



**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 June 30, 2010
2. Commission identification no. 12397    3. BIR Tax Identification No. 000-107-026
4. PHINMA Corporation  
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**

Unaudited Consolidated Statements of Financial Position June 30, 2010 and December 31, 2009	3 - 4
Unaudited Consolidated Statements of Income Six (6) Months ended June 30, 2010 and 2009	5
Unaudited Consolidated Statements of Comprehensive Income Six (6) Months ended June 30, 2010 and 2009	6
Statement of Changes in Equity June 30, 2010 and 2009 and December 31, 2009	7 - 8
Consolidated Statement of Cash Flows Six (6) Months ended June 30, 2010 and 2009	9
Notes to Consolidated Financial Statements	10

<b>Item 2 Management's Discussion and Analysis of Financial Condition And Results of Operations</b>	65
---	----

<b>SIGNATURES</b>	76
-------------------	----

**PHINMA CORPORATION AND SUBSIDIARIES**  
*(formerly Bacnotan Consolidated Industries, Inc.)*

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Unaudited June 30, 2010	Audited Dec. 31, 2009
<i>(In Thousands)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 8, 27 and 28)	<b>₱1,232,986</b>	₱1,052,217
Investments held for trading (Notes 9, 27 and 28)	<b>522,598</b>	564,412
Trade and other receivables - net (Notes 10, 26, 27 and 28)	<b>767,229</b>	662,624
Inventories - at lower of cost or net realizable value (Note 11)	<b>850,492</b>	601,241
Input value-added taxes	<b>6,907</b>	3,473
Derivative assets (Notes 27 and 28)	<b>-</b>	6,865
Other current assets	<b>63,218</b>	64,041
<b>Total Current Assets</b>	<b>3,443,430</b>	2,954,873
<b>Noncurrent Assets</b>		
Investments in associates - at equity (Note 12)	<b>1,300,374</b>	1,336,663
Available-for-sale (AFS) investments - (Notes 13, 27 and 28)	<b>399,470</b>	398,670
Property, plant and equipment - net (Notes 14)	<b>2,201,517</b>	2,172,507
Investment properties (Note 15)	<b>632,849</b>	648,932
Installment contract receivable - net of current portion (Notes 6, 10, 27 and 28)	<b>-</b>	276,413
Intangibles (Notes 7 and 16)	<b>1,182,430</b>	1,199,280
Deferred tax assets – net (Note 29)	<b>4,540</b>	5,602
Other noncurrent assets (Note 17)	<b>87,075</b>	30,383
<b>Total Noncurrent Assets</b>	<b>5,808,256</b>	6,068,450
	<b>₱9,251,686</b>	₱9,023,323
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Notes payable (Notes 18, 27 and 28)	<b>157,321</b>	100,891
Trade and other payables (Notes 19, 26, 27 and 28)	<b>438,099</b>	585,712
Unearned revenues	<b>269,596</b>	187,299
Trust receipts payable (Notes 11, 27 and 28)	<b>246,470</b>	131,051
Income and other taxes payable	<b>54,663</b>	65,732
Due to related parties (Notes 26, 27 and 28)	<b>18,422</b>	60,270
Current portion of long-term debt – net of debt issuance cost (Notes 20, 26, 27 and 28)	<b>113,085</b>	87,520
<b>Total Current Liabilities</b>	<b>1,297,656</b>	1,218,475

	June 30, 2010	Dec. 31, 2009
	<i>(In Thousands)</i>	
<b>Noncurrent Liabilities</b>		
Long-term debt - net (Notes 20, 26, 27 and 28)	<b>₱780,943</b>	₱614,193
Deferred rent revenue - net of current portion	<b>49,560</b>	49,560
Deferred tax liabilities – net (Note 29)	<b>309,654</b>	322,869
Pension and other post-employment benefits	<b>46,937</b>	40,947
Other noncurrent liabilities (Note 26)	<b>17,280</b>	10,913
Total Noncurrent Liabilities	<b>1,204,374</b>	1,038,482
Total Liabilities	<b>2,502,030</b>	2,256,957
<b>Equity</b>		
Equity attributable to equity holders of the parent:		
Capital stock (Note 21)	<b>2,577,249</b>	2,577,249
Additional paid-in capital	<b>255,785</b>	255,785
Share in equity component of convertible notes (Note 20)	<b>16,699</b>	13,443
Other components of equity :		
Share in unrealized gain on change in fair value of AFS investments of associates (Note 12)	<b>10,923</b>	11,495
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	<b>1,100</b>	300
Cumulative translation adjustments	<b>621</b>	(802)
Retained earnings (Note 21)	<b>3,273,240</b>	3,282,587
Minority interest	<b>614,038</b>	626,309
Total Equity	<b>6,749,657</b>	6,766,366
	<b>₱9,251,686</b>	₱9,023,323

**PHINMA CORPORATION AND SUBSIDIARIES**  
(formerly *Bacnotan Consolidated Industries, Inc.*)

**CONSOLIDATED STATEMENTS OF INCOME**

	January - June 30,	
	2010	2009
	(In Thousands)	
<b>REVENUE</b> (Note 1)		
Sale of goods	P <b>1,448,076</b>	P1,348,931
Tuition and school fees	<b>525,937</b>	322,985
Animation services	<b>18,181</b>	162,129
Investment income (Notes 9 and 22)	<b>29,024</b>	46,414
Rental income	<b>24,005</b>	22,069
	<b>2,045,223</b>	1,902,528
<b>COSTS AND EXPENSES</b>		
Cost of sales, educational and animation services (Notes 23, 27 and 28)	<b>(1,486,557)</b>	(1,448,896)
Operating expenses (Notes 24, 27 and 28)	<b>(340,926)</b>	(343,833)
<b>OTHER INCOME (CHARGES)</b>		
Equity in net earnings of associates (Note 12)	<b>3,387</b>	62,440
Interest expense and other financial charges (Note 25)	<b>(65,381)</b>	(37,607)
Net gains (losses) on derivatives (Note 28)	<b>(10,663)</b>	19,035
Foreign exchange gains (losses) - net (Note 28)	<b>(3,258)</b>	13,394
Others - net	<b>20,464</b>	5,877
<b>INCOME BEFORE INCOME TAX</b>	<b>162,289</b>	172,938
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 29)	<b>57,714</b>	21,071
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>104,575</b>	151,867
<b>INCOME FROM DISCONTINUED OPERATION</b> (Note 6)	-	71,858
<b>NET INCOME</b>	<b>P104,575</b>	P223,725
<b>Attributable To</b>		
Equity holders of the parent	<b>P93,749</b>	P207,384
Minority interest	<b>10,826</b>	16,341
Net income	<b>P104,575</b>	P223,725
<b>Basic/Diluted Earnings Per Common Share -</b> <b>Attributable to Equity Holders of the Parent</b> (Note 30)	<b>P0.36</b>	P0.80
<b>Basic/Diluted Earnings Per Common Share from</b> <b>Continuing Operations - Attributable to Equity</b> <b> Holders of the Parent</b> (Note 30)	<b>P0.36</b>	P0.53

**PHINMA CORPORATION AND SUBSIDIARIES**  
*(formerly Bacnotan Consolidated Industries, Inc.)*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>January – June</b>	
	<b>2010</b>	<b>2009</b>
	<i>(In Thousands)</i>	
<b>NET INCOME</b>	<b>₱104,575</b>	<b>₱223,725</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	<b>(572)</b>	<b>(5,345)</b>
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	<b>800</b>	<b>(80)</b>
Cumulative translation adjustments	<b>1,423</b>	<b>-</b>
	<b>1,651</b>	<b>(5,425)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱106,226</b>	<b>₱218,300</b>
<b>Attributable To</b>		
Equity holders of the parent	<b>₱95,400</b>	<b>₱201,959</b>
Minority interest	<b>10,826</b>	<b>16,341</b>
Total Comprehensive Income	<b>₱106,226</b>	<b>₱218,300</b>

**PHINMA CORPORATION AND SUBSIDIARIES**  
*(formerly Bacnotan Consolidated Industries, Inc.)*

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Unaudited		Audited
	June		December
	2010	2009	2009
<b>CAPITAL STOCK - P10 par value (Note 21)</b>			
Common shares - net of subscription receivable of P124 in June 2010 and Dec. 31, 2009			
Balance at beginning of year	2,577,249	2,577,249	2,577,249
Stock dividends	-	-	-
Balance at end of year	2,577,249	2,577,249	2,577,249
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>255,785</b>	255,785	255,785
<b>SHARE IN EQUITY COMPONENT OF CONVERTIBLE NOTES</b>	<b>16,699</b>	13,443	13,443
<b>SHARE IN UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AVAILABLE-FOR SALE INVESTMENTS OF ASSOCIATES (Note 12)</b>			
Balance at beginning of year	11,495	5,054	5,054
Changes in fair value during the year	(572)	(5,345)	6,441
Balance at end of year	10,923	(291)	11,495
<b>UNREALIZED GAIN (LOSS) ON CHANGE IN FAIR VALUE OF AN AVAILABLE-FOR-SALE INVESTMENTS (NOTE 13)</b>			
Balance at beginning of year	300	(600)	(600)
Increase (decrease) in fair value gains on available-for-sale investments	800	(80)	900
Balance at end of year	1,100	(680)	300
<b>CUMULATIVE TRANSLATION ADJUSTMENTS</b>	<b>621</b>	-	(802)
<b>RETAINED EARNINGS</b>			
Appropriated for future investments (Note 21)	1,000,000	1,000,000	1,000,000
Unappropriated :			
Balance beginning of year	2,282,587	1,938,312	1,938,312
Net Income	93,749	207,384	447,370
Cash dividends on common shares	(103,095)	(103,095)	(103,095)
	<b>2,273,240</b>	2,042,602	2,282,587

---

	Unaudited		Audited
	June		December
	2010	2009	2009
<b>MINORITY INTEREST</b>			
Balance at beginning of year	<b>626,309</b>	889,049	889,049
Net income	<b>15,057</b>	14,850	57,118
Dividends	<b>(25,214)</b>	(19,211)	(26,841)
Business combination (Note 7)	<b>(2,114)</b>	128,481	158,614
Disposal of minority interest (Note 6)	-	(214,523)	(182,416)
Acquisition of minority interest (Note 7)	-	-	(288,807)
Subscriptions	-	-	19,592
Balance at end of year	<b>614,038</b>	798,646	626,309
<b>TOTAL EQUITY</b>	<b>6,749,657</b>	6,686,754	6,766,366

