

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17 – Q

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

1. For the quarterly period ended September 30, 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
September 30, 2010 and December 31, 2009 3 - 4

Unaudited Consolidated Statements of Income
Quarter ended July – September 2010 and 2009 5
Nine (9) Months ended September 30, 2010 and 2009 6

Unaudited Consolidated Statements of Comprehensive Income
Nine (9) Months ended September 30, 2010 and 2009 7

Statement of Changes in Equity
September 30, 2010 and 2009 and December 31, 2009 8 - 9

Consolidated Statement of Cash Flows
Nine (9) Months ended September 30, 2010 and 2009 10

Notes to Consolidated Financial Statements 11

**Item 2 Management's Discussion and Analysis of
Financial Condition And Results of Operations 68**

SIGNATURES 79

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited	Audited
	September 30,	December 31,
	2010	2009
		<i>(In Thousands)</i>
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 27 and 28)	₱980,534	₱1,052,217
Short term investments	17,249	-
Investments held for trading (Notes 9, 27 and 28)	728,955	564,412
Trade and other receivables - net (Notes 10, 26, 27 and 28)	614,066	662,624
Inventories - at lower of cost or net realizable value (Note 11)	834,309	601,241
Input value-added taxes	5,902	3,473
Derivative assets (Notes 27 and 28)	39,569	6,865
Other current assets	70,849	64,041
Total Current Assets	3,291,433	2,954,873
Noncurrent Assets		
Investments in associates - at equity (Note 12)	1,323,436	1,336,663
Available-for-sale (AFS) investments - (Notes 13, 27 and 28)	399,659	398,670
Property, plant and equipment - net (Notes 14)	2,222,918	2,172,507
Investment properties (Note 15)	624,808	648,932
Installment contract receivable - net of current portion (Notes 6, 10, 27 and 28)	-	276,413
Intangibles (Notes 7 and 16)	1,173,619	1,199,280
Deferred tax assets – net (Note 29)	4,480	5,602
Other noncurrent assets (Note 17)	39,696	30,383
Total Noncurrent Assets	5,788,616	6,068,450
	₱9,080,049	₱9,023,323

LIABILITIES AND EQUITY

Current Liabilities

Notes payable (Notes 18, 27 and 28)	285,397	100,891
Trade and other payables (Notes 19, 26, 27 and 28)	422,449	585,712
Unearned revenues	81,753	187,299
Trust receipts payable (Notes 11, 27 and 28)	81,278	131,051
Income and other taxes payable	54,013	65,732
Due to related parties (Notes 26, 27 and 28)	882	60,270
Current portion of long-term debt – net of debt issuance cost (Notes 20, 26, 27 and 28)	112,107	87,520
Total Current Liabilities	1,037,879	1,218,475

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Noncurrent Liabilities		
Long-term debt - net (Notes 20, 26, 27 and 28)	₱762,402	₱614,193
Deferred rent revenue - net of current portion	49,560	49,560
Deferred tax liabilities – net (Note 29)	296,033	322,869
Pension and other post-employment benefits	50,799	40,947
Other noncurrent liabilities (Note 26)	10,070	10,913
Total Noncurrent Liabilities	1,168,864	1,038,482
Total Liabilities	2,206,743	2,256,957
Equity		
Equity attributable to equity holders of the parent:		
Capital stock (Note 21)	2,577,249	2,577,249
Additional paid-in capital	255,785	255,785
Share in equity component of convertible notes (Note 20)	16,699	13,443
Other components of equity :		
Share in unrealized gain on change in fair value of AFS investments of associates (Note 12)	19,253	11,495
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	1,288	300
Cumulative translation adjustments	(670)	(802)
Retained earnings (Note 21)	3,380,350	3,282,587
Minority interest	6,249,954	6,140,057
Total Equity	6,873,306	6,766,366
	₱9,080,049	₱9,023,323

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

CONSOLIDATED STATEMENTS OF INCOME

	July - Sept. 30,	
	2010	2009
	<i>(In Thousands)</i>	
REVENUE (Note 1)		
Sale of goods	₱612,188	₱610,722
Tuition and school fees	238,202	255,197
Animation services	96,565	54,829
Investment income (Notes 9 and 22)	30,947	19,793
Rental income	11,569	28,878
	989,471	969,419
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 23, 27 and 28)	(708,212)	(686,261)
Operating expenses (Notes 24, 27 and 28)	(178,183)	(159,267)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 12)	22,423	30,571
Interest expense and other financial charges (Note 25)	(9,791)	(28,594)
Net gains (losses) on derivatives (Note 28)	49,793	8,252
Foreign exchange gains (losses) - net (Note 28)	(27,713)	(9,603)
Others - net	(6,929)	4,827
INCOME BEFORE INCOME TAX	130,859	129,344
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)	14,331	20,421
INCOME FROM CONTINUING OPERATIONS	116,528	108,923
INCOME FROM DISCONTINUED OPERATION (Note 6)	-	(6,706)
NET INCOME	₱116,528	₱102,217
Attributable To		
Equity holders of the parent	₱107,109	₱80,051
Minority interest	9,419	22,166
Net income	₱116,528	₱102,217
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 30)	₱0.42	₱0.31
Basic/Diluted Earnings Per Common Share from Continuing Operations - Attributable to Equity Holders of the Parent (Note 30)	₱0.42	₱0.34

