

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 – Q**

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

1. For the quarterly period ended September 30, 2009
2. Commission identification no. 12397 3. BIR Tax Identification No. 000-107-026
4. Bacnotan Consolidated Industries, Inc.
Exact name of registrant as specified in its charter
5. Manila, Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code : _____
7. 12/f, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City 1210
Address of registrant's principal office
8. (632) 870-01-00
Registrant's telephone number, including area code
9. Former name, former address, and former fiscal year, if changed since last report : N/A
10. Common Shares - 257,737,307 shares issued and outstanding
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 the classes of securities listed therein:

Philippine Stock Exchange, Inc.

Common Shares

12. Indicate by check mark whether the registrant :
 - (a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 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 []

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1 Financial Statement

Consolidated Balance Sheets September 30, 2009 and December 31, 2008	3 - 4
Unaudited Consolidated Statements of Income Nine (9) Months ended September 30, 2009 and 2008	5
Unaudited Consolidated Statements of Comprehensive Income Nine (9) Months ended September 30, 2009 and 2008	6
Consolidated Statement of Cash Flows Nine (9) Months ended September 30, 2009 and 2008	7
Statement of Changes in Equity September 30, 2009 and 2008 and December 31, 2008	8 - 9
Notes to Consolidated Financial Statements	10

Item 2 Management's Discussion and Analysis of Financial Condition And Results of Operations	48
---	----

PART II – OTHER INFORMATION	58
------------------------------------	----

SIGNATURES	62
-------------------	----

BACNOTAN CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	Unaudited	Audited
	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	915,773	1,809,871
Short-term investments	42,597	86,817
Investments held for trading (Note 8)	511,057	787,295
Trade and other receivables - net (Note 9)	617,917	408,809
Inventories - at lower of cost or net realizable value (Note 10)	563,147	920,305
Other current assets – net	94,904	103,126
Current assets of discontinued operations	-	165,899
Total Current Assets	2,745,395	4,282,122
Noncurrent Assets		
Investments in associates - at equity (Note 11)	1,302,689	1,251,378
Available-for-sale investments - net (Note 12)	398,651	331,519
Property, plant and equipment - net (Note 13)	2,223,939	1,164,790
Investment properties - net (Note 14)	538,457	544,037
Installment contract receivable - net of current portion (Note 5)	289,575	-
Intangibles - net (Note 15)	1,138,099	420,078
Other noncurrent assets – net	56,412	49,481
Noncurrent assets of discontinued operations	-	430,654
Total Noncurrent Assets	5,947,822	4,191,937
	₱8,693,217	₱8,474,059

LIABILITIES AND EQUITY

Current Liabilities

Notes payable (Note 16)	193,223	123,818
Trade and other payables (Note 17)	439,062	423,431
Unearned revenues (Note 4)	87,658	73,513
Trust receipts payable (Note 25)	89,051	537,252
Current portion of long-term debt (Note 18)	88,356	88,356
Current liabilities of discontinued operations	-	27,960
Total Current Liabilities	897,350	1,274,330

(Forward)

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
Noncurrent Liabilities		
Long-term debt - net (note 18)	₱514,729	₱400,499
Deferred rent revenue - net of current portion (note 4)	50,726	50,726
Deferred tax liabilities – net (note 26)	375,920	101,613
Other noncurrent liabilities	48,945	12,957
Noncurrent liabilities of discontinued operations	-	18,910
Total Noncurrent Liabilities	990,320	584,705
Equity		
Equity attributable to equity holders of the parent:		
Capital stock (Note 19)	2,577,249	2,577,249
Additional paid-in capital	255,785	255,785
Share in equity component of convertible notes	13,443	13,443
Share in unrealized gain on change in fair value of available-for-sale investments of associates (Note 11)	2,170	5,054
Unrealized gain (loss) on change in fair value of available-for-sale investment (Note 12)	380	(600)
Cumulative translation adjustment	299	-
Retained earnings (Note 19)	3,122,652	2,938,312
Minority interest	833,569	825,781
Total Equity	6,805,547	6,615,024
	₱8,693,217	₱8,474,059

BACNOTAN CONSOLIDATED INDUSTRIES, INC.
UNAUDITED CONSOLIDATED INCOME STATEMENTS

(In Thousand Pesos)

	QUARTER ENDED		NINE (9) MONTHS ENDED	
	AS OF SEP. 30,		AS OF SEP. 30,	
	2009	2008	2009	2008
CONTINUING OPERATIONS :				
REVENUES (Note 20)	969,419	878,885	2,871,947	2,431,266
COST OF SALES (Note 21)	686,261	666,723	2,135,157	1,911,751
GROSS PROFIT	283,158	212,162	736,790	519,515
OPERATING EXPENSES (Note 22)	159,267	74,927	503,100	235,721
INCOME FROM OPERATIONS	123,891	137,235	233,690	283,794
FINANCIAL CHARGES	(28,594)	(17,210)	(66,201)	(57,472)
EQUITY IN NET EARNINGS OF INVESTEEES (Note 11)	23,865	10,261	86,305	41,737
NET GAIN (LOSS) ON DERIVATIVES (Note 25)	8,252	(19,752)	27,287	(48,002)
FOREIGN EXCHANGE GAIN (LOSS)	(9,603)	64,050	3,791	171,643
OTHER INCOME (EXPENSES) - Net	4,827	(4,192)	10,704	(8,352)
INCOME (LOSS) BEFORE INCOME TAX	122,638	170,392	295,576	383,348
PROVISION FOR INCOME TAX (Note 26)	20,421	36,804	41,492	79,845
NET INCOME FROM CONTINUING OPERATIONS	102,217	133,588	254,084	303,503
DISCONTINUED OPERATIONS :				
INCOME FOR THE PERIOD (Note 5)	-	(1,762)	71,858	13,178
NET INCOME FOR THE PERIOD	102,217	131,826	325,942	316,681
Attributable To :				
Equity holders of the parent	80,051	115,660	287,435	276,798
Minority	22,166	16,166	38,507	39,883
Net income	102,217	131,826	325,942	316,681
Basic Earnings Per Common Share - attributable to Equity				
Holders of the Parent	0.31	0.45	1.12	1.07

BACNOTAN CONSOLIDATED INDUSTRIES, INC.
**Unaudited Consolidated Statements of Comprehensive
Income**

As of September 30, 2009 and 2008

in thousands

	UNAUDITED	
	Nine (9) Months Ended	
	September 30,	
	2009	2008
Net Income for the period	325,942	316,681
Other comprehensive income		
Share in unrealized gain (loss) on change in fair value of available-for-sale investments of associates	(2,884)	(6,168)
Unrealized gain (loss) on change in fair value of available-for-sale investments	980	(561)
Cumulative translation adjustments	299	-
Total	(1,605)	(6,729)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	324,337	309,952
Total comprehensive income attributable to :		
Equity holders of the parent	285,830	270,069
Minority interest	38,507	39,883
	324,337	309,952

BACNOTAN CONSOLIDATED INDUSTRIES INC. AND SUBSIDIARIES

Unaudited Consolidated Statements of Cash Flows

For the Nine (9) months ended September 30, 2009 and 2008

in thousands

	September 30, 2009	September 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	295,519	398,261
Adjustments for:		
Equity in net earnings of investees	(86,305)	(41,737)
Other non-cash adjustments	209,580	6,608
Dividend income	(3,791)	(2,724)
Income tax paid	(50,509)	(61,839)
Changes in working capital	(68,944)	(204,684)
<i>Cash provided by operating activities</i>	295,550	93,885
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other noncurrent assets	10,100	(29,340)
Business combination - cash paid net of cash from business acquired	(923,284)	-
Dividend received	3,791	28,616
Settlement of derivative liability	(9,916)	31,158
Decrease (increase) in		
Short term investments	43,499	(67,471)
Financial assets at fair value through profit and loss	297,010	435,625
Investments	(289)	(63,351)
Property and equipment	(74,070)	(95,646)
Available for sale investments	(66,152)	(19,905)
Net cash generated from (used in) investing activities	(719,311)	219,686
Downpayment from sale of investments	77,250	-
<i>Net cash used in investing activities</i>	(642,061)	219,686
CASH FLOW FROM FINANCING ACTIVITIES		
Increase (decrease) in borrowings	(444,566)	737
Payment of cash dividends	(102,151)	-
<i>Net cash used in financing activities</i>	(546,717)	737
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(893,228)	314,308
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	(871)	89,100
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,809,871	1,660,878
<i>CASH AND CASH EQUIVALENTS AT END OF YEAR</i>	915,773	2,064,286

BACNOTAN CONSOLIDATED INDUSTRIES, INC.
Statement of Changes in Equity
(in thousands)

	UNAUDITED JAN. - SEP. 2009	UNAUDITED JAN. - SEP. 2008	AUDITED December 2008
CAPITAL STOCK - P10 par value			
Common shares - net of subscription receivable of P124 in Sept. 2009 & 2008 and Dec. 31, 2008			
Balance at beginning of year	2,577,249	2,342,942	2,342,942
Stock dividends - 10% in Dec. 2008	-	234,307	234,307
Balance at end of year	2,577,249	2,577,249	2,577,249
ADDITIONAL PAID-IN CAPITAL	255,785	255,785	255,785
SHARE IN EQUITY COMPONENT OF CONVERTIBLE NOTES	13,443	13,443	13,443
SHARE IN UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS OF ASSOCIATES			
Balance at beginning of year	5,054	24,784	24,784
Changes in fair value during the year	(2,884)	(6,168)	(19,730)
Balance at end of year	2,170	18,616	5,054
UNREALIZED GAIN (LOSS) ON CHANGE IN FAIR VALUE OF AN AVAILABLE-FOR-SALE INVESTMENTS			
Balance at beginning of year	(600)	1,151	1,151
Increase (decrease) in fair value gains on available-for-sale investments	980	(561)	(1,751)
Balance at end of year	380	590	(600)
CUMULATIVE TRANSLATION ADJUSTMENTS	299	-	-
RETAINED EARNINGS			
Appropriated for future investments	1,000,000	1,000,000	1,000,000
Unappropriated :			
Balance beginning of year	1,938,312	1,899,459	1,899,459

