ANNUAL REPORT 2009

shared commitment

Bacnotan Consolidated Industries, Inc.

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MISSION

Our mission is to help build our nation through competitive and well-managed business enterprises that enable Filipinos to attain a better quality of life. With effective management as our distinctive edge, we aim to give Filipinos improved access to the essentials of a dignified life.

SHARED COMMITMENT

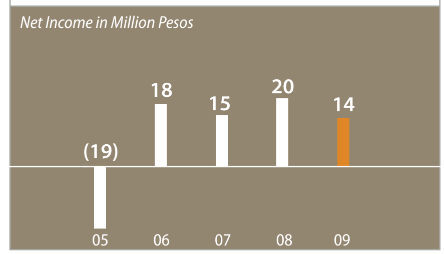
BCI's commitment to social development goes beyond ordinary corporate social responsibility (CSR) projects. We have woven CSR values into the operations of our subsidiaries and affiliates, by offering affordable products and services that enhance the quality of life of the broader base of Filipinos. BCII, its directors, officers, employees, and strategic partners share our vision and our commitment to make life better for our fellow Filipinos.

financial highlights

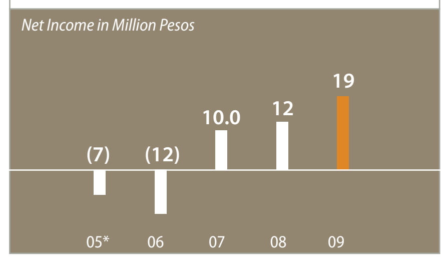
(amounts in thousands except ratios and earnings per share)

	2009	Restated 2008	2007
INCOME AND DIVIDENDS			
Revenues	3,770,657	3,200,341	2,673,040
Net Income Attributable to BCII Equity Holders	447,370	273,160	330,410
Cash Dividend	103,095	-	-
Cash Dividend per share	0.40	-	-
Stock Dividend	-	234,307	305,618
Stock Dividend %	-	10%	15%
FINANCIAL POSITION			
Current Assets	2,954,873	4,298,928	4,192,788
Total Assets	9,023,323	8,519,839	7,956,671
Current Liabilities	1,218,475	1,271,215	1,010,126
Non-current Liabilities	1,038,482	570,332	627,637
Equity Attributable to BCII Equity Holders	6,140,057	5,789,243	5,537,564
PER SHARE			
Earnings	1.74	1.06	1.28
Book Value of Common Shares	23.82	22.46	21.49
FINANCIAL RATIOS			
Current Ratio	2.43	3.38	4.15
Debt to Equity Ratio	0.33	0.28	0.26

Araullo University
Calendar year ending December 31

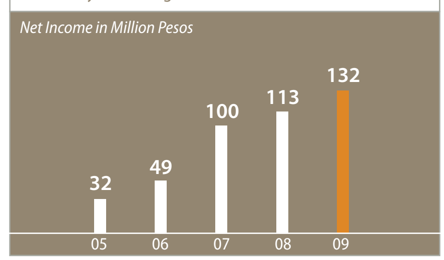


Cagayan de Oro College
Calendar year ending December 31

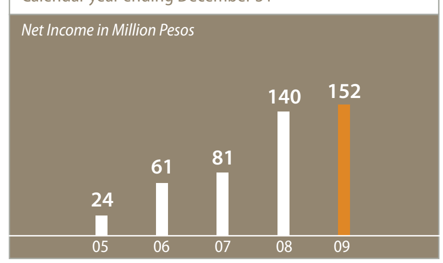


* Net income starting from acquisition on June 29, 2005

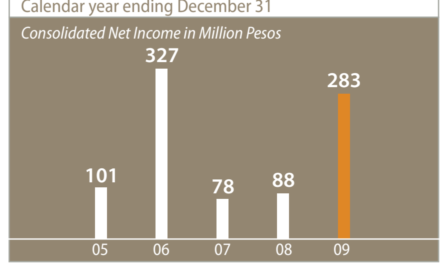
Phinma Property Holdings Corp.
Calendar year ending December 31



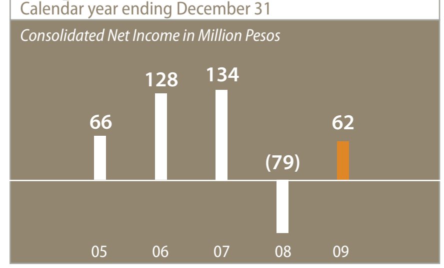
Union Galvasteel Corporation
Calendar year ending December 31



Trans-Asia Oil & Energy Dev't Corp. and Subsidiaries
Calendar year ending December 31



AB Capital and Investment Corp. and Subsidiaries
Calendar year ending December 31



at-a-glance

Education

BCII's investment in the education sector is comprised of four schools under the Phinma Education Network (PEN): Araullo University, Inc. (AU) Cagayan de Oro College,Inc. (COC), University of Pangasinan, Inc. (UPang) and University of Iloilo, Inc.(UI). PEN currently has a total student base of 25,000.

Ownership by BCII:
- AU: 79%
- COC: 74%
- UPang: 70%
- UI: 70%

2009 Highlights
- AU and COC posted net income of PhP 14 million and PhP 18.7 million, respectively for CY 2009
- Acquisition of UPang and UI in February 2009, with net income of PhP 61.6 million and PhP 15.9 million respectively since acquisition.

Housing

Phinma Property Holdings Corporation (Phinma Properties) is the leading developer of affordable medium- and high-rise residential condominiums in Manila . To date, PHINMA Properties has constructed 7,041 condominium units and continues to deliver its promise of affordable homes for fellow Filipinos.

Phinma Properties has successfully completed seven residential developments: Smile Citihomes, Smile Citihomes Annex, Sunny Villas, San Benissa Garden Villas, Spazio Bernardo, and Spazio Bernardo West Villas in Quezon City, and Fountain Breeze in Parañaque City.

Ownership by BCII: 35%

2009 Highlights
- Launched Sofia Bellevue, an 840-unit project in Capitol Hills, Quezon City. Also launched Flora Vista, an 870-unit project in Commonwealth, Quezon City
- Delivered 1,194 units in 2009 compared to 851 in the previous year.
- Posted net income of Php 132.2 million, up 18%

Steel Products

Union Galvasteel Corporation (UGC) is a leading manufacturer of pre-painted galvanized iron roofing products and other steel products, such as steel decking, frames, and insulated panels used for cold storage and other facilities.

With the galvanizing and painting facilities based in Calamba, Laguna, UGC has an extensive nationwide distribution network, composed of seven roll-forming plants and eleven warehouses located in key cities throughout the country.

Ownership by BCII: 100%

2009 Highlights
- Posted record net income of PhP 152 million, 9% better than the previous record income of PhP 140 million in 2008.
- Declared cash dividend of PhP 70 million
- Bought back PhP 167 million preferred shares from Hi Precision Steel Center, Inc. (HPSCI)
- Became a wholly-owned subsidiary of BCII with the latter's acquisition of HPSCI's 19.5% minority interest in December.

Energy

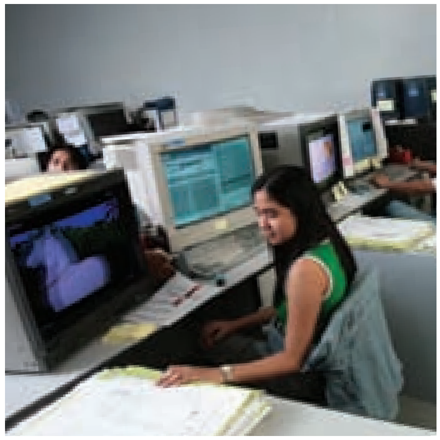
Trans-Asia Oil and Energy Development Corporation (TA Oil) is the vehicle for the group's initiatives in oil exploration, power generation, trading, and renewable energy.

Ownership by BCII: 27%

2009 Highlights

- Posted consolidated net income of PhP 282.8 million, up 220%
- Paid out 4% cash dividend
- Its wholly-owned subsidiary, Trans Asia Renewable Energy Corporation, was awarded 20 service contracts by the DOE representing total capacity of 350MW, making it the largest wind developer in the country today
- 54MW San Lorenzo, Guimaras Wind project now in its final stages of the feasibility study and on target for projected commercial operation in 2012

Business Process Outsourcing



Toon City is an award-winning animation studio providing 2D, Flash and 3D CGI animation services. Its clients include international names such as Walt Disney and Universal Studios.

Toon City is 95% owned by One Animate Ltd. (OAL); the latter was acquired by BCII in 2008.

Ownership of BCII in OAL: 80%

2009 Highlights

- Realized revenues amounting to PhP 257 million
- Completed projects such as Curious George, Geronimo Stilton and Mickey Mouse Clubhouse
- Consolidated net income of PhP 503 thousand in its first year of operations

Financial Services

AB Capital and Investment Corp. (AB Capital) is the company's affiliate in the financial services sector.

AB Capital owns 100% of AB Capital Securities, Inc.

Ownership of BCII : 26%

2009 Highlights

- Consolidated net income of PhP 62 million, compared to net loss of PhP 79 million in 2008
- Significant turnaround in profitability achieved despite challenging environment in the capital market in general and the financial services sector in particular

message to our shareholders

Dear Shareholders,

We are pleased to report that 2009 was a year of significant growth for Bacnotan Consolidated Industries, Inc. (BCII).

BCII and its subsidiaries posted a consolidated net income of PhP 504.5 million, representing a 59% increase from the income of the prior year and reflecting growth in most of our investee companies. Of this consolidated income, PhP 447.4 million is attributable to the shareholders of BCII.

Doing Good Is Good Business

The exceptional results of operations in 2009 are noteworthy because it reaffirms our fundamental belief that we can make our business profitable, even as we fulfill our corporate social responsibility (CSR) to the nation. Through our competitive and well-managed business enterprises, with products and services that can create positive impact on the country's economy, livelihood, and well-being, your Company is able to fulfill its mission of helping to build our nation and making life better for our fellow Filipinos.

We commit to making affordable to more Filipinos attractive and decent homes in wholesome communities, high-quality education, and reliable power and renewable energy sources.

We adhere strictly to government standards and regulations and protect and promote the interests of all our stakeholders, which include our shareholders, our clients and suppliers, and our employees.

2009 Highlights

BCII broadened its reach in the education sector in 2009 with the acquisitions of University of Pangasinan (UPang) and University of Iloilo (UI). These acquisitions contributed to 18% growth in consolidated revenues from PhP 3.2 billion in 2008 to PhP 3.7 billion in 2009. BCII now serves 25,000 students through its four schools, with campuses in Luzon, Visayas, and Mindanao. Collectively, these schools represent BCII's biggest investment and confirm our commitment to improve the access of lower-income markets to quality education.

Our existing businesses have likewise continued to grow. Union Galvasteel Corporation (UGC), BCII's steel-roofing affiliate, has surpassed its record in 2008, with income increasing from PhP 140 million to PhP 152 million in 2009.

During the year, BCII acquired the remaining 19.5% minority interest of Hi Precision Steel Center Inc. in UGC for PhP 36 million. The move reflects our belief in the long-term viability of this sector. BCII negotiated for and successfully purchased the shares at an attractive value of PhP 2.50 per share, which is below the book value of the net assets of UGC of PhP 8.36 per share. As a result, BCII generated an income of PhP 84.7 million from the transaction.

Equity in the net earnings of BCII's affiliates has increased from PhP 41.6 million to PhP 117.7 million. Earnings from Trans-Asia Oil and Energy Development Corporation (TA Oil) more than tripled due largely to its electricity trading business. AB Capital and Investment Corporation turned around and posted a net income of PhP 62 million in 2009. PHINMA Property Holdings Corporation (PHINMA Properties), the company's affiliate and a leader in affordable housing, turned over 1,194 homes to satisfied clients in 2009 and registered an 18% increase in its net income at PhP 132.2 million.

Together with Atlas Holdings Corporation and its affiliate TA Oil, BCII sold its shares in Bacnotan Industrial Park Corporation (BIPC) to Phoenix Petroleum Philippines, Inc. for PhP 658 million. With this sale, BCII unlocked asset values and realized a gain of PhP 71.8 million out of the investment.

BCII continues to hold dollars and manages its foreign exchange exposure through non-deliverable forward contracts. The parent company recognized a gain from derivatives amounting to PhP 48.1 million in 2009. This more than offset the foreign exchange loss of PhP 10.8 million when the currency weakened from PhP 47.52 at the start of the year to PhP 46.20 at yearend.

Given its robust income for 2009, your Company recently declared a cash dividend of PhP 0.40 per share, similar to last year's declared dividend, which will be paid out on April 23 of this year.

Your Company continues to have a strong balance sheet, with total assets of PhP 9.0 billion, and a current ratio and debt-to-equity ratio at healthy levels of 2.43:1 and 0.33:1 respectively.

2010 Outlook

The year 2010 is a critical year for the Philippines. Depending on the conduct and the results of the presidential elections in May, the country will face either renewed hope and dynamism or greater uncertainty and even pessimism.

While we cannot claim to be immune from adversity and negative impacts, the strong financial position of BCII and our subsidiaries and affiliates will enable us to survive the difficult cycles that the country and the economy may face, and to take advantage of opportunities available in the future.

We continue our social responsibility of making available the means to a better life through sustainable and profitable business enterprises. We believe that addressing the priority needs of the country in education, housing, energy, financial services, and business process outsourcing will not only result in attractive returns for our shareholders but also help build a stronger nation and make life better for the publics we serve. We know that our directors, management team, shareholders, and employees share in this commitment. We continue to count on your support in our endeavors in the future.

Oscar J. Hilado
Chairman of the Board

Ramon R. Del Rosario, Jr.
President

education

Collectively, our four schools represent BCII's biggest investment and confirm our commitment to delivering affordable education in a sustainable manner.

BCII believes that access to quality higher education is of primary importance in nation building. However, the Philippines' labor pool, one of the most creative and industrious in the world, is also largely from the underserved sectors of society. Our investment in education provides to these sectors greater access to quality education and prepares them for better employment opportunities, whether in the local or the global markets.

Through its schools, BCII provides affordable education to 25,000 students at tertiary-level campuses in Luzon, Visayas, and Mindanao. Our students, mainly from the lower C and D markets, are children of farmers, policemen, vendors, and public school teachers and other government workers. The schools and our students are a testament to the possibility of providing quality education at tuition fees that are affordable to these markets, while realizing a fair return to our shareholders.