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

CONSOLIDATED STATEMENTS OF INCOME

	January - Sept. 30,	
	2010	2009
	<i>(In Thousands)</i>	
REVENUE (Note 1)		
Sale of goods	₱2,060,264	₱1,959,653
Tuition and school fees	764,139	578,182
Animation services	114,746	216,958
Investment income (Notes 9 and 22)	59,971	66,207
Rental income	35,574	50,947
	3,034,694	2,871,947
COSTS AND EXPENSES		
Cost of sales, educational and animation services (Notes 23, 27 and 28)	(2,194,769)	(2,135,157)
Operating expenses (Notes 24, 27 and 28)	(519,109)	(503,100)
OTHER INCOME (CHARGES)		
Equity in net earnings of associates (Note 12)	25,810	93,011
Interest expense and other financial charges (Note 25)	(75,172)	(66,201)
Net gains (losses) on derivatives (Note 28)	39,130	27,287
Foreign exchange gains (losses) - net (Note 28)	(30,971)	3,791
Others - net	13,535	10,704
INCOME BEFORE INCOME TAX	293,148	302,282
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 29)	72,045	41,492
INCOME FROM CONTINUING OPERATIONS	221,103	260,790
INCOME FROM DISCONTINUED OPERATION (Note 6)	-	65,152
NET INCOME	₱221,103	₱325,942
Attributable To		
Equity holders of the parent	₱200,858	₱287,435
Minority interest	20,245	38,507
Net income	₱221,103	₱325,942
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 30)	₱0.78	₱1.12
Basic/Diluted Earnings Per Common Share from Continuing Operations - Attributable to Equity Holders of the Parent (Note 30)	₱0.78	₱0.86

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	January – September	
	2010	2009
	<i>(In Thousands)</i>	
NET INCOME	₱221,103	₱325,942
OTHER COMPREHENSIVE INCOME (LOSS)		
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	7,758	(2,884)
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	988	980
Cumulative translation adjustments	132	299
	8,878	(1,605)
TOTAL COMPREHENSIVE INCOME	₱229,981	₱324,337
Attributable To		
Equity holders of the parent	₱209,736	₱285,830
Minority interest	20,245	38,507
Total Comprehensive Income	₱229,981	₱324,337

PHINMA CORPORATION AND SUBSIDIARIES

(formerly Bacnotan Consolidated Industries, Inc.)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited		Audited
	September		December
	2010	2009	2009
CAPITAL STOCK - P10 par value (Note 21)			
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
ADDITIONAL PAID-IN CAPITAL	255,785	255,785	255,785
SHARE IN EQUITY COMPONENT OF CONVERTIBLE NOTES	16,699	13,443	13,443
SHARE IN UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AVAILABLE-FOR SALE INVESTMENTS OF ASSOCIATES (Note 12)			
Balance at beginning of year	11,495	5,054	5,054
Changes in fair value during the year	7,758	(2,884)	6,441
Balance at end of year	19,253	2,170	11,495
UNREALIZED GAIN (LOSS) ON CHANGE IN FAIR VALUE OF AN AVAILABLE-FOR-SALE INVESTMENTS (NOTE 13)			
Balance at beginning of year	300	(600)	(600)
Increase (decrease) in fair value gains on available-for-sale investments	988	980	900
Balance at end of year	1,288	380	300
CUMULATIVE TRANSLATION ADJUSTMENTS	(670)	299	(802)
RETAINED EARNINGS			
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	200,858	287,435	447,370
Cash dividends on common shares	(103,095)	(103,095)	(103,095)
	2,380,350	2,122,652	2,282,587

	Unaudited		Audited
	September		December
	2010	2009	2009
MINORITY INTEREST			
Balance at beginning of year	626,309	825,781	889,049
Net income	26,510	54,521	57,118
Dividends	(25,214)	(26,842)	(26,841)
Business combination (Note 7)	(4,253)	162,571	158,614
Disposal of minority interest (Note 6)		(182,462)	(182,416)
Acquisition of minority interest (Note 7)	-	-	(288,807)
Subscriptions	-	-	19,592
Balance at end of year	623,352	833,569	626,309
TOTAL EQUITY	6,873,305	6,805,547	6,766,366

PHINMA CORPORATION AND SUBSIDIARIES

(formerly Bacnotan Consolidated Industries, Inc.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	January – September 30,	
	2010	2009
	<i>(In Thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	₱293,147	₱295,519
Adjustments for:		
Depreciation and amortization	191,748	239,836
Equity in net earnings of associates (Note 12)	(18,120)	(86,305)
Loss (gain) on derivatives	(39,130)	(11,076)
Unrealized foreign exchange loss (gain) - net	31,768	357
Dividend income	(4,278)	(3,791)
Income tax paid	(46,953)	(50,509)
Changes in working capital and others	(650,209)	129,686
Net cash provided by operating activities	(242,027)	513,717
CASH FLOWS FROM INVESTING ACTIVITIES		
Business combination:		
Cash paid - net of cash from business acquired (Note 7)	-	(923,284)
Proceeds from sale of discontinued operation (Note 6)	-	77,250
Decrease (increase) in:		
Investments	-	(289)
Available for sale investment	-	(66,152)
Other noncurrent assets	265,751	10,100
Full payment of acquisition of minority interest	(153,095)	-
Proceeds received from settlement of derivative asset	9,810	1,502
Net settlement of derivative liability	(6,161)	(11,418)
Additions to:		
Property and equipment (Notes 14 and 15)	(167,120)	(74,070)
Dividends received	43,383	32,337
Net cash provided by (used in) investing activities	(7,431)	(954,023)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments of) :		
Short-term borrowing	156,779	(378,796)
Long-term borrowing	157,840	(65,770)
Payment of cash dividends	(101,692)	(102,151)
Net cash used in financing activities	212,927	(546,717)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,531)	(987,023)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(17,902)	(871)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,052,217	1,809,871
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱997,783	₱821,977

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 ^(a)
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 ^(b)
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31 ^(f)	78.64	78.64
University of Pangasinan (UPANG) and Subsidiary	Educational institution	March 31 ^(f)	74.35	74.35
University of Iloilo (UI)	Educational institution	March 31 ^(f)	70.00	70.00 ^(c)
P & S Holdings Corporation (PSHC)	Educational institution	March 31 ^(f)	69.90	69.90 ^(d)
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	—	— ^(e)

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

^(b) OAL owns 95.0% interest in Toon City Animation, Inc. (Toon City).

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

^(d) Acquired by PHN on February 25, 2009 (see Note 7).

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

^(f) 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 new, amended and improved PFRS and Philippine Interpretations, which were adopted as of January 1, 2010.