---

**PHINMA CORPORATION AND SUBSIDIARIES**

*(formerly Bacnotan Consolidated Industries, Inc.)*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>January – June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(In Thousands)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax from continuing operations	<b>₱162,289</b>	₱172,938
Adjustments for:		
Depreciation and amortization	<b>124,816</b>	151,692
Equity in net earnings of associates (Note 12)	<b>(3,387)</b>	(62,440)
Loss (gain) on derivatives	<b>10,663</b>	(19,035)
Unrealized foreign exchange loss (gain) - net	<b>3,258</b>	(8,829)
Dividend income	<b>(3,172)</b>	(2,709)
Income tax paid	<b>(46,953)</b>	(36,886)
Changes in working capital and others	<b>(319,159)</b>	366,808
Net cash provided by operating activities	<b>(71,645)</b>	561,539
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Business combination:		
Cash paid - net of cash from business acquired (Note 7)	-	(920,167)
Proceeds from sale of discontinued operation (Note 6)	-	77,250
Decrease (increase) in:		
Investments	-	(290)
Available for sale investment	-	(67,330)
Other noncurrent assets	<b>220,011</b>	(72,248)
Full payment of acquisition of minority interest	<b>(153,095)</b>	-
Proceeds received from settlement of derivative asset	<b>5,783</b>	772
Net settlement of derivative liability	<b>(4,557)</b>	(11,418)
Additions to:		
Property and equipment (Notes 14 and 15)	<b>(106,505)</b>	(27,409)
Dividends received	<b>31,719</b>	25,976
Net cash provided by (used in) investing activities	<b>(6,644)</b>	(994,864)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payments of) :		
Short-term borrowing	<b>171,849</b>	(455,121)
Long-term borrowing	<b>192,315</b>	(43,841)
Payment of cash dividends	<b>(101,692)</b>	(102,004)
Net cash used in financing activities	<b>262,472</b>	(600,966)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>184,183</b>	(1,034,291)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(3,414)</b>	4,244
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,052,217</b>	1,809,871
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>₱1,232,986</b>	₱779,824

## PHINMA CORPORATION AND SUBSIDIARIES

*(formerly Bacnotan Consolidated Industries, Inc.)*

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Corporate Information

PHINMA Corporation, formerly Bacnotan Consolidated Industries, Inc. (PHN or the “Parent Company”) and its subsidiaries (collectively referred to as “the Company”) were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on various dates, except for One Animate Limited (OAL), which was incorporated in Hong Kong. The ultimate parent of PHN is Philippine Investment-Management (PHINMA), Inc. The Company is also controlled by PHINMA under an existing management agreement. PHINMA is incorporated in the Philippines.

On May 27, 2010, the Securities and Exchange Commission approved the change of name from Bacnotan Consolidated Industries, Inc. (BCII) to PHINMA Corporation (PHN).

The Parent Company is principally engaged in investment holdings in various subsidiaries, associates and investment in financial assets. The principal activities of its subsidiaries are as follows:

Name of Subsidiaries	Nature of Business	Calendar/Fiscal Yearend	Percentage of Ownership	
			June 2010	Dec. 2009
Union Galvasteel Corporation (UGC)	Manufacture and distribution of steel products	December 31	100.00	100.00 <sup>(a)</sup>
Atlas Holdings Corporation (AHC)	Investment holdings	December 31	90.00	90.00
One Animate Limited (OAL) and Subsidiary Pamantasan ng Araullo (Araullo University), Inc.(AU)	BPO-Animation services	December 31	80.00	80.00 <sup>(b)</sup>
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31 <sup>(f)</sup>	78.64	78.64
University of Pangasinan (UPANG) and Subsidiary	Educational institution	March 31 <sup>(f)</sup>	74.35	74.35
University of Iloilo (UI)	Educational institution	March 31 <sup>(f)</sup>	70.00	70.00 <sup>(c)</sup>
P & S Holdings Corporation (PSHC)	Educational institution	March 31 <sup>(f)</sup>	69.90	69.90 <sup>(d)</sup>
Asian Plaza, Inc. (API)	Investment and real estate holdings	December 31	60.00	60.00
Bacnotan Industrial Park Corporation (BIPC)	Lease of real property	December 31	57.62	57.62
	Real estate development	December 31	—	— <sup>(e)</sup>

<sup>(a)</sup> On December 21, 2009, PHN acquired 19.5% of the voting shares of UGC (see Note 7).

<sup>(b)</sup> OAL owns 95.0% interest in Toon City Animation, Inc. (Toon City).

<sup>(c)</sup> Acquired by PHN on February 2, 2009. Upang owns 57.4% interest in Pangasinan Medical Center, Inc. (see Note 7).

<sup>(d)</sup> Acquired by PHN on February 25, 2009 (see Note 7).

<sup>(e)</sup> On March 10, 2009, PHN, AHC and other related parties sold all the issued and outstanding common shares of BIPC (see Note 6).

<sup>(f)</sup> Balances of these subsidiaries as of and for the year ended December 31 were used for consolidation purposes, which is the same reporting period of BCII.

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

The accompanying consolidated financial statements of BCII were authorized for issuance by the Board of Directors (BOD) on August 9, 2010.

---

## 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, AFS investments and derivative assets and liabilities that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the Company's functional and presentation currency, except for OAL with a functional currency of United States dollar (USD). 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) issued by the Financial Reporting Standards Council.

---

## 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amended and improved PFRS and Philippine Interpretations which were adopted as of January 1, 2009.

### New Standards and Interpretations

- Philippine Accounting Standard (PAS) 1, "Presentation of Financial Statements," effective January 1, 2009
- PAS 23, "Borrowing Costs," (Revised) effective January 1, 2009
- PFRS 8, "Operating Segments," effective January 1, 2009
- Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 13, "Customer Loyalty Programmes," effective October 1, 2008
- Philippine Interpretation IFRIC 16, "Hedges of a Net Investment in a Foreign Operation," effective July 1, 2009
- Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers," effective July 1, 2009

### Amendments to Standards

- PAS 1 and 32 Amendments, "Puttable Financial Instruments and Obligations Arising on Liquidation," effective January 1, 2009
- PFRS 1 and PAS 27 Amendments, "Cost of an Investment in a Subsidiary, Jointly Controlled Entity of Associate," effective January 1, 2009
- PFRS 2 Amendment, "Vesting Conditions and Cancellations," effective January 1, 2009
- PFRS 7 Amendment, "Improving Disclosures about Financial Instruments," effective, January 1, 2009
- Philippine Interpretation IFRIC 9 and PAS 39 Amendments, "Embedded Derivatives," effective June 30, 2009
- Improvements to PFRSs (2008)
- Improvements to PFRSs (2009), with respect to the amendment to Appendix to PAS 18, "Revenue"

Standards that have been adopted and that have an impact on the financial statements or performance of the Company are described below:

- Amendments to PAS 1, "Presentation of Financial Statements"

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

#### PFRS 8, “Operating Segments”

PFRS 8 replaced PAS 14, “Segment Reporting,” upon its effective date. The Company concluded that the operating segments determined in accordance with PFRS 8 are the same as the business segments previously identified under PAS 14. PFRS 8 disclosures are shown in Note 36, including the related revised comparative information.

- Amendments to PFRS 7, “Financial Instruments: Disclosures”

The amendments to PFRS 7, “Financial Instruments: Disclosures,” require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 31. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 30.

The adoption of other standards has no impact to the consolidated financial statements.

#### Improvements to PFRSs

The omnibus amendments to PFRS issued in 2009 and 2008 were issued primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the said amendments in 2009 did not have significant impact in the consolidated financial statements.

The following amendments to PAS 18 arose from the 2009 improvements to PFRS:

- PAS 18, “Revenue”

The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- a. Has primary responsibility for providing the goods or service;
- b. Has inventory risk;
- c. Has discretion in establishing prices; and
- d. Bears the credit risk.

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements.

#### Standards Issued but not yet Effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

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

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

- Philippine Interpretation IFRIC 15, "Agreement for Construction of Real Estate"

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

- Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners"

This interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability.

#### Amendments to Standards

- PAS 39 Amendment, "Eligible Hedged Items"

The amendment to PAS 39, "Financial Instruments: Recognition and Measurement," effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in

particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

- PFRS 2 Amendments, “Group Cash-settled Share-based Payment Transactions”

The amendments to PFRS 2, “Share-based Payments,” effective for annual periods beginning on or after January 1, 2010 clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company as the Company has not entered into any such share-based payment transactions.

#### Improvements to PFRSs 2009

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

- PFRS 2, “Share-based Payment,” clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, “Business Combinations” (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, “Noncurrent Assets Held for Sale and Discontinued Operations,” clarifies that the disclosures required in respect of noncurrent assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.
- PFRS 8, “Operating Segment Information,” clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, “Presentation of Financial Statements,” clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, “Statement of Cash Flows,” explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, “Leases,” removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, “Impairment of Assets,” clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, “Intangible Assets,” clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the

group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

PAS 39, "Financial Instruments: Recognition and Measurement," clarifies the following:

- a. that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
  - b. that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
  - c. that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, "Reassessment of Embedded Derivatives," clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
  - Philippine Interpretation IFRIC 16, "Hedge of a Net Investment in a Foreign Operation," states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

---

#### 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 2008 consolidated financial statements using the purchase method of accounting. The purchase considerations have been allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. Also, the accounts of UPANG and UI have been included in the 2009 consolidated financial statements using the purchase method of accounting. Accordingly, the 2009 consolidated statement of income and consolidated statement of cash flows

include the results of operations and cash flows of UPANG and UI from their respective acquisition dates to December 31, 2009.

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, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, 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, otherwise, the difference is recognized as a “negative” goodwill (shown as “Negative goodwill on acquisition of minority interest” in the consolidated statement of income).

#### 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 statement of financial position 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 end of the reporting period 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 statement of financial position 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” account. 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 payment 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 statement of financial position 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" account. 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 Notes 9 and 28).

#### 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 or bifurcated, 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 28).

#### 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 FVPL.

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 cash flows.

The Company has bifurcated embedded foreign currency derivatives (see Note 28).

- Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. After initial measurement, such assets are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within one year from the end of the reporting period, and as noncurrent assets if maturity date is more than one year from the end of the reporting period.

The Company's cash and cash equivalents, short-term investments, trade and other receivables and installment contract receivables are classified as loans and receivables (see Notes 8, 10 and 28).

- 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. After initial measurement, such assets are carried at amortized cost using the effective interest rate method.

Gains and losses are recognized in the 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 end of the reporting date. Otherwise, these are classified as noncurrent assets.

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

- AFS Investments

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS investments 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 investments are classified as current if they are expected to be realized within 12 months from the end of the reporting 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 investments (see Notes 13 and 28)

- Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. This includes liabilities arising from operations or loans and borrowings.

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 rate 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 (see Notes 18, 19, 20, 26 and 28).

#### Convertible Notes

Convertible notes of UGC, which contain both a liability and an equity element, are separated into two components on initial issuance based on the present value of the expected cash flows of the notes, and each is accounted for separately. Upon issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a long-term liability at amortized cost until extinguished on conversion or repayment. Amortization of discount is based on the effective interest rate method. The remainder of the proceeds is allocated to the conversion option. The Parent Company's share is recognized and included in equity as "Share in equity component of convertible notes." The value of the conversion option is not changed in subsequent periods.

#### Impairment of Financial Assets

The Company assesses at each reporting 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 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 assessment of collectability 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 reporting 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 the consolidated statement of comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed 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 when:

- 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 the consolidated statement of income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if and only if there is a currently 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 statement of financial position 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.

#### Noncurrent Assets Held for Sale and Discontinued Operations

Noncurrent assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Noncurrent assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of income of the reporting period, and the comparable period of the previous year, income and expenses from discontinued operations are reported separately from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of income.

Property, plant and equipment and intangible assets once classified as held for sale are no longer depreciated/amortized.

#### 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. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

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 consolidated statement of income.

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 (except land) are stated at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Depreciation of buildings for lease is calculated on a straight-line basis over the estimated useful lives of 15 to 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 sell.