We hope to be able to deliver on our commitment with the acquisition of universities whose enrollment we hope to grow to about 10,000 to 15,000 students each. In 2004, BCII had acquired a 78.6% interest in Araullo University (AU). This was followed by a 74.4% interest in Cagayan de Oro College (COC) in 2005. In early 2009 your Company made additional major investments in this important sector, with its acquisition of a 70% stake in University of Pangasinan (UPang) in Dagupan City; a 70% interest in University of Iloilo (UI) was acquired soon after. Our investment partner in these latter two schools is the Hernandez family, of the Victory Liner and Five Star groups, which acquired the balance of 30%.

UPang is the leading educational institution in Pangasinan. It has a total enrolled base of 9,300 students with courses in nursing, engineering, and accountancy among others. In turn, UI currently serves approximately 7,200 students and offers courses in nursing, criminology, hotel and restaurant management, and accountancy.

All our four schools present attractive growth prospects by their very location in fast-growing areas that have a significant student population. The course offerings also respond to the demands of the global market, and by continuously upgrading the knowledge and teaching skills of our faculty, we expect to make our graduates competitive and attract outstanding prospective students.

The strategy has so far proven to be successful. For the ten-month period since their acquisition, UPang and UI posted an income of PhP 61.6 million and PhP 15.9 million respectively. COC posted a net income of PhP 18.7 million compared to PhP 11.9 million of the previous year, and maintained its student base.

However, the education sector is not without its challenges. Our schools continue to face stiff competition from state-run schools that are subsidized and operate at costs that are 50 to 60% lower than ours. On occasion, they manage to attract the tuition-sensitive markets that we serve. In particular, AU experienced a 16% decline in its student base for the SY 2009-10. As a result, income for the calendar year 2009 decreased from PhP 20 million to PhP 14 million.

Nevertheless, we are committed to providing high-quality education to our students and improving school buildings and facilities. These improvements, together with our job placement services for our new graduates, are promoted to attract enrollees and address potential downturns in enrolment. We also reduced costs by eliminating non-essential, extra-curricular expenses such as school bands and beauty pageants, concentrating on the more important resources needed to improve academics, and the services and facilities that enhance the learning environment.

We continue to review and upgrade the curriculum and to implement strict retention policies. Likewise, we have conducted validation exams and departmental exams for general education subjects and board subjects. These have brought us positive results. There have been marked improvements in board results in AU and COC for fresh graduates. In 2009, COC produced top ten placers in criminology and architecture. In AU, CPA board-passing rate improved significantly from 24% to 61%, with a 92% passing rate for AU graduates taking the exam for the first time. Passing rate for criminology also improved from 47% to 64%.

To assist deserving students and attract promising ones that similarly require financial assistance, our schools have allocated funds for the Presidential Scholarships of up to 400 students, who are the top 10 graduates of national high schools across the country. We have also made work-study programs available to students whose circumstances require that they do both without compromising either or both responsibilities.

By centralizing development of academic/teaching materials and distributing costs among the schools, we are able to realize and harness the benefits of economies of scale to our students' advantage. Top management functions and costs are similarly rationalized and centralized.

Collectively, our four schools represent BCII's biggest investment and confirm our commitment to delivering affordable education in a sustainable manner.

housing

Phinma Property Holdings Corporation (Phinma Properties), a 35%-owned affiliate of BCII, is committed to uplifting the lives of Filipinos by providing well-constructed and affordable housing. This commitment derives from BCII's firm belief that access to shelter and the right to feel safe in one's home are universal basic human rights.

We continue to be proud of the fact that Phinma Properties is the leading developer of affordable medium- and high-rise condominium units in Metro Manila. We have been successful in this mission, evident in the marked increase in the number of residential units delivered and in the financial results of our operations in 2009. Phinma Properties delivered 1,194 new homes compared to 851 in the previous year and posted a net income of PhP 132.2 million from 2008's PhP 112.8 million.

The market for affordable and quality residences continued to be stable, and we were able to meet its needs through offerings that promise good location, quick delivery, and low selling prices. This allows us to ensure high customer satisfaction that have enhanced our brand equity in this segment.

Despite the conservative outlook in this sector, last year saw the launch of two residential developments. Phinma Properties launched Sofia Bellevue, an 840-unit project in Capitol Hills featuring five medium-rise buildings. The project location is close to the University of the Philippines, Ateneo de Manila University, and Miriam College. Phinma Properties also launched Flora Vista, an 870-unit project in a 1.8-hectare property with nine 5-story condominium buildings near Commonwealth, Quezon City.

Phinma Properties' most important and unique advantage is our building system that allows for fast but quality construction and immediate turnover of units. Its cast-in-place system allows us to build structures at a rate of one floor per day or construct a four-cluster building of 116 units in 90 days. Phinma Properties also enters into joint ventures with landowners to keep costs at a minimum. Together,

We continue to be proud of the fact that Phinma Properties is the leading developer of affordable medium- and high-rise condominium units in Metro Manila.

these factors reduce working capital requirements and interest expense and enable Phinma Properties to sell units at affordable prices and with reasonable profits. Phinma Properties offers units starting at less than P 1million with amortization starting at P 5,915 per month.

Phinma Properties endeavors to build not only homes, but communities as well. These new projects enhance living experience in our developments through featured amenities such as a multi-function hall, gardens and jogging lanes, badminton court, playground, and swimming pool. Its property management group also ensures that the quality of facilities and services are maintained.

Phinma Properties has a long track record of delivering quality accounts to the Pag-Ibig Fund. Almost all accounts pre-qualified by Phinma Properties and submitted to the Pag-ibig Fund for financing are approved. Its collection efficiency with the Pag-Ibig Fund is at a very high 99%. This establishes a strong reputation for quality accounts with financial institutions.

To date, we have successfully completed seven residential developments: Smile Citihomes, Smile Citihomes Annex, Sunny Villas, San Benissa Garden Villas, Spazio Bernardo, and Spazio Bernardo West Villas in Quezon City, and Fountain Breeze in Paranaque City. To date, PHINMA Properties has constructed 7,041 condominium units and continues to deliver its promise of affordable homes for fellow Filipinos.

steel products

Because we refuse to compromise on quality and reliability, our products often command a price premium over other brands in the country.

UGC is a leading manufacturer of pre-painted galvanized iron roofing products and other steel products, such as steel decking, frames, and insulated panels used for cold storage and other facilities. With the galvanizing and painting facilities based in Calamba, Laguna, UGC has an extensive nationwide distribution network, composed of seven roll-forming plants and eleven warehouses located in key cities throughout the country.

UGC continues to build on its reputation for offering high-quality products that consistently meet the government's very strict quality standards. Because we refuse to compromise on quality and reliability, our products often command a price premium over other brands in the country. In spite of this, we manage to attract markets that prefer strict adherence to quality policies and standards, which translate to savings for them in the long run.

We are pleased to report that our strategy continues to bear fruit and, as a result, net income generated for the year amounted to PhP 152 million, a record income for UGC and 9% better than the previous record income of PhP 140 million in 2008. This positive performance was also made possible by the strict management of our inventory and the implementation of various other measures that improved our production efficiencies and reduced our production costs.

In December 2009, UGC became a wholly-owned subsidiary of BCII with BCII's purchase of the 19.5% minority interest of Hi Precision Steel Center, Inc. (HPSCI). The common shares were purchased at PhP 2.50 per share, resulting in Negative Goodwill for BCII amounting to PhP 84.7 million, based on the discount paid in relation to UGC's book value. In addition, UGC redeemed PhP 167 million worth of preferred shares from HPSCI.

We are also pleased to report that UGC's special efforts to reduce impact on the environment have been recognized by the Laguna Lake Development Authority (LLDA). In December 2009, we received the LLDA's Green Rating, the highest recognition given to manufacturing companies with effluent going to tributaries of Laguna Lake at 20% better than standard.

For the year 2010, UGC's business will face challenges in a highly liberalized trade environment. With the full implementation of the various free trade agreements with ASEAN, China, Korea, and Japan, tariffs for finished products will be lower than raw materials.

In response, UGC will adopt the appropriate market-driven strategies and will continue to open up more warehousing facilities to improve delivery lead-time and customer service. UGC will harness its expertise in developing more high-value products and new practical profiles for its consumers, while strengthening its operational efficiencies and financial position.

energy

TA Oil is doing its share to lessen the country's dependence on fossil fuels which contribute to problems of pollution and environmental degradation.

Adequate and reliable energy services are crucial to contributing to the economic development of the country and to the quality of life of its people.

The year 2009, however, was a challenging period for the energy sector. Trans-Asia Oil and Energy Development Corporation (TA Oil), BCII's 27%-owned affiliate in the energy sector, operated amidst a contracting market and a period of highly volatile oil prices. In early 2009, oil prices started at $40 per barrel and almost doubled to $76 per barrel during the last quarter of the year.

Nevertheless, given your Company's mission, TA Oil and its subsidiary, Trans-Asia Power Generation Corporation (TA Power), continued to provide affordable and reliable power to their respective markets.

TA Oil, through its 3.4 MW power plant in Guimaras, delivered not only peaking power to the island, but also operated on "island-mode" at those times during the year when power from the grid became unavailable due to transmission line problems and maintenance. Total energy sales for the year amounted to 3.39 GWh resulting in total revenues of PhP 47.2 million, and net income from operations of PhP 9.04 million.

TA Power also performed exceptionally well during the year, generating and providing its customers 213.9 GWh of power and registering net earnings from operations of PhP 31.3 million compared to a loss of PhP 77.8 million in 2008.

The electricity supply business also continues to play its vital role as an active participant in the buy-and-sell of electricity to the Philippine Wholesale Electricity Spot Market (WESM). In 2009, the total energy bought for our customers reached 260 GWh, while excess energy sold by TAPGC was at 37 GWh.

At the same time, we recognize the positive impact of "clean and green," renewable, energy sources. TA Oil is doing its share to lessen the country's dependence on fossil fuels which contribute to problems of pollution and environmental degradation. In light of this, TA Oil, through its wholly-owned subsidiary, Trans-Asia Renewable Energy Corp.(TAREC), has aggressively pursued the development of renewable energy resources, particularly wind energy.

TAREC has been awarded 10 service contracts by the Department of Energy, representing a total potential capacity of 227MW. In addition, another 10 service contracts in 2010 will represent an additional 123MW of potential wind capacity, bringing its total potential wind capacity to 350 MW and making it the largest wind developer in the country today. Also, the 54 MW San Lorenzo, Guimaras Wind Project is now on the final stage of its feasibility study and is on target for its projected commercial operation in 2012.

Despite the challenges faced in 2009, TA Oil net income increased from PhP 88.4 million in 2008 to PhP 282.8 million in 2009. The improvement in profitability, derived primarily from the trading of electricity, was achieved in spite of asset valuation adjustments that were made in compliance with the rules of the Philippine Financial Reporting Standards. Earnings per share rose to PhP 0.17 from PhP 0.05.

business process outsourcing

BCII had also earlier made its mission to seek new opportunities in high value-added areas of the services sector . In 2008, the company ventured into business process outsourcing, in particular outsourced animation production services. We invested $6.734 million for an 80% interest in One Animate Limited (OAL), a company that owns 95% interest in Toon City Animation, Inc. (Toon City).

Toon City is an award-winning animation studio providing 2D, flash, and 3D CGI animation services, and it counts among its clients such international companies as Walt Disney and Universal Studios. In 2009, it completed projects such as Curious George, Geronimo Stilton, and Mickey Mouse Clubhouse.

The results of the first year of operations after acquisition, however, have fallen short of expectations. Although One Animate completed several contracts in 2009 and booked revenues equivalent to PhP 257 million, commencement on two contracts were delayed. As a result, OAL posted net income of only PhP 503 thousand for the first year.

However, we expect significant income from OAL in the future. The company is off to a good start in 2010, with contracts from Warner Brothers, Creative Group, and Alphanim, and with various other projects undergoing pre-production development. OAL has reduced fixed overhead by converting to more output-based variable cost and deploying project cost accounting models at the production level.

The animation services sector is an area where we feel we can capitalize on Filipino skill and creativity, upgrading them through global exposure and international industry benchmarks. Because it is globally competitive, Toon City is a working business model that demonstrates that we can harness these skills and retain global talent at home as we bring them attractive employment opportunities from abroad.

financial services

AB Capital and Investment Corporation (AB Capital) is BCII's 26.5%-owned affiliate in the financial services sector.

We are pleased to report that in 2009, AB Capital ended the year with net income of PhP 62 million on total revenues of PhP 180 million. This performance compares very favorably to 2008, when AB Capital sustained a net loss of PhP 79 million as a result of unrealized mark-to-market losses.

AB Capital, along with other financial institutions, anticipates volatilities in the market this coming year. Backed by a strong balance sheet, AB Capital expects to weather these uncertainties. As of December 31, 2009, total assets of AB Capital stood at PhP 1.3 billion, with liabilities of only PhP 187 million.


Oscar J. Hilado Chairman


Ramon R. Del Rosario, Jr. Vice Chairman

board of directors


Roberto M. Laviña Director


Felipe B. Alfonso Director


Roberto F. De Ocampo Director

Magdaleno B. Albarracin, Jr. Director

Victor J. Del Rosario Director

Jose L. Cuisia, Jr. Director

Noel D. Vasquez, S.J. Director

Guillermo D. Luchangco Director

Rizalino S. Navarro Director

management team

Ramon R. Del Rosario, Jr.
President

Magdaleno B. Albarracin, Jr.
Senior Executive Vice President

Victor J. Del Rosario
Executive Vice President and Chief Finance Officer

Roberto M. Laviña
Senior Vice President-Treasurer

Juan J. Diaz
Corporate Secretary

Regina B. Alvarez
Senior Vice President-Finance

Cecille B. Arenillo
Vice President-Treasury & Compliance

Onisimo L. Prado
Asistant Vice President-Internal Audit

Rizalina P. Andrada
Assistant Vice President-Finance

corporate governance

The Board of Directors, officers and employees of Bacnotan Consolidated Industries, Inc. (BCII) commit themselves to the principles of good governance, as contained in its Manual of Good Corporate Governance. BCII believes that good governance is an integral component of sound business management and exerts every effort necessary to ensure compliance within the organization.

COMPLIANCE OFFICER

The Chairman of the Board designates a Compliance Officer who shall report to the Chairman of the Board. Because BCII is a publicly-listed company, the appointment of Compliance Officer is properly disclosed to the Securities and Exchange Commission.

The Compliance Officer's duties include monitoring compliance with the provisions and requirements of the Manual of Good Corporate Governance, identifying compliance risks, determining violations and recommending appropriate penalties.

The Compliance Officer submitted to the Securities and Exchange Commission and the Philippine Stock Exchange on January 25, 2010 the Corporate Governance Compliance Certification (CGCC) certifying that as of December 31, 2009, the Corporation substantially complied with the principles and best practices contained in the Manual.