New Standards and Interpretations

- PFRS 3, "Business Combinations" (Revised) and PAS 27, "Consolidated and Separate Financial Statements," effective July 1, 2009
- Philippine Interpretation IFRIC 17, "Distributions of Non-Cash Assets to Owners," effective July 1, 2009
- Philippine Interpretation IFRIC 18, "Transfers of Assets from Customers," effective July 1, 2009

Amendments to Standards

- PAS 39 Amendment, "Eligible Hedged Items," effective July 1, 2009
- PFRS 2 Amendments, "Group Cash-settled Share-based Payment Transactions," effective January 1, 2010

The adoption of these standards had no impact on the financial statements.

Improvements to PFRSs

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 adoption of these amendments had no material effect on the financial statements.

- PFRS 2, "Share-based Payment," clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, "Business Combinations" (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, "Non-current Assets Held for Sale and Discontinued Operations," clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements

of other PFRSs only apply if specifically required for such non-current 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.

Standards Issued but not yet Effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company’s financial statements are listed below.

- 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.

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

PHN, 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 September 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 September 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 September 30, 2010 and December 31, 2009 amounted to ₱ 1,323.4 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 September 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 September 30, 2010 and December 31, 2009 amounted to ₱ 2,222.9 million and ₱2,172.5 million, respectively (see Note 14). The carrying amounts of investment properties as of September 30, 2010 and December 31, 2009 amount to ₱624.8 million and ₱648.9 million, respectively (see Note 15). The carrying amounts of intangibles other than goodwill as of September 30, 2010 and December 31, 2009 amounted to ₱47.7 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 September 30, 2010 and December 31, 2009 are ₱399.7 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 September 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 September 30, 2010 and December 31, 2009 amounted to ₱614.1 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 September 30, 2010 and December 31, 2009 amounted to ₱834.3 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
Net cash inflow	₱62,876

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

Income from discontinued operation consists of the following:

	2009	2008	2007
		<i>(In Thousands)</i>	
Gain from sale of discontinued operation, net of tax	₱65,039	₱-	₱-
Net income from discontinued operation	113	4,312	29,372
Net income for the year from discontinued operation	₱65,152	₱4,312	₱29,372

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		₱22,538
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>₱536,199</u>
Share in net assets		₱353,783
Minority interest		182,416
		<u>₱536,199</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:

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

Basic EPS from discontinued operation is computed as follows:

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

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	-
(Total Carried Forward)	772,940	362,617

	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	
Total consideration	₱582,598	

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
Net cash outflow	₱580,783

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>		
Total consideration	₱405,788	

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
Net cash outflow	₱403,988

8. Cash and Cash Equivalents

This account consists of:

	September 30, 2010	December 31, 2009
<i>(In Thousands)</i>		
Cash on hand and in banks	₱166,206	₱392,052
Short-term deposits	814,328	660,165
	₱980,534	₱1,052,217

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:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Investments in:		
Bonds	₱389,292	₱296,205
UITFs	334,810	261,172
Trust accounts	-	4,501
Marketable equity securities	4,853	2,534
	₱728,955	₱564,412

10. Trade and Other Receivables

This account consists of:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Trade	₱596,872	₱598,745
Current portion of installment contract receivable (see Note 6)	-	57,037
Due from related parties (see Note 26)	59,933	41,239
Advances to suppliers and contractors	15,115	25,915
Accrued interest	7,005	14,126
Receivable from PHN Retirement Plan	8,939	8,939
Others	75,602	37,403
	763,466	783,404
Less allowance for doubtful accounts	149,400	120,780
	₱614,066	₱662,624

11. Inventories

This account consists of:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
At cost:		
Finished goods	₱637,661	₱502,443
Raw materials	157,563	67,676
Other inventories	12,617	9,369
At net realizable value -		
Spare parts and others	26,468	21,753
Inventories at the lower of cost or net realizable value	₱834,309	₱601,241

12. Investments in Associates

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

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

^(a) *Ceased commercial operations*

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

^(c) *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:

	September 30, 2010	December 31, 2009
<i>(In Thousands)</i>		
Acquisition costs:		
Balance at beginning of year	₱1,537,282	₱1,536,993
Additions	-	289
Balance at end of year	1,537,282	1,537,282
Accumulated equity in net losses:		
Balance at beginning of year	(212,114)	(290,669)
Equity in net earnings for the year	18,120	117,657
Dividends received	(39,103)	(39,102)
Balance at end of year	(233,098)	(212,114)
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	11,495	5,054
Change in fair value during the year	7,758	6,441
Balance at end of year	19,253	11,495
	₱1,323,436	₱1,336,663

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

	September 30, 2010	December 31, 2009
<i>(In Thousands)</i>		
TA Oil	₱796,391	₱831,039
PPHC	349,340	325,925
AB Capital	177,436	179,427
Asia Coal	269	272
	₱1,323,436	₱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:

	September 30, 2010	December 31, 2009
<i>(In Thousands)</i>		
Quoted:		
Ayala Corporation - preferred shares	₱8,488	₱8,400
First Philippine Holdings Corporation (FPHC) - preferred shares	20,800	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
	445,175	444,187
Less accumulated impairment losses	45,517	45,517
	₱399,659	₱398,670

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)	September 30, 2010
Cost					
Land	₱1,057,127	₱-	-	₱-	₱1,057,127
Plant site improvements	18,217	456	-	-	18,673
Buildings and improvements	1,145,210	21,673	-	-	1,166,883
Machinery and equipment	646,253	85,999	-	-	732,252
Transportation and other equipment	340,282	17,517	(469)	-	357,330
	3,207,089	125,645	(469)	-	3,332,265
Less Accumulated Depreciation					
Plant site improvements	13,883	1,060	-	-	14,943
Buildings and improvements	372,471	27,294	-	-	399,765
Machinery and equipment	431,430	62,499	-	-	493,929

Transportation and other equipment	235,245	21,666	(469)	-	256,442
	1,053,029	112,519	(469)	-	1,165,079
Construction in-progress	18,447	37,285	-	-	55,732
Net Book Value	₱2,172,507	50,411	-	-	₱2,222,918

	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>							
Cost							
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
Less Accumulated Depreciation							
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
Net Book Value	₱1,297,558	₱1,111,356	(₱43,829)	(₱25,986)	(₱131,140)	(₱35,452)	₱2,172,507