Net Income	287,435	276,798	273,160
Cash dividends on common shares	(103,095)	(234,307)	-
Stock dividends on common shares - 10% in 2008	-	-	(234,307)
	-	-	-
	2,122,652	1,941,950	1,938,312
MINORITY INTEREST			
Balance at beginning of year	825,781	781,344	781,344
Net income	54,521	39,883	44,067
Dividends	(26,842)	(5,363)	(21,963)
Business combination	(19,891)	-	21,632
Subscriptions	-	603	701
Balance at end of year	833,569	816,467	825,781
TOTAL EQUITY	6,805,547	6,624,100	6,615,024

BACNOTAN CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

1. Corporate Information

Bacnotan Consolidated Industries, Inc. (the “Parent Company” or “BCII”) and the following subsidiaries (collectively referred to as the “Company”), except for One Animate Limited (OAL) which is incorporated in Hong Kong, are incorporated in the Philippines and separately registered with the Philippine Securities and Exchange Commission (SEC):

Name of Subsidiaries	Percentage of Ownership	
	Sept. 2009	Dec. 2008
Atlas Holdings Corporation (AHC)	90.00	90.00
Union Galvasteel Corporation (UGC)	80.50	80.50
OAL and subsidiary	80.00	80.00
Pamantasan ng Araullo (Araullo University), Inc.	78.64	78.64
Cagayan de Oro College, Inc. (COC)	74.35	74.35
University of Pangasinan (UPANG)	70.00	-
University of Iloilo (UI)	70.00	-
P & S Holdings Corporation (PSHC)	60.00	60.00
Asian Plaza, Inc. (API)	57.62	57.62

OAL owns 95% interest in Toon City Animation, Inc. (Toon City).

The Parent Company’s principal activity is investment holdings in subsidiaries and associates and financial assets. The principal activities of its subsidiaries are as follows:

Name of Subsidiaries	Principal Activities
AHC	Investment holdings
UGC	Manufacture of galvanized and pre-painted iron sheets and allied products for roofing
OAL and Toon City	Business process outsourcing for animation services
Araullo University	Educational institution offering elementary, secondary and tertiary formal education, and post-graduate courses, as well as, post-secondary certificate courses
COC	Educational institution offering elementary, secondary and tertiary formal education, and post-graduate courses
University of Pangasinan	Educational institution offering elementary, secondary and tertiary formal education. Located in Dagupan City
University of Iloilo	Educational institution offering elementary, secondary and tertiary formal education. Located in Iloilo City
PSHC	Real property holdings
API	Lease of real property

The registered office address of the Parent Company is 12th Floor, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City.

The parent company of BCII is Philippine Investment-Management (PHINMA), Inc. BCII is also controlled by PHINMA under an existing management agreement. PHINMA is incorporated in the Philippines.

The accompanying unaudited consolidated financial statements of the Company were authorized for issuance by the Board of Directors (BOD) on October 26, 2009.

2. Basis of Preparation and Statement of Compliance

The accompanying consolidated financial statements of the Company have been prepared using the historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative assets and liabilities that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest thousand peso unless otherwise stated.

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

3. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new standard, amendments and revisions to existing standards which became effective on January 1, 2009 and Philippine Interpretations on International Financial Reporting Interpretation Committee (IFRIC) that became effective on July 1, 2008 and October 1, 2008. Other than the Amendments to Philippine Accounting Standards (PAS) 1 and PFRS 7, adoption of these changes in PFRS did not have any significant effect to the Company:

- Amendments to PAS 1, Presentation of Financial Statements

This Amendment introduces a new statement of income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the financial position and owner's equity as well as additional disclosures to be included in the financial statements. Adoption of this Amendment will not have any significant impact on the Consolidated Financial Statements.

- PFRS 7, *Financial Instruments: Disclosures*

This Amendment requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between level 1 and 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 25 to the consolidated financial statements, and the liquidity risk disclosures are not significantly impacted by the amendments.

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

The amended standard 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 revised standard clarifies 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”

The Standard 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 Company 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. The Company will assess the impact of this standard to its current manner of reporting segment information.

- PAS 23, “Borrowing Costs”

The revised 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. The Company’s current accounting policy requires capitalization of borrowing costs that relates to a qualifying asset in accordance with PAS 23.

- Amendments to PAS 27, “Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”

This amendment prescribes 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 profit or

loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, “Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation”

This amendment specifies, 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 PFRSs

In May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments to the following standards below did not have any significant impact on the accounting policies, financial position or performance on the Consolidated Financial Statements of the Company :

- 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, "Investment 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, "Interest 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 Company 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 Properties”

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.

4. **Summary of Significant Accounting Policies**

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company.

OAL has been included in the consolidated financial statements using the purchase method of accounting. Accordingly, the consolidated statements of income and cash flows include the results of operations and cash flows of OAL from its initial acquisition date (December 24, 2008) to December 31, 2008. The purchase considerations have been allocated to the assets and liabilities on the basis of their fair value at the date of acquisition.

Minority interest represents the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and is presented in the consolidated statement of income and within equity in the consolidated balance sheet, separately from equity attributable to equity holders of the parent. 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.

Business Combination

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Cash and Cash Equivalents

Cash includes cash on hand and in 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 and that are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments represent investments that are readily convertible to known amounts of cash with original maturities of more than three months to one year.

Financial Assets and Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Company 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.

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

For all other financial instruments not quoted in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value

techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (Day 1 Gain or Loss) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where data which is not observable is used, 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 Company determines the appropriate method of recognizing the "Day 1 Gain or Loss" amount.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, 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 are classified into the following categories: Financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS investments. Financial liabilities are classified into: Financial liabilities at FVPL, and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- Financial Assets and Financial Liabilities at FVPL

Financial Assets or Financial Liabilities Designated as at FVPL on Initial Recognition

Financial assets or financial liabilities classified in this category included those that are designated by management on initial recognition as at FVPL when any of the following criteria are met:

- a. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- b. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- c. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities designated as at FVPL are recorded in the consolidated balance sheet at fair value. Changes in fair value on financial assets and liabilities designated at FVPL are recorded in the consolidated statement of income under investment income. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded according to the terms of the contract, or when the right to receive has been established.

The Company has no financial asset or financial liability designated on initial recognition as at FVPL.

Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are also included in this category and are classified under financial assets and liabilities at FVPL. These financial instruments are recorded in the consolidated balance sheet at fair value. Changes in fair value relating to the held-for-trading positions are recognized in the consolidated statement of income as net gain (loss) on investment held for trading under investment income. Interest earned or incurred is recorded in investment income and interest expense and other financial charges, respectively, while dividend income is recorded when the right to receive payment has been established.

The Company's investments in bonds, unit investment trust funds (UITFs), trust accounts, marketable equity securities and managed funds are classified as investments held for trading (see Note 8).

Derivatives recorded at FVPL

The Company enters into short-term forward currency contracts to hedge its currency exposure. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Company has opted not to designate its derivative transactions under hedge accounting. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The fair values of freestanding forward currency transactions are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Company's derivative assets or liabilities are classified as financial assets or liabilities at FVPL (see Note 30).

- **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within one year from the balance sheet date, and as noncurrent assets if maturity date is more than one year from the balance sheet date.

The Company's cash and cash equivalents, short-term investments and trade and other receivables and installment contract receivables are classified as loans and receivables (see Notes 7 and 9).

- **HTM Investments**

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in consolidated statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. HTM investments are classified as current if maturity is within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

The Company did not classify any financial asset under HTM investments.

- **AFS Investments**

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. AFS financial assets are classified as current if they are expected to be realized within 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

The Company's investments in quoted and unquoted equity securities and other investments are classified as AFS financial assets (see Note 12).

Other Financial Liabilities

Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

The Company's notes payable, trade and other payables, trust receipts payable, due to related parties and long-term debt are classified as other financial liabilities.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at fair value through profit or loss.

Embedded derivatives are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The Company makes a reassessment on whether an embedded derivative is to be separated from the host contract only if there is a change to the contract that significantly modifies the cashflows.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) 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). The carrying amount of the asset is reduced through the use of an allowance

account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are 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 Company. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognized in the consolidated statement of income. 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.

The Company 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. For the purpose of specific evaluation of impairment, the Company assesses whether financial assets are impaired through assessments of collectibility of financial assets considering the debtor's capacity to pay, history of payment, and the availability of other financial support. For the purpose of a collective evaluation of impairment, if necessary, financial assets are grouped on the basis of such credit risk characteristics such as debtor type, payment history, past-due status and terms.

Assets Carried at Cost. If there is objective evidence (such as continuing losses or significant financial difficulties of the investee company) that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, this 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 is 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. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in the fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS, impairment is based on the same criteria as loans and receivables and HTM investments. Future interest income is based on the reduced amount based on the rate of the 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 the subsequent year, the fair value of a debt instrument can be objectively related to an asset occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

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; or
- the Company 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 Company 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 Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 Company’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 Company 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 profit or loss.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet when there is a currently legal right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Inventories

Inventories, excluding land held for sale and development costs, are valued at the lower of cost or net realizable value. Costs incurred in bringing each inventory to its present location and condition are accounted for as follows:

- | | | |
|---------------------------------------|---|--|
| Finished goods | - | determined using the moving average method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs; |
| Raw materials, spare parts and others | - | determined using the moving average method. |

Land held for sale are valued at the lower of cost, which includes expenditures for development and improvements, or net realizable value.

