of the Board of Directors was held on the same day. The election of the officers of the corporation, as well as members of various board committees was duly disclosed to the SEC and PSE, thru Odisy online after the meeting and with confirmation copies filed on 24 July 2009, under SEC Form 17-C. The notices and other requirements for said meeting were complied with under the relevant SRC Rule.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer .... *F & J Prince Holdings Corporation* ....

Principal Executive Officer

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

Date. ..... **13 November 2009** .....

Principal Financial/Accounting Officer/Controller

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

Date ..... **13 November 2009** .....

My Docs>F&J>2009 Files>
SEC Form 17-Q>3rd Quarter-2009>
17Q-3rd Quarter – 30 September 2009

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008

ASSETS		UNAUDITED SEPT. 30, 2009		AUDITED DEC. 31,2008
Current Assets				
Cash and cash equivalents	P	165,601,843	P	101,358,385
Financial assets at fair value through profit or loss		27,352,087		13,792,027
Short-term investments		0		62,205,165
Receivables-net :				
Advances to Officers & Employees		0		0
Creditable Withheld Taxes		0		23,702
Input tax		0		0
Accounts Receivable		585,105		611,362
Management Fee Receivable		45,197,865		45,197,865
Accrued Interest Receivable		45,153,772		45,153,772
Others		4,538,504		4,991,273
Total Receivables		95,475,246		95,977,974
Allowance for doubtful accounts		91,510,187		91,510,187
Total Receivables-Net		3,965,059		4,467,787
Fixed income deposits		0		4,425,862
Held-to-maturity (HTM) investments		15,707,027		7,154,632
Prepaid expenses & other current assets:				
Input Tax		921,696		826,858
Prepaid Income Tax		400,000		400,000
Others		4,259,890		3,444,482
Total Prepaid expenses and other current assets		5,581,586		4,671,340
Total Current Assets	P	218,207,602	P	198,075,198
Non-current Assets				
Receivables from related parties-net		895,921		397,432
Investments in associates		122,021,398		135,321,385
Fixed income deposits		4,925,862		500,000
HTM investments-net		178,538,763		168,891,460
Available-for-sale (AFS) investments		8,030,317		8,001,237
Investment in property		368,074,900		368,074,900
Property and Equipment				
Building		47,014,750		47,014,750
Building Improvements		8,058,590		8,058,590
Transportation equipment		9,399,560		5,828,221
Furniture and fixtures		2,456,291		2,400,683
Total		66,929,191		63,302,244
Less: Accumulated depreciation		29,755,978		27,976,708
Net Book Value		37,173,213		35,325,536
Total Property and Equipment		37,173,213		35,325,536
Other non-current assets		58,256,501		59,813,919
Total Non-Current Assets		777,916,875		776,325,869
TOTAL ASSETS	P	996,124,477	P	974,401,067

LIABILITIES & STOCKHOLDERS' EQUITY		UNAUDITED SEPT. 30, 2009		AUDITED DEC. 31, 2008
Current Liabilities				
Accounts Payable and accrued expenses				
Accounts payable-trade		6,395		263,047
Accounts payable-others		746,370		953,391
Withholding taxes payable		147,761		254,240
SSS Premium Payable		8,960		7,370
HDMF Premium Payable		1,600		1,400
Philhealth Premium Payable		3,400		2,650
Deposit Payable		1,011,507		1,053,431
Output Vat Payable		249,766		447
Accrued expenses		372,275		625,142
Total Accounts payable and accrued expenses	**P**	**2,548,034**	**P**	**3,161,118**
Income Tax Payable		**595,538**		**673,638**
Total Current Liabilities	**P**	**3,143,572**	**P**	**3,834,756**
Non-Current Liabilities				
Deferred income tax liabilities-net		**20,584,494**		**20,584,494**
Payable to related parties		**0**		**0**
Retirement benefit obligation)		**2,243,405**		**2,243,405**
Total Non-Current Liabilities		**22,827,899**		**22,827,899**
Stockholders' Equity				
Capital stock		**481,827,653**		**481,827,653**
Additional paid in capital		**144,759,977**		**144,759,977**
Treasury shares		**(95,762,527)**		**(95,762,527)**
Other Reserves		**(10,992,591)**		**(14,949,028)**
Retained earnings		**403,260,977**		**385,191,695**
Total Equity Attributable to Stockholders of the Company		**923,093,489**		**901,067,770**
Minority Interest		**47,059,517**		**46,670,642**
Total Stockholders' Equity		**970,153,006**		**947,738,412**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**P**	**996,124,477**	**P**	**974,401,067**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE NINE MONTHS PERIOD ENDING SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008

		UNAUDITED SEPTEMBER 30, 2009		UNAUDITED SEPTEMBER 30, 2008
REVENUES				
Interest Income				
From Banks	P	3,285,785	P	4,056,124
From Securities		10,681,814		12,598,878
Total Interest Income		**13,967,599**		**16,655,002**
Unrealized gains on trading securities		**14,533,059**		
Rental Income		**1,905,839**		**3,266,792**
Net unrealized foreign exchange gain				**15,814,567**
Gain on disposal of FVPL investments		**290,000**		
Dividend Income		**511,562**		**27,941**
Other income		**90,141**		**192**
	P	**31,298,200**	**P**	**35,764,494**
EXPENSES				
General and Administrative		**12,840,042**		**20,356,154**
		12,840,042		**20,356,154**
NET INCOME	**P**	**18,458,158**	**P**	**15,408,340**
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	**P**	**18,069,283**	**P**	**14,179,722**
MINORITY INTERESTS		**388,875**		**1,228,618**
EARNINGS PER SHARE	**P**	**0.047**	**P**	**0.037**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
SUMMARY OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE NINE MONTHS PERIOD ENDING SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008

		UNAUDITED JAN. 1- SEPTEMBER 30, 2009		UNAUDITED JAN.1- SEPTEMBER 30, 2008
Salaries, Wages and Employees' Benefits	P	4,645,458	P	4,710,731
Taxes and Licenses		840,528		943,179
Condominium Dues & Expenses		1,284,541		784,369
Professional Fees		1,622,463		1,925,993
Janitorial and Security		420,750		420,750
Bank Charges and Broker's Fees				378,579
Loss on Disposal of AFS Investments		0		1,493,280
Unrealized Foreign Exchange Loss		623,785		0
Unrealized Loss on Fair Value Changes of FVPL				5,960,774
Depreciation		1,779,270		2,235,082
Amortization of Unrealized Losses on Changes in fair value of AFS investments		0		
Miscellaneous		1,623,247		1,503,417
TOTAL	P	**12,840,042**	P	**20,356,154**

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE 3 MONTHS PERIOD JULY 1-SEPT. 30, 2009 AND JULY 1-SEPT. 30, 2008

		UNAUDITED JULY 1-SEPT. 30, 2009		UNAUDITED JULY 1-SEPT. 30, 2008
REVENUES				
Interest Income				
From Banks	P	926,803	P	1,627,408
From Securities		3,540,631		4,256,019
Total Interest Income		4,467,434		5,883,427
Unrealized gains on trading securities		5,811,085		
Rental Income		619,575		1,094,260
Net unrealized foreign exchange gain				15,625,698
Gain on disposal of FVPL investments		290,000		
Dividend Income		282,598		6,798
Other income		3,082,967		0
	P	14,553,659	P	22,610,183
EXPENSES				
General and Administrative		4,686,896		9,903,792
		4,686,896		9,903,792
NET INCOME	P	9,866,763	P	12,706,391
NET INCOME ATTRIBUTABLE TO:				
STOCKHOLDERS OF THE COMPANY	P	9,308,304	P	11,711,765
MINORITY INTERESTS		558,459		994,626
EARNINGS PER SHARE	P	0.024	P	0.030

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

**F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
SUMMARY OF GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE 3 MONTHS PERIOD JULY 1-SEPT.30, 2009 AND JULY 1-SEPT.30, 2008**