15. Investment Properties

This account consists of:

	December 31, 2009	Additions (Deductions)	Reclassification	September 30, 2010
Cost:				
Land	₱321,085	₱	₱-	₱321,085
Buildings for lease	441,496	-	-	441,496
	762,581	-	-	762,581
Less accumulated depreciation - Buildings for lease	113,649	24,124	-	137,773
	₱648,932	₱24,124	₱-	₱624,808

	December 31, 2008	Additions	Discontinued Operation (see Note 6)	Reclassification (see Note 14)	December 31, 2009
	<i>(In Thousands)</i>				
Cost:					
Land	P537,806	P-	(P216,721)	P-	P321,085
Buildings for lease	307,912	78,869	-	54,715	441,496
	845,718	78,869	(216,721)	54,715	762,581
Less accumulated depreciation - Buildings for lease	72,849	21,537	-	19,263	113,649
	P772,869	P57,332	(P216,721)	P35,452	P648,932

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 P220.0 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	September 30, 2010
	<i>(In Thousands)</i>		
Cost:			
Goodwill	P1,125,183	P773	P1,125,956
Intangible – student lists	131,120	-	131,120
Intangible – customer contracts	22,080	-	22,080
	1,278,383	773	1,279,156
Accumulated amortization:			
Intangible – student lists	57,023	26,434	83,457
Intangible – customer contracts	22,080	-	22,080
	79,103	26,434	105,537
	P1,199,280	P25,661	P1,173,619

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 P115.0 million and decrease in customer contracts by P68.4 million.

The average remaining useful life of student lists as of September 30, 2010 is 1.3 years.

17. Other Noncurrent Assets

This account consists of:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Input VAT – net of allowance for unrecoverable amount of ₱122.2 million in Dec. 2009 (see Note 24)	₱-	₱676
Others – net of allowance for doubtful advances of ₱66.8 million in 2009 .	39,696	29,707
	₱39,696	₱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:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
UGC	₱282,680	₱94,646
COC	2,717	6,245
	₱285,397	₱100,891

Notes payable consists of unsecured short term pesos denominated loans from financial institutions with annual interest rates from January to September 2010 and January to December 2009 ranging from 5.87% to 7.25% and 6.75% to 8.88%, respectively.

19. Trade and Other Payables

This account consists of:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Trade	₱82,452	₱33,921
Payable to third parties	37,591	162,067
Accruals for:		
Professional fees and others (see Note 26)	38,031	112,415
Personnel cost (see Note 26)	74,924	78,732
Interest (see Note 25)	5,372	29,866
Freight, hauling and handling	24,234	11,621
Dividends	36,364	94,864
Customers' deposits	50,492	39,813
Others	70,109	22,413
	₱422,449	₱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:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
UPANG	₱297,044	₱300,000
UGC:		
Banco de Oro (BDO)	285,000	150,000
Rizal Commercial Banking Corporation (RCBC)	95,000	50,000
	677,044	500,000
Less debt issuance cost	(2,498)	(1,515)
	674,546	498,485
PSHC	147,813	147,813
AU	52,150	55,415
	874,509	701,713
Less current portion – net of debt issuance cost	112,107	87,520
	₱762,402	₱614,193

UPANG

On July 21, 2009, UPANG obtained a loan from China Bank to be used for the acquisition and/or refinancing of its capital expenditures. The terms of the loan are as follows:

Tenure	Seven (7) - year term loan with one year grace period for repayment.
Repayment	The first principal payment will commence at the end of the 5th quarter from the date of drawdown; amortization will be graduated, at ₱12.5 million from the fifth to the 16th quarters; ₱15.0 million from the 17th to the 24th quarters and the ₱7.5 million for the last four quarters until full settlement.
Funding/Interest rate	Interest will be based on the Wholesale Lending Program (third party funder) with a fixed rate of 8% for the first five years. Rates for the remaining two year period of the term shall be based on the prevailing two-year PDST-F rate plus a minimum spread of 2%.
Security	The facility will be secured by Real Estate Mortgage amounting to ₱300.0 million on the school assets covering land and land improvements.

UGC

On June 29, 2010, the outstanding long-term debts as of December 31, 2009 from BDO and RCBC (the lenders) were pre-terminated by obtaining three-year term loans aggregating to ₱400.0 million from the same lenders for which ₱2.8 million debt issue cost was paid. The newly obtained loans are to be paid in 11 quarterly installments of ₱20.0 million to commence on September 25, 2010 and a lump sum payment in June 2013 amounting to ₱180.0 million. The interest is at a fixed rate of 7.624% computed based on 3-year PDST-F plus a spread of 1.75% and applicable taxes at the time of the drawdown.

As of September 30, 2010, the loans from the lenders are collateralized by mortgage agreement of the Company's land, plantsite improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱504.9 million .

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios for the duration of the loan agreements: (1) current ratio of not less than 1:1; (2) debt to equity ratio of not more than 1.5:1
- Restrictions on declaration and payment of dividends, incurrence of new long-term debt, entering into management agreement other than with PHINMA, entering into merger (except where it is the surviving entity) or consolidation or any change of ownership, sale, lease or otherwise transfer of a substantial portion of its assets except in the ordinary course of business, making any loans, advances or investments, making capital expenditures, prepayment of any other long-term debt and amendment of Articles of Incorporation and By-laws.

Under the loan agreement, failure to comply with the obligation or covenant in the agreement should be remedied within thirty (30) calendar days after notice by the lenders.

As of September 30, 2010, the Company is in compliance with the terms of the loan agreement.

Features of Long-term Debts Outstanding as of December 31, 2009

Initially, the loans from BDO and RCBC (the lenders) outstanding as of December 31, 2009 are payable in 10 equal quarterly installments until June 2012. On June 29, 2010, these loans have been preterminated. The interest is at a fixed rate of 9.11% computed on 5-year PDST-F plus a spread of 1.75 and applicable taxes at the time of the drawdown.

As of December 31, 2009, the loans from the lenders are collateralized by mortgage agreement of the Company's land, plantsite improvements, buildings and installations and machinery and equipment of Calamba and Davao plants amounting to ₱537.9 million, respectively.