#### Business Combinations, Goodwill and Goodwill Impairment

Business combinations are accounted for using the purchase method. 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. 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 loss. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. If the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Company reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and recognizes immediately in profit or loss any excess remaining after that reassessment.

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 PFRS 8, "Operating Segments."

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 separately is measured on initial recognition at cost. The cost of intangible assets (student lists and customer contracts) acquired in a business combination is measured at 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. Student lists are amortized over three years and assessed for impairment whenever there is an indication that the student lists acquired may be impaired. Customer contracts are amortized over the estimated economic life of one year.

The useful lives of intangible assets are assessed to be either finite or indefinite. The amortization period and 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. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset. Intangible assets with indefinite lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level.

### 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 in the consolidated statement of income.

### Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account in the consolidated statement of financial position. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to the "Additional paid-in capital" account in the consolidated statement of financial position.

### Revenue Recognition

Revenue is recognized when 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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Goods.* Revenue from sale of roofing and other steel products, books and incidentals is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

*Tuition and School Fees.* Income from tuition and school fees is recognized as income over the corresponding school term to which they pertain. Tuition and school fees received pertaining to the summer semester and the next school year are recorded as part of "Unearned revenues" account in the consolidated statement of financial position.

*Animation Services.* Income from animation services is recognized by reference to the stage of completion. Stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

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

*Investment Income.* Investment income includes net gains and losses on investments held for trading (see accounting policy on Financial Assets) and interest income. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

#### Cost of Sales, Educational and Animation Services

Cost of sales includes direct materials used, personnel costs, as well as repair and power and fuel used to run production of steel products. Cost of educational services constitutes costs incurred to administer academic instruction. Costs of animation services include all direct materials, labor costs and indirect costs related to contract performance. These expenses are expensed as incurred.

#### General and Administrative Expenses

General and administrative expenses constitute costs of administering the business and are expensed as incurred. These normally includes personnel costs, management and professional fees, supplies, rental and utilities.

#### Selling Expenses

Selling expenses include costs of distribution of steel products, books, incidentals, personnel costs, freight expenses, commission and advertising. Selling expenses are expensed as incurred.

#### Retirement Costs

BCII, AU, COC, BIPC, Toon City 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.

*Company as Lessee.* 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 consolidated statement of income on a straight-line basis over the lease term.

*Company as Lessor.* Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the consolidated statement of income on a straight-line basis over the lease term.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing cost consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### 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. However, 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 consolidated statement of income. 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.

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 investments in associates. The Company determines at each reporting 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.

#### Foreign Currency Translation

The consolidated financial statements are presented in Philippine peso, which is also the parent company's functional and presentation currency. The Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Company has elected to recycle the gain or loss that arises from direct method of consolidation, the method the Company uses to complete its consolidation.

Transactions in foreign currencies are recorded using their functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange at the end of the reporting period. Exchange gains or losses arising from foreign currency translations are credited or charged to current operations. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Other than OAL, the functional and presentation currency of the companies within the group is Philippine peso. OAL's functional currency is US dollar. The assets and liabilities of foreign operations (OAL) are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of 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 end of the reporting period.

*Deferred Tax.* Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of the reporting period 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, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) 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 reporting 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 reporting 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 end of the reporting period.

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

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

*Value-Added Tax (VAT)*. Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services are not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of receivables or payables in the consolidated statement of financial position.

#### 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 31 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.

#### Events After the Reporting Period

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

---

## **5. Significant Accounting Judgments and Estimates**

The Company's consolidated financial statements prepared in conformity with PFRS require management to make judgments, estimate and assumptions that affect amounts reported in the consolidated financial statements and related notes. In preparing the Company's consolidated financial statements, management has made its best estimates and judgments of certain amounts, giving due consideration to materiality. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

The Company believes the following represents a summary of these significant estimates and judgments and related impact and associated risks in its financial statements.

#### Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Company's consolidated financial statements:

*Operating Lease - the Company as Lessor.* The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Revenue Recognition.* Selecting an appropriate revenue recognition method for a particular sale transaction requires certain judgments based on sufficiency of cumulative payments by the buyer and completion of development.

*Financial Currency.* The Company, except for OAL with a functional currency of US dollar, has determined that its functional currency is the Philippine peso. It is the currency of the primary economic environment in which the Company operates.

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment Testing of Goodwill.* The Company performs impairment testing of goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Value in use is determined by making an estimate of the expected future cash flows from the cash-generating unit and applies a discount rate in order to calculate the present value of these cash flows. Goodwill acquired through business combination has been allocated to one cash-generating unit which is also the operating entity acquired through business combination and to which the goodwill relates. The recoverable amount of the goodwill has been determined based on value in use calculation using cash flow projections covering a five-year period. The pre-tax discount rates applied to cash flow projections ranges from 10% to 15% in 2009. Discount rate reflects the current market assessment of the risk specific to each cash-generating unit. The discount rate is based on the average percentage of the weighted average cost of capital for the industry. This rate is further adjusted to reflect the market assessment of any risk specific to the cash generating unit for which future estimates of cash flows have not been adjusted. The carrying amount of goodwill amounted to ₱1,125.9 million as of June 30, 2010 and ₱1,125.2 million as of December 31, 2009 and is presented as part of the "Intangibles" account in the consolidated statements of financial position (see Note 16). No impairment loss on goodwill was recognized in June 30, 2010 and Dec. 31, 2009.

The Company performs its annual testing of goodwill at December 31, 2009.

*Impairment of Non-Financial Asset, other than Goodwill.* The Company assesses whether there are any indicators of impairment for all non-financial assets, other than goodwill, at each reporting date. These non-financial assets (investment in associates, property, plant and equipment, investment properties and intangibles) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. This requires

an estimation of the value in use of the cash-generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In cases where the value in use cannot be reliably estimated, the recoverable amount is based on the fair value less costs to sell. The recoverable amount of investments in associates is based on fair value less cost to sell. Fair value less costs to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate. The carrying amounts of investments in associates as of June 30, 2010 and December 31, 2009 amounted to ₱1,300.4 million and ₱1,336.7 million, respectively (see Note 12). Based on management's assessment, the Company's investments in associates are fairly stated, thus no impairment loss was recognized in June 2010 and December 2009.

There are no impairment indicators for the other non-financial assets. The carrying amounts of property plant and equipment as of June 30, 2010 and December 31, 2009 amounted to ₱2,201.5 million and ₱2,172.5 million, respectively (see Note 14). The carrying amounts of investment properties as of June 30, 2010 and December 31, 2009 amount to ₱632.8 million and ₱648.9 million, respectively (see Note 15). The carrying amounts of intangibles other than goodwill as of June 30, 2010 and December 31, 2009 amounted to ₱56.5 million and ₱74.1 million, respectively.

*Impairment of AFS Investments.* The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20% or more of the original cost of investment, and "prolonged," greater than six months. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying values of AFS investments as of June 30, 2010 and December 31, 2009 are ₱399.5 million and ₱398.7 million, respectively (see Note 13). Based on management's assessment, the Company's AFS investments are fairly stated, thus, no impairment loss was recognized in June 2010 and December 2009.

*Deferred Tax Assets.* The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax asset is recognized in the consolidated statements of financial position as of December 31, 2009 amounted to ₱219.1 million . (see Note 29).

*Input VAT.* The carrying amounts of input taxes were reduced to the extent that it is no longer probable that sufficient revenue subject to VAT will be available to allow all or part of the input VAT to be utilized. Allowance for unrecoverable input VAT amounted to ₱122.2 million as of December 31, 2009. The carrying amount of input VAT classified as current assets as of December 31, 2009 amounted to ₱3.5 million . The carrying value of input VAT classified as other noncurrent assets amounted to ₱0.7 million as of December 31, 2009 (see Note 17).

*Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangibles.* The Company estimates the useful lives of depreciable property, plant and equipment, depreciable investment properties and intangibles with finite useful lives based on the period over which the property, plant and equipment, investment properties and intangibles with finite useful lives are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets and in the case of intangibles, useful lives are also based on the contracts covering such intangibles. The estimated useful lives of property,

plant and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above.

*Impairment of Trade Receivables.* The Company maintains allowance for doubtful accounts based on the result of the individual and collective assessments under PAS 39. Under the individual assessment, which considers the significant financial difficulties of the debtor, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivables' carrying balance and the computed present value. The collective assessment would require the Company to group its receivables based on the credit risk characteristics (debtor type, past-due status and terms) of the debtors. Impairment loss is then determined based on historical loss experience of the receivables grouped per credit risk profile. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for the individual and collective assessments are based on management's judgment and estimate. Therefore, the amount and timing of recorded expense for any year would differ depending on the judgments and estimates made for the year. The carrying amounts of trade and other receivables as of June 30, 2010 and December 31, 2009 amounted to ₱738.3 million and ₱662.6 million, respectively (see Note 10). The noncurrent portion of the installment contract receivable amounted to ₱276.4 million as of December 31, 2009.

*Estimating Net Realizable Value of Inventories.* The Company carries inventories at net realizable value when this becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of inventories as of June 30, 2010 and December 31, 2009 amounted to ₱850.5 million and ₱601.2 million, respectively (see Note 11).

*Estimating the Fair Values of Acquiree's Identifiable Assets and Liabilities.* Where the fair values of the acquiree's identifiable assets and liabilities cannot be derived from active markets, the Company determined the fair values using internal valuation techniques and generally accepted valuation approaches. The inputs to these valuation approaches are taken from historical experience and observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. The estimates may include discount rates and assumptions used in cash flow projections. The fair values of the identifiable acquired net assets of Toon City, UPANG and UI are ₱78.5 million, ₱772.9 million, and ₱731.0 million, respectively, while the fair values of liabilities assumed amounted to ₱49.9 million, ₱607.3 million, and ₱364.8 million, respectively (see Note 7).

*Pension Benefits.* The determination of the Company's obligation and cost of pension benefits is dependent on the selection of certain assumptions made by management and used by actuaries in calculating such amounts. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

## 6. Discontinued Operation

On March 10, 2009, PHN, AHC, Trans-Asia Oil and Energy Development Corporation (TA Oil) and Trans-Asia Power Corporation (TA Power) signed a Share Purchase Agreement for the sale of all their interests in BIPC to Phoenix Petroleum Philippines, Inc. (Phoenix), an unrelated party, for ₱109.8 per share totaling ₱642.3 million, ₱428.3 million of which pertains to the Company. Outstanding receivable of the Company from this transaction amounted to ₱333.5 million as of December 31, 2009. The current portion amounting to ₱57.0 million is presented under “Trade and other receivables” account in the consolidated statement of financial position (see Note 10). The noncurrent portion amounting to ₱276.4 million is shown separately as “Installment contract receivable - net of current portion” account under noncurrent assets in the 2009 consolidated statement of financial position. The sale resulted in the Company’s recognition of gain amounting to ₱65.0 million.

The cash inflow related to discontinued operation is as follows:

	Amount
	<i>(In Thousands)</i>
Total disposal consideration	₱428,250
Less receivable	333,450
Cash received from disposal	94,800
Less:	
Cash and cash equivalents of a subsidiary disposed of	22,538
Disposal costs	9,386
<b>Net cash inflow</b>	<b>₱62,876</b>

On April 16, 2010, Phoenix prepaid the full amount of its outstanding payable to PHN, AHC TA Oil and TA Power.