		UNAUDITED JULY 1-SEPT. 30, 2009		UNAUDITED JULY 1-SEPT. 30, 2008
Salaries, Wages and Employees' Benefits	P	1,566,881	P	1,539,922
Taxes and Licenses		171,029		112,727
Condominium Dues & Expenses		470,280		117,426
Professional Fees		548,499		571,536
Janitorial and Security		140,250		140,250
Bank Charges and Broker's Fees		0		128,190
Unrealized Foreign Exchange Loss		623,785		0
Unrealized Loss on FV Changes of Trading Securities				5,960,774
Depreciation		603,628		720,510
Amortization of Unrealized Losses on Changes in fair value of AFS investments		0		
Miscellaneous		562,544		612,457
TOTAL	P	4,686,896	P	9,903,792

See accompanying Notes to Consolidated Financial Statements

Prepared by:

**ARSENIO T. LIAO
Accountant**

ANNEX "D"

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008 AND THE YEAR ENDED DECEMBER 31, 2008

		UNAUDITED SEPTEMBER 30, 2009	UNAUDITED SEPTEMBER 30, 2008	AUDITED DEC. 31, 2008
CAPITAL STOCK				
Balance at beginning of year	P	481,827,653P	481,827,653 P	481,827,653
Exercise of stock warrants				
Issuance of additional shares of stock				
Subscription of additional shares of stock				
Balance at end of period		481,827,653	481,827,653	481,827,653
ADDITIONAL PAID-IN CAPITAL		144,759,977	144,759,977	144,759,977
Treasury Shares		(95,762,527)	(95,684,327)	(95,762,527)
Other Reserves		(10,992,591)	26,895,954	(14,949,028)
SHARE IN REVALUATION INCREMENT ON LAND OWNED BY MCHC's SUBSIDIARIES				
RETAINED EARNINGS				
Balance at beginning of period		385,191,694	361,906,922	361,906,922
Net Income		18,069,283	14,179,722	23,284,773
Balance at end of period		403,260,977	376,086,644	385,191,695
		923,093,489	933,885,901	901,067,770
Minority Interests		47,059,517	47,505,820	46,670,642
TOTAL STOCKHOLDERS' EQUITY	P	970,153,006 P	981,391,721 P	947,738,412

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS PERIOD ENDING SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008

		UNAUDITED SEPT. 30, 2009		UNAUDITED SEPT. 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net Income	P	18,069,283	P	14,179,722
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority Interest		388,875		1,228,618
Depreciation and amortization		1,779,270		2,235,082
Unrealized loss on changes in fair value of AFS and FVPL		3,956,437		14,593,438
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		502,728		(2,083,978)
Prepaid expenses and other current assets		(910,246)		228,523
Increase (decrease) in accounts payable and accrued expenses		(613,084)		120,755
Net cash provided by operating activities		23,173,263		30,502,160
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment		(3,626,947)		0
AFS/HTM investments and financial assets (FVPL)		43,716,313		20,254,335
Decrease (increase) in:				
Receivable from related parties		(498,489)		(826,430)
Other assets		1,557,418		72,755
Net cash provided by (used in) investing activities		41,148,295		19,500,660
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Deferred credits				
Payable to related parties		0		75,567
Income tax payable		(78,100)		(349,772)
Net cash provided by (used in) financing activities		(78,100)		(274,205)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	P	64,243,458	P	49,728,615
CASH AND CASH EQUIVALENTS, BEGINNING		101,358,385		39,936,156
CASH AND CASH EQUIVALENTS, ENDING	P	165,601,843	P	89,664,771

See accompanying Notes to Consolidated Financial Statements

Prepared by:

ARSENIO T. LIAO
Accountant

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 3 MONTHS PERIOD JULY 1-SEPT. 30, 2009 AND JULY 1-SEPT. 30, 2008

		UNAUDITED JULY 1-SEPT. 30, 2009		UNAUDITED JULY 1-SEPT. 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	P	9,308,304	P	11,711,765
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest		558,459		994,626
Depreciation and amortization		603,628		720,510
Unrealized loss on changes in fair value of AFS and FVPL				14,593,438
Amortization of unrealized loss/gain on FV of AFS inv.		873,470		
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Receivables		408,789		(1,060,344)
Subscription receivable from exercise of warrants				
Prepaid expenses and other current assets		(820,155)		(189,941)
Increase (decrease) in:				
Accounts payable and accrued expenses		(364,990)		357,798
Net cash provided by operating activities		10,567,505		27,127,852
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment		(3,626,947)		0
AFS investments and financial assets (FVPL)		(18,642,404)		(11,783,368)
Decrease (increase) in:				
Receivables from related parties		(249,041)		(276,827)
Other assets		0		1
Net cash provided by (used in) investing activities		(22,518,392)		(12,060,194)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in:				
Deferred credits				0
Redemption of bonds		0		0
Payable to related parties		0		25,169
Income tax payable		0		0
Net cash provided by (used in) financing activities		0		25,169
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**P**	**(11,950,887)**	**P**	**15,092,827**
CASH AND CASH EQUIVALENTS, BEGINNING		**177,552,730**		**74,571,944**
CASH AND CASH EQUIVALENTS, ENDING	**P**	**165,601,843**	**P**	**89,664,771**

F& J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008
WITH VERTICAL AND HORIZONTAL PERCENTAGE ANALYSIS

"ANNEX G"

	UNAUDITED SEPT.30, 2009	VERTICAL PERCENTAGE ANALYSIS SEPT.30, 2009	AUDITED DEC. 31,2008	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2008	INCREASE (DECREASE) AMOUNT SEPT.30, 2009	INCREASE (DECREASE) PERCENTAGE ANALYSIS SEPT.30, 2009
ASSETS						
Current Assets						
Cash and cash equivalents	165,601,843	16.62%	101,358,385	10.40%	64,243,458	63.38%
Financial assets at fair value through fair value thru profit or loss (FVPL)	27,352,087	2.75%	13,792,027	1.42%	13,560,060	98.32%
Short-term investments	0	0.00%	62,205,165	6.39%	(62,205,165)	-100.00%
Receivables :						
Advances to Officers & Employees	0	0.00%	0	0.00%	0	0.00%
Creditable Withheld Taxes	0	0.00%	23,702	0.01%	(23,702)	-100.00%
Accounts Receivable	585,105	0.06%	611,362	0.06%	(26,257)	-4.29%
Management Fee Receivable	45,197,865	4.54%	45,197,865	4.64%	0	0.00%
Accrued Interest Receivable	45,153,772	4.53%	45,153,772	4.63%	0	0.00%
Others	4,538,504	0.46%	4,991,273	0.51%	(452,769)	-9.07%
Total Receivables	95,475,246	9.59%	95,977,974	9.85%	(502,728)	-0.52%
Allowance for doubtful accounts	91,510,187	-9.19%	91,510,187	-9.39%	0	0.00%
Total Receivables-Net	3,965,059	0.40%	4,467,787	0.46%	(502,728)	-11.25%
Fixed income deposits	0	0.00%	4,425,862	0.45%	(4,425,862)	-100.00%
Held-to-maturity investments	15,707,027	1.58%	7,154,632	0.73%	8,552,395	119.54%
Prepaid expenses & other current assets:						
Others	4,259,890	0.43%	3,444,482	0.35%	815,048	23.67%
Input Tax	921,696	0.09%	826,858	0.09%	94,838	11.47%
Prepaid Income Tax	400,000	0.04%	400,000	0.04%	0	0.00%
Total Prepaid expenses & other current assets	5,581,586	0.56%	4,671,340	0.48%	910,246	19.49%
Total Current Assets	218,207,602	21.91%	198,075,198	20.33%	20,132,404	10.16%
Non-current Assets						
Receivables from related parties	895,921	0.09%	397,432	0.04%	498,489	125.43%
Investments in associates	122,021,398	12.25%	135,321,385	13.89%	(13,299,987)	-9.83%
Fixed income deposits	4,925,862	0.49%	500,000	0.05%	4,425,862	885.17%
HTM investments	178,538,763	17.92%	168,891,460	17.33%	9,647,303	5.71%
Available -for-sale (AFS) investments	8,030,317	0.81%	8,001,237	0.82%	29,080	0.36%
Investment in properties	368,074,900	36.95%	368,074,900	37.77%	0	0.00%
Property and Equipment						
Building	47,014,750	4.72%	47,014,750	4.82%	0	0.00%
Building Improvements	8,058,590	0.81%	8,058,590	0.83%	0	0.00%
Transportation equipment	9,399,560	0.94%	5,828,221	0.60%	3,571,339	61.28%
Furniture and fixtures	2,456,291	0.25%	2,400,683	0.25%	55,608	2.32%
Total Property and Equipment	66,929,191	6.72%	63,302,244	6.50%	3,626, 947	5.73%
Less: accumulated depreciation	29,755,978	-2.99%	27,976,708	-2.87%	1,779,270	6.36%
Net Book Value	37,173,213	3.73%	35,325,536	3.63%	1,847,677	5.23%
Total Property and Equipment	37,173,213	3.73%	35,325,536	3.63%	1,847,677	5.23%
Deferred income tax assets-net	0	0.00%	0	0.00%	0	0.00%
Other Assets - net	58,256,501	5.85%	59,813,919	6.14%	(1,557,418)	-2.60%
Total Non-Current Assets	777,916,875	78.09%	776,325,869	79.67%	1,591,006	0.20%
TOTAL ASSETS	996,124,477	100.00%	974,401,067	100.00%	21,723,410	2.23%