BOARD OF DIRECTORS

Composition

The Board of directors consists of 11 members, nominated in accordance with the By-Laws of the Company. In compliance with the legal requirement of SEC for publicly listed corporations, BCII's Board of Directors consists of 5 independent directors. The independent directors hold no interest or have no relationship with the corporation that may hinder their independence from the corporation or management or would interfere with the exercise of independent judgment in carrying out their responsibilities.

The Board of Directors held 6 regular, 1 organizational and 3 special meetings in 2009. The details of the matters taken up during the Board meetings are detailed in the Definitive Information Statement sent to shareholders.

The attendance of the directors in the Board meetings is as follows:

Directors	2009 Board Meetings								
	Feb 2 Special	Feb 4 Special	Feb 17	Feb 25 Special	Mar 9	Apr 2 *	May 15	Aug 12	Oct 26
Oscar J. Hilado	A	P	P	P	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P	P	P	P	P
Ramon R. Del Rosario, Jr.	P	P	P	P	P	P	P	P	P
Jose L. Cuisia, Jr.	P	P	P	P	P	A	A	P	A
Victor J. Del Rosario	P	P	P	P	P	P	P	P	P
Roberto M. Laviña	P	P	P	P	P	P	P	P	P
Rizalino S. Navarro	P	P	P	P	P	P	P	P	A
Noel D. Vasquez, S.J	P	A	P	P	P	P	P	P	A
Felipe B. Alfonso	P	P	P	P	P	P	P	P	P
Guillermo D. Luchangco	P	A	P	P	P	P	P	P	P
Roberto F. De Ocampo	-	-	-	-	-	-	P	A	A

P: Present A: Absent - Elected Director April 2, 2009 * - Regular board meeting and organizational meeting

Board Committees

To assist it in discharging its duties and responsibilities, the Board constitutes committees which directly report to the Board in accordance with duly approved procedures.

The board committees and its members are as follows:

Directors	Board Committees				
	Audit	ExCom	Nomination	Compensation	Retirement
Oscar J. Hilado		C	C	M	C
Magdaleno B. Albarracin, Jr.	M	M			M
Ramon R. Del Rosario, Jr.		M	M	M	
Jose L. Cuisia, Jr.		M		C	
Victor J. Del Rosario	M				M
Roberto M. Laviña					M
Rizalino S. Navarro					
Noel D. Vasquez, S.J.	M		M		
Felipe B. Alfonso	C			M	
Guillermo D. Luchangco					
Roberto F. De Ocampo	M				

C: Chairman M: Member

Nomination Committee

The Nomination Committee is composed of three (3) directors, one of whom is an independent director. The Nomination Committee pre-screens and shortlists all candidates nominated to become members of the board of directors, taking into account factors such as age, number of directorships/active memberships and officerships in other corporations, experience from other boards, knowledge of the industry of the Corporation, knowledge of finance and accounting, and contacts of value to the Corporation.

On April 2, 2009, the Nomination Committee, after a review of the qualifications of the candidates, submitted to the Board of Directors the list of qualified nominees.

Compensation Committee

The Compensation Committee is composed of four (4) directors, one of whom is an independent director. The duties and responsibilities of this committee include establishing policies on executive remuneration, ensuring that the compensation is consistent with the corporation's culture, strategy and control environment, and strengthening policies on conflict of interest, salaries and benefits and compliance with statutory requirements.

There was no Compensation Committee meeting held in 2009 and none was required.

Audit Committee

The Audit Committee is composed of five (5) members of the Board, two of whom are independent directors. The audit committee is responsible for checking all financial reports for compliance with both internal financial management systems and pertinent accounting standards and regulatory requirements. The Committee ensures that the company's controls are functioning effectively and efficiently.

The Committee likewise performs oversight financial management functions, specifically in the areas of crisis management and management of credit, market, liquidity, operations, and legal risks.

In 2009, the Audit Committee held five meetings and reviewed the audited financial statements for 2008 and the interim statements for the quarters ending March 31, June 30, and September 30, 2009. The Committee likewise endorsed to the Board of Directors the nomination of SGV and Co. as the company's external auditor for 2009, and reviewed and approved the Internal Audit plan for 2009.

Attendance

Audit Committee	Year 2009				
	Feb 17	Mar 9	May 15	Aug 12	Oct 26
Felipe B. Alfonso	P	P	P	P	P
Magdaleno B. Albarracin, Jr.	P	P	P	P	P
Victor J. Del Rosario	P	P	P	P	P
Noel D. Vasquez, S.J.	P	P	P	P	A
Roberto F. De Ocampo	-	-	P	A	A

P: Present A: Absent - Elected director April 2, 2009

EXTERNAL AUDITOR

The external Auditor contributes to the enforcement of good governance through independent examination of the financial records and reports of BCII.

On April 2, 2009, the stockholders, upon recommendation of the Audit Committee and the endorsement by the Board of directors, approved the appointment of SGV & Co. as BCII's external auditor. Ms. Maria Madeira R. Vestil is the partner in charge. On March 3, 2010, SGV & Co. issued its report on the financial statements for the year ended December 31, 2009, stating that the financial statements present fairly, in all material respects, the financial position of the company and that the same are in accordance with Philippine Financial Reporting Standards.

There have been no disagreements with the independent accountants on any matter pertaining to accounting principles or practices, financial statement disclosures or auditing scope or procedure.

The Company is in compliance with SRC Rule 68, paragraph 3(b)(iv) requiring the rotation of external auditors or engagement partners who have been engaged by the company for a period of five (5) consecutive years or more. Ms. Vestil has been the audit partner of the Company for only one year.

The Company accrued the following fees for professional services rendered by SGV and Co. for the past two years:

Year	Audit Fees	Tax Fees	Other Fees
2009	PhP 3,500,000.00	-	-
2008	3,700,000.00	-	-

INTERNAL AUDIT

The Internal Audit Group ensures that the control policy and procedures are functioning effectively. In 2009, the Internal Audit group conducted examinations of the following: notes receivables and short-term investments, investments in bonds and UITFs, dividend payments, and investment real estate and land not in use. Internal Audit also checks the compliance of the company with reportorial requirements of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE).

The Internal Audit Group reported that the company has complied with all statutory requirements and that controls are functioning effectively and efficiently, not only in BCII but in its subsidiaries and affiliates as well.

DISCLOSURE AND TRANSPARENCY

Bacnotan Consolidated Industries commits itself to high standards of disclosure and transparency. In addition to submitting annual and quarterly financial information and other statutory requirements, the corporation promptly discloses material information such as declaration of dividends, investments and divestments and other items. The disclosures in 2009 to the PSE and SEC included the following:

- The acquisition of 69.90% of the capital stock of the University of Pangasinan, Inc. (UPang).
- Approval to purchase 34,997 shares of the capital stock of the University of Iloilo in the amount of PhP 315 million and the subscription and payment for 1,190,000 shares of said university at PhP 100 per share.
- Sale of all of BCII's 60% equity interest in Bacnotan Industrial Park Corporation to Phoenix Petroleum Philippines, Inc. (Phoenix) for PhP 109.81 per share, with a downpayment of approximately 18%, and the balance due in monthly installments over a period of five (5) years.
- Approval to set aside 8.4 million common shares from the unsubscribed portion of 420 million authorized common shares to be made for the Stock Purchase Plan of BCII officers at market value or par value of PhP10 per share whichever is higher.
- Acquisition of 14,534,002 common shares of Union Galvasteel Industries, Inc. (UGC) from Hi-Precision Steel Center, Inc. for PhP 36.3 million.

CODE OF CONDUCT

The Code of Conduct of the company contains policies on professional decorum, conflict of interest and penalties for violations.

Employees are required to always act in the best interest of the company. As a matter of policy, every employee and officer of the company should avoid any situation that could interfere or appear to interfere with their independent judgment in performing their duties. The policy also prohibits using one's official position to secure a contract or employment for a related party, soliciting gifts or any property for personal gain from any individual or organization that deals with the company, and using company information for personal gain. No employee may engage in any business or undertaking that is indirectly or directly in competition with or prejudicial to the interests of the company.

corporate social responsibility

Affordable Education

BCII firmly believes that quality education is a critical factor in nation-building.

BCII is firmly committed to the PHINMA National Scholarship Program of the PHINMA Foundation. Launched in 2006, the program currently has 10 Accountancy and Engineering scholars at the University of the Philippines Diliman and 24 scholars taking up Education at Philippine Normal University. As of 2009, six PNS scholars have graduated from UP Diliman and are now employed in top Philippine corporations.

More than just a financial program, PNS aims to mold its young scholars into leaders and responsible citizens. In 2009, a 3-day leadership conference with the theme "Hero in Me" was held at the PHINMA Training Center and was attended by 31 PNS scholars and by 20 presidential scholars from the four PEN schools.

In addition, the company's directors and officers, in their personal capacities, are also deeply committed to the scholarship programs of Phinma Foundation. For the school year 2009-2010, their contributions have made possible financial assistance to 77 students in science high schools and 44 college students throughout the country. These scholarships are in addition to the Presidential Scholarship programs of the schools under the Phinma Education Network (PEN).

Our employees are likewise committed to the PNS program and continue to volunteer their time to the Big Brother, Big Sister (BBBS) support system which organizes one-on-one mentoring sessions with the scholars.

Affordable Housing

The Bagong Buhay Program of Phinma Property Holdings Corporation (Phinma Properties) has three key initiatives to improve quality of life in its host communities:

- **Adopt-a-Barangay** involves livelihood and skills training for communities located near Phinma Properties developments.
- The **Build-from-Scrap** initiative re-uses and recycles construction materials for relevant community projects like chapels, classrooms, and public toilets.
- Bagong Buhay also emphasizes **environmental stewardship**. Phinma Properties is committed to sustainable development and greening its supply chain. We are introducing solar panels, rain water recycling, glass-to-sand processing and waste segregation to reduce our environmental footprint. In addition, we recycle old tarpaulin materials into handcrafted eco-bags from our community livelihood programs.

Reliable Power and the Environment

Trans Asia Oil and Energy Development Corporation's (TA Oil's) flagship CSR project, HELP Earth (Harnessing Energy Literacy for Planet Earth), is a multimedia initiative that educates the youth on energy issues and empowers them to make informed conservation decisions. To date, TA Oil has donated 7 HELP Earth audio-visual exhibits to 6 schools and partnered on follow-up activities such as film showings, quiz bees and e-learning classes.

Individual Social Responsibility

BCII and its employees are also active participants in Phinma HERO (Helpful Employees Responsible for Others) which makes CSR personal by encouraging individual volunteerism. Only a year old, the network has grown from 16 to 300 volunteers who actively commit time and personal resources to partner organizations like Kythe, Center for Restorative Activities Development and Learning Experiences (CRADLE), Bahay ni Maria, Mano Amiga, Red Cross Philippines, Caritas Manila, Bukas Palad Foundation and the Philippine Animal Welfare Society (PAWS).

Volunteers from BCII and its affiliates also raised funds and joined relief efforts to help victims of typhoons Ondoy and Pepeng. In addition, over 300 families and 1,000 teachers and students sought shelter at the University of Pangasinan during the typhoon. When the flood waters receded, Union Galvasteel Corporation (UGC) delivered roofing materials, food, water, and clothing to over a thousand refugees. Araullo also conducted relief operations in Nueva Ecija providing goods for 550 families. Rescue operations were also done in the areas surrounding the UGC plant in Calamba, Laguna and various barangays near PHINMA Properties' project sites. Finally, 11 communities were served by the PHINMA Education Network together with Victory Liner Foundation and Simbahang Lingkod ng Bayan.

To celebrate our first anniversary and cap off an eventful but productive year, the Phinma Hero Network invited Efren Peñaflorida, CNN Hero of the Year, and lawyer Alex Lacson, author of *12 Little Things Every Filipino Can Do to Help Our Country*, to speak before employees and officers. Their inspiring presentations will serve as blueprints for our activities in 2010 and beyond.

Report of Audit Committee

AUDIT COMMITTEE REPORT

The Audit Committee is composed of five (5) members. An independent director chairs the Audit Committee. The Committee has an ample understanding of the Company's financial management systems and environment.

We are pleased to report our activities for Calendar Year 2009.

The Audit Committee had five (5) meetings during the year. The first meeting was held to discuss the draft of the 2008 financial statements, the Group Internal Audit's 2008 accomplishments and 2009 Audit Plan, and the 2008 Audit Committee Report. The remaining four meetings were held to review the annual audited financial statements and quarterly financial reporting of the Company.

We received information and support from Management, the Compliance Officer and Internal Audit to enable us to carry out our function effectively.

ACTIVITIES

Management's Financial Reports
We reviewed and endorsed to the Board of Directors for approval the 2008 audited consolidated financial statements and 2009 quarterly consolidated financial statements.
In reviewing the Financial Reports, the Committee considered the accounting estimates, policies adopted and all significant judgment by the Company's Management that materially impacted the financial results.

External Audit
We endorsed to the Board of Directors the nomination of Sycip, Gorres, Velayo and Company (SGV) as the Company's external auditor. We reviewed and approved the scope and deliverables of the SGV audit plan. The Committee ensured that the SGV's scope included the review of Company's compliance to Philippine Financial Reporting Standards (PFRS).

Internal Audit
We reviewed and approved the Internal Audit plan for 2009. Based on this plan, the Committee received and reviewed the audit reports submitted by Internal Audit. Various audit and control issues including actions taken by Management were discussed in the Committee meetings. The Internal Audit's reports included the review of the Company's compliance to PSE and SEC reportorial requirements.

FELIPE B. ALFONSO
Chairman, Independent Director

FR. NOEL D. VASQUEZ
Independent Director

ROBERTO F. DE OCAMPO
Independent Director

MAGDALENO B. ALBARRACIN, JR
Executive Director

VICTOR J. DEL ROSARIO
Executive Director

Statement of Management's Responsibility for Financial Statements

March 3, 2010

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of BACNOTAN CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES is responsible for all information and representations contained in the consolidated statements of financial position as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in equity and cash flows for the years ended December 31, 2009, 2008 and 2007. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimated and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor : (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial date; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, have audited the consolidated financial statements of the Company and its Subsidiaries in accordance with auditing standards generally accepted in the Philippines and have expresses their opinion on the fairness of presentation upon completion of such audit, in their report to the Stockholders and the Board of Directors.

OSCAR J. HILADO
Chairman of the Board

RAMON R. DEL ROSARIO, JR.
President

VICTOR J. DEL ROSARIO
Executive Vice President and Chief Finance Officer

Independent Auditors' Report

The Stockholders and the Board of Directors
Bacnotan Consolidated Industries, Inc.