The results of BIPC for the period January 1 to March 10, 2009 and for the years ended December 31, 2008 and 2007 are presented below:

	2009	2008	2007
	<i>(In Thousands)</i>		
Revenues	<b>₱5,292</b>	₱63,718	₱125,721
Cost and expenses	<b>(4,643)</b>	(55,378)	(91,319)
Operating income	<b>649</b>	8,340	34,402
Other expenses - net	<b>(479)</b>	(1,728)	(1,110)
Income before income tax			
from discontinued operation	<b>170</b>	6,612	33,292
Provision for income tax	<b>(57)</b>	(2,300)	(3,920)
<b>Net income for the year from discontinued operation</b>	<b>₱113</b>	<b>₱4,312</b>	<b>₱29,372</b>

Income from discontinued operation consists of the following:

	2009	2008	2007
	<i>(In Thousands)</i>		
Gain from sale of discontinued operation, net of tax	<b>₱65,039</b>	₱-	₱-

Net income from discontinued operation	<b>113</b>	4,312	29,372
Net income for the year from discontinued operation	<b>P65,152</b>	<b>P4,312</b>	<b>P29,372</b>

The assets and liabilities of BIPC as of March 10, 2009 are as follows:

	Amount
	<i>(In Thousands)</i>
Current assets:	
Cash and cash equivalents	P22,538
Trade and other receivables	23,245
Inventories (see Note 11)	122,051
Prepaid expenses and other current assets	724
Noncurrent assets:	
Property, plant and equipment (see Note 14)	131,140
Investment property (see Note 15)	216,721
Deferred tax assets	283
Installment contracts receivable	58,482
Other noncurrent assets	9,246
	<u>584,430</u>
Current Liabilities:	
Trade and other payables	(23,321)
Current portion of long-term debt	(7,144)
Noncurrent Liabilities:	
Long-term debt	(13,380)
Accrued retirement	(2,139)
Other noncurrent liabilities	(2,247)
	<u>(48,231)</u>
Net assets	<u><b>P536,199</b></u>
Share in net assets	P353,783
Minority interest	182,416
	<u><b>P536,199</b></u>

The net cash flows of BIPC for the period January 1 to March 10, 2009 and years ended December 31, 2008 and 2007 are as follows:

	<b>2009</b> <b>(January 1</b> <b>to March 10)</b>	2008	2007
		<i>(In Thousands)</i>	
Operating	<b>₱22,538</b>	(₱5,040)	₱151
Investing	–	14,431	(7,070)
Financing	–	(3,666)	(1,000)
<b>Net cash flow</b>	<b>₱22,538</b>	<b>₱5,725</b>	<b>(₱7,919)</b>

Basic EPS from discontinued operation is computed as follows:

	<b>2009</b>	2008	2007
		<i>(In Thousands)</i>	
(a) Net income from discontinued operation attributable to equity holders of the parent (see Note 36)	<b>₱65,090</b>	₱3,160	₱21,527
(b) Weighted average shares outstanding	<b>257,737</b>	257,737	257,737
<b>Basic EPS (a/b)</b>	<b>₱0.25</b>	<b>₱0.01</b>	<b>₱0.08</b>

## 7. Business Combinations and Acquisition of Minority Interests

- Acquisitions in 2009

### Acquisition of UPANG

On February 2, 2009, PHN purchased 524,351 shares of stock of UPANG representing 70% ownership interest. UPANG is a private educational institution incorporated in the Philippines with campus located at Dagupan City, Pangasinan.

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
	<i>(In Thousands)</i>	
Cash on hand and in banks	₱1,815	₱1,815
Receivables	4,609	4,609
Inventories	2,659	2,659
Prepaid expenses and other assets	51,134	51,134
Property and equipment (see Note 14)	630,994	302,400
Intangibles (see Note 16)	81,729	–
<b>(Total Carried Forward)</b>	<b>772,940</b>	<b>362,617</b>

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
<i>(In Thousands)</i>		
(Total Brought Forward)	₱772,940	₱362,617
Accounts payable and accrued liabilities	(68,605)	(68,605)
Loans payable	(365,000)	(365,000)
Deferred tax liabilities	(138,072)	(14,975)
Retirement payable	(35,605)	(35,605)
	(607,282)	(484,185)
Net assets	165,658	(₱121,568)
Percentage of ownership	70%	
	115,961	
Goodwill arising from acquisition (see Note 16)	466,637	
<b>Total consideration</b>	<b>₱582,598</b>	

Identifiable intangible assets pertain to the students lists acquired and are expected to be amortized within 3 years from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
<i>(In Thousands)</i>	
Cash paid on acquisition date	₱582,598
Less cash of acquired subsidiary	1,815
<b>Net cash outflow</b>	<b>₱580,783</b>

From the date of acquisition, UPANG has contributed ₱349.8 million of revenue and ₱61.6 million to the consolidated income before income tax of the Company. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operation would have been ₱3,792.4 million and consolidated net income would have been ₱383.2 million.

#### Acquisition of UI

On February 25, 2009, PHN purchased 34,997 shares of stock of UI from Inaec Agro Industrial Corporation, with BCII paying the corresponding tax, and completed the subscription and payment of 1,190,000 shares of said university at ₱100 per share. The shares represent 70% ownership interest in UI, a private educational institution incorporated in the Philippines located in Iloilo City.

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

	Fair Value Recognized on Acquisition	Previous Carrying Value in the Subsidiary
<i>(In Thousands)</i>		
Cash on hand and in banks	₱178,600	₱178,600
Tuition fee receivables	42,865	42,865
Loans and advances	1,149	1,149
Other receivables	2,254	2,254
Inventories	1,609	1,609
Prepaid expenses	127	127
Property and equipment (see Note 14)	480,362	56,859
Intangibles (see Note 16)	24,011	-
	<u>730,977</u>	<u>283,463</u>
Accrued payable and accrued expenses	(45,311)	(45,311)
Retirement payable	(185,269)	(185,269)
Deferred tax liabilities	(134,255)	-
	<u>(364,835)</u>	<u>(230,580)</u>
Net assets	366,142	<u>₱52,883</u>
Percentage of ownership	70%	
	<u>256,300</u>	
Goodwill arising from acquisition (see Note 16)	213,995	
Total consideration	<u>₱470,295</u>	

Identifiable intangible assets pertain to the students lists acquired and are expected to be amortized within 3 years from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
<i>(In Thousands)</i>	
Cash paid on acquisition dates (cost of shares and costs associated with the acquisition amounting to ₱36.3 million)	₱470,295
Less cash of acquired subsidiary	178,600
Net cash outflow	<u>₱291,695</u>

From the date of acquisition, UI has contributed ₱162.0 million of revenue and ₱19.6 million to the consolidated income before income tax of the Company. If the combination had taken place at the beginning of the year, consolidated revenue from continuing operations would have been ₱3,811.3 million and consolidated net income would have been ₱184.3 million.

The goodwill comprises the value of expected synergies arising from the acquisition.

Acquisition of Additional Interest in UGC

On December 21, 2009, PHN acquired the remaining 19.5% non-controlling interest in UGC thereby increasing PHN's ownership to 100%, thus making UGC a wholly owned subsidiary of PHN. The total consideration was ₱36.3 million of which ₱9.1 million was paid as of December 31, 2009. The remaining balance amounted ₱27.2 million and included in "Trade and other payables" account in the 2009 consolidated statement of financial position. The remaining balance was fully paid in January 2010. The carrying value of the net assets of UGC at the date of sale was ₱620.6 million, and the carrying value of the additional interest acquired was ₱121.0 million. The difference of ₱84.7 million between the consideration paid and the carrying value of minority interest acquired is recorded as "Negative goodwill on acquisition of minority interest" in the 2009 consolidated statement of income.

Buy-back of Preferred Shares

On December 21, 2009, UGC repurchased all of the preferred shares at par in the amount of ₱167.8 million.

▪ Acquisition in 2008

Acquisition of Toon City

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 by OAL are as follows:

	Fair value Recognized on Acquisition (Restated)	Previous Carrying Value in the Subsidiary
<i>(In Thousands)</i>		
Cash and cash equivalents	₱1,800	₱1,800
Receivables	20,492	20,492
Prepayments and other current assets	18,475	18,475
Property and equipment (see Note 14)	13,362	13,362
Customer contracts (see Note 16)	22,080	-
Refundable deposits and other noncurrent assets	2,272	2,272
	<u>78,481</u>	<u>56,401</u>
Accounts payable and accrued expenses	(18,522)	(18,522)
Loans payable	(15,000)	(15,000)
Accrued retirement	(3,628)	(3,628)
Deferred tax liability	(12,784)	(6,160)
	<u>(49,934)</u>	<u>(43,310)</u>
Net assets	28,547	<u>₱13,091</u>
Percentage of ownership	95%	
	<u>27,119</u>	
Goodwill arising from acquisition (see Note 16)	<u>378,669</u>	

	Fair value Recognized on Acquisition (Restated)	Previous Carrying Value in the Subsidiary
<i>(In Thousands)</i>		
<b>Total consideration</b>	<b>₱405,788</b>	

The net assets recognized in the December 31, 2008 consolidated financial statements were based on a provisional assessment of fair values as the audit and fair valuation of the identifiable net assets acquired were not yet completed as of such date.

The valuation of the customer contracts was completed in December 2009 and showed that the fair value at the date of acquisition was ₱22.1 million, a decrease of ₱68.4 million compared to the provisional value.

The results of operations of OAL and Toon City from the acquisition date (December 24, 2008) until yearend is not significant and has not been included in the Company's results of operations in 2008. Management deemed it impracticable to disclose the consolidated revenue and net income of OAL for the year ended December 31, 2008 as though the acquisition date for the business combination effected had been January 1, 2008.

The goodwill comprises the value of expected synergies arising from the acquisition.

Customer contracts pertain to the identifiable intangible asset acquired and are expected to be fully amortized within 12 months from the acquisition date (see Note 16).

The cash outflow related to the acquisition is as follows:

	Amount
<i>(In Thousands)</i>	
Cash paid on acquisition dates (cost of shares and costs associated with the acquisition amounting to ₱0.5 million)	₱405,788
Less cash of acquired subsidiary	1,800
<b>Net cash outflow</b>	<b>₱403,988</b>

## 8. Cash and Cash Equivalents

This account consists of:

	June 30, 2010	Dec. 31, 2009
<i>(In Thousands)</i>		
Cash on hand and in banks	<b>₱180,988</b>	₱392,052
Short-term deposits	<b>1,051,998</b>	660,165
	<b>₱1,232,986</b>	<b>₱1,052,217</b>

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.