The net realizable value of inventories, except spare parts, is the selling price in the ordinary course of business, less costs to complete, sell and distribute. The net realizable value of spare parts is the current replacement cost.

Investments in Associates

The Company's investments in its associates are accounted for under the equity method. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Company's share in net assets of the associates, less any impairment in value. The consolidated statement of income reflects the Company's share in the results of operations of the associates. Unrealized gains arising from transactions with its associates are eliminated to the extent of the Company's interest in the associates against the related investments. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred. The Company's investment in an associate includes goodwill on acquisition, which is recorded in accordance with the accounting policy for goodwill.

When the Company's accumulated share in net losses of an associate equals or exceeds the carrying amount of the investment, including advances for future conversion to equity, the Company discontinues the recognition of its share in additional losses and the investment is reported at nil value. If the associate subsequently reports net income, the Company will resume applying the equity method only after its share in that net income equals the share in net losses not recognized during the period the equity method was suspended.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and any impairment loss. Land is carried at cost less any impairment loss. The cost of property, plant and equipment, comprises its purchase price, including any applicable import duties and capitalized borrowing costs (for property, plant and equipment other than land) and other costs directly attributable to bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to current operations in the year the costs are incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Plant site improvements	10–20 years
Buildings and improvements	10–20 years
Port facilities and equipment	22.5 years
Machinery and equipment	5–20 years
Transportation and other equipment	2–10 years

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

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are met.

An item of property, plant 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 the difference between the net disposal proceeds and carrying amount of the asset) is credited or charged to current operations.

Construction in-progress represents plant and properties under construction/development and is stated at cost. This includes cost of construction, plant and equipment, borrowing costs directly attributable to such asset during the construction period and other direct costs. Construction in-progress is not depreciated until such time when the relevant assets are completed and ready for operational use.

Investment Properties

Investment properties are measured initially at cost, including direct transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment loss.

Depreciation is calculated on a straight-line basis over the estimated useful lives of 15 and 20 years.

Investment property is derecognized when either it has 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.

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.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Where the costs of the business combination and the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities are determined provisionally, goodwill is initially measured using those provisional values. The Company recognizes any adjustments to these provisional values and to the goodwill initially recognized, as a result of completing the initial accounting within twelve months from the acquisition date. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Company's primary or the Company's any secondary reporting format determined in accordance with PAS 14, "Segment Reporting."

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

impairment loss is recognized. Where goodwill forms part of a cash-generating unit (group of cash-generating units) 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.

Intangible Assets

The cost of intangible assets acquired in a business combination is the fair value as of date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over three years and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method are reviewed at least at each financial yearend. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Provisions

Provisions are recognized when the Company 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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase due to the passage of time is recognized as interest expense.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods. Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Tuition and School Fees. Income from tuition and school fees is recognized as income when earned based on a time-proportion basis. Tuition and school fees received pertaining to the summer semester and the next school year are recorded as "Unearned revenues" in the consolidated balance sheet.

Rental. Revenue is recognized on a straight-line basis over the lease term.

Interest. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset. Interest is included as part of "Investment income."

Retirement Costs

BCII, Araullo University, COC and UGC have distinct funded, noncontributory defined benefit retirement plans covering all permanent employees, each administered by their respective Retirement Committees. Retirement costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each plan at the end of the previous financial reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost, if any, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension 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 an 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 or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Leases

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

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified 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 gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and

expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication exists and if the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. An asset's 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its 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 assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For 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 estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following criteria are also applied in assessing impairment of specific assets:

Investments in Associates. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the investee companies. The Company determined at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Company calculates the amount of impairment being the difference between the fair value and the carrying value of the investee company and recognizes the difference in the consolidated statement of income.

Impairment of Goodwill. A test of impairment of goodwill is performed annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Foreign Currency-denominated Transactions

The consolidated financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the balance

sheet date. Exchange gains or losses arising from foreign currency-denominated transactions are credited or charged to current operations.

Income Taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused excess MCIT and unused NOLCO can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Earnings Per Common Share (EPS) attributable to the equity holders of the Parent

Basic EPS is computed by dividing net income (after deducting dividends on preferred shares) attributable to the common shareholders by the weighted average number of outstanding common shares during the year after giving retroactive effect to any stock dividend declared during the year.

The Company does not have potential common shares nor other instruments that may entitle the holder to common shares. Hence, diluted EPS is the same as basic EPS.

Segment Reporting

The Company is organized into five major business segments. Such business segments are the bases upon which the Company reports its primary segment information. Financial information on business segments is presented in Note 28 to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They 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 disclosed when an inflow of economic benefits is probable.

5. Discontinued Operations

On January 17, 2008, the Company together with the other shareholders of Bacnotan Industrial Park Corporation (BIPC), entered into a Memorandum of Agreement (MOA) with Phoenix Petroleum Philippines, Inc. (Phoenix) for the sale of all the issued and outstanding common shares of BIPC to Phoenix. On March 10, 2009, the Company together with the other shareholders, signed a Share Purchase Agreement with Phoenix whereby the Company sold to Phoenix all of the Company's 60% equity interest in BIPC for a consideration payable approximately 18% down payment, the balance in monthly installments over a period of five (5) years.

6. Acquisitions of Toon City Animation, Inc. UPANG and UI

Acquisition of Toon City Animation, Inc.

OAL, a limited liability company incorporated in Hong Kong in October 2008 was used as an acquisition vehicle in the purchase of the shares of stock of Toon City. On December 24, 2008, the Company, through OAL, acquired an effective interest of 76% in Toon City, a fifteen-year old animation studio in the Philippines providing services to clients abroad. OAL owns 95% equity interest in Toon City.

The fair values of the identifiable acquired assets and liabilities as of the date of acquisition determined provisionally are as follows:

Fair Value Recognized
on Acquisition
(Determined Provisionally)

	<i>(In Thousands)</i>
Cash and cash equivalents	₱723
Receivables	20,492
Prepayments and other current assets	2,746
Property and equipment	13,362
Customer contracts	90,525
Refundable deposits and other noncurrent assets	19,851
	<u>147,699</u>
Accounts payable and accrued expenses	(25,265)
Loans payable	(15,000)
Deferred tax liability	(27,158)
	<u>(67,423)</u>
Net assets	<u>80,276</u>

Acquisition of UPANG

On February 2, 2009, the Company purchased completed the First Closing on a transaction to acquire 60.90% of the capital stock of UPANG, a university with principal office and campus located at Dagupan City.

The fair values of the identifiable acquired assets and liabilities as of the date of acquisition determined provisionally are as follows:

	Fair Value Recognized on Acquisition (Determined Provisionally) <i>(In Thousands)</i>
Cash and cash equivalents	₱444
Receivables	10,271
Inventories	692
Property and equipment	653,943
Students lists	83,797
Investments and other noncurrent assets	2,178
	<u>751,327</u>
Accounts payable and accrued expenses	(13,136)
Loans payable	(330,000)
Deferred tax liability	(181,956)
Minority interest	(1,483)
	<u>(526,575)</u>
Net assets	<u>224,752</u>

Acquisition of UI

On February 25, 2009, the Company completed the closing on the purchase of 34,997 shares of University of Iloilo (UI) in the amount of P315 million, with the Company shouldering the corresponding taxes. The Company likewise completed the subscription and payment for 1,190,000 shares in UI at P100.00 per share or a total of P119 million. The shares represent 70% interest in UI after the issuance of new shares.

The fair values of the identifiable acquired assets and liabilities as of the date of acquisition determined provisionally are as follows:

Fair Value Recognized

	on Acquisition (Determined Provisionally) <i>(In Thousands)</i>
Cash and cash equivalents	P178,600
Receivables	46,268
Inventories	1,609
Prepaid expenses	127
Property and equipment	480,362
Students lists	40,762
	<u>747,728</u>
Retirement payable	(160,876)
Accounts payable and accrued expenses	(40,311)
Advances from shareholders	(5,000)
Deferred tax liability	(139,280)
	<u>(345,467)</u>
Net assets	402,261

7. Cash and Cash Equivalents

This account consists of:

	Sep. 30, 2009	Dec.31, 2008
	<i>(In Thousands)</i>	
Cash on hand and in banks	P89,055	P56,039
Short-term deposits	826,718	1,753,832
	P915,773	P1,809,871

Cash in banks earn interest at applicable market rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposit rates.

8. Investments Held for Trading

This account consists of:

	Sep. 30, 2009	Dec.31, 2008
	<i>(In Thousands)</i>	
Investments in:		
Bonds	P303,881	P691,105
UITFs	181,341	76,949
Trust accounts	23,185	17,682
Marketable equity securities	2,650	1,559
	P511,057	P787,295

9. Trade and Other Receivables

This account consists of:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
Trade	P568,792	P411,756
Due from related parties	44,645	32,127
Current portion of installment contract receivable (Note 5)	61,425	-
Accrued interest	6,327	21,269
Advances to suppliers and contractors	11,215	9,300
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	8,939	8,939
Advances to officers and employees	4,012	1,615
Others	36,778	39,327
	742,133	524,333
Less allowance for doubtful accounts	124,216	115,524
	P617,917	P408,809

10. Inventories

This account consists of:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
At cost:		
Finished goods	P401,857	P836,262
Raw materials	133,723	41,869
Other inventories	3,089	5,827
At net realizable value -		
Spare parts and others	24,478	36,347
	P563,147	P920,305

11. Investments in Associates

This account consists of the Company's investments in the following entities:

	Percentage of Ownership	
	Direct	Indirect
Phinma Property Holdings Corporation (PPHC)	35.35	-
Trans-Asia Oil and Energy Development Corporation (TA Oil)	27.05	-
AB Capital and Investment Corporation (AB Capital)	26.51	1.67
Luzon Bag Corporation ^(a)	20.61	-
Asia Coal Corporation (Asia Coal) ^{(a) (b)}	12.08	5.99

^(a) Ceased commercial operations

^(b) Considered as an associate although percentage of ownership is below 20% since the Company has significant influence as evidenced in its representation in the BOD.