	UNAUDITED SEPT.30, 2009	VERTICAL PERCENTAGE ANALYSIS SEPT.30, 2009	AUDITED DEC. 31,2008	VERTICAL PERCENTAGE ANALYSIS DEC. 31, 2008	INCREASE (DECREASE) AMOUNT SEPT.30, 2009	INCREASE (DECREASE) PERCENTAGE ANALYSIS SEPT.30, 2009
LIABILITIES & STOCKHOLDERS' EQUITY						
Current Liabilities						
Accounts Payable and accrued expenses						
Accounts payable-trade	6,395	0.00%	263,047	0.03%	(256,652)	-97.57%
Accounts payable-others	746,370	0.07%	953,391	0.10%	(207,021)	-21.71%
Withholding taxes payable	146,761	0.01%	254,240	0.02%	(106,479)	-41.88%
SSS Premium Payable	8,960	0.00%	7,370	0.00%	1,590	21.57%
HDMF Premium Payable	1,600	0.00%	1,400	0.00%	200	14.29%
Philhealth Premium Payable	3,400	0.00%	2,650	0.00%	750	28.30%
Deposit Payable	1,011,507	0.10%	1,053,431	0.11%	(41,924)	-3.98%
Output Vat Payable	249,766	0.03%	447	0.00%	249,319	55776.06%
Accrued expenses	372,275	0.04%	625,142	0.06%	(252,867)	-40.45%
Total Accounts payable & accrued expenses	**2,548,034**	**0.25%**	**3,161,118**	**0.32%**	**(613,084)**	**-19.39%**
Income Tax Payable	**595,538**	**0.06%**	**673,638**	**0.07%**	**(78,100)**	**-11.59%**
Total Current Liabilities	**3,143,572**	**0.31%**	**3,834,756**	**0.39%**	**(691,184)**	**-18.02%**
Non-Current Liabilities						
Deferred tax liabilities-net	**20,584,494**	**2.07%**	**20,584,494**	**2.11%**	**0**	**0.00%**
Payable to related parties	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
Retirement benefit obligation	**2,243,405**	**0.23%**	**2,243,405**	**0.23%**	**0**	**0.00%**
Total Non-Current Liabilities	**22,827,899**	**2.30%**	**22,827,899**	**2.34%**	**0**	**0.00%**
Stockholders' Equity						
Capital stock	481,827,653	48.37%	481,827,653	49.45%	0	0.00%
Additional paid in capital	144,759,977	14.53%	144,759,977	14.86%	0	0.00%
Other reserves	(10,992,591)	-1.10%	(14,949,028)	-1.53%	3,956,437	-26.47%
Treasury shares	(95,762,527)	-9.61%	(95,762,527)	-9.83%	0	0.00%
Retained earnings	403,260,977	40.48%	385,191,695	39.53%	18,069,282	4.69%
Total Equity Attributable to Stock-holders of the Company	**923,093,489**	**92.67%**	**901,067,770**	**92.48%**	**22,025,719**	**2.44%**
Minority Interest	**47,059,517**	**4.72%**	**46,670,642**	**4.79%**	**388,875**	**0.83%**
Total Stockholders' Equity	**970,153,006**	**97.39%**	**947,738,412**	**97.27%**	**22,414,594**	**2.37%**
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**996,124,477**	**100.00%**	**974,401,067**	**100.00%**	**21,723,410**	**2.23%**

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

1. Corporate Information

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

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

The consolidated financial statements of the Company and its subsidiary (the Group) as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were authorized for release by the President of the Company on April 8, 2009, pursuant to a resolution by the Board of Directors (BOD) dated April 8, 2009.

2. Summary of Significant Accounting Policies

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for financial assets at FVPL and AFS investments that have been measured at their fair values (see Notes 5, 8 and 21), investment properties which have been carried at their revalued amounts considered to be their "deemed cost" (see Note 10). 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 interpretations issued by the Philippine Accounting Standards Council.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year ,except for the adoption of the following Philippine Interpretations, based on International Financial Reporting Interpretations Committee (IFRIC) interpretations, which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*

- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

Adoption of these changes in PFRS did not have any significant effect to the Group except for the amendments to PAS 39 and PFRS 7 (see Note 21).

<u>New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008</u>

The Group will adopt the following 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 2009

PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27, *Consolidated and Separate Financial Statements*, b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.

PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*

The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

PFRS 8, *Operating Segments*

PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. As the Group operates only in one reportable segment, adoption of this standard will likely have no impact on the current manner of reporting segment information in its consolidated financial statements.

Amendments to PAS 1, *Presentation of Financial Statements*
These amendments introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the consolidated statement of income together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate consolidated statement of income and a consolidated statement of comprehensive income. These amendments also prescribe additional requirements in the presentation of the consolidated balance sheet and owner's equity as well as additional disclosures to be included in the consolidated financial statements. The Group is currently evaluating the format to be adopted.

PAS 23, *Borrowing Costs*
The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
These amendments prescribe changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the consolidated statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The Group does not expect significant changes in its accounting policies when it adopts the foregoing accounting changes effective January 1, 2009.

Amendment to PAS 32, *Financial Instruments: Presentation and* PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to PFRS
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  - When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 1, *Presentation of Financial Statements*
  - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

- PAS 16, *Property, Plant and Equipment*
  - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.
  - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

- PAS 19, *Employee Benefits*
  - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
  - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
  - Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

- PAS 23, *Borrowing Costs*
  - Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investments in Associates*
  - If an associate is accounted for at fair value, in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply.
  - An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 29, *Financial Reporting in Hyperinflationary Economies*
  - Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

- PAS 31, *Interests in Joint Ventures*
  - If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

- PAS 36, *Impairment of Assets*
  - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use.'

- PAS 38, *Intangible Assets*
  - Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
  - Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

- PAS 39, *Financial Instruments: Recognition and Measurement*
  - Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
  - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
  - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
  - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

- PAS 40, *Investment Property*
  - Revises the scope (and the scope of PAS 16) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

- PAS 41, *Agriculture*
  - Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
  - Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

Effective in 2010

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

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while the revised PAS 27 must be applied retrospectively with certain exceptions. These changes will affect future acquisitions and transactions with non-controlling interests.

Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
This interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This interpretation applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. 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.

Effective in 2012

Philippine interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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.

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

As of December 31, 2008, 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, 2008 and 2007.

MCHC has investments in the following subsidiaries as of December 31, 2008 and 2007:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
Held by MCHC			
Pinamucan Industrial Estates, Inc. (PIEI)	Philippines	100	₱181,744,760
Malabrigo Corporation*	Philippines	100	662,500
Batangas-Agro Industrial Development Corporation (BAID)*	Philippines	100	25,000,000
Magellan Capital Trading Corporation*	Philippines	100	62,500
Magellan Capital Realty Development Corporation*	Philippines	100	100,000
Held by BAID			
Fruits of the East, Inc.*	Philippines	100	–
Samar Commodities Trading and Industrial Corporation*	Philippines	100	–
Tropical Aqua Resources, Inc.*	Philippines	100	–
United Philippine Oil Trading, Incorporated*	Philippines	100	–
King Leader Philippines, Inc.*	Philippines	100	–
The Hometel Integrated Management Corporation*	Philippines	100	–
			207,569,760
Less allowance for impairment losses			162,500
			₱207,407,260

** still in the preoperating stage*

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

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

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

Minority interests represent the portion of net results and net assets of MCHC not held by the Group. They are presented in the consolidated balance sheet within equity, apart from equity attributable to equity holders of the parent and are separately disclosed in the consolidated statement of income. Minority interests consist of the amount of those interests at the date of original business combination and the minority interests' share on changes in equity since the date of the business combination.