The foregoing loan agreements include, among others, certain restrictions and requirements with respect to the following:

- Maintenance of the following ratios for the duration of the loan agreements: (1) current ratio of not less than 1:1; (2) debt to equity ratio of not more than 1.5:1; and (3) debt service ratio of 1.25:1.

On November 6, 2008, an amendment to the loan agreement was entered into between UGC and the lenders, wherein the Company requested to adjust the debt to equity ratio requirement

for each of the years 2008, 2009 and 2010, among others. The lenders have agreed thereto under the following terms and conditions, which the Company has accepted.

Based on the amended loan agreement, UGC shall maintain the following debt-to-equity ratio in the respective financial year-end:

<u>Year</u>	<u>Debt-to-equity Ratio</u>
2008	1.6:1
2009	1.7:1
2010	1.6:1

- Restrictions on declaration and payment of dividends, incurrence of new long-term debt, entering into management agreement other than with PHINMA, entering into merger or consolidation or any change of ownership, sale, lease or otherwise transfer of a substantial portion of its assets except in the ordinary course of business, making any loans, advances or investments, making capital expenditures, prepayment of any other long-term debt and amendment of Articles of Incorporation and By-laws.

As of December 31, 2009, the Company is in compliance with the aforementioned debt covenants.

PSHC

This represents interest-bearing loan of ₱154.0 million payable to United Pulp and Paper Co., Inc. (UPPC) arising from the acquisition of land from UPPC. UPPC was a former associate of the Company.

This loan is presented at amortized cost as of the end of the reporting period. The present value of the loan at initial recognition in 2006 was calculated using an effective interest rate of 11.03%. The effective interest rate used in computing for the present value of the loan payable was derived based on the rate inherent to the loan after considering the carrying value and the future value of the loan payable at the coupon rate of 9.1%.

Initially, the said loan is payable in two installments amounting to ₱44.0 million on July 15, 2008 and ₱110.0 million on July 15, 2013. On July 8, 2008, a Memorandum of Agreement was executed by UPPC and PSHC amending the maturity date of ₱44.0 million from July 15, 2008 to July 15, 2013. A recomputation of the effective interest rate of 10.52% was made in 2008 to reflect the change in the payment terms of the liability in 2013. Additional interest expense resulting from the accretion of loan payable amounted to ₱1.39 million, ₱1.29 million and ₱1.80 million in 2009, 2008 and 2007, respectively. To secure the payment of the loan, PSHC constituted a mortgage over its land in favor of certain creditors of UPPC.

The payable of PSHC to UPPC incurs an annual interest at a rate subject to mutual agreement by UPPC and PSHC on each anniversary date. Interest expense on the amount payable to UPPC, computed at 9.1% of the outstanding principal balance, amounted to ₱14.0 million in 2009, 2008 and 2007.

AU

Araullo University's long-term debt consists of:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Loan payable to China Banking Corporation (China Bank)	₱52,150	₱55,415
Less current portion	8,250	8,165
	₱43,900	₱47,250

China Bank

Loan payable to China Bank represents a 10-year loan from China Bank - Cabanatuan Branch. The proceeds of the loan were used to preterminate restructured long-term debt from another local bank, to partially finance Araullo University's building renovation, and to purchase various school equipment. The debt is payable on fixed monthly amortization of ₱750,000 starting April 17, 2006. On May 6, 2010, AU signed a loan agreement where interest rate was fixed at 8.42% for the next five (5) years and payable quarterly. Actual interest rate was 8.42% in September 2010 and 8.66% in December 2009.

21. Equity

a. Capital Stock

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

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

b. Retained Earnings

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 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 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:

	January – September	
	2010	2009
	<i>(In Thousands)</i>	
Interest income:	₱43,631	₱53,705
Net gain (loss) on investments held for trading (see Note 9)	16,340	12,502
	₱59,971	₱66,207

23. Cost of Sales, Educational and Animation Services

This account consists of:

	January – September	
	2010	2009
	<i>(In Thousands)</i>	
Cost of sales	₱1,612,060	₱1,643,737
Cost of educational services	441,514	306,040
Cost of animation services	141,195	185,380
	₱2,194,769	₱2,135,157

24. General and Administrative Expenses

This account consists of:

	January – September	
	2010	2009
	<i>(In Thousands)</i>	
General and administrative expenses	₱395,862	₱412,550
Selling expenses	123,247	90,550
	₱519,109	₱503,100

25. Interest Expense and Other Financial Charges

This account consists of:

	January – September	
	2010	2009
	<i>(in Thousands)</i>	
Interest expense on loans and borrowings	₱73,495	₱64,644
Other financial charges	1,677	1,557
	₱75,172	₱66,201

26. Related Party Transactions

Associates and Related Corporations

PHINMA and TA Oil. In 2009, API granted noninterest-bearing advances to its shareholders amounting to ₱6.4 million to PHINMA and TA Oil. As of September 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	2010	₱27,727	₱-	₱46,895
		2009	110,256	-	26,198
		2008	29,220	-	25,977
TA Oil	Dividends and share in expenses	2010	21,795	-	6,891
		2009	1,680	-	3,799
		2008	4,213	-	3,896
PPHC	Dividends and share in expenses	2010	21,284	-	502
		2009	21,302	-	5,878
		2008	289	-	660
AB Capital	Share in expenses	2010	₱57	-	₱26
		2009	274	-	158
		2008	632	-	632
Other Shareholders of UPANG	Interest bearing advances	2010	-	-	-
		2009	59,769	59,769	-
		2008	-	-	-
Others	Raw materials purchases, technical service fees, advances and share in expenses	2010	22,585	882	5,619
		2009	2,679	501	5,206
		2008	1431	143	962
			2010	₱882	₱59,933
			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 September 30, 2010 and Dec. 31, 2009 amounted to ₱64.3 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 ₱47.6 million and ₱31.5 million as of September 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 ₱26.8 million in September 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 ₱26.8 million and ₱19.8 million as of September 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"> a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or

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.