---

## 9. Investments Held for Trading

This account consists of:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Investments in:		
Bonds	<b>₱252,587</b>	₱296,205
UITFs	<b>266,061</b>	261,172
Trust accounts	-	4,501
Marketable equity securities	<b>3,950</b>	2,534
	<b>₱522,598</b>	₱564,412

---

## 10. Trade and Other Receivables

This account consists of:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Trade	<b>₱788,624</b>	₱598,745
Current portion of installment contract receivable (see Note 6)	-	57,037
Due from related parties (see Note 26)	<b>66,679</b>	41,239
Advances to suppliers and contractors	<b>2,512</b>	25,915
Accrued interest	<b>4,535</b>	14,126
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	<b>8,939</b>	8,939
Others	<b>24,567</b>	37,403
	<b>895,856</b>	783,404
Less allowance for doubtful accounts	<b>128,627</b>	120,780
	<b>₱767,229</b>	₱662,624

---

---

## 11. Inventories

This account consists of:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
At cost:		
Finished goods	<b>₱606,846</b>	₱502,443
Raw materials	<b>207,629</b>	67,676
Other inventories	<b>8,525</b>	9,369
At net realizable value -		
Spare parts and others	<b>27,492</b>	21,753
Inventories at the lower of cost or net realizable value	<b>₱850,492</b>	₱601,241

---

## 12. Investments in Associates

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

	<u>Percentage of Ownership</u>	
	Direct	Indirect
Phinma Property Holdings Corporation (PPHC) <sup>(c)</sup>	35.35	-
TA Oil <sup>(c)</sup>	27.05	-
AB Capital and Investment Corporation (AB Capital)	26.51	1.67
Luzon Bag Corporation <sup>(a)</sup>	20.61	-
Asia Coal Corporation (Asia Coal) <sup>(a) (b)</sup>	12.08	5.99

<sup>(a)</sup> *Ceased commercial operations*

<sup>(b)</sup> *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.*

<sup>(c)</sup> *In 2008, ownership interest in PPHC was 35.27% and TA Oil was 27.03%.*

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

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Acquisition costs:		
Balance at beginning of year	<b>₱1,537,282</b>	₱1,536,993
Additions	-	289
Balance at end of year	<b>1,537,282</b>	1,537,282
Accumulated equity in net losses:		
Balance at beginning of year	<b>(212,114)</b>	(290,669)
Equity in net earnings for the year	<b>3,387</b>	117,657
Dividends received	<b>(39,104)</b>	(39,102)
Balance at end of year	<b>(247,831)</b>	(212,114)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	<b>11,495</b>	5,054
Change in fair value during the year	<b>(572)</b>	6,441
Balance at end of year	<b>10,923</b>	11,495
	<b>₱1,300,374</b>	₱1,336,663

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

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
TA Oil*	<b>₱782,821</b>	₱831,039
PPHC	<b>335,717</b>	325,925
AB Capital	<b>181,567</b>	179,427
Asia Coal	<b>269</b>	272
	<b>₱1,300,374</b>	₱1,336,663

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 24, 2010, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of May 3, 2010. The Company will received ₱18.0 million cash dividends from TA Oil.

On March 16, 2009, the BOD of TA Oil declared a cash dividend of ₱0.04 a share totaling ₱66.5 million to all common stockholders of record as of March 30, 2009. The Company received ₱18.0 million cash dividends from TA Oil.

On March 25, 2008, the BOD of TA Oil declared a cash dividend of ₱0.04 a share to all common stockholders of record as of April 11, 2008. The Company received ₱18 million cash dividends from TA Oil.

On July 2, 2007, Trans-Asia Gold and Minerals Development Corporation (TA Gold) (a wholly owned subsidiary of TA Oil) was incorporated and registered with the SEC primarily to engage in the business of mining and mineral exploration within the Philippines and other countries. On February 16, 2009, the BOD of TA Gold approved the suspension of exploration activities effective March 31, 2009.

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. In April, 2009, the terms of the sale of the distributions assets to Manila Electric Company was finalized resulting in the cessation of CIPP's operations starting April 2009. Also, the separation of substantially all of CIPP's employees effective January 2010 was announced. On February 22, 2010, the BOD of TA Oil approved the proposed merger of TA Oil and CIPP subject to the approval by the stockholders and the SEC.

b. PPHC

PPHC is engaged in real estate development, particularly in the development of affordable medium and high-rise condominium units.

On March 1, 2010, the BOD of PPHC declared a regular cash dividend of ₱0.01 per share to all common stockholders of record as of March 15, 2010. The Company received ₱10.5 million cash dividends from PPHC last March 25, 2010 and the balance of ₱10.5 million will be received on September 24, 2010.

On March 3, 2009, the BOD of PPHC declared a regular cash dividend of ₱0.005 per share and a special cash dividend of ₱0.005 per share to all common stockholders of record as of March 17, 2009. The Company received ₱21.1 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 28, 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. On March 19, 2009, the BOD and stockholders of Asia Coal approved the shortening of the term of Asia Coal's corporate existence until October 31, 2009, thereby causing the dissolution of Asia Coal as of such date, subject to the approval of the SEC. As of March 3, 2010, Asia Coal is still in the process of filing with the SEC its Application for Dissolution.

### 13. AFS Investments

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

	June 30, 2010	Dec. 31, 2009
	<i>(In Thousands)</i>	
Quoted:		
Ayala Corporation - preferred shares	P8,400	P8,400
First Philippine Holdings Corporation (FPHC) - preferred shares	20,700	19,900
Unquoted:		
AB Capital - preferred shares	250,000	250,000
Coral Way City Hotel Corporation	66,250	66,250
Beacon Property Ventures Inc.	46,329	46,329
United Industrial Bag Corporation	30,000	30,000
Unicon Phinma Concrete Corporation	12,354	12,354
Others	10,954	10,954
	<b>444,987</b>	444,187
Less accumulated impairment losses	45,517	45,517
	<b>P399,470</b>	P398,670

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

The unquoted AFS investments are carried at cost less accumulated impairment losses since their fair value cannot be reliably measured. The quoted AFS securities which are listed in the Philippine Stock Exchange (PSE) are carried at fair value.

Unicon Phinma Concrete Corporation and United Industrial Bag Corporation discontinued operations on March 21, 2000 and in October 2000, respectively. Consequently, full provision for impairment loss has been made on such AFS investments.

Accumulated impairment losses pertain to certain AFS investments classified as unquoted.

### 14. Property, Plant and Equipment

This account consists of:

	December 31, 2009	Additions	Disposals	Reclassification (see Note 15)	June 30, 2010
<b>Cost</b>					
Land	P1,057,127	P-	-	P-	P1,057,127
Plant site improvements	18,217	456	-	-	18,673
Buildings and improvements	1,145,210	21,673	-	-	1,166,883
Machinery and equipment	646,253	31,429	-	-	677,682
Transportation and other equipment	340,282	14,373	(469)	-	354,186
	<b>3,207,089</b>	<b>67,931</b>	<b>(469)</b>		<b>3,274,551</b>
<b>Less Accumulated Depreciation</b>					
Plant site improvements	13,883	-	-	-	13,883
Buildings and improvements	372,471	21,122	-	-	393,593

Machinery and equipment	431,430	21,108	-	-	452,538
Transportation and other equipment	235,245	13,226	(469)	-	248,002
	<b>1,053,029</b>	<b>55,456</b>	<b>(469)</b>	-	<b>1,108,016</b>
Construction in-progress	18,447	16,535	-	-	34,982
<b>Net Book Value</b>	<b>₱2,172,507</b>	<b>₱29,010</b>	-	-	<b>₱2,201,517</b>

	December 31, 2008	Acquisition through Business Combination (see Note 7)	Additions	Disposals	Discontinued Operation (see Note 6)	Reclassification (see Note 15)	December 31, 2009
<i>(In Thousands)</i>							
<b>Cost</b>							
Land	₱349,967	₱714,360	₱-	(₱7,200)	₱-	₱-	₱1,057,127
Plant site improvements	25,847	-	-	-	-	(7,630)	18,217
Buildings and improvements	805,165	365,644	64,912	(22,350)	-	(68,161)	1,145,210
Port facilities and equipment	223,664	-	-	-	(223,664)	-	-
Machinery and equipment	604,506	2,510	23,545	(6,570)	(11)	22,273	646,253
Transportation and other equipment	290,320	28,842	34,099	(6,591)	(4,589)	(1,799)	340,282
	2,299,469	1,111,356	122,556	(42,711)	(228,264)	(55,317)	3,207,089
<b>Less Accumulated Depreciation</b>							
Plant site improvements	12,181	-	1,565	-	-	137	13,883
Buildings and improvements	317,212	-	81,381	(4,789)	-	(21,333)	372,471
Port facilities and equipment	91,667	-	1,627	-	(93,294)	-	-
Machinery and equipment	385,663	-	49,006	(6,570)	(6)	3,337	431,430
Transportation and other equipment	204,203	-	42,238	(5,366)	(3,824)	(2,006)	235,245
	1,010,926	-	175,817	(16,725)	(97,124)	(19,865)	1,053,029
	1,288,543	1,111,356	(53,261)	(25,986)	(131,140)	(35,452)	2,154,060
Construction in-progress	9,015	-	9,432	-	-	-	18,447
<b>Net Book Value</b>	<b>₱1,297,558</b>	<b>₱1,111,356</b>	<b>(₱43,829)</b>	<b>(₱25,986)</b>	<b>(₱131,140)</b>	<b>(₱35,452)</b>	<b>₱2,172,507</b>

## 15. Investment Properties

This account consists of:

	December 31, 2009	Additions (Deductions)	Reclassification	June 30, 2010
<b>Cost:</b>				
Land	₱321,085	₱-	₱-	₱321,085
Buildings for lease	441,496	-	-	441,496
	762,581	-	-	762,581
Less accumulated depreciation - Buildings for lease	113,649	16,083	-	129,732
	₱648,932	₱16,083	₱-	₱632,849

	December 31, 2008	Additions	Discontinued Operation (see Note 6)	Reclassification (see Note 14)	December 31, 2009
	<i>(In Thousands)</i>				
Cost:					
Land	₱537,806	₱-	(₱216,721)	₱-	<b>₱321,085</b>
Buildings for lease	307,912	78,869	-	54,715	<b>441,496</b>
	845,718	78,869	(216,721)	54,715	<b>762,581</b>
Less accumulated depreciation - Buildings for lease	72,849	21,537	-	19,263	<b>113,649</b>
	<b>₱772,869</b>	<b>₱57,332</b>	<b>(₱216,721)</b>	<b>₱35,452</b>	<b>₱648,932</b>

Investment properties (except land) are stated at cost less accumulated depreciation and any impairment losses. Land is stated at cost less any accumulated impairment losses.

PSHC's land amounting to ₱220.0 million was used as security for its long-term debt.

## 16. Intangibles

Following are the details and movements of this account:

	December 31, 2009	Additions	June 30, 2010
	<i>(In Thousands)</i>		
Cost:			
Goodwill	₱1,125,183	₱-	<b>₱1,125,183</b>
Intangible – student lists	131,120	-	<b>131,120</b>
Intangible – customer contracts	22,080	-	<b>22,080</b>
	1,278,383	-	<b>1,278,383</b>
Accumulated amortization:			
Intangible – student lists	57,023	16,850	<b>73,873</b>
Intangible – customer contracts	22,080	-	<b>22,080</b>
	79,103	16,850	<b>95,953</b>
	<b>₱1,199,280</b>	<b>₱16,850</b>	<b>₱1,182,430</b>

Acquisition in 2008 of Toon City initially recognized at provisional values were adjusted to take up the results of the accounting for the fair value of identifiable assets and liabilities, which were finalized in 2009. This resulted in the recognition of additional goodwill of ₱115.0 million and decrease in customer contracts by ₱68.4 million.