We have audited the accompanying financial statements of Bacnotan Consolidated Industries, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bacnotan Consolidated Industries, Inc. and Subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Maria Madeira R. Vestil

Maria Madeira R. Vestil
Partner
CPA Certificate No. 85783
SEC Accreditation No. 0680-A
Tax Identification No. 102-094-770
PTR No. 2087581, January 4, 2010, Makati City

March 3, 2010

Bacnotan Consolidated Industries, Inc. and Subsidiaries

Consolidated Statements of Financial Position

	December 31	
	2009	2008 (As Restated - Note 7)
	(In Thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 8, 30 and 31)	**₱1,052,217**	₱1,826,778
Short-term investments (Notes 30 and 31)	**–**	86,817
Investments held for trading (Notes 9, 30 and 31)	**564,412**	787,295
Trade and other receivables (Notes 10, 29, 30 and 31)	**662,624**	436,313
Inventories (Note 11)	**601,241**	1,042,356
Input value-added taxes	**3,473**	79,018
Derivative assets (Notes 30 and 31)	**6,865**	–
Other current assets	**64,041**	40,351
Total Current Assets	**2,954,873**	4,298,928
Noncurrent Assets		
Investments in associates - at equity (Note 12)	**1,336,663**	1,251,378
Available-for-sale (AFS) investments (Notes 13, 30 and 31)	**398,670**	331,519
Property, plant and equipment (Notes 14 and 20)	**2,172,507**	1,297,558
Investment properties (Note 15)	**648,932**	772,869
Installment contract receivable - net of current portion (Notes 6, 10, 30 and 31)	**276,413**	58,482
Intangibles (Notes 7 and 16)	**1,199,280**	466,631
Deferred tax assets - net (Note 32)	**5,602**	13,960
Other noncurrent assets (Note 17)	**30,383**	28,514
Total Noncurrent Assets	**6,068,450**	4,220,911
	₱9,023,323	₱8,519,839
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Notes 18, 30 and 31)	**₱100,891**	₱123,818
Trade and other payables (Notes 19, 29, 30 and 31)	**585,712**	359,856
Unearned revenues - inclusive of current portion of deferred rent revenue of ₱1.2 million in 2009 and 2008 (Note 29)	**187,299**	73,513
Trust receipts payable (Notes 11, 30 and 31)	**131,051**	537,252
Income and other taxes payable	**65,732**	54,476
Derivative liabilities (Notes 30 and 31)	**–**	26,857
Due to related parties (Notes 29, 30 and 31)	**60,270**	143
Current portion of long-term debt – net of debt issuance cost (Notes 14, 20, 29, 30 and 31)	**87,520**	95,300
Total Current Liabilities	**1,218,475**	1,271,215
Noncurrent Liabilities		
Long-term debt - net of current portion and debt issuance cost (Notes 14, 20, 29, 30 and 31)	**614,193**	413,945
Deferred rent revenue - net of current portion (Note 29)	**49,560**	50,726
Deferred tax liabilities - net (Note 32)	**322,869**	87,240
Pension and other post-employment benefits (Note 33)	**40,947**	5,152
Other noncurrent liabilities (Note 29)	**10,913**	13,269
Total Noncurrent Liabilities	**1,038,482**	570,332
Total Liabilities	**2,256,957**	1,841,547
Equity		
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)	**13,443**	13,443
Other comprehensive income:		
Share in unrealized gain on change in fair value of AFS investments of associates (Note 12)	**11,495**	5,054
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	**300**	(600)
Cumulative translation adjustments	**(802)**	–
Retained earnings (Note 21)	**3,282,587**	2,938,312
Equity attributable to equity holders of the parent	**6,140,057**	5,789,243
Minority interest (Note 7)	**626,309**	889,049
Total Equity	**6,766,366**	6,678,292
	₱9,023,323	₱8,519,839

See accompanying Notes to Consolidated Financial Statements.

Bacnotan Consolidated Industries, Inc. and Subsidiaries

Consolidated Statements of Income

	Years Ended December 31		
	2009	2008 (As Restated - Note 6)	2007 (As Restated - Note 6)
	(In Thousands, Except Per Share Amounts)		
CONTINUING OPERATIONS			
REVENUE (Note 1)			
Sale of goods	**₱2,547,057**	₱2,743,537	₱2,123,785
Tuition and school fees	**781,411**	307,128	293,913
Animation services	**257,209**	–	–
Investment income (Notes 9 and 22)	**112,406**	79,068	192,895
Rental income	**72,574**	70,608	62,447
	3,770,657	3,200,341	2,673,040
COSTS AND EXPENSES			
Cost of sales, educational and animation services (Notes 23, 27 and 28)	**(2,610,974)**	(2,320,376)	(1,880,898)
General and administrative expenses (Notes 24, 27 and 28)	**(646,769)**	(363,213)	(333,403)
Selling expenses (Notes 25, 27 and 28)	**(190,189)**	(179,278)	(159,176)
OTHER INCOME (CHARGES)			
Equity in net earnings of associates (Note 12)	**117,657**	41,586	108,478
Interest expense and other financial charges (Note 26)	**(105,782)**	(93,183)	(106,128)
Negative goodwill on acquisition of minority interest (Note 7)	**84,680**	–	–
Net gains (losses) on derivatives (Note 31)	**58,278**	(100,314)	302,831
Foreign exchange gains (losses) - net (Note 30)	**(10,050)**	190,728	(214,909)
Others - net (Note 20)	**50,670**	17,076	10,849
INCOME BEFORE INCOME TAX	**518,178**	393,367	400,684
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 32)			
Current	**93,320**	83,177	60,163
Deferred	**(14,478)**	(2,725)	2,638
	78,842	80,452	62,801
INCOME FROM CONTINUING OPERATIONS	**439,336**	312,915	337,883
INCOME FROM DISCONTINUED OPERATION (Note 6)	**65,152**	4,312	29,372
NET INCOME	**₱504,488**	₱317,227	₱367,255
Attributable To			
Equity holders of the parent	**₱447,370**	₱273,160	₱330,410
Minority interest	**57,118**	44,067	36,845
Net income	**₱504,488**	₱317,227	₱367,255
Basic/Diluted Earnings Per Common Share - Attributable to Equity Holders of the Parent (Note 35)	**₱1.74**	₱1.06	₱1.28
Basic/Diluted Earnings Per Common Share from Continuing Operations - Attributable to Equity Holders of the Parent (Note 35)	**₱1.48**	₱1.05	₱1.20

See accompanying Notes to Consolidated Financial Statements.

Bacnotan Consolidated Industries, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2009	2008	2007
		(In Thousands)	
NET INCOME	**₱504,488**	₱317,227	₱367,255
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in unrealized gain (loss) on change in fair value of AFS investments of associates (Note 12)	**6,441**	(19,730)	16,435
Unrealized gain (loss) on change in fair value of AFS investments (Note 13)	**900**	(1,751)	1,151
Cumulative translation adjustments	**(802)**	–	–
	6,539	(21,481)	17,586
TOTAL COMPREHENSIVE INCOME	**₱511,027**	₱295,746	₱384,841
Attributable To			
Equity holders of the parent	**₱453,909**	₱251,679	₱347,996
Minority interest	**57,118**	44,067	36,845
Total Comprehensive Income	**₱511,027**	₱295,746	₱384,841

See accompanying Notes to Consolidated Financial Statements.

Bacnotan Consolidated Industries, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity

	Equity Attributable to Equity Holders of the Parent Company										
	Capital Stock (Note 21)	Additional Paid-in Capital	Share in Equity Component of Convertible Notes	Share in Unrealized Gain on Change in Fair Value of AFS Investments of Associates	Unrealized Gain (Loss) on Change in Fair Value of AFS Investments	Cumulative Translation Adjustments	Retained Earnings: Appropriated (Note 21)	Retained Earnings: Unappropriated	Subtotal	Minority Interest	Total Equity
						(In Thousands)					
Balance, January 1, 2009	**₱2,577,249**	**₱255,785**	**₱13,443**	**₱5,054**	**(₱600)**	**₱–**	**₱1,000,000**	**₱1,938,312**	**₱5,789,243**	**₱889,049**	**₱6,678,292**
Total comprehensive income	**–**	**–**	**–**	**6,441**	**900**	**(802)**	**–**	**447,370**	**453,909**	**57,118**	**511,027**
Cash dividends (Note 21)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(103,095)**	**(103,095)**	**–**	**(103,095)**
Acquisition of minority interest (Note 7)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(288,807)**	**(288,807)**
Disposal of minority interest (Note 6)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(182,416)**	**(182,416)**
Business combinations (Note 7)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**158,614**	**158,614**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,841)**	**(26,841)**
Subscriptions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,592**	**19,592**
Balance, December 31, 2009	**₱2,577,249**	**₱255,785**	**₱13,443**	**₱11,495**	**₱300**	**(₱802)**	**₱1,000,000**	**₱2,282,587**	**₱6,140,057**	**₱626,309**	**₱6,766,366**
Balance, January 1, 2008	₱2,342,942	₱255,785	₱13,443	₱24,784	₱1,151	₱–	₱1,000,000	₱1,899,459	₱5,537,564	₱781,344	₱6,318,908
Total comprehensive income	–	–	–	(19,730)	(1,751)	–	–	273,160	251,679	44,067	295,746
Stock dividends (Note 21)	234,307	–	–	–	–	–	–	(234,307)	–	–	–
Business combination (Note 7)	–	–	–	–	–	–	–	–	–	84,900	84,900
Dividends (Note 21)	–	–	–	–	–	–	–	–	–	(21,963)	(21,963)
Subscriptions	–	–	–	–	–	–	–	–	–	701	701
Balance, December 31, 2008	₱2,577,249	₱255,785	₱13,443	₱5,054	(₱600)	₱–	₱1,000,000	₱1,938,312	₱5,789,243	₱889,049	₱6,678,292
Balance, January 1, 2007	₱2,037,324	₱255,785	₱15,409	₱8,349	₱–	₱–	₱1,000,000	₱1,874,667	₱5,191,534	₱784,601	₱5,976,135
Total comprehensive income	–	–		16,435	1,151	–	–	330,410	347,996	36,845	384,841
Stock dividends (Note 21)	305,618	–	–	–	–	–	–	(305,618)	–	–	–
Equity component of retired convertible notes	–	–	(1,966)	–	–	–	–	–	(1,966)	–	(1,966)
Acquisition of minority interest	–	–	–	–	–	–	–	–	–	(32,107)	(32,107)
Dividends	–	–	–	–	–	–	–	–	–	(15,005)	(15,005)
Subscriptions	–	–	–	–	–	–	–	–	–	7,010	7,010
Balance, December 31, 2007	₱2,342,942	₱255,785	₱13,443	₱24,784	₱1,151	₱–	₱1,000,000	₱1,899,459	₱5,537,564	₱781,344	₱6,318,908

See accompanying Notes to Consolidated Financial Statements.

Bacnotan Consolidated Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2009	2008 (As Restated - see Note 7)	2007
		(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax from continuing operations	**₱518,178**	₱393,367	₱400,684
Income before tax from discontinued operation (Note 6)	**170**	6,612	33,292
Income before income tax	**518,348**	399,979	433,976
Adjustments for:			
Depreciation and amortization (Note 36)	**251,077**	137,952	137,461
Equity in net earnings of associates (Note 12)	**(117,657)**	(41,586)	(108,478)
Investment income (Note 36)	**(112,406)**	(85,782)	(193,779)
Interest expense and other financial charges (Note 36)	**107,001**	99,862	109,393
Negative goodwill on acquisition of minority interest (Note 7)	**(84,680)**	–	–
Net losses (gains) on derivatives (Note 31)	**(58,278)**	100,314	(302,831)
Provisions for:			
Doubtful accounts (Note 10)	**37,211**	44,909	27,984
Unrecoverable input value-added tax	**13,002**	4,512	5,028
Retirement cost (Note 33)	**18,433**	12,632	17,667
Unrealized foreign exchange (gain) loss - net	**15,783**	(87,728)	214,069
Gain on sale of property and equipment	**–**	(631)	(116)
Others	**–**	(27,409)	21,798
Operating income before working capital changes	**587,834**	557,024	362,172
Decrease (increase) in:			
Trade and other receivables	**(185,996)**	(63,765)	(45,936)
Inventories	**323,332**	(217,993)	60,857
Other current assets	**79,733**	42,857	(3,292)
Increase (decrease) in:			
Trade and other payables	**(110,553)**	(5,288)	37,072
Trust receipts payable	**(406,201)**	345,950	(213,453)
Other taxes payable	**19,051**	(5,655)	601
Unearned revenues	**112,620**	(6,723)	(5,692)
Net cash generated from operations	**419,820**	646,407	192,329
Interest paid	**(93,324)**	(93,753)	(112,713)
Income tax paid	**(86,609)**	(63,374)	(45,763)
Net cash provided by operating activities	**239,887**	489,280	33,853
CASH FLOWS FROM INVESTING ACTIVITIES			
Business combination:			
Cash paid - net of cash from business acquired (Note 7)	**(872,478)**	(403,988)	–
Cash paid related to the adjustment in acquisition cost of a subsidiary	**–**	–	(5,379)
Proceeds from sale of discontinued operation (Note 6)	**62,876**	–	–
Decrease (increase) in:			
Short-term investments	**86,817**	(5,727)	(76,545)
Other noncurrent assets	**(9,622)**	2,067	(2,792)
Proceeds from sale/settlement of:			
Investments held for trading	**1,061,045**	1,841,709	2,682,073
Forward currency contracts	**24,556**	20,774	254,298
Property, plant and equipment	**25,986**	687	2,931
Interest income received	**101,860**	136,487	119,944
Additions to:			
Property, plant and equipment and investment properties (Notes 14 and 15)	**(210,857)**	(115,285)	(65,567)
Investments held for trading	**(832,602)**	(1,624,003)	(1,499,801)
Investments in shares of stock	**(66,540)**	(83,350)	(271,368)
Acquisition of minority interest	**(176,876)**	–	–
Dividends received	**39,102**	31,359	60,975
Net cash provided by (used in) investing activities	**(766,733)**	(199,270)	1,198,769

(Forward)

	Years Ended December 31		
	2009	2008 (As Restated - see Note 7)	2007
		(In Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:			
Notes payable	**(₱22,927)**	(₱295,580)	(₱269,543)
Long-term debt	**(154,836)**	(96,251)	(390,500)
Cash dividends	**(95,933)**	–	–
Increase (decrease) in:			
Other noncurrent liabilities	**(109)**	(29,050)	(38,448)
Minority interest	**(7,249)**	59,844	(40,102)
Amounts due to related parties	**60,127**	(17,326)	7,245
Proceeds from:			
Notes payable	**–**	184,731	310,066
Long-term debt	**–**	–	400,000
Net cash used in financing activities	**(220,927)**	(193,632)	(21,282)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(747,773)**	96,378	1,211,340
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(26,788)**	69,522	(162,664)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,826,778**	1,660,878	612,202
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱1,052,217**	₱1,826,778	₱1,660,878

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

Bacnotan Consolidated Industries, Inc. (BCII 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 BCII is Philippine Investment-Management (PHINMA), Inc., a company incorporated in the Philippines.