The movements and details of investments in associates are as follows:

	Sep. 30, 2009	Dec. 31, 2008
--	---------------	---------------

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
Acquisition costs:		
Balance at beginning of year	P1,536,993	P1,473,643
Additions	289	63,350
Balance at end of year	1,537,282	1,536,993
Accumulated equity in net losses:		
Balance at beginning of year	(290,669)	(306,362)
Equity in net earnings for the year	93,011	41,586
Dividends received	(39,105)	(25,893)
	(236,763)	(290,669)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	5,054	24,784
Change in fair value during the year	(2,884)	(19,730)
Balance at end of year	2,170	5,054
	P1,302,689	P1,251,378

The detailed carrying values of investments in associates which are accounted for under the equity method are as follows:

	Sep. 30, 2009	Dec.31, 2008
	<i>(In Thousands)</i>	
TA Oil*	P818,559	P772,644
PPHC	317,401	323,976
AB Capital	166,467	154,496
Asia Coal	262	262
	P1,302,689	P1,251,378

Status of operations and significant transactions of certain associates are as follows:

a. TA Oil

TA Oil is involved in power generation and oil and mineral exploration activities.

On March 16, 2009, the BOD of TA Oil declared a cash dividend of P0.04 a share to all common shareholders of record as of March 30, 2009 which was paid on April 27, 2009.

On March 25, 2008, the BOD of TA Oil declared a cash dividend of P0.04 a share to all common stockholders of record as of April 11, 2008. The Company received P18 million cash dividends from TA Oil.

TA Oil has 100% equity interest in CIP II Power Corporation (CIPP) which operates a 21 MW Bunker C-fired power plant in CIP II Special Economic Zone in Calamba, Laguna.

b. PPHC

PPHC is engaged in real estate development, principally in low and middle cost housing and vertical development.

On March 3, 2009, the BOD of PPHC declared regular and special cash dividend of P0.005 a share to all common stockholders of record as of March 17, 2009 payable in equal quarterly

payment beginning April 15, 2009. The Company received ₱21 million cash dividends from PPHC.

On April 15, 2008, the SEC approved the stock rights offering at the rate of 1 share for every 3 shares held as of record date of April 30, 2008, at a price of ₱0.12 per share. The availment period was from May 1 to 30, 2008. The Company availed of the stock rights offering and paid ₱63.4 million for 527.9 million shares.

On March 27, 2008, the BOD of PPHC declared cash dividend of ₱0.005 a share to all common stockholders of record as of March 31, 2008. The Company received ₱7.9 million cash dividends from PPHC.

c. AB Capital

AB Capital is an investment house that engages in corporate finance, fixed-income securities dealership, stock brokerage and fund management.

d. Asia Coal

Asia Coal is engaged in the trading of coal. Beginning November 1, 2000, Asia Coal ceased all trading operations.

12. AFS Investments

This account consists of investments in quoted and unquoted equity securities:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
Quoted:		
Ayala Corporation preferred shares	₱8,480	₱8,400
First Philippine Holdings Corporation (FPHC) preferred shares	19,800	19,000
Unquoted:		
AB Capital - preferred shares	250,000	250,000
Others	165,888	99,636
	444,168	377,036
Less accumulated impairment losses	45,517	45,517
	₱398,651	₱331,519

AFS investments consist of ordinary shares, and therefore have no fixed maturity date or coupon rate.

13. Property, Plant and Equipment

Following are the details of this account:

	December 31, 2008	Additions	Disposals	Reclassification	Sep 30, 2009
	<i>(In Thousands)</i>				
Cost:					
Land	₱349,967	₱732,785	₱-	₱2,957	₱1,085,709
Plant site improvements	25,847	3,618	-	-	29,465

	2007		2008	
	<i>(In Thousands)</i>			
Cost:				
Land	P304,368	P-	P4,606	P308,974
Buildings for lease	302,112	5,800	-	307,912
	606,480	5,800	4,606	626,886
Less accumulated depreciation -				
Buildings for lease	51,998	20,851	-	72,849
	P554,482	(P15,051)	P4,606	P544,037

15. Intangibles

Following are the details and movements of this account:

Cost:	Dec. 31, 2008	Additions	Sep. 30, 2009
Goodwill	P329,553	P684,585	P1,014,138
Intangible - student lists	25,380	124,559	149,939
Intangible - customer contracts (see Note 6)	90,525	-	90,525
	445,458	809,144	1,254,602
Accumulated amortization -			
Intangible - student lists	25,380	91,123	116,503
	P420,078	718,021	P1,138,099

	Dec. 31, 2007	Additions	Dec. 31, 2008
Cost:			
Goodwill	P65,882	P263,671	P329,553
Intangible - student lists	25,380	-	25,380
Intangible - customer contracts (see Note 6)	-	90,525	90,525
	91,262	354,196	445,458
Accumulated amortization -			
Intangible - student lists	23,798	1,582	25,380
	P67,464	P352,614	P420,078

16. Notes Payable

This account consists of notes payable of the following subsidiaries:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
UGC	P75,421	P101,610
OAL	57,761	19,752
COC	20,000	2,456
AU	16,104	-
UPANG	23,937	-
	P193,223	P123,818

UGC's notes payable consist of unsecured short-term peso-denominated loans from financial institutions with annual interest rates in Sep. 2009 and Dec. 2008 ranging from 6.75% to 7.5% and 6.0% to 8.25%, respectively.

17. Trade and Other Payables

This account consists of:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
Trade	₱72,836	₱34,094
Payable to third parties	57,761	75,522
Accruals for:		
Professional fees and others	78,221	60,219
Personnel cost	35,448	35,322
Interest	25,433	19,018
Freight, hauling and handling	2,111	10,138
Dividends	24,870	39,453
Customers' deposits	37,857	26,922
Others	104,525	62,283
	₱439,062	₱362,971

Trade and other payables are noninterest-bearing. Trade payables are normally settled on 30 to 60-day terms. Other payables are normally settled within twelve months.

18. Long-term Debt

This account consists of long-term liabilities of the following subsidiaries:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(In Thousands)</i>	
UGC:		
Banco de Oro (BDO)	₱165,000	₱210,000
Rizal Commercial Banking Corporation (RCBC)	55,000	70,000
	220,000	280,000
Less debt issuance cost	(1,837)	(2,818)
	218,163	277,182
PSHC	146,422	146,422
Araullo University	58,500	65,250
UPang	180,000	-
	603,085	488,854
Less current portion - net of debt issuance cost of ₱0.6 million in 2007	88,356	88,356
	₱514,729	₱400,499

19. Equity

a. Capital Stock

The composition of the Parent Company's capital stock as of September 30, 2009 and December 31, 2008 is as follows:

	Number of shares	
	Sep. 30, 2009	Dec. 31, 2008
Preferred - cumulative, nonparticipating		
Class AA		
Authorized	50,000,000	50,000,000
Class BB		
Authorized	50,000,000	50,000,000
Common		
Authorized	420,000,000	420,000,000
Issued		
Balance at beginning of year	257,697,313	234,266,572
Stock dividends	-	23,430,741
Balance at end of year	257,697,313	257,697,313
Subscribed	39,994	39,994
Issued and subscribed	257,737,307	257,737,307

b. Retained Earnings

The BOD of BCII declared the following dividends:

Cash dividends

Date Declared	Dividend rate	Shareholders' Record Date
March 9, 2009	4%	March 30, 2009

Stock dividends

Date	Dividend rate	Shareholders' Record Date
April 14, 2008	10%	June 13, 2008
March 30, 2007	15%	June 15, 2007
May 31, 2006	20%	August 11, 2006

On October 5 2005, the BOD appropriated P1.0 billion of retained earnings for future investments.

The balance of the Company's retained earnings include the subsidiaries and associates undistributed net earnings of P146 million and P808.4 million as of September 30, 2009 and December 31, 2008, respectively, which are available for distribution only upon declaration of dividends by such subsidiaries and associates of the Parent Company.

20.Revenue

Revenue consists of :

	Sep. 30, 2009	Sep. 30, 2008
	<i>(In Thousands)</i>	
Sale of goods	P1,959,653	P2,109,288
Tuition and school fees	578,182	248,514
Investment income	65,899	40,260
Rental income	51,255	33,204

Sale of services	216,958	-
	P2,871,947	P2,431,266

21. Cost of Sales

Cost of sales consists of :

	Sep. 30, 2009	Sep. 30, 2008
	<i>(In Thousands)</i>	
Cost of sales	P1,643,737	P1,765,209
Cost of educational services	306,040	146,542
Service cost	185,380	-
	P2,135,157	P1,911,751

22. Operating expenses

Operating expenses consist of :

	Sep. 30, 2009	Sep. 30, 2008
	<i>(In Thousands)</i>	
General and administrative expenses	P412,550	P151,739
Selling expenses	90,550	83,982
	P503,100	P235,721

23. Related Party Transactions

Associates and Related Corporations

PSHC

PSHC receives assistance from UPPC in carrying out certain administrative functions. Starting October 1, 2005, PSHC pays, on a monthly basis, P0.02 million for various general accounting and financial services rendered by UPPC.

PSHC has noninterest-bearing cash advances from UPPC amounting to P0.5 million as of December 31, 2006. Such advances were settled in 2007.

On December 27, 2006, PSHC sold its investment in shares of stock of UPPC, which was acquired at P276.5 million, to Siam Pulp and Paper Public Company, Ltd. at a selling price of P85.9 million. Accordingly, PSHC recorded a gain on sale of investment amounting to P17.1 million as "Gain on sale of available-for-sale investment" in the 2006 consolidated statement of income.