Losses applicable to the minority in excess of the minority's interest in MCHC's equity are allocated against the interests of the Group, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses. Acquisitions of minority interests are accounted for using the parent-entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. The excess of the Group's interest in the net fair value of the identifiable net assets over cost of acquisition is credited to the consolidated statement of income in the period of the acquisition.

Investments in Associates

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

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

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

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

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

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

The following are the Group's associates:

	Country of Incorporation	Percentage of Ownership	Cost of Investment
Held by the Company			
Business Process Outsourcing International, Inc. (BPO)	Philippines	35	
Unquoted equity stocks			₱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	Philippines	43	94,830,129
Less allowance for impairment losses			94,830,129
			–
			₱90,030,006

Business Combinations and Goodwill

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

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

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

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

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

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

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

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

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

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

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

Financial assets
Financial assets, within the scope of PAS 39, are further classified into the following categories: financial asset at FVPL, loans and receivables, held-to-maturity (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 balance sheet date or within the normal operating cycle, whichever is longer.

Financial assets at FVPL
Financial assets at FVPL include financial assets held for trading 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 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, 2008 and 2007, the Group's investment in trading securities is classified under financial assets at FVPL.

Loans and receivables
Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

As of December 31, 2008 and 2007, 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 nonderivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2008, the Group's investment in debt securities are classified as HTM investments.

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

The fair value of 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 balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and other valuation models.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost, less impairment losses.

As of December 31, 2008, the Group's investment in equity securities are classified as AFS investments. As of December 31, 2007, the Group's investment in debt and equity securities are classified as AFS investments.

Embedded derivatives
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.

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

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.

The Group has no bifurcated embedded derivatives as of December 31, 2008 and 2007.

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

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

The Group has no financial liabilities at FVPL as of December 31, 2008 and 2007.

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

- 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 liabilities

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 balance sheet date whether a financial asset or group of financial assets is impaired.

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 balance sheet 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 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 income.

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

Offsetting Financial Instruments

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

Property and Equipment

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

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

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

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

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

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

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

Investment Properties

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

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

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

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

Impairment of Nonfinancial Assets

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

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

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

Goodwill

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

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

Common Stock

Common stock is classified as equity.

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

Treasury Shares

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

Dividends Payable

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

Revenue

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

Interest

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

Dividend

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

Rental

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

Retirement Benefits

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

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

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

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

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

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

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

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

Foreign Currency Transactions

The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional and presentation currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are measured in the functional currency and are recorded on initial recognition in that functional currency at exchange rates approximating those ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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.

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

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

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

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

Events After the Balance Sheet Date
Post year-end events that provide additional information about the Group's financial position at the balance sheet 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.

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. Financial information on business segments is presented in Note 17.

3. Significant Accounting Judgments and Estimates

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

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

Estimates and Assumptions

Fair values of financial assets and liabilities

The Group carries and discloses certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted prices, interest rates, foreign exchange rates, volatility), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect income and loss and 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 20 to the consolidated financial statements. The carrying amount of the Group's financial assets at FVPL is ₱27,352,087 and ₱13,792,027 as of September 30, 2009 and December 31, 2008 , respectively (see Note 5). The carrying amount of the Group's AFS investments is ₱8,030,317 and ₱8,001,237 as of September 30, 2009 and December 31, 2008, respectively (see Note 8). The carrying amount of the Group's HTM investments is ₱178,538,763 and ₱168,891,460 as of September 30, 2009 and December 31, 2008 respectively. (see Note 21).

Income taxes

There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected taxes to be paid in the future based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax payable is ₱595,538 and ₱673,638 as of September 30, 2009 and December 31, 2008, respectively (see Note 13).

Realizability of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet 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 carrying amount of the Group's deferred income tax assets/liabilities is ₱ 20,584,494 as of September 30, 2009 and December 31, 2008, respectively. The Group has unrecognized deferred income tax assets on temporary differences totaling ₱193,206,883 and ₱196,206,713 as of December 31, 2008 and 2007, respectively (see Note 13).

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 ₱37,173,213 and ₱35,325,536 as of September 30, 2009 and December 31, 2008, respectively (see Note 9).

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

For the advances to related parties, the Group uses judgment, based on the best available facts and circumstances, including but not limited to, assessment of the related parties' operating activities (active or dormant), business viability and overall capacity to pay, in providing reserve allowance against recorded receivable amounts. For the receivables, the Group evaluates specific accounts where the Group has information that certain third parties are unable to meet their financial obligations. Facts, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded in "Receivables". 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 ₱188,883,263 and ₱168,423,970 as of December 31, 2008 and 2007, respectively (see Notes 6 and 15). The carrying amount of the Group's receivables, net of allowance for impairment losses, is ₱3,965,059 and ₱4,467,787 as of September 30, 2009 and December 31, 2008, respectively (see Note 6). The carrying amount of the Group's receivables from related parties, net of allowance for impairment losses, is ₱895,921 and ₱397,432 as of September 30, 2009 and December 31, 2008 (see Note 15).

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 12, 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 ₱518,503, ₱465,359 and ₱462,464 in 2008, 2007 and 2006, respectively. The carrying amount of the Group's retirement benefit obligations is ₱2,243,405 as of September 30, 2009 and December 31, 2008 , respectively (see Note 12).

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

The balance of the Group's allowance for impairment losses on investment in equity securities is ₱10,534,000 and ₱10,284,000 as of December 31, 2008 and 2007, respectively (see Note 19). The carrying amount of the Group's AFS investments is ₱8,030,317 and ₱8,001,237 as of September 30, 2009 and December 31, 2008, respectively (see Note 8).

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 Magellan Utilities Development Corporation (MUDC), an associate, amounting to ₱94,830,129 as of December 31, 2008 and 2007. 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 impaired its investment in MUDC since the Group does not expect any cash inflows from the investment. The carrying amount of the Group's investment in MUDC is now carried at nil. The carrying amount of the Group's investments in associates is ₱122,021,398 and ₱135,321,385 as of September 30, 2009 and December 31, 2008 , respectively (see Note 7).

The carrying amount of the Group's property and equipment is ₱37,173,213 and ₱35,325,536 as of September 30, 2009 and December 31, 2008, respectively (see Note 9). The carrying amount of the Group's investment properties is ₱368,074,900 as of September 30, 2009 and December 31, 2008 respectively (see Note 10).

<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 sale of services and the costs of these services.

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

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis (see Notes 19 and 20).

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 an 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 18).

4. **Cash and Cash Equivalents**

	September 2009	December 2008
Cash on hand and with banks	**₱8,023,492**	₱3,750,381
Short-term placements	**157,578,351**	97,608,004
	₱165,601,843	₱101,358,385

Cash with banks earn interest at the respective bank deposit rates. Short-term placements are fixed rate time deposits denominated in United States (US) dollar and Philippine peso made for varying periods of up to three months or less depending on the immediate cash requirements of the Group, and earn interest at the respective bank rates from 2.75% and 6.5% in 2008 and 4.0% to 4.4% in 2007.

5. **Financial Assets at FVPL**

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

As of December 31, 2008 and 2007, the carrying value of financial assets at FVPL includes unrealized gains on fair value changes amounting to ₱1,761,108 and ₱26,461,243, respectively.

As of September 30, 2009, financial assets at FVPL amounted to ₱27,352,087.

6. **Receivables**

	September 2009	December 2008
Third parties		
Accrued interest	**₱4,033,856**	₱4,486,830
Others	**504,648**	443,387
Related parties:		
Management fees (see Note 15)	**45,197,865**	45,197,865
Accrued interest (see Note 15)	**45,153,772**	45,153,772
Others	**585,105**	696,120
	95,475,246	95,977,974
Less allowance for impairment losses	**91,510,187**	91,510,187
	₱3,965,059	₱4,467,787

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

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

		Related Parties (see Note 15)			
	Third parties	Management fees	Accrued interest	Others	**Total**
At January 1, 2007	₱1,178,095	₱45,197,865	₱25,194,478	₱37,762	**₱71,608,200**
Recovery during the year	(557,306)	–	–	–	**(557,306)**
At December 31, 2007	620,789	45,197,865	25,194,478	37,762	**71,050,894**
Provision during the year	500,000	–	19,959,293	–	**20,459,293**
At December 31, 2008	₱1,120,789	₱45,197,865	₱45,153,771	₱37,762	**₱91,510,187**

As of September 30, 2009, there is no movement in the allowance for impairment losses on receivables.