The average remaining useful life of student lists as of June 30, 2010 is 1.6 years.

## 17. Other Noncurrent Assets

This account consists of:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Input VAT – net of allowance for unrecoverable amount of ₱122.2 million in Dec. 2009 (see Note 24)	<b>₱-</b>	₱676
Others – net of allowance for doubtful advances of ₱66.8 million in 2009 .	<b>87,075</b>	29,707
	<b>₱87,075</b>	₱30,383

Other noncurrent assets – others mainly pertain to utility and rental deposits.

## 18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
UGC	<b>₱154,861</b>	₱94,646
COC	<b>2,460</b>	6,245
	<b>₱157,321</b>	₱100,891

with annual interest rates in June 2010 and December 2009 ranging from 6.38% to 7.40% and 6.75% to 8.88%, respectively.

## 19. Trade and Other Payables

This account consists of:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Trade	<b>₱88,374</b>	₱33,921
Payable to third parties	<b>95,905</b>	162,067
Accruals for:		
Professional fees and others (see Note 26)	<b>40,617</b>	112,415
Personnel cost (see Note 26)	<b>52,100</b>	78,732
Interest (see Note 25)	<b>2,009</b>	29,866
Freight, hauling and handling	<b>27,264</b>	11,621
Dividends	<b>46,829</b>	94,864
Customers' deposits	<b>47,709</b>	39,813
Others	<b>37,292</b>	22,413
	<b>₱438,099</b>	₱585,712

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.

## 20. Long-term Debt

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

	June 30, 2010	Dec. 31, 2009
	<i>(In Thousands)</i>	
UPANG	<b>₱296,819</b>	₱300,000
UGC:		
Banco de Oro (BDO)	<b>300,000</b>	150,000
Rizal Commercial Banking Corporation (RCBC)	<b>100,000</b>	50,000
	<b>696,819</b>	500,000
Less debt issuance cost	<b>(3,854)</b>	(1,515)
	<b>692,965</b>	498,485
PSHC	<b>147,813</b>	147,813
AU	<b>53,250</b>	55,415
	<b>894,028</b>	701,713
Less current portion – net of debt issuance cost	<b>113,085</b>	87,520
	<b>₱780,943</b>	₱614,193

## 21. Equity

### a. Capital Stock

The composition of the Parent Company's capital stock as of June 30, 2010 and December 31, 2009 is as follows:

	Number of shares	
	June 30, 2010	Dec. 31, 2009
Preferred – cumulative, nonparticipating, ₱10 par value Class AA		
Authorized	<b>50,000,000</b>	50,000,000
Class BB		
Authorized	<b>50,000,000</b>	50,000,000
Common – ₱10 par value		
Authorized	<b>420,000,000</b>	420,000,000
Issued:		
Balance at beginning of year	<b>257,697,313</b>	257,697,313
Stock dividends	–	–
Balance at end of year	<b>257,697,313</b>	257,697,313
Subscribed	<b>39,994</b>	39,994
Issued and subscribed	<b>257,737,307</b>	257,737,307

b. Retained Earnings

On March 3, 2010, the BOD declared ₱0.40 cash dividends to all common shareholders of record as of March 29, 2010 which was paid last April 23, 2010.

On March 9, 2009, the BOD declared ₱0.40 cash dividends to all common shareholders of record as of March 30, 2009 which was paid last April 24, 2009.

On October 5, 2005, the BOD appropriated ₱1.0 billion of retained earnings for future investments.

---

22. **Investment Income**

This account consists of:

	<b>January – June</b>	
	<b>2010</b>	2009
	<i>(In Thousands)</i>	
Interest income:	<b>₱26,436</b>	₱35,783
Net gain (loss) on investments held for trading (see Note 9)	<b>2,588</b>	10,631
	<b>₱29,024</b>	₱46,414

---

23. **Cost of Sales, Educational and Animation Services**

This account consists of:

	<b>January – June</b>	
	<b>2010</b>	2009
	<i>(In Thousands)</i>	
Cost of sales	<b>₱1,144,314</b>	₱1,135,276
Cost of educational services	<b>302,048</b>	203,022
Cost of animation services	<b>40,195</b>	110,598
	<b>₱1,486,557</b>	₱1,448,896

---

## 24. General and Administrative Expenses

This account consists of:

	January – June	
	2010	2009
	<i>(In Thousands)</i>	
General and administrative expenses	<b>₱263,169</b>	₱273,413
Selling expenses	<b>77,757</b>	70,420
	<b>₱340,926</b>	₱343,833

---

## 25. Interest Expense and Other Financial Charges

This account consists of:

	January – June	
	2010	2009
	<i>(in Thousands)</i>	
Interest expense on loans and borrowings	<b>₱63,764</b>	₱36,472
Other financial charges	<b>1,617</b>	1,135
	<b>₱65,381</b>	₱37,607

---

## 26. Related Party Transactions

### Associates and Related Corporations

*PHINMA and TA Oil.* In 2009, the Company granted noninterest-bearing advances amounting to ₱6.4 million to PHINMA and TA Oil. As of June 30, 2010, PHN receivable from TA Oil pertain to sharing of expenses..

*PPHC.* Transactions with PPHC, an investee company, pertains to dividends and share in expenses.

*AB Capital.* Transactions with AB Capital, a subsidiary of PHINMA, pertain to sharing of expenses .

*Other Shareholders of UPANG.* Transactions with other shareholders refer to advances from Silverman Holdings, Inc. and JIH Prime Management and Development Corporation.

*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, TO Insurance Brokers, Inc., Microtel Development Corporation, TA Power 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>					
PHINMA	Management fees, bonus, advances and share in expenses	<b>2010</b>	<b>₱4,998</b>	<b>₱7,551</b>	<b>₱26,243</b>
		2009	110,256	–	26,198
		2008	29,220	–	25,977
TA Oil	Dividends and share in expenses	<b>2010</b>	<b>18,518</b>	–	<b>3,828</b>
		2009	1,680	–	3,799
		2008	4,213	–	3,896
PPHC	Dividends and share in expenses	<b>2010</b>	<b>21,210</b>	–	<b>11,054</b>
		2009	21,302	–	5,878
		2008	289	–	660
AB Capital	Share in expenses	<b>2010</b>	<b>₱31</b>	–	<b>₱79</b>
		2009	274	–	158
		2008	632	–	632
Other Shareholders of UPANG	Interest bearing advances	<b>2010</b>	-	-	-
		2009	59,769	59,769	-
		2008	-	-	-
Others	Raw materials purchases, technical service fees, advances and share in expenses	<b>2010</b>	<b>23,084</b>	<b>10,871</b>	<b>25,475</b>
		2009	2,679	501	5,206
		2008	1431	143	962
<b>2010</b>				<b>₱18,422</b>	<b>₱66,679</b>
2009				₱60,270	₱41,239
2008				₱143	₱32,127

Management and Directors' Compensation

PHN, BIPC, UGC, COC, Araullo University, UPANG and UI 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 June 30, 2010 and Dec. 31, 2009 amounted to ₱ 38.7 million and ₱37.5 million, respectively. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱28.2 million and ₱31.5 million as of June 30, 2010 and Dec. 31, 2009, respectively.

PHN and AHC recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus amounted to ₱16.8 million in June 30, 2010 and ₱22.7 million in Dec. 31, 2009. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱15.5 million and ₱19.8 million as of June 30, 2010 and December 31, 2009 respectively.

---

**27. 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 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"> <li>a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund</li> <li>b. For peso investments: minimal corporate exposure except for registered bonds</li> <li>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</li> <li>d. For investments in equities whether directly managed or</li> </ul>

Investment Objective	Safety of Principal
	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.

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Loans and receivables:		
Cash and cash equivalents	<b>₱1,232,986</b>	₱1,052,217
Trade and other receivables	<b>738,267</b>	783,404
Installment contract receivable*	-	276,413
Investments held for trading:		
Investments in bonds	<b>252,586</b>	296,205
Investments in UITFs	<b>266,061</b>	261,172
Investments in trust accounts	-	4,501
Investments in marketable equity securities	<b>3,951</b>	2,534
Derivative assets	-	6,865
AFS investments:		
Quoted	<b>29,100</b>	28,300
Unquoted	<b>370,370</b>	370,370
	<b>₱2,893,321</b>	<b>₱3,081,981</b>

- *Current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statements of financial position.*

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.

The following table illustrates credit quality of investments held for trading and AFS investments as of June 30, 2010 and December 31, 2009 :

	<b>June 30, 2010</b>				
	Neither Past Due nor Impaired			Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
	<i>(In Thousands)</i>				
Investments held for trading:					
Investments in bonds	P252,586	P-	P-	P-	P252,586
Investments in UITFs	266,061	-	-	-	266,061
Investments in trust accounts	-	-	-	-	-
Investments in marketable equity securities	-	3,951	-	-	3,951
AFS investments:					
Quoted	-	29,100	-	-	29,100
Unquoted	-	370,370	-	45,517	415,887
	<b>P518,647</b>	<b>P403,421</b>	<b>P-</b>	<b>P45,517</b>	<b>P967,585</b>

	December 31, 2009				
	Neither Past Due nor Impaired			Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
	<i>(In Thousands)</i>				
Investments held for trading:					
Investments in bonds	P292,300	P3,905	P-	P-	P296,205
Investments in UITFs	261,172	-	-	-	261,172
Investments in trust accounts	-	4,501	-	-	4,501
Investments in marketable equity securities	-	2,534	-	-	2,534
AFS investments:					
Quoted	-	28,300	-	-	28,300
Unquoted	-	370,370	-	45,517	415,887
	<b>P553,472</b>	<b>P409,610</b>	<b>P-</b>	<b>P45,517</b>	<b>P1,008,599</b>

The Company uses the following criteria to rate credit quality:

Class	Description
High Grade	Investments in instruments that have a recognized foreign or local third party rating or instruments which carry guaranty/collateral.
Standard Grade	Investments in instruments of companies that have the apparent ability to satisfy its obligations in full.
Substandard Grade	Investments in instruments of companies that have an imminent possibility of foreclosure; those whose securities have declined materially in value, or those whose audited financial statements show impaired/negative net worth.

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 bonds and investments in UITFs.

Foreign exchange risks on the US dollar 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 June 30, 2010 and December 31, 2009 :

	June 30, 2010		Dec. 31, 2009	
	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
In US Dollar:				
Cash and cash equivalents	US\$9,869	P457,648	US\$7,843	P362,347
Short-term investments	-	-	-	-
Investments in bonds	1,003	46,489	3,044	140,633
Investments in UITFs	2,683	124,387	2,615	120,813
	<b>US\$13,555</b>	<b>P628,524</b>	US\$13,502	P623,793

There are no financial liabilities denominated in foreign currency as of June 30, 2010 and December 31, 2009.

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were P46.37 to US\$1.00 as of June 30, 2010 and P46.20 to US\$1.00 as of December 31, 2009 respectively.

### Interest Rate Risk

a. Cash Flow Interest Rate Risk

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

The Company is exposed to cash flow interest rate risk due to Araullo University's variable rate loan from China Bank (see Note 20).

b. Price Interest Rate Risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company accounts for its debt investments at fair value. Thus, changes in benchmark interest rate will cause changes in the fair value of quoted debt instruments.

Interest on financial instruments classified as fixed rate was fixed until the maturity of the instrument.