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Loans and receivables:		
Cash and cash equivalents	₱997,783	₱1,052,217
Trade and other receivables	763,466	783,404
Installment contract receivable*	-	276,413
Investments held for trading:		
Investments in bonds	389,292	296,205
Investments in UITFs	334,810	261,172
Investments in trust accounts	-	4,501
Investments in marketable equity securities	4,853	2,534
Derivative assets	-	6,865
AFS investments:		
Quoted	29,288	28,300
Unquoted	370,370	370,370
	₱2,889,862	₱3,081,981

- *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 September 30, 2010 and December 31, 2009 :

	September 30, 2010				
	Neither Past Due nor Impaired			Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
	<i>(In Thousands)</i>				
Investments held for trading:					
Investments in bonds	P389,292	P-	P-	P-	P389,292
Investments in UITFs	334,810	-	-	-	334,810
Investments in trust accounts	-	-	-	-	-
Investments in marketable equity securities	-	4,853	-	-	4,853
AFS investments:					
Quoted	-	29,288	-	-	29,288
Unquoted	-	370,370	-	45,517	415,887
	P724,102	P404,511	P-	P45,517	P1,174,130

	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
	P553,472	P409,610	P-	P45,517	P1,008,599

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 September 30, 2010 and December 31, 2009 :

	September 30, 2010		Dec. 31, 2009	
	Foreign Currency	Peso Equivalent	Foreign Currency	Peso Equivalent
In US Dollar:				
Cash and cash equivalents	US\$6,750	P296,214	US\$7,843	P362,347
Investments in bonds	3,213	141,003	3,044	140,633
Investments in UITFs	3,924	172,185	2,615	120,813
	US\$13,887	P609,402	US\$13,502	P623,793

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

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were P43.88 to US\$1.00 as of September 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 September 30, 2010 and December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Total liabilities	₱2,206,743	₱2,256,957
Total equity	6,873,306	6,766,366
Debt-to-equity ratio	0.32:1	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.

	Carrying Amount		Fair Value	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>			
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	₱980,534	₱1,052,217	₱980,534	₱1,052,217
Trade and other receivables:				
Trade – net	596,872	486,030	596,872	486,030
Due from related parties	59,933	41,239	59,933	41,239
Accrued interest	7,005	14,126	7,005	14,126
Receivable from BCII Retirement	8,939	8,939	8,939	8,939
Advances to suppliers and contractors	15,115	25,915	15,115	25,915
Advances to officers and employees	4,242	5,335	4,242	5,335
Others	71,360	24,003	71,360	24,003
Installment contract receivable*	-	333,450	-	333,450
	1,744,000	1,991,254	1,744,000	1,991,254
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	389,292	296,205	389,292	296,205
Investments in UITFs	334,810	261,172	334,810	261,172
Investments in trust accounts	-	4,501	-	4,501
Investments in marketable equity securities	4,853	2,534	4,853	2,534
Derivative assets	-	6,865	-	6,865
	728,955	571,277	728,955	571,277
AFS investments:				
Quoted	29,289	28,300	29,289	28,300
Unquoted	370,370	370,370	370,370	370,370
	399,659	398,670	399,659	398,670
	₱2,872,614	₱2,961,201	₱2,872,614	₱2,961,201
Financial Liabilities				
Other financial liabilities:				
Notes payable	285,397	100,891	285,397	100,891
Trade and other payables	422,449	585,712	422,449	585,712
Trust receipts payable	81,278	131,051	81,278	131,051

contracts mature in October 2010 to January 2011. The net fair values of these outstanding currency forward contracts amounted to P39.6 million gain as of September 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:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Balance at beginning of year	P4,088	(P26,857)
Net change in fair value during the year	39,131	49,215
Fair value of settled contracts	(3,649)	(18,270)
Balance at end of year	P39,569	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:

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

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:

	September 30, 2010	December 31, 2009
	<i>(In Thousands)</i>	
Deferred tax assets – net	P4,480	P5,602
Deferred tax liabilities – net	(296,033)	(322,869)
	(P291,553)	(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
		₱12,735	₱106,605

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

	September 30, 2010	September 30, 2009
<i>(In Thousands)</i>		
(a) Net income attributable to equity holders of the parent	₱200,858	₱287,435
(b) Net income attributable from continuing operations attributable to equity holders of the parent	₱200,858	₱222,283
(c) Number of shares outstanding at end of year	257,737,307	257,737,307
Basic/Diluted EPS attributable to equity holders of the parent (a/c)	₱.78	₱1.12
Basic/Diluted EPS attributable from continuing operations to equity holders of the parent (b/c)	₱.78	₱.86

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		
January - September 30, 2010								
Revenues								
Segment revenue	P59,169	P36,376	P2,060,264	P764,139	P114,746	P-		P3,034,694
Investment income	-	-	-	-	-	-	-	-
Total revenues	P59,169	P36,376	P2,060,264	P764,139	P114,746	P-		P3,034,694
Results								
Segment results	P212,797	P12,817	P264,703	P166,107	(P51,673)	(P262,243)		P342,508
Equity in net earnings of an associate	-	48,212	-	-	-	(22,402)		25,810
Interest expense and financing charges	-	-	(37,835)	(33,433)	(3,904)	-		(75,172)
Benefit from (provision for) income tax	(829)	(3,614)	(62,290)	(15,779)	-	10,468		(72,044)
Share of minority interest	-	-	-	(435)	650	(20,459)		(20,244)
Net income attributable to equity holders of parent	P211,968	P57,415	P164,578	P116,460	(P54,927)	(P294,636)		200,858
As at September 30, 2010								
Assets and Liabilities								
Segment assets	P5,976,006	P690,924	P1,810,792	P2,015,402	P449,384	(P3,185,895)		P7,756,613
Investment in associates	-	-	-	-	-	1,323,436		1,323,436
Total assets	P5,976,006	P690,924	P1,810,792	P2,015,402	P449,384	(P1,862,459)		P9,080,049
Segment liabilities	P189,020	P227,099	P960,263	P616,203	P105,533	(P237,048)		P1,861,070
Income and other taxes payable	749	617	48,276	4,371	-	-		54,013
Deferred tax liabilities	-	1,516	47,626	113,031	-	133,859		296,032
Total liabilities	P189,769	P229,232	P1,056,165	P733,605	P105,533	(P103,189)		P2,211,115
Other Segment Information								
Capital expenditures	1,101	-	46,248	78,296	-	-		125,645
Depreciation and amortization	9,377	20,014	77,031	50,128	305	34,893		191,748