PSHC has outstanding long-term payable to UPPC arising from the acquisition of land from UPPC, then an associate. PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and additional ₱2.9 million in April 2005, aggregated and reflected as "Other noncurrent liabilities" at amortized cost at balance sheet date, and refundable to UPPC upon the expiration of the lease. The lease deposit's present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006.

AB Capital

Transactions with AB Capital pertain to short-term placements made by the Company in AB Capital.

Others

Other related party transactions primarily relate to the grant of advances to and sharing of expenses with other companies which are also under the common control of PHINMA, namely, PPHC, TO Insurance Brokers, Inc., TA Oil and others.

Amounts and outstanding balances relating to the aforementioned transactions are as follows:

Related Party	Nature of Transaction	Year	Amount of Transactions During the Year	Amount of Due to Related Parties	Amount of Due from Related Parties
<i>(In Thousands)</i>					
AB Capital	Share in expenses	Sep. 2009	(₱423)	₱-	₱95
		Dec. 2008	632	-	632
Others	Raw materials purchases, technical service fees, advances and share in expenses	Sep. 2009	₱13,112	₱-	₱42,246
		Dec. 2008	35,296	143	31,495

Management and Directors' Compensation

BCII, BIPC, UGC, COC and Araullo University are under common management by PHINMA, and pay PHINMA a fixed annual management fee plus an annual bonus based on a certain percentage of the respective companies' adjusted net income, as defined in the management contract between PHINMA and the respective companies, pursuant to the provisions of the same contract.

Total management fees and bonuses incurred in Sep. 2009 and Dec. 2008 amounted to ₱79 million and ₱63.1 million respectively. The related unpaid amount, included under "Trade and other payables" account in the consolidated balance sheets, was ₱49 million and ₱44 million as of September 30, 2009 and December 31, 2008 respectively.

BCII and AHC recognized bonus to directors computed based on net income with preagreed adjustments. Directors' bonus amounted to ₱19 million and ₱29.6 million in Sept. 2009 and Dec. 2008. The related unpaid amount, included under "Trade and other payables" account in the consolidated balance sheets, was ₱19 million and ₱27.1 million as of September 30, 2009 and December 31, 2008, respectively.

24. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents, short-term investments, corporate promissory notes and bonds, government bonds, quoted and unquoted shares of stocks, currency forwards, investments in UITFs, and loans and borrowings in Philippine peso and U.S. dollar (USD) currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations.

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, foreign currency risk, interest rate risk, and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee reviews and approves policies and directions for investments and risks management. The basic parameters approved by the Investment Committee are:

Investment Objective	Safety of Principal
Tenor	Three year maximum for any security, with average duration between one and two years
Exposure Limits	<ul style="list-style-type: none"> a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review
Exposure Limits	<ul style="list-style-type: none"> e. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund f. For peso investments: minimal corporate exposure except for registered bonds g. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee h. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets.

A comprehensive credit and business review in coordination with dealers or underwriters is performed whenever the Company invests in non-rated securities. Furthermore, the Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies.

The Company's exposure to credit risk on its cash and cash equivalents, short-term investments, investments held for trading, AFS investments, trade and other receivables, and derivative instruments arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company.

Credit Quality of Financial Assets. Cash and cash equivalents, short-term investments and derivative instruments are classified as high grade since these are deposited in/or transacted with reputable banks which have low probability of insolvency.

Liquidity Risk

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments.

The Company manages liquidity risk by continuously monitoring weekly and monthly cash flows as well as updates of annual plans.

The maturities of the financial liabilities are determined based on the Company's projected payments and contractual maturities. The average duration adheres to guidelines provided by the Investment Committee. It is the Company's policy to restrict investment principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

Market Risk

Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

Foreign Currency Risk

The Company's financial assets that are exposed to foreign currency risk are foreign currency denominated cash and cash equivalents, short-term investments, investment in managed funds, investments in UITFs, and investment in bonds.

Foreign exchange risks on the USD and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies. The Company also enters into currency forward contracts to manage its currency risk.

The following table shows the foreign currency-denominated financial assets and their peso equivalents as of September 30, 2009 and Dec. 31, 2008:

Sep. 30, 2009

Dec. 31, 2008

	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
<i>(In Thousands)</i>				
In US Dollar:				
Cash and cash equivalents	US\$7,880	P373,457	US\$15,785	P750,103
Short-term investments	783	37,097	985	46,807
Investments in bonds	3,076	145,748	7,648	363,432
Investments in UITFs	1,667	78,992	–	–
	US\$13,406	P635,294	US\$24,418	P1,160,342

There are no financial liabilities denominated in foreign currency as of September 30, 2009 and December 31, 2008 .

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were P47.39 to US\$1.00 and P47.52 to US\$1.00 as of September 30, 2009 and December 31, 2008, respectively.

Capital Management

The objective of the Company's capital management is to ensure that the Company maintains a healthy capital structure in order to maintain strong credit rating and maximize shareholder value.

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total current and noncurrent liabilities divided by total equity. The Company considers its equity as the total of capital stock, additional paid-in-capital, share in equity component of convertible notes, unrealized gain on change in fair value of an AFS investment, share in unrealized gain on change in fair value of AFS investments of associates, retained earnings, and minority interest.

To ensure that there are sufficient funds to settle its liabilities, the Company's policy is to keep debt-to-equity ratio below 1:1. The Company's consolidated debt-to-equity ratio as of September 30, 2009 and December 31, 2008 are as follows:

	Sep. 30, 2009	Dec. 31, 2008
<i>(In Thousands)</i>		
Total liabilities	P1,887,670	P1,859,035
Total equity	6,805,547	6,615,024
Debt-to-equity ratio	0.28:1	0.28:1

25. Financial Instruments

Fair Value

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated balance sheets.

	Carrying Amount		Fair Value	
	Sep.30,2009	As restated Dec. 31, 2008	Sep.30,2009	As restated Dec. 31,2008
<i>(In Thousands)</i>				

Financial Assets

Loans and receivables:

	Carrying Amount		Fair Value	
	Sep.30,2009	As restated Dec. 31, 2008	Sep.30,2009	As restated Dec. 31,2008
<i>(In Thousands)</i>				
Cash and cash equivalents	₱915,773	₱1,809,871	₱915,773	₱1,809,871
Short-term investments	42,597	86,817	42,597	86,817
Trade and other receivables:				
Trade	568,792	411,756	568,792	411,756
Due from related parties	44,645	32,127	44,645	32,127
Accrued interest	6,327	21,269	6,327	21,269
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	8,939	8,939	8,939	8,939
Advances to suppliers and contractors	11,215	9,300	11,215	9,300
Advances to officers and employees	4,012	1,615	4,012	1,615
Others	36,778	39,327	36,778	39,327
Installment contract receivable*	61,425	-	61,425	-
	1,700,503	2,421,021	1,700,503	2,421,021
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds and FXTNs	303,881	691,105	303,881	691,105
Investments in unit investment trust funds	181,341	76,949	181,341	76,949
Investments in trust accounts	23,185	17,682	23,185	17,682
Investments in marketable equity securities	2,650	1,559	2,650	1,559
	511,057	787,295	511,057	787,295
AFS investments:				
Quoted	28,280	27,400	28,280	27,400
Unquoted	370,371	304,119	370,371	304,119
	398,652	331,519	398,652	331,519
	₱2,610,211	₱3,539,835	₱2,610,211	₱3,539,835
Financial Liabilities				
Financial liabilities at FVPL-				
Derivative liabilities	-	₱26,857	-	₱26,857
Other financial liabilities:				
Notes payable	193,223	123,818	193,223	123,818
Trade and other payables	439,062	422,935	439,062	422,935
Trust receipts payable	89,051	537,252	89,051	537,252
Long-term debt (including current portion)	603,085	488,855	603,085	488,855
	1,324,421	1,572,860	1,324,421	1,572,860
	₱1,324,421	₱1,599,717	₱1,324,421	₱1,599,717

Derivative Instruments

Freestanding Derivatives. The fair value of freestanding currency forward transactions is calculated by reference to current forward exchange rates for contracts with similar maturity profile.

The Company has outstanding currency forward contracts with an aggregate notional amount of US\$13.3 million as of September 30, 2009 and US\$29.9 million as of December 31, 2008. The weighted average contracted forward rate is ₱48.463 to US\$1.00 and ₱46.77 to US\$1.00 as of Sep. 30, 2009 and Dec. 31, 2008, respectively. The net fair values of these outstanding currency forward contracts amounted to ₱10.3 million gain and ₱26.9 million loss as of Sep. 30, 2009 and Dec. 31, 2008, respectively.

The net movements in fair value changes of these derivative assets (liabilities) are as follows:

	Sep. 30, 2009	Dec. 31, 2008
	<i>(in Thousands)</i>	
Balance at beginning of year	(P26,857)	P56,964
Net change in fair value during the year	27,287	(63,047)
Fair value of settled contracts	9,916	(20,774)
Balance at end of year	(P10,346)	(P26,857)

26. Income Tax

The deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

	Sep. 30, 2009	Dec. 31, 2008
Deferred tax assets – net	P4,722	P13,960
Deferred tax liabilities – net	(375,920)	(101,613)
	(P371,198)	(P87,653)

Some of the Company's deferred tax assets were not recognized since management believes that it is not probable that sufficient future taxable profit will be available to allow said deferred tax assets to be utilized.