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 2009	2008
Union Galvasteel Corporation (UGC)	Manufacture and distribution of steel products	December 31	**100.00**[(a)]	80.50
Atlas Holdings Corporation (AHC)	Investment holdings	December 31	**90.00**	90.00
One Animate Limited (OAL) and Subsidiary	BPO-Animation Services	December 31	**80.00**[(b)]	80.00[(b)]
Pamantasan ng Araullo (Araullo University), Inc.(AU)	Educational institution	March 31[(f)]	**78.64**	78.64
Cagayan de Oro College, Inc. (COC)	Educational institution	March 31[(f)]	**74.35**	74.35
University of Pangasinan (UPANG) and Subsidiary	Educational institution	March 31[(f)]	**70.00**[(c)]	–
University of Iloilo (UI)	Educational institution	March 31[(f)]	**69.90**[(d)]	–
P & S Holdings Corporation (PSHC)	Investment and real estate holdings	December 31	**60.00**	60.00
Asian Plaza, Inc. (API)	Lease of real property	December 31	**57.62**	57.62
Bacnotan Industrial Park Corporation (BIPC)	Real estate development	December 31	**–**[(e)]	60.00

(a) *On December 21, 2009, BCII 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 BCII on February 2, 2009. Upang owns 57.4% interest in Pangasinan Medical Center, Inc. (see Note 7).*
(d) *Acquired by BCII on February 25, 2009 (see Note 7).*
(e) *On March 10, 2009, BCII, 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 March 3, 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, available-for-sale (AFS) investments and derivative assets and liabilities that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, 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).

3. **Changes in Accounting Policies and Disclosures**

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

New Standards and Interpretations

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

Amendments to Standards

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

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

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

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

- PFRS 8, "Operating Segments"

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

- Amendments to PFRS 7, "Financial Instruments: Disclosures"

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

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

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

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

- PAS 18, “Revenue”

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

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

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

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

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

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

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

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

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

  This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the Interpretation to have an impact on the consolidated financial statements as the Company has not made non-cash distributions to shareholders in the past.

Amendments to Standards

- PAS 39 Amendment – “Eligible Hedged Items”

  The amendment to PAS 39, “Financial Instruments: Recognition and Measurement,” effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

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

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

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

- PFRS 2, “Share-based Payment,” clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, “Business Combinations” (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, “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.

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 statements of income and consolidated statements 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. 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 31).

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

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

The Company's derivative assets or liabilities are classified as financial assets or liabilities at FVPL (see Note 31).

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 31).

- Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within one year from the 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 and trade and other receivables and installment contract receivables are classified as loans and receivables
(see Notes 8, 10 and 31).

- HTM Investments

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

Gains and losses are recognized in 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 period. 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 period. 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 Note 13).

- 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 and 29).

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 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 equity.

In the case of debt instruments classified as AFS, impairment is based on the same criteria as loans and receivables and HTM investments. Future interest income is based on the reduced amount based on the rate of the interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in the consolidated statement of income. If, in the subsequent year, the fair value of a debt instrument can be objectively related to an asset occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Derecognition of Financial Assets and Liabilities

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

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

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

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

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

Investments in Associates
The Company's investments in its associates are accounted for under the equity method. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investments in associates are carried in the consolidated 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 charged to current operations in the year the costs are incurred.

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

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

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

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is credited or charged to current operations.

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

Investment Properties

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

Depreciation 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.

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. 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.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be measured reliably. 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. Revenue is recognized on a straight-line basis over the lease term.

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

Sale of Real Estate. Revenue from the sale of real estate of BIPC, included under "Income from discontinued operation" account which includes cost of land and development, is accounted for under the percentage of completion method when the Company has material obligations under the sales contracts to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured on the basis of the ratio of actual cost incurred to date over the estimated total costs of the project as determined by the Company's contractors and technical personnel. Any excess of collections over the recognized receivables are included under the "Unearned revenues" account in the current liabilities section of the consolidated statement of financial position. If none of the revenue recognition criteria are met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as part of "Other noncurrent liabilities" account in the consolidated statement of financial position.

Port and Cargo Handling Services. Revenue from port operations of BIPC, included under "Income from discontinued operation" account, is recognized when services are rendered.

<u>Cost of sales, educational and animation services</u>
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.

<u>General and Administrative Expenses</u>
General and administrative expenses constitute costs of administering the business and are expensed as incurred. These normally include personnel costs, management and professional fees, supplies, rental and utilities.

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

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

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

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

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

Leases

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

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;

b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. There is a substantial change to the asset.

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

Company as Lessee

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

Company as Lessor

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

Borrowing Costs

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

Impairment of Non-financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication exists and if the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

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

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

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 taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

<u>Earnings Per Common Share (EPS) attributable to the equity holders of the Parent</u>
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.

<u>Segment Reporting</u>
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 36 to the consolidated financial statements.

<u>Contingencies</u>
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.

<u>Events After the Reporting Period</u>
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 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

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.

Estimation Uncertainty

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 and 12% to 15% in 2008. 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 ₱1,125.2 million and ₱444.6 million as of December 31, 2009 and 2008, respectively, 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 2009, 2008 and 2007.

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

Impairment of Investments in Associates. The Company assesses impairment on investments in associates 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 December 31, 2009 and 2008 amounted to ₱1,336.7 million and ₱1,251.4 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 2009, 2008 and 2007.

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 6 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 December 31, 2009 and 2008 are ₱398.7 million and ₱331.5 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 2009, 2008, and 2007.

Deferred Tax Assets. The carrying amount of deferred tax assets is reviewed at each reporting period 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 recognized deferred tax assets as of December 31, 2009 and 2008 amounted to ₱24.2 million and ₱50.4 million, respectively (see Note 32).

The Company's deductible temporary differences, unused NOLCO and MCIT for which no deferred tax asset is recognized in the consolidated statement of financial position as of December 31, 2009 and 2008 amounted to ₱219.1 million and ₱188.3 million, respectively (see Note 32).

Input Value-Added Taxes. The carrying amounts of input taxes were reduced to the extent that it is no longer probable that sufficient revenue subject to value-added tax (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 and ₱109.2 million as of December 31, 2009 and 2008, respectively. The carrying amount of input VAT classified as current assets as of December 31, 2009 and 2008 amounted to ₱3.5 million and ₱79.0 million, respectively. The carrying value of input VAT classified as other noncurrent assets amounted to ₱0.7 million and nil as of December 31, 2009 and 2008, respectively (see Note 17).

Estimating Useful Lives of Property, Plant and Equipment, Investment Properties and Intangibles. The Company estimates the useful lives of 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. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. The carrying amounts of property, plant and equipment as of December 31, 2009 and 2008 amounted to ₱2,172.5 million and ₱1,297.6 million, respectively (see Note 14). The carrying amounts of depreciable investment properties as of December 31, 2009 and 2008 amounted to ₱327.8 million and ₱235.1 million, respectively (see Note 15). The carrying amounts of intangibles with finite useful lives amounted to ₱74.1 million and ₱22.1 million as of December 31, 2009 and 2008, respectively (see Note 16).

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 (including the current portion of installment contract receivables) as of December 31, 2009 and 2008 amounted to ₱662.6 million and ₱436.3 million, respectively (see Note 10). The noncurrent portion of the installment contract receivable amounted to ₱276.4 million and ₱58.5 million as of December 31, 2009 and 2008, respectively. The allowance for impairment of receivables specifically identified and collectively assessed amounted to ₱120.8 million and ₱115.5 million as of December 31, 2009 and 2008, respectively (see Note 10).

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 December 31, 2009 and 2008 amounted to ₱601.2 million and ₱1,042.4 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 used by actuaries in calculating such amounts. The assumptions presented in Note 33 include among others, discount rates, expected rate of return on plan assets and rates of salary increase. 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.

The Company's net pension liability under "Pension and other post-employment benefits" account amounted to ₱34.5 million and ₱0.3 million as of December 31, 2009 and 2008, respectively. The net pension expense incurred in 2009, 2008 and 2007 amounted to ₱18.4 million, ₱12.6 million and ₱17.7 million, respectively (see Note 33).

6. Discontinued Operation

On March 10, 2009, BCII, 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 BCII. Outstanding receivable of BCII 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 (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 BCII's recognition of gain amounting to ₱65.0 million.

BIPC is included under the property development business segment (see Note 36).

The cash inflow related to discontinued operation is as follows:

	Amount
	(In Thousands)
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

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
		(In Thousands)	
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
		(In Thousands)	
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
	(In Thousands)
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
	584,430
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)
	(48,231)
Net assets	₱536,199
Share in net assets	₱353,783
Minority interest	182,416
	₱536,199

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
		(In Thousands)	
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
		(In Thousands)	
(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, BCII 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
	(In Thousands)	
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	–
	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
	(In Thousands)
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, BCII 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
	(In Thousands)	
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	–
	730,977	283,463
Accrued payable and accrued expenses	(45,311)	(45,311)
Retirement payable	(185,269)	(185,269)
Deferred tax liabilities	(134,255)	–
	(364,835)	(230,580)
Net assets	366,142	₱52,883
Percentage of ownership	70%	
	256,300	
Goodwill arising from acquisition (see Note 16)	213,995	
Total consideration	₱470,295	

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
	(In Thousands)
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	₱291,695

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, BCII acquired the remaining 19.5% non-controlling interest in UGC thereby increasing BCII's ownership to 100%, thus making UGC a wholly owned subsidiary of BCII. 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
	(In Thousands)	
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
	78,481	56,401
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)
	(49,934)	(43,310)
Net assets	28,547	₱13,091
Percentage of ownership	95%	
	27,119	
Goodwill arising from acquisition (see Note 16)	378,669	
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 2008 comparative information has been restated to reflect the final purchase price allocation. The value of the customer contracts decreased by ₱68.4 million, with a decrease in deferred tax liability of ₱14.4 million. There was also a corresponding increase in goodwill of ₱115.0 million for a total goodwill arising from acquisition of ₱378.7 million. In addition, cash and cash equivalents increased by ₱1.1 million, prepayments and other current assets increased by ₱15.7 million, refundable deposits and other noncurrent assets decreased by ₱17.6 million, accounts payable and accrued expenses decreased by ₱6.7 million and accrued retirement increased by ₱3.6 million.

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
	(In Thousands)
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:

	2009	2008 (As Restated - see Note 7)
	(In Thousands)	
Cash on hand and in banks	**₱392,052**	₱72,946
Short-term deposits	**660,165**	1,753,832
	₱1,052,217	₱1,826,778

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:

	2009	2008
	(In Thousands)	
Investments in:		
Bonds	**₱296,205**	₱691,105
UITFs	**261,172**	76,949
Trust accounts	**4,501**	17,682
Marketable equity securities	**2,534**	1,559
	₱564,412	₱787,295

The Company's net gains (losses) from investments held for trading (under "Investment income" account in the consolidated statement of income) amounted to ₱22.8 million in 2009, (₱34.5 million) in 2008 and ₱27.3 million in 2007. The unrealized gains (losses) from investments held for trading included in net gains (losses) from investments held for trading (under "Investment income" account in the consolidated statement of income) amounted to ₱6.6 million in 2009, (₱28.3 million) in 2008 and ₱19.4 million in 2007 (see Note 22).

10. Trade and Other Receivables

This account consists of:

	2009	2008
	(In Thousands)	
Trade	**₱598,745**	₱411,756
Current portion of installment contract receivable (see Note 6)	**57,037**	25,992
Due from related parties (see Note 29)	**41,239**	32,127
Advances to suppliers and contractors	**25,915**	9,300
Accrued interest	**14,126**	21,269
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	**8,939**	8,939
Advances to officers and employees	**5,335**	1,757
Others	**32,068**	40,697
	783,404	551,837
Less allowance for doubtful accounts	**120,780**	115,524
	₱662,624	₱436,313

Trade and other receivables are noninterest-bearing and are short-term in nature.

In 2009, the installment contract receivable pertains to the balance of the Company's receivable from Phoenix for the sale of BIPC (see Note 6). Such receivable will be paid in monthly installments for a period of five years with interest at the rate to set quarterly based on the applicable 91-day PDST-F Philippine Dealing System Treasury-Fixing, or its successor, on the day of setting plus three percent (3%). The noncurrent portion is included in the 2009 "Installment contract receivable" account in the consolidated statements of financial position.

In 2008, the installment contract receivable with 6% effective interest rate pertains to BIPC's receivable from a third party for the sale of parcels of land which was included in the assets of discontinued operation in 2009 (see Note 6). The noncurrent portion is included in the 2008 "Installment contract receivable" account in the consolidated statements of financial position.

Movements in allowance for doubtful accounts in 2009 and 2008 are as follows:

		2009	
	Trade	**Others**	**Total**
		(In Thousands)	
Balance at January 1, 2009	**₱107,895**	**₱7,629**	**₱115,524**
Provisions	**36,730**	**481**	**37,211**
Write-off	**(31,910)**	**(45)**	**(31,955)**
Balance at December 31, 2009	**₱112,715**	**₱8,065**	**₱120,780**
Individual impairment	**₱106,306**	**₱8,065**	**₱114,371**
Collective impairment	**6,409**	**–**	**6,409**
	₱112,715	**₱8,065**	**₱120,780**

		2008	
	Trade	Others	Total
		(In Thousands)	
Balance at January 1, 2008	₱84,363	₱11,750	₱96,113
Provisions	43,720	1,189	44,909
Write-off	(20,188)	(5,310)	(25,498)
Balance at December 31, 2008	₱107,895	₱7,629	₱115,524
Individual impairment	₱103,414	₱7,629	₱111,043
Collective impairment	4,481	–	4,481
	₱107,895	₱7,629	₱115,524

11. **Inventories**

This account consists of:

	2009	2008
	(In Thousands)	
At cost:		
Finished goods	**₱502,443**	₱836,262
Raw materials	**67,676**	41,869
Land and development costs held for sale (see Note 6)	**–**	122,051
Other inventories	**9,369**	5,827
At net realizable value -		
Spare parts and others	**21,753**	36,347
Inventories at the lower of cost or net realizable value	**₱601,241**	₱1,042,356

Under the terms of the agreements covering liabilities under trust receipts, inventories amounting to ₱123.5 million and ₱537.3 million as of December 31, 2009 and 2008, respectively, have been released to UGC in trust for the bank. UGC is accountable to the bank for the trusteed inventories or its sales proceeds.