7. **Investments in Associates**

	September 2009	December 2008
Unquoted equity stocks:		
Cost:		
Acquisition cost	**₱164,470,640**	₱164,470,640
Additional investment	**–**	–
	164,470,640	164,470,640
Accumulated equity in net earnings:		
At beginning of year	**16,591,436**	16,591,436
Equity in net earnings for the year/quarter	**15,399,957**	28,699,944
Dividends received	**–**	–
At end of year	**31,991,393**	45,291,380
Allowance for impairment losses	**(94,830,129)**	(94,830,129)
	101,631,904	114,931,891
Advances	**20,389,494**	20,389,494
	₱122,021,398	₱135,321,385

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

	Country of Incorporation	Percentage of Ownership **2008**	2007	Cost of Investment **2008**	2007
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	**69,660,201**	60,141,169
PTC	Philippines	**30**	30	**65,661,184**	46,480,272
				₱135,321,385	₱106,621,441

MUDC
The Group has 43% interest in MUDC. As of December 31, 2007, MUDC has not yet started commercial operations and 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, 2008 and 2007, MUDC has project development costs recorded in its books of about ₱207.1 million. The recoverability of these assets is dependent upon the signing of these agreements and the ultimate success of MUDC's future operation. The foregoing conditions indicate the existence of a material uncertainty which may cast significant doubt about MUDC's ability to continue as a going concern and the recoverability of the Group's significant investment in MUDC.

As of December 31, 2008 and 2007, MUDC has incurred significant losses, which resulted to a deficit of about ₱434.4 million and ₱433.3 million, respectively, and capital deficiency of about ₱211.0 million and ₱209.9 million, respectively.

Moreover, the Group's share of the losses of MUDC exceeded the carrying amount of its investment. Additional losses are provided for by MCHC to the extent that it has made payments.
The Group has assessed that its investment and advances to MUDC amounting to about ₱94.8 million is impaired since management believes that it will no longer recover from such investment and advances as of December 31, 2008 and 2007.

Accordingly, the Group provided a full allowance for impairment losses on its receivables from MUDC due to nonrecoverability of these 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 has 35% interest in BPO.

The Group's equity in net earnings from BPO amounted to about ₱9.5 million, about ₱2.9 million, and about ₱2.9 million in 2008, 2007 and 2006, respectively. Investment in BPO in 2008 in 2007 included goodwill of about ₱23.4 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.

Pursuant to a resolution of PTC's BOD during a special meeting held on December 6, 2007, PTC increased its authorized capital stock from ₱100 million to ₱400 million. As a result, the Group subscribed to additional 22,500,000 shares at ₱1.00 par value in order to maintain its 30% equity interest in PTC.

The Group's equity in net earnings from PTC amounted to about ₱19.2 million, ₱7.7 million and about ₱14.7 million in 2008, 2007 and 2006, respectively.

Summarized combined financial information of associates follow:

	2008	2007	2006
Current assets	**₱447,686,260**	₱329,925,142	₱317,171,674
Noncurrent assets	**170,278,593**	97,117,196	92,945,958
Total assets	**617,964,853**	427,042,338	410,117,632
Current liabilities	**408,466,465**	337,167,528	409,406,314
Noncurrent liabilities	**109,687,063**	104,562,093	96,952,673
Total liabilities	**518,153,528**	441,729,621	506,358,987
Revenues	**758,598,623**	652,956,694	514,333,311
Expenses	**668,545,239**	620,142,526	454,628,186
Net income	**90,053,384**	32,814,168	59,705,125

8. AFS Investments

	September 2009	December 2008
Investment in debt securities	**₱–**	₱–
Investment in equity securities (net of allowance for impairment losses of ₱10,534,000 in 2008 and ₱10,284,000 in 2007)	**8,030,317**	8,001,237
	₱8,030,317	₱8,001,237

Investment in debt securities
Investments in debt securities are investments 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 changes in equity. Fixed interest rates range from 7.5% to 15.25% per annum. Value dates of the investments range from February 21, 2003 to November 6, 2007 and with maturity dates ranging from January 30, 2008 to February 22, 2017. Interests on investments are received and settled semi-annually in US dollar.

On July 1, 2008, the Group reclassified its investment in debt securities from AFS investments to HTM investments (see Note 21).

Unrealized losses and gains on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets as of September 30, 2009 and December 31, 2008 amounted to ₱10,992,591 and ₱14,949,028 respectively. Unrealized foreign exchange gains and losses from AFS investments charged in the consolidated statements of income amounted to ₱ 50,590,862, ₱47,656,415 and ₱21,474,146 in 2008, 2007 and 2006, respectively.

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

	September 2009	December 2008
Beginning balance	**(₱14,949,028)**	₱110,538
Changes in fair value of AFS investments	**–**	(24,276,049)
Disposal of AFS investments (see Note 21)	**–**	–
Amortization of unrealized losses on changes in fair value of AFS investments for the year/period (see Note 21)	**3,956,437**	9,216,483
Ending balance	**(₱10,992,591)**	(₱14,949,028)

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

9. Property and Equipment

As of September 30, 2009:

	Condominium	**Condominium Improvements**	**Transportation Equipment**	**Office Furnitures, Fixtures and Equipment**	**Total**
Cost:					
Balances at beginning and end of year	**₱47,014,750**	**₱8,058,590**	**₱5,828,221**	**₱2,400,683**	**₱63,302,244**
Additions			**3,571,339**	**55,608**	**3,626,947**
Balances as of the quarter	**₱47,014,750**	**₱8,058,590**	**₱9,399,560**	**₱2,456,291**	**₱66,929,191**
Accumulated depreciation:					
Balances at beginning of year	**15,515,580**	**5,489,281**	**4,602,142**	**2,369,705**	**27,976,708**
Depreciation	**1,410,442**	**65,085**	**290,636**	**13,107**	**1,779,270**
Balances at end of year	**16,926,022**	**5,554,366**	**4,892,778**	**2,382,812**	**29,755,978**
Net book value	**₱30,088,728**	**₱2,504,224**	**₱4,506,782**	**₱73,479**	**₱37,173,213**

As of December 31, 2008:

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

10. 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, 2008 and 2007 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.

11. Accounts Payable and Accrued Expenses

	September 2009	December 2008
Deposits payable	**₱1,011,507**	₱1,053,431
Accrued expenses	**533,996**	612,067
Others	**1,002,531**	1,495,620
	₱2,548,034	₱3,161,118

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

12. 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. Management is reviewing it with sufficient regularity such that the amount recorded does not differ materially from the amount to be recorded in compliance with PAS 19 at the end of the financial year.

The latest independent actuarial valuation of the plan as of December 31, 2008, 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 funded status and amounts recognized in the consolidated balance sheets for the plan.

Composition of retirement benefits expense recognized in the consolidated statements of income (included in the personnel expenses account) are as follows:

	2008	2007	2006
Current service cost	**₱389,703**	₱375,752	₱347,965
Interest cost on benefit obligation	**122,008**	87,806	93,780
Net actuarial losses	**6,792**	1,801	20,719
Net benefit expense	**₱518,503**	₱465,359	₱462,464

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

	2008	2007
Present value of obligations	**₱2,499,135**	₱1,987,424
Unrecognized net actuarial losses	**(255,730)**	(262,522)
Retirement benefit obligation	**₱2,243,405**	₱1,724,902

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

	2008	2007
Present value of obligations at beginning of year	**₱1,987,424**	₱1,423,847
Current service cost	**389,703**	375,752
Interest cost	**122,008**	87,806
Net actuarial losses on obligation	**–**	100,019
Present value of obligations at end of year	**₱2,499,135**	₱1,987,424

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

	2008	2007
Discount rate	**9%**	7%
Salary increase rate	**3%**	6%

Amounts for 2008, 2007 and 2006 are as follows:

	2008	2007	2006
Unfunded defined benefit obligations	**₱2,243,405**	₱1,724,902	₱1,259,543
Experience adjustments on plan liabilities	**–**	100,019	(97,583)

13. **Income Taxes**

The Group's current provision for income tax represents the MCIT.