Araullo University and COC, as private educational institutions, are taxed based on the provisions of Republic Act (R.A.) No. 8424, which was passed into law effective January 1, 1998. Section 27(B) of R.A. No. 8424 defines and provides that: "A Proprietary Educational Institution is any private school maintained and administered by private individuals or groups with an issued permit to operate from the Department of Education, Culture and Sports, or Commission on Higher Education, or Technical Education and Skills Development Authority, as the case may be, in accordance with the existing laws and regulations - shall pay a tax of ten percent (10%) on their taxable income."

MCIT totaling P12.9 million can be deducted against regular corporate income tax (RCIT) due while NOLCO totaling P151.3 million can be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount	
		MCIT	NOLCO
<i>(In Thousands)</i>			
December 31, 2006	December 31, 2009	P1,900	P139,630
December 31, 2007	December 31, 2010	7,670	–
December 31, 2008	December 31, 2011	3,290	11,680
		P12,860	P151,310

MCIT and NOLCO totaling P1.4 million and P72.5 million, respectively, expired in 2008. MCIT and NOLCO totaling P1.8 and P20.4 million were claimed as deduction against 2008 regular taxable income.

27. EPS Computation

	Quarter ended Sep. 30, 2009	2008	Nine (9) months ended Sep. 30, 2009	2008
	<i>In thousands</i>			

Net income attributable to equity holders of the parent	₱80,051	115,660	₱287,435	₱276,798
Number of shares outstanding at beginning of year	287,737,307	287,737,307	287,737,307	287,737,307
Basic/Diluted EPS attributable to equity holders of the parent	₱.31	₱.45	₱1.12	₱1.07

28. Segment Information

Segment information is prepared on the following basis:

Business Segments

The Company conducts the majority of its business activities in the following areas:

- Steel
- Property development
- Investment holdings
- Educational services
- Business Process Outsourcing

Segment Information

Business Segments Data

	September 30, 2009				
	Steel	Property Development	Investment Holdings	Educational Services	BPO
Revenues					
Segment revenue (a)	1,959,653	33,209	83,637	578,182	216,958
Investment income		308			
Total revenues	1,959,653	33,517	83,637	578,182	216,958
Results					
Segment results	200,751	9,697	240,875	138,352	(1,616)
Investment income	-	308	-	-	-
Equity in net earnings of an associate					
Interest expense and other financial charges	(38,423)		(64)	(25,245)	(2,469)
Benefit from (provision for) income tax	(51,973)	(2,921)	(1,752)	(13,283)	
Share of minority interest					766
Net income (loss)	110,355	7,084	239,059	99,824	(3,319)
Assets					
Segment assets	1,508,761	962,337	6,023,146	1,861,855	506,765
Deferred tax assets					
Total assets	1,508,761	962,337	6,023,146	1,861,855	506,765
Liabilities					
Segment liabilities	520,755	58,604	364,850	667,259	124,541
Income and other taxes payable	32,989	514	795	4,819	
Deferred tax liabilities	53,849	2,372		92,118	6,160
Total liabilities	607,593	61,490	365,645	764,196	130,701
Capital expenditures	35,439	2	378	1,135,000	15
Depreciation and amortization	51,713	20,042	5,653	53,231	-
CAPEX for CY 2009					
Additions to PPE	35,439	2	378	1,135,000	15
Const in Progress	-	-	-	-	-
Additions to Investment Prop	-	-	-	-	-

Total	35,439	2	378	1,135,000	15
DEPRECIATION & AMORTIZATION					
Depreciation on PPE	51,713	4,212	5,486	53,231	-
Depreciation on Investment Properties		15,830	167		
Amortization				-	-
	51,713	20,042	5,653	53,231	-

Segment Information

Business Segments Data

	December 31, 2008				
	Steel	Property Development	Investment Holdings	Educational Services	BPO
Revenues					
Segment revenue (a)	2,723,285	99,915	25,395	329,682	
Investment income	832	8,768	238,514	1,341	
Total revenues	2,724,117	108,683	263,909	331,023	-
Results					
Segment results	281,773	17,935	131,810	39,530	
Investment income	832	8,768	238,514	1,341	
Equity in net earnings of an associate	-	-	-	-	
Interest expense and other financial charges	(69,941)	(6,679)	(16,793)	(6,449)	
Benefit from (provision for) income tax	(72,364)	(5,684)	(4,435)	(2,539)	
Share of minority interest	-	-	-	-	
Net income (loss)	140,300	14,340	349,096	31,883	-
Segment assets	1,939,046	972,339	6,129,210	699,258	505,549
Deferred tax assets	-	283	-	8,774	-
Total assets	1,939,046	972,622	6,129,210	708,032	505,549
Segment liabilities	1,053,072	56,575	482,359	202,714	122,574
Income and other taxes payable	40,562	8,802	2,704	2,408	-
Deferred tax liabilities	68,992	2,372	-	38,252	-
Total liabilities	1,162,626	67,749	485,063	243,374	122,574
Capital expenditures	80,353	8,661	530	25,741	13,362
Depreciation and amortization	55,593	36,905	8,041	35,832	-
CAPEX for CY 2009					
Additions to PPE	42,411	2,860	530	25,741	13,362
Const in Progress	37,942				
Additions to Investment Prop		5,800			

Total	80,353	8,660	530	25,741	13,362
DEPRECIATION & AMORTIZATION					
Depreciation on PPE	55,506	17,221	7,784	35,008	-
Depreciation on Investment Properties		19,684	257	824	
Amortization	87			1582	
	55,593	36,905	8,041	37,414	-

Segment Information

Business Segments Data

	Eliminations		Consolidated	
	Sept. 30, 2009	Dec. 31, 2008	Sept. 30, 2009	Dec. 31, 2008
Revenues				
Segment revenue (a)	-	-	2,871,639	3,178,277
Investment income	-	(163,673)	308	85,782
Total revenues	-	(163,673)	2,871,947	3,264,059
Results				
Segment results	(154,732)	(98,575)	433,327	372,473
Investment income	-	(163,673)	308	85,782
Equity in net earnings of an associate	-	41,586	-	41,586
Interest expense and other financial charges	-	-	(66,201)	(99,862)
Benefit from (provision for) income tax	28,437	2,270	(41,492)	(82,752)
Share of minority interest	(39,273)	(44,067)	(38,507)	(44,067)
Net income (loss)	(165,568)	(262,459)	287,435	273,160
Segment assets	(2,169,647)	(1,785,303)	8,693,217	8,460,099
Deferred tax assets		4,903	-	13,960
Total assets	(2,169,647)	(1,780,400)	8,693,217	8,474,059
Segment liabilities	(263,374)	(214,348)	1,472,635	1,702,946
Income and other taxes payable	-	-	39,117	54,476
Deferred tax liabilities	221,421	(8,003)	375,920	101,613
Total liabilities	(41,953)	(222,351)	1,887,672	1,859,035
Capital expenditures	-	-	1,170,834	128,647
Depreciation and amortization	91,111	1,582	221,750	137,953
CAPEX for CY 2009				
Additions to PPE			1,170,834	84,904
Const in Progress			-	37,942
Additions to Investment Prop			-	5,800
Total	-	-	1,170,834	128,646

DEPRECIATION & AMORTIZATION

Depreciation on PPE	-	0	114,642	115,519
Depreciation on Investment Properties		0	15,997	20,765
Amortization	91,111	0	91,111	1,669
	91,111	-	221,750	137,953

Item 2 – Management’s Discussion and Analysis of Financial Condition And Results of Operations

A. Quarter ended September 30, 2009 vs. 2008

Bacnotan Consolidated Industries, Inc.’s (BCII) consolidated net income for the third quarter of 2009 amounted to P102 million compared to P132 million for the same period last year. The P 30 million decrease in the net income for the quarter was mainly due to the unrealized foreign exchange loss for the quarter brought about the weakening of the dollar from P48.13 on June 30, 2009 to P47.39 as of September 30, 2009. For the same period last year, BCII booked a foreign exchange gain of P 64 million due to the strengthening of the dollar from P 44.90 on June 30, 2008 to P 47.05 on September 30, 2008.

BCII’s consolidated revenues for the quarter ended Sept. 30, 2009 amounted to P969 million, an increase of 10% over the same period last year, due to the first-time consolidation of revenues of One Animate Limited, University of Pangasinan and University of Iloilo in 2009.

B Nine (9) months ended September 30, 2009 vs. 2008

BCII’s unaudited consolidated revenues amounted to P2.9 billion as of September 30, 2009. This is higher by 18% compared to revenues of P2.4 billion for the same period last year. This increase was due to the first-time consolidation of revenues of One Animate Limited, University of Pangasinan and University of Iloilo in 2009.

Consolidated cost and expenses of BCII for the period amounted to P2.6 billion, 23% higher compared to the previous year’s P2.2 billion. The increase is also due to the first-time consolidation of cost and expenses of the new acquisitions mentioned earlier and the amortization of intangibles from the said acquisition.

Equity in net earnings of associates also increased from P42 million in September 2008 to P86 million this year due to mark-to-market gains of AB Capital and Investment Corp. (ABCIC) and higher trading revenues of Trans-Asia Oil and Energy Development Corp.

BCII’s consolidated income for the nine months is P326 million, a slight increase over net income for the same period last year amounting of P317 million. Of the P326 million income for the period January to September, P287 million was income attributable to the equity holders of the parent.

The results of operations of BCII subsidiaries for the nine months ended September 30, 2009 compared to 2008 are as follows :

Union Galvasteel Corporation (UGC)

I. Marketing

Sales volume for the nine month period totaled 3.849 million sheets or 6% lower compared to the revised projection of 4.090 million sheets. The shortfall in sales volume was due to the soft demand on account of a slowdown in construction activity and poor weather conditions. This was aggravated by stiff competition among industry players especially Rollformers which selling cheap imports and use lower prices to grab market share. On the other hand, UGC’s selling prices were higher. UGC maintained a reasonable price gap, by capitalizing on our nationwide facilities to render better customer service.. This strategy

enabled UGC to generate higher contribution margins despite the shortfall in volume. Hence, for the period the contribution margin generated was P501 million which is 3% higher than the revised projection of P487 million.