Finished goods mainly represent roofing and other steel products of UGC.

In 2008, land held for sale represents parcels of land located in Batangas Industrial Park (Park) which are available for sale by BIPC. Land development costs pertain to expenditures for the development and improvement of the land held for sale in Phase 1 of the Park. BIPC owns this land held for sale and in 2009 the Company's interests in BIPC have been sold to a third party (see Note 6).

The acquisition cost of spare parts and other inventories carried at net realizable value amounted to ₱23.1 million and ₱37.2 million as of December 31, 2009 and 2008, respectively.

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:

	2009	2008
	(In Thousands)	
Acquisition costs:		
Balance at beginning of year	**₱1,536,993**	₱1,473,643
Additions	**289**	63,350
Balance at end of year	**1,537,282**	1,536,993
Accumulated equity in net losses:		
Balance at beginning of year	**(290,669)**	(306,362)
Equity in net earnings for the year	**117,657**	41,586
Dividends received	**(39,102)**	(25,893)
Balance at end of year	**(212,114)**	(290,669)

(Forward)

	2009	2008
	(In Thousands)	
Share in net unrealized gain on change in fair value of AFS investments of associates:		
Balance at beginning of year	**₱5,054**	₱24,784
Change in fair value during the year	**6,441**	(19,730)
Balance at end of year	**11,495**	5,054
	₱1,336,663	₱1,251,378

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

	2009	2008
	(In Thousands)	
TA Oil*	**₱831,039**	₱772,644
PPHC	**325,925**	323,976
AB Capital	**179,427**	154,496
Asia Coal	**272**	262
	₱1,336,663	₱1,251,378

** The fair value as of December 31, 2009 and 2008 amounted to ₱522.0 million and ₱315.0 million, respectively.*

The following table summarizes the financial information of the Company's investments in associates:

	2009	2008
	(In Thousands)	
Share in the associates' net assets:		
Current assets	**₱1,186,960**	₱1,189,069
Noncurrent assets	**742,207**	606,046
Current liabilities	**(444,766)**	(312,453)
Noncurrent liabilities	**(20,264)**	(103,810)
Preferred stock	**(132,550)**	(132,550)
Net assets attributable to common stockholders	**₱1,331,587**	₱1,246,302
Share in the associates' revenue and net income:		
Revenue	**₱783,102**	₱797,499
Net income	**117,657**	41,586
Carrying amount of the investments	**₱1,336,663**	₱1,251,378

As of December 31, 2009 and 2008, the carrying amount of the Company's investments exceeded its equity in the net assets of associates by ₱5.1 million representing goodwill related to AB Capital.

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

a. TA Oil

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

On March 16, 2009, the BOD of TA Oil declared a cash dividend of ₱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 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 27, 2008, the BOD of PPHC declared cash dividend of ₱0.005 a share to all common stockholders of record as of March 31, 2008. The Company received ₱7.9 million cash dividends from PPHC.

c. AB Capital

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

d. Asia Coal

Asia Coal is engaged in the trading of coal. 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:

	2009	2008
	(In Thousands)	
Quoted:		
Ayala Corporation preferred shares	**₱8,400**	₱8,400
First Philippine Holdings Corporation (FPHC) preferred shares	**19,900**	19,000
Unquoted:		
AB Capital - preferred shares	**250,000**	250,000
Coral Way City Hotel Corporation	**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**	10,953
	444,187	377,036
Less accumulated impairment losses	**45,517**	45,517
	₱398,670	₱331,519

AFS investments consist of 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. Unrealized gain (loss) on change in fair value on such quoted AFS amounting to ₱0.9 million and (₱1.8 million) were recognized in the 2009 and 2008 consolidated statements of comprehensive income, respectively.

On February 14, 2007, the BOD of AB Capital declared cash dividend totaling ₱80.0 million to preferred stockholders as of March 30, 2007, payable on April 17, 2007 conditional upon the sale of 212,770 treasury shares at ₱345.14 per share. In March 2007, the Company together with PHINMA acquired the treasury shares. The Company acquired 106,385 treasury shares for ₱36.7 million. Thereafter, the Company received ₱42.3 million cash dividends on preferred shares from AB Capital.

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

Following are the details of this account:

	December 31, 2008	Acquisition through Business Combination (see Note 7)	Additions	Disposals	Discontinued Operation (see Note 6)	Reclassification (see Note 15)	**December 31, 2009**
				(In Thousands)			
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**

	December 31, 2007	Acquisition through Business Combination (see Note 7)	Additions	Disposals	Reclassification (see Note 15)	December 31, 2008
			(In Thousands)			
Cost						
Land	₱354,573	₱–	₱–	₱–	(₱4,606)	₱349,967
Plant site improvements	15,041	–	2,481	–	8,325	25,847
Buildings and improvements	748,967	893	34,024	(2,122)	23,403	805,165
Port facilities and equipment	223,664	–	2,357	(2,357)	–	223,664
Machinery and equipment	583,983	–	18,286		2,237	604,506
Transportation and other equipment	282,299	12,469	14,394	(18,842)	–	290,320
	2,208,527	13,362	71,542	(23,321)	29,359	2,299,469
Less Accumulated Depreciation						
Plant site improvements	11,371	–	810	–	–	12,181
Buildings and improvements	270,474	–	48,804	(2,066)	–	317,212
Port facilities and equipment	82,729	–	11,295	(2,357)	–	91,667
Machinery and equipment	346,369	–	39,294	–	–	385,663
Transportation and other equipment	207,729	–	15,316	(18,842)	–	204,203
	918,672	–	115,519	(23,265)	–	1,010,926
	1,289,855	13,362	(43,977)	(56)	29,359	1,288,543
Construction in-progress	5,037	–	37,943	–	(33,965)	9,015
Net Book Value	₱1,294,892	₱13,362	(₱6,034)	(₱56)	(₱4,606)	₱1,297,558

As of December 31, 2009 and 2008, the unamortized capitalized borrowing costs included as part of property, plant and equipment amounted to ₱1.5 million and ₱2.8 million, respectively. No borrowing cost has been capitalized in 2009 and 2008.

Certain property, plant and equipment of UGC, AU and UPANG totaling ₱994.6 million and ₱928.5 million as of December 31, 2009 and 2008 were used as security for their respective long-term debt and convertible notes as disclosed in Note 20 to the consolidated financial statements.

15. Investment Properties

This account consists of:

	December 31, 2008	Additions	Discontinued Operation (see Note 6)	Reclassification (see Note 14)	**December 31, 2009**
			(In Thousands)		
Cost:					
Land	₱537,806	₱–	(₱216,721)	₱–	**₱321,085**
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**
	₱772,869	₱57,332	(₱216,721)	₱35,452	**₱648,932**

	December 31, 2007	Additions	Discontinued Operation (see Note 6)	Reclassification	December 31, 2008
			(In Thousands)		
Cost:					
Land	₱533,200	₱–	₱–	₱4,606	₱537,806
Buildings for lease	302,112	5,800	–	–	307,912
	835,312	5,800	–	4,606	845,718
Less accumulated depreciation -					
Buildings for lease	51,998	20,851	–	–	72,849
	₱783,314	(₱15,051)	₱–	₱4,606	₱772,869

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. The fair value of investment properties based on the latest valuation by independent firms of appraisers on December 31, 2009 and 2008 was ₱1.3 billion and ₱1.5 billion, respectively.

PSHC's land amounting to ₱220.0 million was used as security for its long-term debt as disclosed in Note 20 to the consolidated financial statements.

16. Intangibles

Following are the details and movements of this account:

	December 31, 2008 (As Restated - see Note 7)	Acquisition through Business Combinations (see Note 7)	**December 31, 2009**
		(In Thousands)	
Cost:			
Goodwill	₱444,551	₱680,632	**₱1,125,183**
Intangible - student lists	25,380	105,740	**131,120**
Intangible - customer contracts	22,080	–	**22,080**
	492,011	786,372	**1,278,383**
Accumulated amortization:			
Intangible - student lists	25,380	31,643	**57,023**
Intangible - customer contracts	–	22,080	**22,080**
	25,380	53,723	**79,103**
	₱466,631	₱732,649	**₱1,199,280**

	December 31, 2007	Acquisition through Business Combinations (see Note 7)	December 31, 2008 (As Restated - see Note 7)
		(In Thousands)	
Cost:			
Goodwill	₱65,882	₱378,669	₱444,551
Intangible - student lists	25,380	–	25,380
Intangible - customer contracts	–	22,080	22,080
	91,262	400,749	492,011
Accumulated amortization -			
Intangible - student lists	23,798	1,582	25,380
	₱67,464	₱399,167	₱466,631

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

The average remaining useful life of student lists as of December 31, 2009 is 2.1 years.

17. Other Noncurrent Assets

This account consists of:

	2009	2008 (As Restated - see Note 7)
	(In Thousands)	
Input VAT - net of allowance for unrecoverable amount of ₱122.2 million and ₱109.2 million in 2009 and 2008, respectively (see Note 24)	**₱676**	₱–
Others - net of allowance for doubtful advances of ₱66.8 million in 2009 and 2008, respectively	**29,707**	28,514
	₱30,383	₱28,514

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

18. Notes Payable

This account consists of notes payable of the following subsidiaries:

	2009	2008
	(In Thousands)	
UGC	**₱94,646**	₱101,610
COC	**6,245**	2,456
OAL	**–**	19,752
	₱100,891	₱123,818

Notes payable consist of unsecured short-term peso-denominated loans from financial institutions with annual interest rates in 2009 and 2008 ranging from 6.63% to 8.25% and 6.75% to 8.88%, respectively.

19. Trade and Other Payables

This account consists of:

	2009	2008 (As Restated - see Note 7)
	(In Thousands)	
Trade	**₱33,921**	₱39,588
Payable to third parties	**162,067**	97,852
Accruals for:		
Professional fees and others (see Note 29)	**112,415**	40,818
Personnel cost (see Notes 27 and 29)	**78,732**	65,386
Interest (see Note 26)	**29,866**	24,227
Freight, hauling and handling	**11,621**	10,138
Dividends	**94,864**	39,453
Customers' deposits	**39,813**	26,922
Others	**22,413**	15,472
	₱585,712	₱359,856

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:

	2009	2008
	(In Thousands)	
UPANG	**₱300,000**	₱–
UGC:		
Banco de Oro (BDO)	**150,000**	210,000
Rizal Commercial Banking Corporation (RCBC)	**50,000**	70,000
	500,000	280,000
Less debt issuance cost	**(1,515)**	(2,818)
	498,485	277,182
PSHC	**147,813**	146,422
AU	**55,415**	65,250
BIPC	**–**	20,391
	701,713	509,245
Less current portion - net of debt issuance cost	**87,520**	95,300
	₱614,193	₱413,945

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 25, 2007, the outstanding BDO loan, syndicated loan and the convertible notes obtained from five local financial institutions, namely, AB Capital, Bank of the Philippine Islands, Metropolitan Bank and Trust Company, Land Bank of the Philippines and Security Bank Corporation were preterminated by obtaining a term loan aggregating to ₱400.0 million from BDO and RCBC for which debt issue cost amounting to ₱2.0 million was paid. UGC charged a loss of ₱8.5 million to operations (included in "Others" under "Other income (charges)" in the 2007 consolidated statement of income) and ₱2.4 million to equity portion of convertible notes as a result of pretermination of the loans. BCII's share in the amount of loss charged to equity is ₱2.0 million. Amortization of debt issuance cost amounted to ₱1.3 million, ₱2.2 million and ₱0.3 million in 2009, 2008 and 2007, respectively.

The salient terms of the agreement covering UGC's long-term debt from BDO and RCBC are as follows:

Interest	Fixed rate of 9.11% computed based on five year PDST - F plus a spread of 1.75% and applicable taxes at the time of the drawdown
Repayment period	20 equal quarterly installments until June 2012

As of December 31, 2009, the loans from BDO and RCBC are collateralized by a mortgage agreement on UGC's existing land, plant site improvements, buildings and installations, and machinery and equipment of Calamba and Davao plants with estimated market value of ₱537.9 million.

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

- Maintenance of the following ratios for the duration of the loan agreement: (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, and the lenders have agreed thereto under the 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:

Year	Debt-to-equity Ratio
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 with any party other than 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 UGC's Articles of Incorporation or By-laws.

As of December 31, 2009 and 2008, UGC is in compliance with the 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. The details of the loan are as follows:

	2009	2008
	(In Thousands)	
Loan payable to UPPC	**₱154,000**	₱154,000
Less unamortized discount	**6,187**	7,578
	₱147,813	₱146,422

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:

	2009	2008
	(In Thousands)	
Loan payable to China Banking Corporation (China Bank)	**₱55,415**	₱65,250
Less current portion	**8,165**	9,000
	₱47,250	₱56,250

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. Interest shall be payable monthly in arrears based on variable pass-on rate plus spread. Actual interest rate was 8.66% in 2009 and 2008.

Araullo University's land, including existing and future improvements thereon is used as collateral for its long-term debt to China Bank. The net book value of the said land and improvements was ₱156.7 million as of December 31, 2009 and 2008.

BIPC
BIPC's outstanding long-term debt due to Asiatrust Bank which is presented at accreted value consists of:

	Amount
	(In Thousands)
Balance, January 1, 2007	₱22,830
Interest accruals	863
Balance, December 31, 2007	23,693
Payments during the year	(3,665)
Interest accruals	363
Balance, December 31, 2008	₱20,391

	2008
	(In Thousands)
Current portion of long-term debt	₱6,945
Long-term debt - net of current portion	13,446
	₱20,391

As of December 31, 2008, the effective interest rate of the debt was 10.75%.