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

	2008	2007
Deferred income tax assets:		
Recognized directly in income:		
Allowance for impairment losses	**₱23,575,628**	₱23,082,757
Deferred income tax liabilities:		
Recognized directly in equity:		
Share in revaluation increment on investment properties of MCHC's subsidiaries (see Note 10)	**20,584,494**	20,584,494

(Forward)

	2008	2007
Recognized directly in income:		
Unrealized gains on changes in fair value of AFS investments	**₱–**	₱49,867
Net unrealized foreign exchange gains	**23,575,628**	2,448,396
	44,160,122	23,082,757
Net deferred income tax liabilities	**₱20,584,494**	₱–

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

	2008	2007
Allowance for impairment losses on investments in associates	**₱94,830,129**	₱94,830,129
Allowance for impairment losses on receivables	**66,046,384**	88,561,391
NOLCO	**18,733,937**	9,645,200
Unrealized losses on changes in fair value of AFS investments	**967,925**	–
Unamortized unrealized losses on changes in fair value of AFS investments	**9,271,124**	–
Retirement benefit obligations	**2,243,405**	1,724,902
Unamortized premium on HTM investments	**81,114**	–
MCIT	**1,032,865**	1,339,436
Unrealized foreign exchange losses	**–**	105,655
	₱193,206,883	₱196,206,713

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:

	2008	2007	2006
Provision for income tax at effective statutory tax rate of 35.0%	**₱16,040,853**	(₱6,542,341)	₱57,836,563
Additions to (reductions in) income tax resulting from:			
Unrecognized deferred income tax assets	**13,239,945**	9,144,180	–
Nontaxable gain (loss) on fair value changes of financial assets at FVPL	**8,645,047**	(6,069,232)	(2,819,099)
Unallowable EAR	**73,482**	75,369	–
Nondeductible expenses	**420**	1,725	–
Excess of FV of net assets acquired over cost	**–**	–	(70,465,246)
Dividend income exempt from tax	**(347,293)**	(13,041)	(7,694)
Change in recognized deferred income tax assets	**(492,871)**	25,862,819	–
Interest income subjected to final tax at a lower rate	**(2,061,895)**	(8,082,314)	(1,674,994)
Effect of changes in tax rates	**(3,521,205)**	5,702,062	–
Equity in net earnings of associates	**(10,044,981)**	(3,721,991)	(6,167,909)
	₱21,531,502	₱16,357,236	(₱23,298,379)

As of December 31, 2008, 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:

Period of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2005	2006-2008	₱1,618,287	₱–	₱–	₱1,618,287	₱–
2006	2007-2009	3,419,014	–	–	–	3,419,014
2007	2008-2010	2,937,095	–	–	–	2,937,095
2008	2009-2011	–	12,377,828	–	–	12,377,828
		₱7,974,396	₱12,377,828	₱–	₱1,618,287	₱18,733,937

MCIT:

Period of Recognition	Availment Period	Beginning Balance	Additions	Applied	Expired	Ending Balance
2005	2006-2008	₱377,561	₱–	₱–	377,561	₱–
2006	2007-2009	390,690	–	–	–	390,690
2007	2008-2010	340,572	–	–	–	340,572
2008	2009-2011	–	301,603	–	–	301,603
		₱1,108,823	₱301,603	₱–	₱377,561	₱1,032,865

Republic Act (R.A.) 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said R.A., which became effective on November 1, 2005, are as follows:

- Increased corporate income tax rate from 32% to 35%, with a reduction thereof to 30% beginning January 1, 2009;
- Granted authority to the Philippine President to increase the 10% value-added tax (VAT) rate to 12%, effective February 1, 2006, subject to compliance with certain economic conditions;
- Revised invoicing and reporting requirements for VAT;
- Expanded scope of transactions subject to VAT; and
- Provided thresholds and limitation on the amounts of VAT credits than can be claimed.

On January 31, 2006, the BIR issued Revenue Memorandum Circular No. 7-2006 increasing the VAT rate from 10% to 12% effective February 1, 2006.

In November 2006, R.A. 9361 was enacted, repealing 70% cap on input tax.

14. **Equity**

a. Common stock

	2008	2007
Common stock - ₱1 par value		
Class A		
Authorized - 600 million shares		
Issued and outstanding - 292,610,118 shares	**₱292,610,118**	₱292,610,118
Class B		
Authorized - 400 million shares		
Issued and outstanding - 189,217,535 shares	**189,217,535**	189,217,535
	₱481,827,653	₱481,827,653

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

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

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

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

	Number of Shares	Exercise Periods	Expiration Dates
First Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,633	June 4, 2002 to	June 3, 2007
	48,103,272	June 3, 2007	

Second Tranche:			
Class A common shares	29,188,639		
Class B common shares	18,914,634	May 9, 2003 to	May 8, 2008
	48,103,273	May 8, 2008	
	96,206,545		

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

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

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

b. Treasury shares

	Number of Shares	Cost
At January 1 and December 31, 2007	95,966,827	₱95,684,327
Additions during the year	80,000	78,200
At December 31, 2008	96,046,827	₱95,762,527

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

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

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

Unrealized losses and gains on changes in fair value of AFS investments presented in the equity section of the consolidated balance sheets as of September 30, 2009 and December 31, 2008 amounted to ₱10,992,591 and ₱14,949,028, respectively (see Notes 8 and 21).

d. Retained earnings

Retained earnings is restricted to the extent of the acquisition price of the treasury shares amounting to ₱95,762,527 as of December 31, 2008 and 2007.

Also, the retained earnings balance as of December 31, 2008 and 2007 include the revaluation increment on investment properties of ₱62,793,927 which is not available for distribution until realized.

15. Related Party Transactions

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

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

	Current		Noncurrent			
	Receivables (see Note 6)		Receivables from Related Parties		Payable to Related Parties	
Related Parties	**Sept. 2009**	December 2008	**Sept. 2009**	December 2008	**Sept. 2009**	December 2008
MUDC	**₱90,351,637**	₱90,351,637	**₱97,186,903**	₱97,186,903	**₱–**	₱–
Other related parties	**585,105**	696,120	**1,082,094**	583,605	**–**	–
	90,936,742	91,047,757	**98,268,997**	97,770,508	**–**	–
Less allowance for impairment losses	**(90,389,398)**	(90,389,398)	**(97,373,076)**	(97,373,076)	**–**	–
	₱547,344	₱658,359	**₱895,921**	₱397,432	**₱–**	₱–

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

	Current	Noncurrent	**Total**
At January 1, 2007	₱70,430,105	₱66,759,450	**₱137,189,555**
Provision for the year	–	30,613,626	**30,613,626**
At December 31, 2007	70,430,105	97,373,076	**167,803,181**
Provision for the year	19,959,293	–	**19,959,293**
At December 31, 2008	₱90,389,398	₱97,373,076	**₱187,762,474**

a. MCHC has executed a management agreement (the Agreement) with MUDC and other related parties. The Agreement with MUDC requires the Group 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, 2008 and 2007, management fees receivable from MUDC amounted to about ₱45.0 million (see Note 6). In 2004, the management fee receivable was fully provided with allowance for impairment losses, since management believes that this is not likely to be collected in the future.

b. MCHC has existing noninterest-bearing long-term advances to MUDC of about ₱49.1 million, including accumulated interest not yet paid to MCHC as of December 31, 2008 and 2007. In 2004, the Group ceased to accrue interest receivable on the said advances.

c. MCHC leases out a portion of its condominium unit to PIEI for a period of two years from October 1, 2006 to September 30, 2008. Monthly rentals, inclusive of VAT, amount to ₱21,000. Lease revenue from rentals of PIEI in 2008 and 2007 amounted to ₱230,000.