Other financial assets at FVPL are noninterest-bearing investments and are therefore not subject to interest rate volatility.

### Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

### Capital Management

The primary 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, cumulative translation adjustments, 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 June 30, 2010 and December 31, 2009 are as follows:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Total liabilities	<b>₱2,502,030</b>	₱2,256,957
Total equity	<b>6,749,657</b>	6,766,366
Debt-to-equity ratio	<b>0.37:1</b>	0.33:1

## 28. 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 statements of financial position.

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>June 30, 2010</b>	Dec. 31, 2009	<b>March 31, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>			
<b>Financial Assets</b>				
Loans and receivables:				
Cash and cash equivalents	<b>₱1,232,986</b>	₱1,052,217	<b>₱1,232,986</b>	₱1,052,217
Trade and other receivables:				
Trade – net	<b>663,875</b>	486,030	<b>663,875</b>	486,030
Due from related parties	<b>37,717</b>	41,239	<b>37,717</b>	41,239
Accrued interest	<b>4,535</b>	14,126	<b>4,535</b>	14,126
Receivable from BCII Retirement	<b>8,939</b>	8,939	<b>8,939</b>	8,939
Advances to suppliers and contractors	<b>2,512</b>	25,915	<b>2,512</b>	25,915
Advances to officers and employees	<b>8,081</b>	5,335	<b>8,081</b>	5,335
Others	<b>12,608</b>	24,003	<b>12,608</b>	24,003
Installment contract receivable*	-	333,450	-	333,450
	<b>1,971,253</b>	1,991,254	<b>1,971,253</b>	1,991,254
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	<b>252,586</b>	296,205	<b>252,586</b>	296,205
Investments in UITFs	<b>266,061</b>	261,172	<b>266,061</b>	261,172
Investments in trust accounts	-	4,501	-	4,501
Investments in marketable equity securities	<b>3,951</b>	2,534	<b>3,951</b>	2,534
Derivative assets	-	6,865	-	6,865
	<b>522,598</b>	571,277	<b>522,598</b>	571,277
AFS investments:				
Quoted	<b>29,100</b>	28,300	<b>29,100</b>	28,300
Unquoted	<b>370,370</b>	370,370	<b>370,370</b>	370,370
	<b>399,470</b>	398,670	<b>399,470</b>	398,670
	<b>₱2,894,329</b>	₱2,961,201	<b>₱2,894,329</b>	₱2,961,201
<b>Financial Liabilities</b>				
Other financial liabilities:				
Notes payable	<b>157,321</b>	100,891	<b>157,321</b>	100,891
Trade and other payables	<b>441,051</b>	585,712	<b>441,051</b>	585,712
Trust receipts payable	<b>246,470</b>	131,051	<b>246,470</b>	131,051
Due to related parties	-	60,270	-	60,270
Long-term debt (including current)	<b>894,028</b>	701,713	<b>894,028</b>	719,111

	Carrying Amount		Fair Value	
	June 30, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009
	(In Thousands)			
portion)				
	<b>1,738,870</b>	1,579,637	<b>1,738,870</b>	1,597,035
	<b>₱1,738,870</b>	₱1,579,637	<b>₱1,738,870</b>	₱1,597,035

- *Current portion is included in "Trade and other receivables" account while noncurrent portion is presented as a separate line item in the consolidated statements of financial position.*

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and Cash Equivalents, Short-term Investments, Trade and Other Receivable, Notes Payable, Trade and Other Payables, Trust Receipts Payable and Due to Related Parties.* The carrying amounts approximate fair values due to the relatively short-term maturities of the financial instruments.

*Installment contract receivable.* In 2009, carrying value approximates fair value due to quarterly repricing of interest rate based on the applicable 91-day Philippine Dealing System Treasury-Fixing, or its successor, on the day of setting plus three percent (3%). In 2008, the fair value of this financial asset is based on the discounted value of expected future cash flows using the effective market rate. Discount rates used range from 4% to 8%.

*Investments Held for Trading and AFS Investments.* Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. The Company does not intend to dispose the unquoted AFS in the near future.

*Long-term Debt.* The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable rates for similar types of loans. Discount rates used range from 6.03% and 9.42% in 2009 and 5.74% to 11.0% in 2008.

*Derivative Asset and Liability.* The fair value of freestanding currency forward contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### 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 enters into sell US\$, buy PHP foreign currency forward contracts to manage the foreign currency risk arising from its US\$ denominated assets. These derivatives, which include currency forwards are transactions not accounted for as accounting hedges.

The Company has outstanding currency forward contracts with an aggregate notional amount of US\$14.9 million and US\$3.0 million as of June 30, 2010 and December 31, 2009 respectively. The weighted average contracted forward rate is ₱46.359 to US\$1.00 as of June 30, 2010 and ₱47.57 to US\$1.00 as of December 31, 2009. The outstanding currency forward contracts mature in October to November 2010. The net fair values of these outstanding currency forward

contracts amounted to P7.80 million loss as of June 30, 2010 and P4.1 million gain as of December 31, 2009.

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

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>P4,088</b>	(P26,857)
Net change in fair value during the year	<b>10,663</b>	49,215
Fair value of settled contracts	<b>(1,226)</b>	(18,270)
Balance at end of year	<b>(P7,801)</b>	4,088

*Embedded Derivatives.* Embedded foreign currency derivatives were bifurcated from certain of the Company's purchase contracts, which are denominated in a currency that is neither the functional currency of a party to the contract nor the routine currency for the transaction.

The Company's embedded derivatives have an aggregate notional amount of US\$7.2 million as of December 31, 2009. The weighted average contracted forward rate is P42.72 to US\$1.00 as of December 31, 2009. The net fair values of the embedded derivatives amounted to P2.8 million gain as of December 31, 2009.

The net movements in fair value changes of these embedded derivatives are as follows:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Balance at beginning of year	<b>P2,777</b>	<b>P-</b>
Net changes in fair value during the year	-	<b>9,063</b>
Fair value of settled contracts	<b>(2,777)</b>	<b>(6,286)</b>
Balance at end of year	-	<b>P2,777</b>

The net changes in fair values of derivatives and embedded derivatives are presented as "Net gains (losses) on derivatives" in the Company's consolidated statement of income.

## 29. Income Tax

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	<b>June 30, 2010</b>	Dec. 31, 2009
	<i>(In Thousands)</i>	
Deferred tax assets – net	<b>P4,540</b>	P5,602
Deferred tax liabilities – net	<b>(309,654)</b>	(322,869)
	<b>(P305,114)</b>	(P317,267)

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.

AU, UPANG, UI 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 ₱12.7 million can be deducted against RCIT due while NOLCO totaling ₱106.6 million can be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount	
		MCIT	NOLCO
<i>(In Thousands)</i>			
December 31, 2007	December 31, 2010	₱7,385	₱-
December 31, 2008	December 31, 2011	2,790	56,368
December 31, 2009	December 31, 2012	2,560	50,237
		<b>₱12,735</b>	<b>₱106,605</b>

MCIT amounting to ₱1.9 million expired in 2009 while NOLCO of ₱139.6 million expired in 2009. MCIT and NOLCO totaling ₱0.2 million and nil in 2009 was claimed as deduction against regular taxable income.

The RCIT rate decreased to 30% from 35% effective January 1, 2009, as provided under the provisions of R.A. No. 9337, which amended certain provisions of the Tax Code.

### 30. EPS Computation

	June 30, 2010	June 30, 2009
<i>(In Thousands)</i>		
(a) Net income attributable to equity holders of the parent	<b>₱93,749</b>	₱207,384
(b) Net income attributable from continuing operations attributable to equity holders of the parent	<b>₱93,749</b>	₱135,602
(c) Number of shares outstanding at end of year	<b>257,737,307</b>	257,737,307
Basic/Diluted EPS attributable to equity holders of the parent (a/c)	<b>₱.36</b>	₱.80
Basic/Diluted EPS attributable from continuing operations to equity holders of the parent (b/c)	<b>₱.36</b>	₱.53

---

**31. Segment Information** *(see page 64 for table presentation)*

For management purposes, the Company's operating businesses are organized and managed separately according to business activities and has five reportable operating segments as follows:

- Investment holdings – The Parent Company, AHC and PSHC are engaged in investment holding activities of shares of stocks and other financial instruments.
- Property development – API leases its real and personal properties.
- Steel – UGC manufactures and trades iron and steel products.
- Educational services – AU, COC, UPANG and UI offer graduate, tertiary, secondary and elementary education services.
- Business Process Outsourcing – OAL and Toon City are engaged in film, video, television and animation services.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Company financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

## Segment Information

Financial information on the operating segments are summarized as follows:

	Continuing Operations							Total
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations		
<b>January - June 30, 2010</b>								
<b>Revenues</b>								
Segment revenue	P29,024	P24,005	P1,448,076	P525,937	P18,181	P-		P2,045,223
Investment income	-	-	-	-	-	-	-	-
<b>Total revenues</b>	<b>P29,024</b>	<b>P24,005</b>	<b>P1,448,076</b>	<b>P525,937</b>	<b>P18,181</b>	<b>P-</b>		<b>P2,045,223</b>
<b>Results</b>								
Segment results	P91,206	P8,288	P185,906	P125,410	(P43,602)	(P142,924)		P224,283
Equity in net earnings of an associate	-	30,909	-	-	-	(27,522)		3,387
Interest expense and financing charges	-	-	(22,460)	(40,481)	(2,440)	-		(65,381)
Benefit from (provision for) income tax	(603)	(2,334)	(51,810)	(9,946)	-	6,979		(57,714)
Share of minority interest	-	-	-	-	596	(11,422)		(10,826)
Net income attributable to equity holders of parent	P90,603	P36,863	P111,636	P74,983	(P45,446)	(P174,889)		93,749
<b>As at June 30, 2010</b>								
<b>Assets and Liabilities</b>								
Segment assets	P2,269,521	P687,138	P1,857,763	P2,192,821	P452,243	P491,826		P7,951,312
Investment in associates	3,552,229	-	-	-	-	(2,251,855)		1,300,374
<b>Total assets</b>	<b>P5,821,750</b>	<b>P687,138</b>	<b>P1,857,763</b>	<b>P2,192,821</b>	<b>P452,243</b>	<b>(P1,760,029)</b>		<b>P9,251,686</b>
Segment liabilities	P156,265	P226,605	P949,615	P830,794	P97,243	(P122,809)		P2,137,713
Income and other taxes payable	800	573	47,568	5,722	-	-		54,663
Deferred tax liabilities	-	1,516	58,896	112,793	-	136,449		309,654
<b>Total liabilities</b>	<b>P157,065</b>	<b>P228,694</b>	<b>P1,056,079</b>	<b>P949,309</b>	<b>P97,243</b>	<b>P13,640</b>		<b>P2,502,030</b>
<b>Other Segment Information</b>								
Capital expenditures	119	-	49,486	34,861	-	-		84,466
Depreciation and amortization	6,312	13,343	48,981	32,918	-	23,262		124,816



## **Item 2 – Management’s Discussion and Analysis of Financial Condition and Results Of Operations**

Phinma Corporation, formerly Bacnotan Consolidated Industries, Inc. (PHN) unaudited consolidated revenues amounted to P2.05 billion as of June 30, 2010. This is higher by 8% compared to revenues of P1.9 billion for the same period last year. This is attributable to increase in revenues of Union Galvasteel Corporation (UGC), University of Pangasinan and University of Iloilo.