	Continuing Operations						
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total
January - September 30, 2009							
Revenues							
Segment revenue	₱83,637	₱33,209	₱1,959,653	₱578,182	₱216,958	₱-	₱2,871,639
Investment income	-	308	-	-	-	-	308
Total revenues	₱83,637	₱33,517	₱1,959,653	₱578,182	₱216,958	₱-	₱2,871,947
Results							
Segment results	₱240,875	₱9,697	₱200,751	₱138,352	(₱1,616)	(₱241,037)	₱347,022
Investment income	-	308	-	-	-	-	308
Equity in net earnings of an associate	-	14,522	-	-	-	71,763	86,305
Interest expense and financing charges	(64)	-	(38,423)	(25,245)	(2,469)	-	(66,201)
Benefit from (provision for) income tax	(1,752)	(2,921)	(51,973)	(13,283)	-	28,437	(41,492)
Share of minority interest	-	-	-	-	766	(39,273)	(38,507)
Net income attributable to equity holders of parent	₱239,059	₱21,626	₱110,355	₱99,824	(₱3,319)	(₱180,110)	287,435
As at December 31, 2009							
Assets and Liabilities							
Segment assets	₱6,256,991	₱365,137	₱1,541,441	₱2,116,439	₱502,529	(₱3,101,479)	₱7,681,058
Investment in associates	-	325,925	-	-	-	1,010,738	1,336,663
Deferred tax assets	-	-	-	941	-	4,661	5,602
Total assets	₱6,256,991	₱691,062	₱1,541,441	₱2,117,380	₱502,529	(₱2,086,080)	₱9,023,323
Segment liabilities	₱453,689	₱10,787	₱727,165	₱872,627	₱80,994	(₱276,906)	₱1,868,356
Income and other taxes payable	5,486	556	48,912	10,778	-	-	65,732
Deferred tax liabilities	-	1,516	60,467	100,887	12,784	147,215	322,869
Total liabilities	₱459,175	₱12,859	₱836,544	₱984,292	₱93,778	(₱129,691)	₱2,256,957
Other Segment Information							
Capital expenditures	79,627	2	37,501	25,156	6,352	-	148,638
Depreciation and amortization	7,519	26,716	70,273	71,030	9,934	63,978	249,450

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

As of September 30, 2010, consolidated revenues of Phinma Corporation, formerly Bacnotan Consolidated Industries, Inc. (PHN) amounted to P3.03 billion. This is 6% higher than revenues of P2.9 billion for the same period last year. The growth is attributable to an increase in revenues of Union Galvasteel Corporation (UGC) and of the University of Pangasinan.

Consolidated net income of the company for the period January to September 2010 amounted to P 221 million, of which P 200.8 million is income attributable to equity holders of the parent.

Phinma Corporation picked up net losses of P 26.7 million from Trans-Asia Oil and Energy Development Corporation and P 43.9 million from One Animate Limited. These were, however, partially offset by income contribution from Union Galvasteel Corporation (UGC) which increased by 85% to P 164.6 million from P 88.8 million for the same period last year. Already, UGC has exceeded last year’s record income of P 151.9 million.

Equitized income from Phinma Property Holdings Corporation grew significantly by 232% from P 14.5 million last year to P 48.2 million this year, with income from its Fountain Breeze, Sofia Bellevue and Flora Vista projects. Income contribution from the education sector likewise grew from P 71.4 million to P 83.2 million.

The results of operations of PHN subsidiaries for the period January to September

Union Galvasteel Corporation (UGC)

For the period January – September 2010, UGC’s sales volume was 4.443 million sheets exceeding last year’s volume of 3.849 million sheets by 15%.

Total revenue generated was P2.1 billion with a gross profit rate of 24%, compared to 20% last year. The share of equity holders of PHN in net income of UGC doubled from P 88.8 million to P 164.6 million, due to a 49% increase in UGC’s income and an increase in PHN’s ownership interest in UGC from 80% to 100%.

On October 19, 2010, the UGC board approved the merger of UGC and Atlas Holdings Corporation, a 90%-owned subsidiary of PHN. UGC is the surviving entity.

Atlas Holdings Corporation (AHC)

For the nine (9) months ended September 30, 2010, Atlas Holdings Corporation, a 90% subsidiary of BCII, registered a net income of P3 million mainly from financial income. This is lower than net income last year of P11 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 September 2010, Araullo University registered revenues amounting to P98 million while direct costs amounted to P41 million. General and administrative expenses for the same period amounted to P31 million. For the nine months ended September 30, 2010, Araullo University registered a net income of P22 million.

Total assets for the period September 30, 2010 amounted to P454 million while liabilities amounted to P135 million.

Cagayan de Oro College, Inc. (COC)

For the period January to September of CY 2010, COC registered revenues amounting to P91 million. Direct cost and operating expenses as of September 30, 2010 was P57 million and P32 million respectively. COC booked a net loss of P 5 million for the nine months ended September 30, 2010.

University of Pangasinan (UPANG)

On February 2, 2009, the Company 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 nine months ended September 2010, UPANG registered revenues amounting to P449 million and net income of P52 million. UPANG total assets as of end September 30, 2010 amounts to P797 million.

University of Iloilo (UI)

On February 25, 2009, PHN acquired a 70% interest in University of Iloilo (UI), located in Iloilo City. 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 September 2010, UI registered revenues amounting to P125 million and a net income of P 47 million.

One Animate Limited (OAL)

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

For the period January to September 2010, OAL registered revenues of P114.7 million and net loss of P55 million. The loss is due to the delay in commencement of work on various contracts.