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

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

	2008	2007	2006
Short-term employee benefits	**₱6,469,580**	₱6,469,580	₱5,881,436
Long-term employee benefits	**31,350**	31,350	28,500
	₱6,500,930	₱6,500,930	₱5,909,936

16. Earnings (Loss) Per Share

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

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

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

	2008	2007	2006
Net income (loss) attributable to equity holders of the parent	**₱23,284,773**	(₱32,157,375)	₱198,021,336
Weighted average number of ordinary shares outstanding for basic earnings (loss) per share	**385,780,826**	385,860,826	385,065,901
Effect of dilutive stock warrants	**–**	48,103,273	37,829,267
Adjusted weighted number of shares applicable to diluted earnings (loss) per share	**385,780,826**	433,964,099	422,895,168
Earnings (loss) per share			
Basic	**₱0.060**	(₱0.083)	₱0.514
Diluted	**0.060**	(0.074)	0.468

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

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

17. 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, 2008, 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.

18. Commitments and Contingencies

In the ordinary course of business, the Group is a defendant in various litigations and claims. Although there can be no assurances, the Group believes, based on information currently available and the advise by its legal counsels, that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group.

The Group is a party to lawsuits and claims filed by third parties, which are pending decisions by the courts, the outcome of which is not presently determinable. In the opinion of the Group's management and its legal counsels, the eventual results of the lawsuits and claims will not have a material effect on the consolidated financial statements.

Also, MCHC entered into a contract to buy a certain parcel of land within a specifically controlled and planned development area known as the Bonifacio Global City, located in Fort Bonifacio, Taguig, Metro Manila owned by Fort Bonifacio Development Corporation. The Group has made deposits amounting to ₱46,319,625 as of December 31, 2008 and 2007 included under "Other noncurrent assets" in the consolidated balance sheets. The expected date of delivery of the lot will be in 2009.

The Group leases its surplus condominium spaces. Future minimum rental income of about ₱1.5 million from existing rental agreements will be recognized in 2009.

---

19. Financial Risk Management Objectives and Policies

Risk Management Structure

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

Financial Risk Management Objectives and Policies

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency 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 equities is reviewed regularly by the 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 balance sheet date, the Group's maximum exposure to credit risk is equal to the carrying amount of each class of financial assets recognized in the consolidated balance sheets.

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

Credit quality
As of September 30, 2009 and December 31, 2008, the credit quality per class of financial assets follows:

September 2009:

	Neither past due nor impaired				
	High Grade	**Standard Grade**	**Past due but not impaired**	**Individually impaired**	**Total**
Loans and receivables:					
Cash and cash equivalents	**₱165,601,843**	**₱–**	**₱–**	**₱–**	**₱165,601,843**
Short-term investments	**–**	**–**	**–**	**–**	**–**
Receivables	**3,965,059**	**–**	**–**	**91,510,187**	**95,475,246**
Fixed income deposits	**–**	**–**	**–**	**–**	**–**
Receivables from related parties	**895,921**	**–**	**–**	**97,373,076**	**98,268,997**
Financial assets at FVPL	**27,352,087**	**–**	**–**	**–**	**27,352,087**
HTM investments	**178,538,763**	**–**	**–**	**–**	**178,538,763**
AFS investments	**8,030,317**	**–**	**–**	**10,534,000**	**18,564,317**
	₱384,383,990	**₱–**	**₱–**	**₱199,417,263**	**₱583,801,253**

December 31, 2008:

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

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

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

The carrying amount of the Group's financial assets as at September 30, 2009 and December 31, 2008 and the movement of the allowance used to record the impairment are as follows:

September 30, 2009:

	Receivables	Receivables from related parties	AFS investments	**Total**
Nominal amounts	₱95,475,246	₱98,268,997	₱18,564,317	**₱212,308,560**
Less allowance for impairment losses	91,510,187	97,373,076	10,534,000	**199,417,263**
At September 30, 2009	₱3,965,059	₱895,921	₱8,030,317	**₱12,891,297**

December 31, 2008:

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

Movement in allowance for impairment losses account:

	Receivables (see Note 6)	Receivables from related parties	AFS investments	**Total**
At January 1, 2007	₱71,608,200	₱97,373,076	₱10,284,000	**₱179,265,276**
Recovery during the year	(557,306)	–	–	**(557,306)**
At December 31, 2007	71,050,894	97,373,076	10,284,000	**178,707,970**
Provision during the year	20,459,293	–	250,000	**20,709,293**
At December 31, 2008	₱91,510,187	₱97,373,076	₱10,534,000	**₱199,417,263**

There is no movement in the allowance for impairment losses as of September 30, 2009.

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 account receivables, 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 ₱20,709,293, nil and ₱40,849,314 in 2008, 2007 and 2006, respectively.

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

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

The table below summarizes the maturity profile of the Group's financial liabilities as of September 30, 2009 and December 31, 2008 based on contractual undiscounted payment:

As of September 30, 2009:

	Total carrying value	**Contractual undiscounted payments**		
		Total	**On demand**	**< 1 year**
Accounts payable and accrued expenses	**₱2,548,034**	**₱2,548,034**	**₱2,548,034**	**₱–**

As of December 31, 2008:

	Total carrying value	Contractual undiscounted payments		
		Total	On demand	< 1 year
Accounts payable and accrued expenses	₱3,161,118	₱3,161,118	₱3,161,118	₱–

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

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

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

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

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

The following table demonstrates management's best estimate of the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's equity due to changes in fair values of AFS debt securities (see Note 8):

	September 2009	December 2008
Change in interest rate (in basis points)		
+1,000	**₱–**	₱–
–1,000	**–**	–

In September, 2009 and December, 2008, the Group has no interest rate risk exposure as a result of the reclassification of its investment in debt securities from AFS to HTM investment category as discussed in Note 21.

b. Foreign currency risk

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

The Group holds cash denominated in US dollar for working capital purposes amounting to $30,192 (₱1,436,898) and $4,757 (₱219,497)as of September 30, 2009 and December 31, 2008 respectively.

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

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

	September 2009		December 2008	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash and cash equivalents	**$3,109,962**	**₱148,009,311**	$1,539,355	₱73,131,482
Receivables	**76,851**	**3,657,493**	77,835	3,698,722
Short-term investments	**–**	**–**	1,303,192	61,927,681
AFS investments	**–**	**–**	–	–
HTM investments	**3,989,763**	**189,880,801**	3,049,294	144,902,436
Fixed income deposits	**100,039**	**4,425,862**	–	–
Other noncurrent assets	**250,000**	**11,028,432**	250,000	11,028,432
	$7,526,615	**₱357,001,899**	$6,219,676	₱294,688,753

The Group has no foreign currency denominated monetary liabilities as of September 30, 2009 and December 31, 2008.

The exchange rate of the Philippine peso vis-à-vis the US dollar further decreased to ₱47.52 as of December 31, 2008 from ₱41.28 as of December 31, 2007. As a result of the translation of these foreign currency denominated assets, the Group had foreign exchange gains of ₱70,445,458 in 2008 and foreign exchange losses of ₱52,796,047 and ₱32,932,956 in 2007 and 2006, respectively.

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 2008, with all other variables held constant, of the Group's 2008 and 2007 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 % change in foreign currency rates:

	Effect on income before income tax
September, 2009	
US dollar	
Strengthened by 15%	**₱53,048,697**
Weakened by 15%	**(53,048,697)**
December, 2008	
US dollar	
Strengthened by 15%	₱43,789,048
Weakened by 15%	(43,789,048)

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 2008, with all other variables held constant, of the Group's income before income tax and equity:

Effect on income before income tax:

	September 2009	December 2008
Financial assets at FVPL:		
Change in PSE stock market index (%)		
+10%	**₱2,735,209**	₱1,379,203
–10%	**(2,735,209)**	(1,379,203)

Effect on equity:

	September 2009	December 2008
Investment in equity securities:		
Change in club share prices /other investments(%)		
+10%	**₱803,032**	₱800,124
–10%	**(803,032)**	(800,124)

20. Financial Instruments

Categories of Financial Instruments

As of September 30, 2009:

	Financial assets					
	Loans and receivables	**FVPL (Held for trading)**	**HTM**	**AFS**	**Nonfinancial assets**	**Total**
ASSETS						
Current:						
Cash and cash equivalents	**₱165,601,843**	**₱–**	**₱–**	**₱–**	**₱–**	**₱165,601,843**
Financial assets at FVPL	**–**	**27,352,087**	**–**	**–**	**–**	**27,352,087**
Short-term investments	**–**	**–**	**–**	**–**	**–**	–
Receivables:						
Third parties	**3,417,715**	**–**	**–**	**–**	**–**	**3,417,715**
Related parties	**547,344**	**–**	**–**	**–**	**–**	**547,344**
Fixed income deposits	**–**	**–**	**–**	**–**	**–**	**–**
HTM investments	**–**	**–**	**15,707,027**	**–**	**–**	**15,707,027**
Prepayments and other current assets	**–**	**–**	**–**	**–**	**5,581,586**	**5,581,586**
Noncurrent:						
Receivable from related parties	**895,921**	**–**	**–**	**–**	**–**	**895,921**
Investments in associates	**–**	**–**	**–**	**–**	**122,021,398**	**122,021,398**
Fixed income deposits	**4,925,862**	**–**	**–**	**–**	**–**	**4,925,862**
HTM investments	**–**	**–**	**178,538,763**	**–**	**–**	**178,538,763**
AFS investments	**–**	**–**	**–**	**8,030,317**	**–**	**8,030,317**
Property and equipment	**–**	**–**	**–**	**–**	**37,173,213**	**37,173,213**
Investment properties	**–**	**–**	**–**	**–**	**368,074,900**	**368,074,900**
Other noncurrent assets	**–**	**–**	**–**	**–**	**58,256,501**	**58,256,501**
TOTAL	**₱175,388,685**	**₱27,352,087**	**₱194,245,790**	**₱8,030,317**	**₱591,107,598**	**₱996,124,477**

As of December 31, 2008:

	Financial assets					
	Loans and receivables	FVPL (Held for trading)	HTM	AFS	Nonfinancial assets	Total
ASSETS						
Current:						
Cash and cash equivalents	₱101,358,385	₱–	₱–	₱–	₱–	₱101,358,385
Financial assets at FVPL	–	13,792,027	–	–	–	13,792,027
Short-term investments	62,205,165	–	–	–	–	62,205,165
Receivables:						
Third parties	3,809,428	–	–	–	–	3,809,428
Related parties	658,359	–	–	–	–	658,359
Fixed income deposits	4,425,862	–	–	–	–	4,425,862
HTM investments	–	–	7,154,632	–	–	7,154,632
Prepayments and other current assets	–	–	–	–	4,671,340	4,671,340

Noncurrent:						
Receivable from related parties	397,432	–	–	–	–	397,432
Investments in associates	–	–	–	–	135,321,385	135,321,385
Fixed income deposits	500,000	–	–	–	–	500,000
HTM investments	–	–	168,891,460	–	–	168,891,460
AFS investments	–	–	–	8,001,237	–	8,001,237
Property and equipment	–	–	–	–	35,325,536	35,325,536
Investment properties	–	–	–	–	368,074,900	368,074,900
Other noncurrent assets	–	–	–	–	59,813,919	59,813,919
TOTAL	₱173,354,631	₱13,792,027	₱176,046,092	₱8,001,237	₱603,207,080	₱974,401,067

As of September 30, 2009:

	Other financial liabilities	**Non-financial liabilities**	**Total**
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	**₱1,011,507**	**₱–**	**₱1,011,507**
Accrued expenses	**533,996**	**–**	**533,996**
Others	**1,002,531**	**–**	**1,002,531**
Income tax payable	**–**	**595,538**	**595,538**
Noncurrent:			
Retirement benefit obligations	**–**	**2,243,405**	**2,243,405**
Deferred income tax liabilities	**–**	**20,584,494**	**20,584,494**
TOTAL	**₱2,548,034**	**₱23,423,437**	**₱25,971,471**

As of December 31, 2008:

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Current:			
Accounts payable and accrued expenses:			
Deposits payable	₱1,053,431	₱–	₱1,053,431
Accrued expenses	612,067	–	612,067
Others	1,495,620	–	1,495,620
Income tax payable	–	673,638	673,638
Noncurrent:			
Retirement benefit obligations	–	2,243,405	2,243,405
Deferred income tax liabilities	–	20,584,494	20,584,494
TOTAL	₱3,161,118	₱23,501,537	₱26,662,655

Fair Values

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

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

Short-term investments are fixed-rate time deposits denominated in US dollar with a maturity of over three months but within one year from the balance sheet date and earn annual interest of 3.25% to 4.0% in 2008 and 5.0% in 2007. 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 10.0% in 2008 and 5.5% in 2007. 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 8.2% to 8.8% in 2008.

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 8.2% to 8.8% in 2008.

Fair values and carrying amount comparison of financial instruments as of September 30, 2009 and December 31,2008 are as follows:

	September 2009		December 2008	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Current:				
Cash and cash equivalents	**₱165,601,843**	**₱165,601,843**	₱101,358,385	₱101,358,385
Financial assets at FVPL	**27,352,087**	**27,352,087**	13,792,027	13,792,027
Short-term investments	**–**	**–**	62,205,165	62,205,165
Receivables:				
Third parties	**3,417,715**	**3,417,715**	3,809,428	3,809,428
Related parties	**547,344**	**547,344**	658,359	658,359
Fixed income deposits	**–**	**–**	4,425,862	4,425,862
HTM investments				
Debt securities	**15,707,027**	**15,707,027**	7,154,632	6,559,503
Noncurrent:				
Receivable from related parties	**895,921**	**895,921**	397,432	320,300
Fixed income deposits	**4,925,862**	**4,925,862**	500,000	623,532
AFS investments:				
Debt securities	**–**	**–**	–	–
Equity securities	**8,030,317**	**8,030,317**	8,001,237	8,001,237
HTM investments:				
Debt securities	**178,538,763**	**178,538,763**	168,891,460	131,997,548
Financial liabilities:				
Current:				
Accounts payable and accrued expenses:				
Deposits payable	**1,011,507**	**1,011,507**	1,053,431	1,053,431
Accrued expenses	**533,996**	**533,996**	612,067	612,067
Others	**1,002,531**	**1,002,531**	1,495,620	1,495,620
Noncurrent:				
Payable to related parties	**–**	**–**	–	–

21. Reclassification of Financial Assets

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

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

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

	December 31, 2007	July 1, 2008	December 31, 2008
Debt securities	₱209,274,615	₱193,662,715	₱176,046,092

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 minority interest of ₱1.3 million), which is presented as "Net unrealized gains (losses) on changes in fair value of AFS investments" in the 2008 consolidated balance sheet and is amortized over the remaining life of the investment using the effective interest method.

After reclassification, the Group recognized the amortization of the net unrealized loss on changes in fair value of the reclassified AFS investments of ₱9.2 million in 2008 and is presented as "Amortization of unrealized losses on changes in fair value of AFS investments" in the 2008 consolidated statement of income. As of September 30, 2009, the unamortized unrealized loss on changes in fair value of the reclassified AFS investments amounted to ₱11.0 million.

If the reclassification had not been made, the Group's equity for the year ended December 31, 2008 would have included an additional unrealized loss on changes in fair value of AFS investments amounting to ₱28.3 million.

The current portion of the HTM investments amounted to ₱15,707,027 as of September 30, 2009.

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 periods ended September 30, 2009 and December 31, 2008. The Group is not exposed to externally imposed capital requirements.

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

	September 2009	December 2008
Accounts payable and accrued expenses	**₱2,548,034**	₱3,161,118
Payables to related parties	**–**	–
Less cash and cash equivalents	**165,601,843**	101,358,385
Net debt	**(163,053,809)**	(98,197,267)
Equity attributable to equity holders of the parent	**923,093,489**	901,067,770
Less unrealized gains (losses) on changes in fair value of AFS investments	**(10,992,591)**	(14,949,028)
Total capital	**912,100,898**	886,118,742
Total capital and net debt	**₱749,047,089**	₱787,921,475
Gearing ratio	**(21.77%)**	(12.46%)

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

The noncash activities pertain to the reclassification of investments in debt and equity securities of ₱ 193.7 million from AFS to HTM investment category in July 1, 2008 as discussed in Note 21.

F & J PRINCE HOLDINGS CORPORATION AND SUBSIDIARY
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2009

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.	127,591	4,863					132,454	132,454
Magellan Capital Corporation	283,660	5,963					289,623	289,623
Magellan Capital Trading Corporation	136,596	4,863					141,459	141,459
Pointwest Technologies Corp.	41,946	323,604	365,550					0
Others	21,569						21,569	21,569
	611,362	339,293	365,550				585,105	585,105