Consolidated cost and expenses of PHN for the period amounted to P1.83 billion, 2% higher compared to the previous year’s P1.79 billion. The increase is also due to the full consolidation of cost and expenses of University of Pangasinan.

PHN’s consolidated net income for the first half of 2010 amounted to P104.6 million. Of this income, P93.75 million is income attributable to equity holders of the parent. For the same period last year, the recurring income attributable to equity holders of the parent was P135.6 million, excluding the gain on sale of shares in Bacnotan Industrial Park Corporation. Income from continuing operations decreased by P 42 million mainly due to the following :

- a. Share in net loss of One Animate Limited in the amount of P36.3 million as a result of delay in commencement of contracts.
- b. Equitized losses of Trans-Asia Oil and Energy Development Corporation in the amount of P32 million due to trading losses.
- c. Forex-related losses amounting to P13.2 million compared to a gain of P32 million for the first half of 2009.

Phinma Corporation’s other businesses, however, continued to post strong results. Equity in net earnings of Union Galvasteel Corporation doubled from P54.8 million to P111.6 million. Income from Phinma Property Holdings Corporation likewise increased from P3.9 million to P34.2 million. Income contributions from its education business amounted to P53.6 million compared to P14 million last year.

The results of operations of PHN subsidiaries for the period January – June 2010 compared to 2009 are as follows :

### **Union Galvasteel Corporation (UGC)**

The roofing market was very active and demand was registering growth. However, competition in the industry was intense with manufacturers including new entrants and major rollformers fighting it out using price and terms to gain market share.

For the period January – June 2010, UGC’s performance was above budget with sales volume of 3.045 million sheets exceeding last year’s volume of 2.610 million sheets by 17%.

Revenue generated was P1.4 billion resulting to a gross profit rate of 21% and a net income of P111.6 million. This is far better than last year’s gross profit rate of 16% and net income of P65.7 million.

**Atlas Holdings Corporation (AHC)**

For the six (6) months ended June 30, 2010, Atlas Holdings Corporation, a 90% subsidiary of BCII, registered a net income of P2.2 million mainly from financial income. This is lower than net income last year of P9.1 million due to lower unrealized mark-to-market gains.

On March 15, 2010, the Board of Directors declared a cash dividend of P5.90 per share totaling P13 million to all shareholders of record as of declaration date payable on April 13, 2010.

**Araullo University (AU)**

For the period January to June 2010, Araullo University registered revenues amounting to P57 million while direct costs amounted to P20 million. General and administrative expenses for the same period amounted to P20 million. For the six months ended June 30, 2010, Araullo University registered a net income of P14.7 million.

Total assets for the period June 30, 2010 amounted to P489 million while liabilities amounted to P177 million.

**Cagayan de Oro College, Inc. (COC)**

For the period January to June of CY 2010, COC registered revenues amounting to P51 million. Direct cost and operating expenses as of June 30, 2010 was P35 million and P19 million respectively. COC booked a net loss of P 3.3 million for the 1<sup>st</sup> half of 2010.

**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 1<sup>st</sup> half of 2010, UPANG registered revenues amounting to P354 million and net income of P32.8 million. UPANG total assets as of June 30, 2010 amounts to P820 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 January to June 2010, UI registered revenues amounting to P65 million and a net income of P 30.9 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 1<sup>st</sup> half of 2010, OAL registered revenues of P18 million and net loss of P45.4 million. The loss is due to the delay in commencement of work on various contracts.

OAL total assets as of end June 2010 amounted to P452 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 1<sup>st</sup> semester of 2010, API posted net income of P6 million on revenues of P24 million.

**Key Performance Indicators (KPI)**

The top five (5) KPI's used to measure the financial performance of PHN and its subsidiaries as of June 30, 2010 compared to the same period last year are shown in the following table :

<b>Financial KPI</b>	<b>Definition</b>	<b>2010</b>	<b>2009</b>
<b><u>Profitability</u></b>			
Return on Equity (ROE)	$\frac{\text{Net income (loss)}}{\text{Ave. total equity attributable to PHN equity holders}}$	1.53%	3.55%
Gross Profit Margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	27.32%	23.84%
<b><u>Efficiency</u></b>			
Cash Flow Margin	$\frac{\text{Cash flow from operating Activities}}{\text{Net sales}}$	-3.05%	29.52%
<b><u>Liquidity</u></b>			
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.65 : 1.00	2.43 : 1.00
Debt-to Equity Ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	0.37 : 1.00	0.33 : 1.00

### **Profitability**

Return on equity for the period January to June 2010 was 1.53% which is lower compared to the same period last year. The decrease was due to lower net income for the period January to June 2010.

Gross profit margin increased from 23.84% in June 2009 to 27.32% in June 2010 mainly due to the high gross profit margin of Union Galvasteel Corporation and University of Pangasinan.

### **Efficiency**

Net cash outflow from operations was P72 million for the period January to June 2010 compared to net cash inflow of P561 million for the same period last year. The outflow was mainly due to an increase in inventories of Union Galvasteel Corporation.

### **Liquidity**

Current ratio was 2.65 :1.00 as of June 30, 2010 compared to 2.43:1.00 last year mainly due to receipt of payment from Phoenix Petroleum Philippines on long-term contract receivables arising from its purchase of PHN's shares in Bacnotan Industrial Park Corporation.

Debt-equity ratio of BCII and its subsidiaries as of end June 30, 2010 was slightly higher at 0.37 compared to 0.33 as of end December 31, 2009 due to additional long-term debt of UGC.

### **Accounting Policies and Principles**

The accompanying consolidated financial statements of Phinma Corporation 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 increase in cash and cash equivalents are shown in the cash flow statement.

### **Investments held for Trading**

The decrease in the account represents the transfer of investments to short-term placements with maturities of less than 90 days. These placements are classified under cash and cash equivalents.

### **Trade and other receivables - net**

The increase in the account represents increase in trade receivables of UGC, AU, COC, UPANG and UI.

### **Inventories**

The increase in inventories comes mainly from the increase in UGC's finished goods and raw materials inventories as of June 30, 2010.

### **Input tax**

The increase in the account represents an increase in input tax of UGC in the amount of P3.7 million.

### **Derivative assets**

The decrease in the account represents embedded derivatives arising from UGC's purchase contracts which were settled during the 1<sup>st</sup> quarter of CY 2010.

### **Installment contract receivable**

The decrease in the account represents full payment received from Phoenix Petroleum Philippines, Inc. last April 28, 2010 on long-term contract receivables arising from the sale of PHN's shares in Bacnotan Industrial Park Corporation.

### **Deferred tax assets**

The decrease in the account represents the deferred tax on the depreciation of property, plant and equipment of AU.

### **Other assets**

The increase in the account is attributable to an increase in deferred charges of UI and COC.

## **LIABILITIES**

### **Notes payable**

The increase in notes payable represents additional short-term borrowings of UGC

### **Trade and other payables**

The decrease in this accounts represents payment by UGC to Hi-Precision for the purchase of preferred shares in the amount of P126 million .

### **Trust receipts payable**

The increase in the account is attributable to the increase in UGC's trust receipts payable from P131 million in December 2009 to P246 million as of end June 2010.

### **Unearned revenues**

The increase in the account represents revenues of AU, COC, UI and UPANG during the period.

### **Income and other taxes payable**

The decrease in the account represents decrease other taxes payable of PHN and income tax payable of AU.

### **Due to related parties**

The decrease in the account represents repayment by UPang on advances received from shareholders, Silverman Holdings, Inc. and JIH Prime Management and Development Corporation.

### **Current portion of Long-term debt**

The increase in the account represents an increase in the current portion of long-term debt of UPANG.

### **Long-term debt**

The increase in the account represents loan granted to UGC amounting to P400 million on June 29, 2010.

### **Pension and other post-employment benefits**

The increase in the account represents accrual for post-employment benefits of BCI and UPANG.

### **Other noncurrent liabilities**

The increase in the account represents liabilities of PHN amounting to P8 million, arising from non-deliverable forward contracts.

## **EQUITY**

### **Share in equity component of convertible notes**

The increase can be attributed to the change in percentage of ownership in UGC of the parent company from 80% to 100%.

### **Share in unrealized gains on financial assets of associates**

The decrease in the account represents lower market prices of securities held by AB Capital and Investment Corporation.

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

The change is due to the improvement in market prices of First Philippine Holdings preferred shares.

### **Cumulative translation adjustments**

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

## **Material Changes in Income Statement Accounts**

### **Revenues**

The increase in revenues is attributable to an increase in revenues of Union Galvasteel Corporation, University of Pangasinan and University of Iloilo.

### **Financial charges**

The increase in the account represents interest expense arising from a P 300 million loan of UPang.

### **Equity in net earnings of associates**

The decrease in the account is largely due to equitized losses from Trans-Asia Oil and Energy Development Corporation amounting to P32 million.

### **Net gain (loss) on derivatives**

This account reflects a net loss on derivatives amounted to P10.7 million for the six-month ended June 30, 2010 compared to a net gain on derivatives of P19 million of the same period last year.

### **Foreign exchange gain (loss)**

Foreign exchange loss as of June 30, 2010 was P3 million compared to P13 million gain for the same period last year.

**Other income (charges)**

The increase in the account represents rental income of PHN as well as consultancy fees received from United Pulp and Paper Company, Inc.

**Provision for income tax**

The increase in provision for income tax was brought about by the substantial income generated by UGC, which increased from P68 million in June 2009 to P112 million this year.

**Comprehensive Income**

Total comprehensive income decreased from P218 million for the six-month period ended June 2009 to P106 million this year due to the decrease in net income from P224 million last year to P105 million this year.

For other comprehensive income / (charges), please refer to the comments on equity

BACNOTAN CONSOLIDATED INDUSTRIES, INC.  
**Consolidated Aging of A/R-Trade**  
As of June 30, 2010  

---

*in thousands*

	<b><u>Total</u></b>
Current	699,308
1 - 30 days	23,793
31 - 60 days	20,649
61 - 90 days	13,761
Over 90 days	<u>31,113</u>
<b>TOTAL</b>	<b>788,624</b>
Less : Allowance for doubtful accounts	<u>124,749</u>
<b>Net Trade Receivable</b>	<b><u><u>663,875</u></u></b>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.  
**Consolidated Aging of A/R-Nontrade**  
As of June 30, 2010  

---


*in thousands*

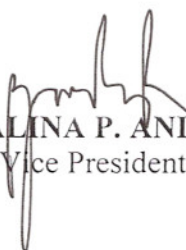
	<u><b>Total</b></u>
Current	68,062
1 - 30 days	-
31 - 60 days	-
61 - 90 days	-
Over 90 days	<u>39,170</u>
<b>TOTAL</b>	<b>107,232</b>
Less : Allowance for doubtful accounts	<u>3,878</u>
<b>Net Trade Receivable</b>	<u><b>103,354</b></u>

**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.

**PHINMA CORPORATION**  
formerly  
**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**

  
**REGINA B. ALVAREZ**  
Senior Vice President - Finance

  
**RIZALINA P. ANDRADA**  
Asst. Vice President - Finance

August 16, 2010