Demand and Supply

Demand during the period particularly the 2nd quarter is still good, being traditionally the construction period. However, there was slight softening in the 3rd quarter brought about by erratic weather conditions. Bulk of the demand came from residential projects fueled by OFW remittances, active mass housing projects, poultry and other livestock projects. Some government projects like school buildings, gymnasiums and government offices were also observed.

CRC supply and prices were relatively stable while importations of PPGI and GI products were sustained particularly requirements for the Rollformers.

II. Production

CGL

The line produced a total of 26,624MT, or 11,026MT lower than the budget of 33,650MT. GI for substrates constituted the bulk of production (71%) for the period. Plant utilization was only 50% because of scheduled shutdowns when inventories of substrate materials for the Colorline were adequate.

CCL

At the Color Line, total production for the period was 23,883MT, or 12% lower than the budget of 27,200MT. Capacity utilization is 80% with productivity of 4.72 MT/Hr.

Generally, operations on both lines were normal and materials usages were well within budgets.

III. Financials

For the nine-month period, carrying costs of inventories were still at the lower levels and with relatively better selling prices, gross profit rate realized was 19.74% compared to revised projection of 17.97%. Expenses were also within budget. Net income for the nine-month period is now P110 Million or 18% higher than the revised projection of P93 Million. Inventories amounted to P560 Million while receivable balance is at P276 Million or more than 30 days collection period.

Bacnotan Industrial Park Corporation (BIPC)

On March 10, 2009, BCII, along with Atlas Holdings Corporation, Trans-Asia Oil and Energy Development Corporation and Trans-Asia Power Generation Corporation, signed a Share Purchase Agreement for the sale of shares in BIPC to Phoenix Petroleum Philippines, Inc. for a total of P658.7 million.

The gain of BCII and its subsidiary and affiliates from the sale of BIPC shares amounting to P 72 million is shown in the income statement under Income from Discontinued Operations.

Atlas Holdings Corporation (AHC)

For the nine (9) months ended September 30, 2009, Atlas Holdings Corporation, a 90% subsidiary of BCII, registered a net income of P11 million mainly from financial income. This is higher than net income last year of P9 million due to unrealized mark-to-market gains.

On March 30, 2009, the Board of Directors declared a cash dividend of P56.45 per share totaling P124 million to all shareholders of record as of declaration date payable on April 30, 2009 and May 30, 2009.

Araullo University (AU)

For the period January to September 2009, Araullo University registered revenues amounting to P134 million while direct costs amounted to P80 million. General and administrative expenses for the same period amounted to P32 million. For the nine months ended September 30, 2009, Araullo University registered a net income of P14 million.

Total assets for the period September 30, 2009 amounted to P373 million while liabilities amounted to P132 million.

On January 26, 2009, AU declared a cash dividend of P.60 per share to all shareholders of record as of January 31, 2009 payable on February 18, 2009. On July 15, 2009, AU declared another cash dividend of P1.39 per share to all shareholders of record as of July 15, 2009 payable August 14, 2009.

Caqayan de Oro College, Inc. (COC)

For the period January to September of CY 2009, COC registered revenues amounting to P110 million. Direct cost and operating expenses as of September 30, 2009 was P67 million and P32 million respectively. COC realized a net income of P8 million for the period January to September 2009.

University of Pangasinan (Upang)

On February 2, 2009, BCII acquired a 70% stake in University of Pangasinan in Dagupan City. Upang is the leading educational institution in Pangasinan offering elementary, secondary and tertiary education. Upang offers courses in Nursing, Engineering and Accountancy, among others.

Upang also owns 50.30% of Pangasinan Medical Center, also located in Dagupan City.

For the period February to September 2009, Upang registered revenues amounting to P199 million and net income of P48 million. UPANG total assets as of end September 2009 amounts to P746 million.

University of Iloilo (UI)

On February 25, 2009, BCII acquired a 70% interest in University of Iloilo (UI), located in Iloilo City. The area is part of Region VI, the fourth most populated region in the country, with the third largest student population. UI offers elementary, secondary and tertiary education, and currently serves approximately 7,200 students. UI offers courses in nursing, criminology, hotel and restaurant management and accountancy. For the period of March to September 2009, UI registered revenues amounting to P135 million and a net income of P30 million.

One Animate Limited (OAL)

One Animate Limited is a limited liability company incorporated in Hongkong in October 2008. OAL owns a ninety five (95%) interest in Toon City Animation, Inc. The latter is an award winning animation Studio providing 2D flash and 3D CGI animation services and counts among its clients international names like Walt Disney and Universal Studios.

For the period January to September 2009, OAL registered revenues of P217 million and net loss of P3 million. The loss is due to the delay in commencement of work on various contracts.

OAL total assets as of end September 2009 amounted to P507 million.

Asian Plaza, Inc. (API)

API is a 57.6% subsidiary of BCII and owns and leases the Asian Plaza Building in Sen. Gil Puyat Avenue, Makati City.

For the period January to September 2009, API posted net income of P7 million on revenues of P34 million.

Key Performance Indicators (KPI)

The top five (5) KPI's used to measure the financial performance of BCII and its subsidiaries as of September 30, 2009 compared to the same period last year are shown in the following table :

Financial KPI	Definition	2009	2008
<u>Profitability</u>			
Return on Equity (ROE)	<u>Net income (loss) attr. to BCII holders</u> Ave. total equity attributable to BCII equity holders	4.89%	4.88%
Gross Profit Margin	<u>Gross profit</u> Net sales	25.65%	21.37%
<u>Efficiency</u>			
Cash Flow Margin	<u>Cash flow from operating Activities</u> Net sales	10.29%	3.86%
<u>Liquidity</u>			
Current Ratio	<u>Current assets</u> Current liabilities	3.06 : 1.00	3.44 : 1.00
Debt-to Equity Ratio	<u>Total liabilities</u> Total stockholders equity	0.3 : 1.00	0.3 : 1.00

Profitability

Return on equity for the period January to September 2009 was 4.89% , almost the same compared to the same period last year. The very slight increase was due to higher net income for the period January to September 2009 compared to the same period last year.

Gross profit margin increased from 21.37% in September 2008 to 25.65% in September 2009 due to the high gross profit margin of University of Iloilo and Araullo University.

Efficiency

Net cash inflow from operations was P296 million for the period January to September 2009 compared to P94 million for the same period last year. The increase was due to the significant decrease in inventories of UGC from P 920 million as of December 2008 to P 560 million by September 30, 2009.

Liquidity

Current ratio was 3.06 :1.00 as of September 30, 2009 compared to 3.44:1.00 last year, due to the use of funds for the acquisition of University of Pangasinan and University of Iloilo. Debt-equity ratio of BCII and its subsidiaries as of September 30, 2009 and December 31, 2008 remained at 0.3:1.00.

Accounting Policies and Principles

The accompanying consolidated financial statements of Bacnotan Consolidated Industries have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, available for sale investments and derivative investments that have been measured at fair value.

The consolidated financial statements are prepared in Philippine pesos, the company's functional and presentation currency.

Seasonality Aspects of the Business

Like any other company in the construction industry, the operations of UGC is affected by seasonality of cyclicity. During the summer months starting December to May, demand for roofing materials are greater than during the rainy months of June to November. The demand for the first semester of the calendar year is normally higher than that of the second semester.

Interim Disclosures on Financial Statements

The following financial disclosures do not materially affect or are not applicable to the Company's interim operations :

1. Unusual items that affect the assets, liabilities, equity, net income or cash flows because of their nature, size or incidents.
2. Changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current period.
3. Issuances, repurchases of debt and equity securities.

4. Segment revenue and segment results for business segments and geographical segments.
5. Changes in contingent liabilities or contingent assets since the last annual balance sheet.
6. Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period.
7. Known trends, demands, commitments, events and uncertainties that will result in or likely to decrease its liquidity in any material way. BCII does not anticipate having within the next twelve (12) months any cash flow or liquidity problems nor does it anticipate any default or breach of any of its existing notes, loans, leases, other indebtedness or financing arrangements requiring it to make payments, except the breach in current ratio requirements of the loan covenants.
8. Events that will trigger direct or contingent material financial obligations to the company, including any default or acceleration of its existing obligations.
9. Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the company with unconsolidated entities or other person created during the year.
10. Material commitments for capital expenditures.
11. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales/revenues/ income from continuing operations.
12. Significant elements of income or loss that did not arise from the company's continuing operations.

Material Changes in Balance Sheet Accounts

Cash and cash equivalents

The decrease in cash and cash equivalents are shown in the cash flow statement.

Short-term investments

Short-term investments decreased during the period, as placements were called in to fund investments in UPang and UI.

Investments held for Trading

Investments held for trading were likewise sold mainly to fund investments in UPang and UI.

Accounts receivable trade and others - net

The increase in the account represents the receivables of UPang and UI amounting to P 118 million which were consolidated for the first time in 2009.

Inventories

The decrease in inventories comes as a result of UGC's efforts to reduce inventory to a target level of approximately two and a half months of sales. Inventory decreased from P 920 million as of December 2008 to P 563 million as of September 30, 2009.

Other current assets

The decrease in the account represents a decrease in the input tax of UGC.

Current assets of discontinued operations

The account represents current assets of Bacnotan Industrial Park Corporation (BIPC) which was sold to Phoenix Petroleum Philippines, Inc. on March 10, 2009.

Available-for-sale investments

The increase in the account represents the P 66 million investment in cumulative convertible preferred shares of Coral Way City Hotel Corporation. The latter owns the Microtel Hotel being constructed at the Mall of Asia Complex in the Manila Bay Area.