The terms of BIPC's debt were as follows:

Facility	Long-term debt
Payment term	Ten years, inclusive of a four-year grace period on principal repayment
Interest rate	8.0% fixed interest rate for the entire term of the loan
Interest payments	3-year grace period on interest payment through June 9, 2008. Interest to be incurred during the grace period, net of ₱4 million partial interest payment to be made on June 9, 2008 will be capitalized
Principal payment	3½-year grace period on principal amortization up to December 10, 2008 and seven equal semi-annual payments to commence on December 10, 2008
Security	First party real estate mortgage over vacant industrial lots under Transfer Certificate Title (TCT) No. 98732 and TCT No. 100923 located at Barrio Lumbang Municipality of Calaca, Batangas registered under the name of BIPC aggregating to 62,342 square meters with appraised value of ₱58.4 million as of December 31, 2007

21. **Equity**

a. Capital Stock

The composition of the Parent Company's capital stock as of December 31, 2009, 2008 and 2007 is as follows:

	Number of Shares		
	2009	2008	2007
Preferred - cumulative, nonparticipating, ₱10 par value			
Class AA			
Authorized	**50,000,000**	50,000,000	50,000,000
Class BB			
Authorized	**50,000,000**	50,000,000	50,000,000
Common - ₱10 par value			
Authorized	**420,000,000**	420,000,000	420,000,000
Issued:			
Balance at beginning of year	**257,697,313**	234,266,572	203,704,783
Stock dividends	**–**	23,430,741	30,561,789
Balance at end of year	**257,697,313**	257,697,313	234,266,572
Subscribed	**39,994**	39,994	39,994
Issued and subscribed	**257,737,307**	257,737,307	234,306,566

b. Retained Earnings

The BOD of BCII declared the following stock dividends:

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

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

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

The balance of the Company's retained earnings include the subsidiaries and associates undistributed net earnings of ₱746.0 million and ₱808.4 million as of December 31, 2009 and 2008, respectively, which are available for distribution only upon declaration of dividends by such subsidiaries and associates of the Parent Company.

22. Investment Income

Investment income consists of:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Interest income:			
Cash and cash equivalents	**₱28,249**	₱66,544	₱62,304
Investments held for trading	**20,925**	35,782	53,641
Receivables	**33,283**	5,744	–
	82,457	108,070	115,945
Net gain (loss) on investments held for trading (see Note 9)	**22,787**	(34,468)	27,319
Dividend income (see Note 13)	**7,162**	5,466	49,631
	₱112,406	₱79,068	₱192,895

The 2008 and 2007 investment income were restated to exclude the investment income from discontinued operation of ₱6.7 million and ₱0.9 million, respectively.

23. Cost of Sales, Educational and Animation Services

Cost of sales, educational services and animation services consist of:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Cost of sales	**₱1,980,238**	₱2,171,695	₱1,735,395
Cost of educational services	**419,915**	148,681	145,503
Cost of animation services	**210,821**	–	–
	₱2,610,974	₱2,320,376	₱1,880,898

The 2008 and 2007 cost of sales and educational services were restated to exclude the cost of sales from discontinued operation of ₱27.5 million and ₱50.4 million, respectively.

The details of cost of sales, educational services and animation services are as follows:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Inventories used	**₱1,750,338**	₱1,926,077	₱1,532,504
Personnel costs (see Note 27)	**508,568**	162,784	157,843
Depreciation (see Note 28)	**106,487**	66,077	60,783
School affiliations and other expenses	**67,441**	16,357	16,617
Repairs and maintenance	**37,301**	51,706	36,588
Equipment running	**14,539**	16,330	16,248
Others	**126,300**	81,045	60,315
	₱2,610,974	₱2,320,376	₱1,880,898

24. General and Administrative Expenses

General and administrative expenses consist of:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Personnel costs (see Note 27)	**₱205,354**	₱101,266	₱100,888
Outside services (see Note 29)	**146,241**	95,010	71,861
Depreciation and amortization (see Note 28)	**135,923**	53,693	57,053
Provision for doubtful accounts (see Note 10)	**37,211**	44,909	27,984
Taxes and licenses	**18,241**	13,878	8,555
Provision for unrecoverable input value-added tax (see Note 17)	**13,002**	4,512	5,598
Transportation and travel	**5,870**	2,976	4,434
Provision for impairment losses	**1,249**	–	15,393
Others	**83,678**	46,969	41,637
	₱646,769	₱363,213	₱333,403

The 2008 and 2007 general and administrative expenses were restated to exclude the general and administrative expenses of discontinued operation of ₱27.9 million and ₱41.0 million, respectively.

25. Selling Expenses

Selling expenses consist of:

	2009	2008 (As Restated - see Note 6)	2007
		(In Thousands)	
Personnel costs (see Note 27)	**₱59,053**	₱48,285	₱42,557
Freight, handling and hauling	**34,562**	27,689	19,434
Commission	**19,102**	17,177	27,828
Transportation and travel	**16,859**	19,687	15,762
Advertising	**13,667**	20,826	17,343
Postage, telephone and telegraph	**7,923**	8,099	6,852
Repairs and maintenance	**7,594**	7,601	6,274
Supplies	**7,415**	5,179	3,021
Depreciation (see Note 28)	**7,040**	6,009	4,537
Taxes and licenses	**6,901**	6,742	6,110
Entertainment, amusement and recreation	**2,516**	3,228	2,503
Others	**7,557**	8,756	6,955
	₱190,189	₱179,278	₱159,176

The 2008 selling expenses were restated to exclude the selling expenses of discontinued operation of ₱60.0 million (see Note 6).

26. Interest Expense and Other Financial Charges

This account consists of:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Interest expense on loans and borrowings	**₱105,265**	₱91,733	₱102,140
Other financial charges	**517**	1,450	3,988
	₱105,782	₱93,183	₱106,128

The 2008 and 2007 interest expense and other financial charges were restated to exclude the interest expense and other financial charges of discontinued operation of ₱6.7 million and ₱3.3 million, respectively.

27. Personnel Costs

Personnel costs consist of:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Salaries, employee benefits and bonuses (see Note 29)	**₱729,788**	₱285,235	₱272,893
Retirement and other post-employment benefits (see Note 33)	**19,982**	14,227	17,970
Training	**2,374**	4,538	1,606
Others	**20,831**	8,335	8,819
	₱772,975	₱312,335	₱301,288

The 2008 and 2007 personnel costs were restated to exclude the personnel cost of discontinued operation of ₱9.3 million and ₱18.8 million, respectively.

28. Depreciation and Amortization

Depreciation and amortization relate to the following assets:

	2009	2008 (As Restated - see Note 6)	2007 (As Restated - see Note 6)
		(In Thousands)	
Property, plant and equipment and investment properties:			
Cost of sales, educational services and animation services (see Note 23)	**₱106,487**	₱66,077	₱60,783
General and administrative expenses (see Note 24)	**82,200**	52,111	52,123
Selling expenses (see Note 25)	**7,040**	6,009	4,537
Intangible - schools -			
General and administrative expenses - others (see Note 24)	**53,723**	1,582	4,930
	₱249,450	₱125,779	₱122,373

The 2008 and 2007 depreciation and amortization were restated to exclude the depreciation and amortization of discontinued operation of ₱12.2 million and ₱15.1 million, respectively.

29. Related Party Transactions

Associates and Related Corporations

AB Capital. Transactions with AB Capital, a subsidiary of PHINMA, pertain to sharing of expenses and short-term placements made by the Company in AB Capital.

PHINMA and TA Oil. In 2008, API granted noninterest-bearing advances amounting to ₱41.0 million to its shareholders, PHINMA (parent Company of BCII), and TA Oil (subsidiary of PHINMA), which are due and collectible upon demand. In 2009, the Company granted additional noninterest-bearing advances amounting to ₱6.4 million to PHINMA and TA Oil.

Others. Other related party transactions primarily relate to the grant of advances to and sharing of expenses with other companies which are also under the common control of PHINMA, namely, PPHC, TO Insurance Brokers, Inc. 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
				(In Thousands)	
PHINMA	Noninterest-bearing advances and share in expenses	**2009**	**₱110,256**	**₱–**	**₱26,198**
		2008	29,220	–	25,977
		2007	7,796	–	3,653
TA Oil	Noninterest-bearing advances and share in expenses	**2009**	**1,680**	**–**	**3,799**
		2008	4,213	–	3,896
		2007	478	–	318
PPHC	Share in expenses	**2009**	**21,302**	**–**	**5,878**
		2008	289	–	660
		2007	416	–	371
AB Capital	Share in expenses	**2009**	**274**	**–**	**158**
		2008	632	–	632
		2007	747	–	517
Other Shareholders of UPANG	Interest bearing advances	**2009**	**59,769**	**59,769**	**–**
		2008	–	–	–
		2007	–	–	–
Others	Raw materials purchases, technical service fees, advances and share in expenses	**2009**	**2,679**	**501**	**5,206**
		2008	1,431	143	962
		2007	12,145	17,469	3,483
		2009		**₱60,270**	**₱41,239**
		2008		₱143	₱32,127
		2007		₱17,469	₱8,342

PSHC. PSHC has outstanding long-term payable to UPPC arising from the acquisition of land from UPPC, then an associate of the Company (see Note 20). PSHC leases the land to UPPC for a period of 50 years, renewable for another 25 years upon the approval of the Philippine Department of Trade and Industry. Annual lease income during the entire lease term is initially fixed at ₱14.6 million. In connection with the lease, UPPC was required to make a lease deposit with PSHC of ₱55.5 million in July 2003 and an additional ₱2.9 million in April 2005, aggregated and reflected as "Other noncurrent liabilities" at amortized cost at the end of the reporting period, and refundable to UPPC upon the expiration of the lease. The lease deposit's present value was calculated using an effective interest rate of 12.0% per annum. On August 2, 2006, PSHC and UPPC amended the lease agreement increasing the annual rent revenue from ₱14.6 million to ₱19.2 million effective January 1, 2006.

The difference between the face value of the lease deposit and its corresponding present value at inception was aggregated and reflected as unearned revenue that is being amortized as rent revenue simultaneous with the accretion of the lease deposit.

The consolidated statements of financial position include the following outstanding balances as of December 31 resulting from the aforementioned transactions:

	2009	2008
	(In Thousands)	
Trade and other receivables	**₱5,136**	₱3,424
Unearned revenues	**50,726**	51,892
Trade and other payables	**16,092**	15,182
Long-term debt	**147,813**	146,422
Other noncurrent liabilities	**423**	378

Management and Directors' Compensation
BCII, 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 2009, 2008 and 2007 amounted to ₱69.6 million, ₱63.1 million and ₱49.5 million, respectively. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱53.0 million and ₱44.0 million as of December 31, 2009 and 2008, respectively.

BCII and AHC recognized bonus to directors computed based on net income with pre-agreed adjustments. Directors' bonus amounted to ₱19.8 million in 2009, ₱29.6 million in 2008 and ₱20.2 million in 2007. The related unpaid amount, included under "Trade and other payables" account in the consolidated statements of financial position, was ₱19.8 million and ₱27.1 million as of December 31, 2009 and 2008, respectively.

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

	2009	2008	2007
		(In Thousands)	
Short-term employee benefits	**₱48,041**	₱37,820	₱49,443
Post-employment benefits:			
Retirement benefits	**3,677**	3,355	6,650
Sick leave and vacation leave	**3,465**	1,927	1,287
	₱55,183	₱43,102	₱57,380

30. 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	a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund b. For peso investments: minimal corporate exposure except for registered bonds c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review

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.

	2009	2008
	(In Thousands)	
Loans and receivables:		
Cash and cash equivalents	**₱1,052,217**	₱1,826,778
Short-term investments	**–**	86,817
Trade and other receivables	**783,404**	551,837
Installment contract receivable*	**276,413**	58,482
Investments held for trading:		
Investments in bonds	**296,205**	691,105
Investments in UITFs	**261,172**	76,949
Investments in trust accounts	**4,501**	17,682
Investments in marketable equity securities	**2,534**	1,559
Derivative assets	**6,865**	–
AFS investments:		
Quoted	**28,300**	27,400
Unquoted	**370,370**	304,119
	₱3,081,981	₱3,642,728

** 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 December 31, 2009 and 2008:

	2009				
	Neither Past Due nor Impaired				
	High Grade	**Standard Grade**	**Substandard Grade**	**Impaired**	**Total**
Investments held for trading:					
Investments in bonds	**₱292,300**	**₱3,905**	**₱–**	**₱–**	**₱296,205**
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**
	₱553,472	**₱409,610**	**₱–**	**₱45,517**	**₱1,008,599**

	2008				
	Neither Past Due nor Impaired				
	High Grade	Standard Grade	Substandard Grade	Impaired	Total
Investments held for trading:					
Investments in bonds	₱687,656	₱3,449	₱–	₱–	₱691,105
Investments in UITFs	76,949	–	–	–	76,949
Investments in trust accounts	–	17,682	–	–	17,682
Investments in marketable equity securities	–	1,559	–	–	1,559
AFS investments:					
Quoted	–	27,400	–	–	27,400
Unquoted	–	304,119	–	45,517	349,636
	₱764,605	₱354,209	₱–	₱45,517	₱1,164,331

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.

The credit quality of the Company's trade and other receivables (including installment contract receivable) as of December 31, 2009 and 2008 are as follows:

	2009			
	Neither Past Due nor Impaired			
	High Grade	**Standard Grade**	**Past Due or Impaired**	**Total**
		(In Thousands)		
Trade	**₱6,050**	**₱402,826**	**₱189,869**	**₱598,745**
Installment contract receivable (current and noncurrent)	**–**	**333,450**	**–**	**333,450**
Advances to suppliers and contractors	**24,272**	**1,643**	**–**	**25,915**
Accrued interest (see Note 29)	**12,478**	**1,648**	**–**	**14,126**
Due from related parties (see Note 29)	**–**	**41,239**		**41,239**
Receivable from BCII Retirement	**–**	**8,939**		**8,939**
Advances to officers and employees	**1,758**	**3,577**		**5,335**
Others	**–**	**24,003**	**8,065**	**32,068**
	₱44,558	**₱817,325**	**₱197,934**	**₱1,059,817**

	2008			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Past Due or Impaired	Total
		(In Thousands)		
Trade	₱213,313	₱16,073	₱182,370	₱411,756
Installment contract receivable (current and noncurrent)	–	84,474	–	84,474
Advances to suppliers and contractors	9,300	–	–	9,300
Accrued interest (see Note 29)	2,865	18,404	–	21,269
Due from related parties (see Note 29)	–	32,127	–	32,127
Receivable from BCII Retirement	–	8,939	–	8,939
Advances to officers and employees	1,465	292	–	1,757
Others	11,656	21,412	7,629	40,697
	₱238,599	₱181,721	₱189,999	₱610,319

Trade and other receivables are classified as: a.) high grade when the receivables are secured or covered with collaterals; b.) standard grade when the receivables are unsecured but debtors have good paying habits; or c.) substandard grade when the receivables are unsecured and debtors have poor paying habits.