OAL total assets as of end September 2010 amounted to P449 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 nine months ended September 30, 2010, API posted net income of P9 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 September 30, 2010 compared to the same period last year are shown in the following table :

Financial KPI	Definition	2010	2009
<u>Profitability</u>			
Return on Equity (ROE)	$\frac{\text{Net income (loss)}}{\text{Ave. total equity attributable to PHN equity holders}}$	3.24%	4.89%
Gross Profit Margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	27.68%	25.65%
<u>Efficiency</u>			
Cash Flow Margin	$\frac{\text{Cash flow from operating Activities}}{\text{Net sales}}$	-7.98%	17.89%
<u>Liquidity</u>			
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	3.17 : 1.00	2.43 : 1.00
Debt-to Equity Ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	0.32 : 1.00	0.33 : 1.00

Profitability

Return on equity for the period January to September 2010 was 3.24% a decline from 4.89% last year. The decrease was due to lower net income for the period January to September 2010.

The gross profit margin, however, increased from 25.65% in September 2009 to 27.68% in September 2010 mainly due to the increase in gross profit margin of Union Galvasteel Corporation and University of Pangasinan.

Efficiency

Net cash outflow from operations was P242 million for the period January to September 2010 compared to net cash inflow of P513 million for the same period last year. The outflow was mainly due to an increase in inventories of Union Galvasteel Corporation and payments of trade and other payables.

Liquidity

Current ratio was 3.17 :1.00 as of September 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 September 30, 2010 was slightly lower at 0.32 compared to 0.33 as of end December 31, 2009 due to payments of trade and other payables.

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 increase in the account represents additional investments in bonds, mutual fund and UITF.

Trade and other receivables - net

The decrease in the account represents a decrease in trade receivables of 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 September 30, 2010.

Input tax

The increase in the account represents an increase in input tax of UGC in the amount of P2.7 million.

Derivative assets

The Company has outstanding currency forward contracts with an aggregate notional amount of US\$20.9 million as of September 30, 2010 compared to US\$3.00 as of end December 31, 2009.

Other current assets

The increase in the account represents increase in the prepayments of UPANG.

Installment contract receivable

The decrease in the account represents full payment received from Phoenix Petroleum Philippines, Inc. on April 28, 2010 on long-term contract receivable 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 represents increase in deferred charges of COC.

LIABILITIES

Notes payable

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

Trade and other payables

The decrease in this account represents payment by UGC in the amount of P126 million for the redemption of UGC preferred shares held by Hi Precision Steel Center Inc.

Trust receipts payable

The decrease in the account is attributable to the decrease in UGC's trust receipts payable from P131 million in December 2009 to P81 million this year.

Unearned revenues

The account represents decrease in unearned revenues of AU, COC, UI and UPANG during the period. Tuition fees received by the schools are first charged to Unearned revenues and are then recognized as revenues monthly throughout the semester.

Income and other taxes payable

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

Due to related parties

The decrease in the account represents payment made by UPANG on advances from its 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 a loan granted to UGC on June 29, 2010 amounting to P400 million

Deferred tax liabilities

The decrease in the account represents a decrease in deferred tax liability of UGC AND UPANG for the period.

Pension and other post-employment benefits

The increase in the account represents accrual for post-employment benefits of PHN and COC.

Other noncurrent liabilities

The decrease in the account represents decrease in provision for refund to students of AU.

EQUITY

Share in equity component of convertible notes

The increase is due to the change in percentage of ownership in UGC from 80% in 2009 to 100% in 2010.

Share in unrealized gains on financial assets of associates

The increase in the account represents mark to market gains on securities held by Trans Asia Oil and Energy Development Corporation.

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

The change is due to the improvement in 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 and University of Pangasinan.

Financial charges

The increase in the account represents interest expense arising from a P300 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 P26.7 million as a result of substantial trading losses.

Net gain (loss) on derivatives

This account reflects a net gain in derivatives amounting to P39.1 million for the nine-month ended Sept 30, 2010 and P27.3 million of the same period last year.

The company has outstanding non-deliverable contracts with an aggregate notional amount of US\$20.96 million transacted at an average rate of P46.03 to \$1.00. As of September 30, 2010, the average forward rate was P 44.142 to \$1.00, resulting in an unrealized gain of P39.5 million.

Last year , PHN and AHC recognized a net gain on derivatives on settled contracts amounting to P16 million.

Foreign exchange gain (loss)

Foreign exchange loss as of Sept. 30, 2010 was P31 million due to the weakening of the dollar from P46.20 as of Dec. 31, 2009 to P43.880 as of Sept. 30, 2010.

Other income (charges)

The increase in the account is mainly due to consultancy fees received from UPPC by PHINMA Corporation.

Provision for income tax

The increase in provision for income tax was brought about by the significant income generated by UGC from P110 million in September 2009 to P165 million this year.

Comprehensive Income

Comprehensive income decreased from P324 million for the nine-month period ended September 30, 2009 to P229 million this year due to the decrease in net income from P326 million last year to P221 million this year.

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

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

in thousands

	<u>Total</u>
Current	401,205
1 - 30 days	26,312
31 - 60 days	7,972
61 - 90 days	11,968
Over 90 days	<u>149,415</u>
TOTAL	596,872
Less : Allowance for doubtful accounts	<u>141,315</u>
Net Trade Receivable	<u>455,557</u>

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

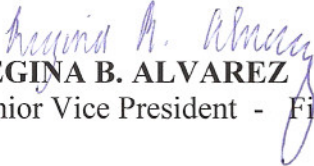
in thousands

	<u>Total</u>
Current	146,583
1 - 30 days	-
31 - 60 days	-
61 - 90 days	-
Over 90 days	<u>20,011</u>
TOTAL	166,594
Less : Allowance for doubtful accounts	<u>8,085</u>
Net Trade Receivable	<u>158,509</u>

SIGNATURES

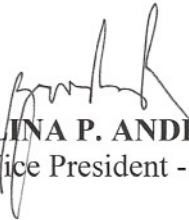
Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BACNOTAN CONSOLIDATED INDUSTRIES, INC.



REGINA B. ALVAREZ

Senior Vice President - Finance



RIZALINA P. ANDRADA

Asst. Vice President - Finance

November 8, 2010