Property, Plant and Equipment - net

The increase in the account represents the fair value of the property, plant and equipment of UPang and UI.

Intangibles

The P 718 million increase in the account represents provisional goodwill and intangibles arising from the acquisition of UPang and UI.

Installment contract receivable

This account represents the P 315 million long-term contract receivable of BCII and AHC from Phoenix Petroleum Philippines, Inc. on the sale of shares of BIPC. The contract receivable is payable over a period of five years beginning October 2009.

Other assets

The increase in the account represents the input tax of BCII.

Noncurrent assets of discontinued operations

The account represents current assets of Bacnotan Industrial Park Corporation (BIPC) which was sold to Phoenix Petroleum Philippines, Inc. on March 10, 2009.

LIABILITIES

Notes payable

The decrease in notes payable represents payments made by UGC on its short-term borrowings.

Trust receipts payable

The decrease in the account represents payment of UGC of its outstanding trust receipt payable.

Unearned revenues

The increase in the account mainly represents unearned revenues of UPang and UI amounting to P 51 million as of end-September 2009. Upang and UI were acquired and consolidated by BCI only in 2009.

Long-term debt

The increase in the account is mainly attributable to long-term debt of UPang amounting to P 180 million.

Deferred tax liabilities

The increase in the account represents the deferred tax on the provisional goodwill and intangibles arising from the acquisition of UPang and UI in 2009.

Non-current Liabilities

The increase in the account represents the accrued retirement liability of OAL and also that of UI which was acquired and consolidated in 2009.

EQUITY

Share in unrealized gains on financial assets of associates

The decrease in the account represents lower market prices of securities held by Trans-Asia Oil and Energy Development Corp.

Unrealized gain (loss) on change in fair value of a available for sale investments

The change is due to the improvement in prices of Ayala Corporation and First Philippine Holdings preferred shares

Cumulative translation adjustments

The increase in the account represents cumulative translation adjustments arising from the consolidation of OAL.

Material Changes in Income Statement Accounts

Revenues and Cost of Sales

The increase in revenues and cost of sales represents the first-time consolidation of revenues and cost of sales of UPang UI and One Animate.

Operating expenses

The increase in the account represents the operating expenses of UPang, UI and One Animate which were consolidated for the first time in 2009, as well as the amortization of intangibles arising from the acquisition of the said companies.

Financial charges

The increase in the account represents the financial charges of UPang which was consolidated for the first time in 2009.

Equity in net earnings of associates

The increase in the account is largely due to the net income posted by AB Capital of P45 million compared to a net loss of P57 million for the same period last year. There was likewise an increase in the net income of Trans-Asia Oil and Energy Development Corporation from P164 million last year to P246 million this year.

Net gain (loss) on derivatives

Actual gains on derivatives which matured during the first nine months amounted to P243 thousand ; however, BCI had booked a P 26.2 million unrealized loss on said derivatives in 2008, hence a gain of P 26.5 million for the period January – September 2009.

Foreign exchange gain (loss)

Foreign exchange gain as of September 30, 2009 was P4 million compared to P172 million for the same period last year. The forex rate moved from P47.52 as of Dec. 31, 2008 to P47.39 as of end September 2009, compared to a 14% change last year. In September 2008, the dollar strengthened to P47.05 from P41.28 in December 2007.

Other income (charges)

The increase in the account represents an increase in other income of AU and COC

Provision for income tax

The decrease in provision for income tax was brought about by the deferred income tax benefit arising from the amortization of intangibles of One Animate Limited, UPang and UI.

Income from discontinued operations

The account represents the gain on sale of Bacnotan Industrial Park Corporation (BIPC) to Phoenix Petroleum Philippines, Inc. by Bacnotan Consolidated Industries, Inc. Atlas Holdings Corp. and Trans-Asia Oil and Energy Development Corp.

Comprehensive Income

Comprehensive income increased from P310 million for the nine-month period ended September 2008 to P324 million this year due to the increase in net income from P317 million last year to P326 million this year.

For changes in other comprehensive income accounts, please refer to the comments on equity accounts.

PART II. OTHER INFORMATION

1. Bacnotan Consolidated Industries, Inc., completed the First Closing on a transaction to acquire 69.90% of the capital stock of University of Pangasinan on February 2, 2009.
2. Mr. Ramon R. del Rosario, Jr. has been elected as member of the company's Nomination Committee effective February 4, 2009.
3. The Board of Directors approved on February 25, 2009 the purchase 34,997 shares of the capital stock of University of Iloilo from Inaeco Agro Industrial Corporation in the amount of P315 million and the subscription and payment for 1,190,000 shares of said university at P100.00 per share.
4. Bacnotan Consolidated Industries, Inc. reported net income of P317 million for the year 2008 .
5. The Board of Directors approved on March 9, 2009 the declaration of cash dividends of P.40 per share to shareholders of record as of March 30, 2009 payable April 24, 2009.
6. Bacnotan Consolidated concluded on March 10, 2009 a Share Purchase Agreement with Phoenix Petroleum Philippines, Inc., the sale all of the company's 60% equity interest consisting of 3,600,000 shares of stock in Bacnotan Industrial Park Corporation for a consideration equivalent to P109.81 per share payable approximately 18% down, the balance in monthly installments over a period of five (5) years.
7. The Board of Directors approved on April 2, 2009 a Stock Purchase Plan for officers of the Corporation subject to approval by the shareholders.
8. At the Regular Annual Stockholders' meeting held on April 2, 2009, the stockholders considered and approved the following :
 - o Election of the following Board of Directors for the ensuing year :

Mr. Oscar J. Hilado
Dr. Magdalena B. Albarracin, Jr.
Mr. Ramon R. del Rosario, Jr.
Mr. Jose L. Cuisia, Jr.
Mr. Victor J. del Rosario
Mr. Roberto M. Laviña
Mr. Roberto F. de Ocampo - Independent
Mr. Rizalino S. Navarro – Independent
Mr. Felipe B. Alfonso – Independent
Mr. Guillermo D. Luchangco – Independent
Fr. Noel D. Vasquez, SJ – Independent
 - o Appointment of Sycip, Gorres, Velayo & Co., as the external auditors of the Company for the ensuing year.

In its Organizational Meeting held thereafter, the following officers were elected :

Officers :

Mr. Oscar J. Hilado	-	Chairman of the Board
Mr. Ramon R. del Rosario, Jr.	-	Vice Chairman and President

Dr. Magdaleno B. Albarracin, Jr.	-	Senior Executive Vice President
Mr. Victor J. del Rosario	-	Executive Vice President / CFO
Mr. Roberto M. Laviña	-	Senior Vice President / Treasurer
Ms. Regina B. Alvarez	-	Senior Vice President – Finance
Mr. Carlos I. Arguelles	-	Vice President & Compliance Officer
Ms. Cecille B. Arenillo	-	Vice President – Treasury
Mr. Onesimo L. Prado	-	Asst. Vice President – Internal Audit
Ms. Rizalina P. Andrada	-	Asst. Vice President - Finance
Atty. Juan J. Diaz	-	Corporate Secretary

Audit Committee :

Mr. Felipe B. Alfonso	-	Chairman
Mr. Victor J. del Rosario	-	Member
Dr. Magdaleno B. Albarracin, Jr.	-	Member
Fr. Noel D. Vasquez	-	Member
Mr. Roberto F. de Ocampo	-	Member

Executive Committee :

Mr. Oscar J. Hilado	-	Chairman
Dr. Magdaleno B. Albarracin, Jr.	-	Member
Mr. Ramon R. del Rosario, Jr.	-	Member
Mr. Jose L. Cuisia, Jr.	-	Member

Nomination Committee :

Mr. Oscar J. Hilado	-	Chairman
Fr. Noel D. Vasquez, SJ	-	Member
Mr. Ramon R. del Rosario, Jr.	-	Member

Compensation Committee :

Mr. Jose L. Cuisia, Jr.	-	Chairman
Mr. Ramon R. del Rosario, Jr.	-	Member
Mr. Oscar J. Hilado	-	Member
Mr. Felipe B. Alfonso	-	Member

Retirement Committee :

Mr. Oscar J. Hilado	-	Chairman
Dr. Magdaleno B. Albarracin, Jr.	-	Member
Mr. Victor J. del Rosario	-	Member
Mr. Roberto M. Laviña	-	Member

9. Ms. Cecille B. Arenillo was elected as Compliance Officer effective August 12, 2009 vice Mr. Carlos I. Arguelles who retired from the company.

BACNOTAN CONSOLIDATED INDUSTRIES, INC.
Consolidated Aging of A/R-Trade
As of September 30, 2009

in thousands

	<u>Total</u>
Current	247,766
1 - 30 days	172,284
31 - 60 days	7,408
61 - 90 days	7,592
Over 90 days	<u>37,584</u>
TOTAL	472,634
Less : Allow. For Doubtful Accounts	<u>38,938</u>
Net Trade Receivable	<u><u>433,696</u></u>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.

Consolidated Aging of A/R- Non Trade

As of September 30, 2009

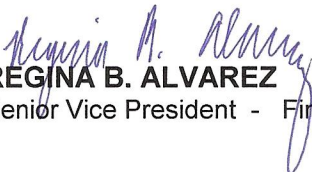
(in thousands)

	<u>TOTAL</u>
Current	13,685
0 - 30 days	36,871
31 - 60 days	408
61 - 90 days	52
Over 90 days	<u>136,947</u>
TOTAL	187,963
Less : Allow. For Doubtful Accounts	<u>3,742</u>
Net Non-Trade Receivable	<u><u>184,221</u></u>

SIGNATURES

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

BACNOTAN CONSOLIDATED INDUSTRIES, INC.


REGINA B. ALVAREZ
Senior Vice President - Finance


RIZALINA P. ANDRADA
Asst. Vice President - Finance

November 16, 2009