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

As of December 31, 2009 and 2008, the aging analysis of trade and other receivables (including installment contract receivable) are as follows:

	2009							
		Neither Past Due	Past Due but not Impaired					Past Due and
	Total	nor Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>130 Days	Impaired
	(In Thousands)							
Trade	₱598,745	₱408,876	₱51,660	₱8,808	₱7,298	₱6,859	₱2,529	₱112,715
Installment contract receivable (current and noncurrent)	333,450	333,450	–	–	–	–	–	–
Advances to suppliers and contractors	25,915	25,915	–	–	–	–	–	–
Accrued interest (see Note 29)	14,126	14,126	–	–	–	–	–	–
Due from related parties (see Note 29)	41,239	41,239	–	–	–	–	–	–
Receivable from BCII Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	5,335	5,335	–	–	–	–	–	–
Others	32,068	24,003	–	–	–	–	–	8,065
	₱1,059,817	₱861,883	₱51,660	₱8,808	₱7,298	₱6,859	₱2,529	₱120,780

	2008							
		Neither Past Due	Past Due but not Impaired					Past Due and
	Total	nor Impaired	<30 Days	30-60 Days	60-90 Days	90-120 Days	>130 Days	Impaired
	(In Thousands)							
Trade	₱411,756	₱229,386	₱51,454	₱8,085	₱8,670	₱4,453	₱1,813	₱107,895
Installment contract receivable (current and noncurrent)	84,474	84,474	–	–	–	–	–	–
Advances to suppliers and contractors	9,300	9,300	–	–	–	–	–	–
Accrued interest (see Note 29)	21,269	21,269	–	–	–	–	–	–
Due from related parties (see Note 29)	32,127	32,127	–	–	–	–	–	–
Receivable from BCII Retirement	8,939	8,939	–	–	–	–	–	–
Advances to officers and employees	1,757	1,757	–	–	–	–	–	–
Others	40,697	33,068	–	–	–	–	–	7,629
	₱610,319	₱420,320	₱51,454	₱8,085	₱8,670	₱4,453	₱1,813	₱115,524

Impaired financial instruments comprise of trade receivables from customers, related parties and advances to officers and employees.

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.

The tables below show the maturity profile of the Company's financial assets used for liquidity purposes based on contractual undiscounted cash flows as of December 31, 2009 and 2008:

	2009					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Assets						
Loans and receivables -						
Cash and cash equivalents	₱1,052,217	₱–	₱–	₱–	₱–	₱1,052,217
Financial assets at FVPL:						
Investments in bonds and FXTNs	113,005	93,595	55,232	34,373	–	296,205
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
	₱1,461,729	₱93,595	₱55,232	₱34,373	₱–	₱1,644,929

	2008					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,826,778	₱–	₱–	₱–	₱–	₱1,826,778
Short-term investments	86,817	–	–	–	–	86,817
Financial assets at FVPL:						
Investments in bonds	225,226	181,422	223,300	55,533	5,624	691,105
Investments in UITFs	76,949	–	–	–	–	76,949
Investments in trust accounts	17,682	–	–	–	–	17,682
Investments in marketable equity securities	1,559	–	–	–	–	1,559
AFS investments -						
Quoted	27,400	–	–	–	–	27,400
	₱2,262,411	₱181,422	₱223,300	₱55,533	₱5,624	₱2,728,290

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

	2009					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Liabilities						
Other financial liabilities:						
Notes payable	₱100,891	₱–	₱–	₱–	₱–	₱100,891
Trade and other payables	585,712	–	–	–	–	585,712
Trust receipts payable	131,051	–	–	–	–	131,051
Due to related parties	60,270	–	–	–	–	60,270
Long-term debt	144,336	172,422	120,876	300,890	91,613	830,137
	₱1,022,260	₱172,422	₱120,876	₱300,890	₱91,613	₱1,708,061

	2008					
	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
			(In Thousands)			
Financial Liabilities						
Financial liabilities at FVPL -						
Derivative liabilities	₱26,857	₱–	₱–	₱–	₱–	₱26,857
Other financial liabilities:						
Notes payable	123,818	–		–	–	123,818
Trade and other payables	351,304	180	8,007	365	–	359,856
Trust receipts payable	537,252	–	–	–	–	537,252
Due to related parties	143	–	–	–	–	143
Long-term debt	96,322	134,110	226,554	58,750	52,250	567,986
	₱1,135,696	₱134,290	₱234,561	₱59,115	₱52,250	₱1,615,912

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, investments in UITFs, and investment in bonds.

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

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

	2009		2008	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
		(In Thousands)		
In US Dollar:				
Cash and cash equivalents	**US$7,843**	**₱362,347**	US$15,785	₱750,103
Short-term investments	**–**	**–**	985	46,807
Investments in bonds	**3,044**	**140,633**	7,648	363,433
Investments in UITFs	**2,615**	**120,813**	–	–
	US$13,502	**₱623,793**	US$24,418	₱1,160,343

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

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were ₱46.20 to US$1.00 and ₱47.52 to US$1.00 as of December 31, 2009 and December 31, 2008, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's profit before tax (due to the changes in the fair value of monetary assets) as of December 31, 2009 and 2008. There is no impact on the Company's equity other than those already affecting the profit or loss. The effect on profit before tax already includes the impact of derivatives outstanding as of December 31, 2009 and 2008.

	2009	
	Increase/Decrease in Peso-Dollar Exchange Rate	**Effect on Profit Before Tax**
		(In Millions)
BCII	**₱0.50**	**₱5.1**
	(0.50)	**(5.1)**
UGC	**0.50**	**(3.6)**
	(0.50)	**3.6**
AHC	**0.50**	**0.2**
	(0.50)	**(0.2)**

	2008	
	Increase/Decrease in Peso-Dollar Exchange Rate	Effect on Profit Before Tax
		(In Millions)
BCII	₱0.50	₱1.4
	(0.50)	(7.0)
UGC	0.50	0.2
	(0.50)	(0.2)
AHC	0.50	0.03
	(0.50)	(0.04)

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).

The following table demonstrates the effect of changes in market interest rates, on the Company's profit before income tax, based on the Company's expectation, with all other variables held constant as of December 31, 2009 and 2008. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2009	
	Increase/Decrease in Basis Points	**Effect on Profit Before Tax**
	(In Thousands)	
Loan payable from China Bank	**+0.50%**	**(₱306)**
	-0.50%	**306**

	2008	
	Increase/Decrease in Basis Points	Effect on Profit Before Tax
	(In Thousands)	
Loan payable from China Bank	+0.50%	(₱351)
	-0.50%	351

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.

The following table sets out the carrying amount (in thousands), by maturity, of the Company's financial instruments that are exposed to interest rate risk as of December 31, 2009 and 2008:

		2009					
	Interest Rates	**Within 1 Year**	**1–2 Years**	**2–3 Years**	**3–5 Years**	**More than 5 Years**	**Total**
		(In Thousands)					
Fixed Rate							
Special savings account (PHP)	**0.05–1.5%**	**₱2,722**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,722**
Placements (PHP)	**1.5–9.075%**	**360,108**	**–**	**–**	**–**	**–**	**360,108**
Placements (US$)	**0.005–4.25%**	**545,738**	**–**	**–**	**–**	**–**	**545,738**
Short-term investments (PHP)	**3.1–7.142%**	**59,062**	**–**	**–**	**–**	**–**	**59,062**
Investments in bonds (PHP)	**4.5–17.5%**	**19,099**	**81,236**	**55,232**	**–**	**–**	**155,567**
Investments in bonds (US$)	**8.375–10.4%**	**93,906**	**12,359**	**–**	**34,373**	**–**	**140,638**
Installment contract receivable	**91day PDST + 3% spread**	**57,038**	**65,813**	**83,363**	**127,237**		**333,451**

	2008						
	Interest Rates	Within 1 Year	1–2 Years	2–3 Years	3–5 Years	More than 5 Years	Total
				(In Thousands)			
Fixed Rate							
Special savings account (PHP)	0.05–1.5%	₱3,752	₱–	₱–	₱–	₱–	₱3,752
Placements (PHP)	2.75–9.3788%	892,753	–	–	–	–	892,753
Placements (US$)	0.005–5.405%	734,299	–	–	–	–	734,299
Short-term investments (PHP)	2.001–2.101%	2,245	–	–	–	–	2,245
Short-term investments (US$)	1.85–2.10%	44,574	–	–	–	–	44,574
Time deposits (US$)	3.00–4.00%	11,204	–	–	–	–	11,204
Investments in bonds (PHP)	8.5–17.5%	–	27,490	273,346	13,758	13,079	327,673
Investments in bonds (US$)	8.375–10.5%	126,930	166,648	69,854	–	–	363,432

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.

The table below set forth the estimated change in the Company's income before tax due to a reasonably possible change in the market prices of quoted bonds classified under financial assets at FVPL and short term deposits classified under loans and receivables, brought about by movement in the interest rate as of December 31, 2009 and December 31, 2008. There is no impact on the Company's equity other than those already affecting the profit or loss.

	2009	
	Increase/Decrease in Basis Points	**Effect on Profit Before Tax**
		(In Thousands)
BCII - peso	**25**	**₱297**
	(25)	**(297)**
- dollar	**10**	**982**
	(10)	**(982)**
UGC - peso	**(25)**	**309**
AHC - peso	**25**	**(214)**
	(25)	**(214)**
- dollar	**10**	**8**
	(10)	**(8)**

	2008	
	Increase/Decrease in Basis Points	Effect on Profit Before Tax
		(In Thousands)
BCII - peso	50	₱853
	(50)	(853)
- dollar	100	7,547
	(100)	(7,547)
UGC - peso	50	2,771
	(50)	(2,771)
AHC - peso	50	362
	(50)	(362)
- dollar	100	134
	(100)	(134)

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.

The following tables demonstrate the effect on the Company's profit before income tax (as a result of a change in the fair value of equity instruments held as investment held for trading) due to a reasonably possible change in equity indices, based on the Company's expectation, with all other variables held constant as of December 31, 2009 and 2008. There is no other significant impact on the Company's equity other than those already affecting the profit or loss.

	2009	
	Increase/Decrease in Stock Exchange Index	**Effect on Profit Before Tax**
		(In Thousands)
BCII	**+10%**	**₱198**
	-10%	**(198)**
AHC	**+10%**	**125**
	-10%	**(125)**

	2008	
	Increase/Decrease in Stock Exchange Index	Effect on Profit Before Tax
		(In Thousands)
BCII	+10%	₱1,118
	-10%	(1,118)
AHC	+10%	295
	-10%	(295)

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

The Company closely monitors and manages its debt-to-equity ratio, which it defines as total current and noncurrent liabilities divided by total equity. The Company considers its equity as the total of capital stock, additional paid-in-capital, share in equity component of convertible notes, unrealized gain on change in fair value of an AFS investment, share in unrealized gain on change in fair value of AFS investments of associates, 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 December 31, 2009 and 2008 are as follows:

	2009	2008
	(In Thousands)	
Total liabilities	**₱2,256,957**	₱1,841,547
Total equity	**6,766,366**	6,678,292
Debt-to-equity ratio	**0.33:1**	0.28:1

31. 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	
	2009	2008	**2009**	2008
		(In Thousands)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱1,052,217**	₱1,826,778	**₱1,052,217**	₱1,826,778
Short-term investments	**–**	86,817	**–**	86,817
Trade and other receivables:				
Trade - net	**486,030**	303,861	**486,030**	303,861
Due from related parties	**41,239**	32,127	**41,239**	32,127
Accrued interest	**14,126**	21,269	**14,126**	21,269
Receivable from BCII Retirement/Gratuity Plan (BCII Retirement)	**8,939**	8,939	**8,939**	8,939
Advances to suppliers and contractors	**25,915**	9,300	**25,915**	9,300
Advances to officers and employees	**5,335**	1,757	**5,335**	1,757
Others - net	**24,003**	33,068	**24,003**	33,068
Installment contract receivable*	**333,450**	84,474	**333,450**	78,237
	1,991,254	2,408,390	**1,991,254**	2,402,153
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	**296,205**	691,105	**296,205**	691,105
Investments in UITFs	**261,172**	76,949	**261,172**	76,949
Investments in trust accounts	**4,501**	17,682	**4,501**	17,682
Investments in marketable equity securities	**2,534**	1,559	**2,534**	1,559
Derivative assets	**6,865**	–	**6,865**	–
	571,277	787,295	**571,277**	787,295
AFS investments:				
Quoted	**28,300**	27,400	**28,300**	27,400
Unquoted	**370,370**	304,119	**370,370**	304,119
	398,670	331,519	**398,670**	331,519
	₱2,961,201	₱3,527,204	**₱2,961,201**	₱3,520,967
Financial Liabilities				
Financial liabilities at FVPL - Derivative liabilities	**₱–**	₱26,857	**₱–**	₱26,857
Other financial liabilities:				
Notes payable	**₱100,891**	123,818	**100,891**	123,818
Trade and other payables	**585,712**	359,856	**585,712**	359,856
Trust receipts payable	**131,051**	537,252	**131,051**	537,252
Due to related parties	**60,270**	143	**60,270**	143
Long-term debt (including current portion)	**701,713**	509,245	**719,111**	518,396
	1,579,637	1,530,314	**1,597,035**	1,539,465
	₱1,579,637	₱1,557,171	**₱1,597,035**	₱1,566,322

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

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

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

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

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

Derivative Instruments

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

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

The Company has outstanding currency forward contracts with an aggregate notional amount of US$3.0 million and US$29.9 million as of December 31, 2009 and 2008, respectively. The weighted average contracted forward rate is ₱47.57 to US$1.00 and ₱46.77 to US$1.00 as of December 31, 2009 and 2008, respectively. The outstanding currency forward contracts mature in January 2010. The net fair values of these outstanding currency forward contracts amounted to ₱4.1 million gain and ₱26.9 million loss as of December 31, 2009 and 2008, respectively.

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

	2009	2008
	(In Thousands)	
Balance at beginning of year	**(₱26,857)**	₱56,964
Net change in fair value during the year	**49,215**	(63,047)
Fair value of settled contracts	**(18,270)**	(20,774)
Balance at end of year	**₱4,088**	(₱26,857)

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 and nil as of December 31, 2009 and 2008, respectively. The weighted average contracted forward rate is ₱42.72 to US$1.00 as of December 31, 2009. The outstanding embedded derivatives will mature from January 4, 2010 to March 31, 2010. The net fair values of the embedded derivatives amounted to ₱2.8 million gain and nil as of December 31, 2009 and 2008, respectively.

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

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱–**	₱9,762
Net changes in fair value during the year	**9,063**	(37,267)
Fair value of settled contracts	**(6,286)**	27,505
Balance at end of year	**₱2,777**	₱–

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.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Fair Value Hierarchy
As at December 31, 2009, the Company held the following financial instruments measured at fair value:

	2009	Level 1	Level 2	Level 3
		(In Thousands)		
Financial assets at FVPL:				
Investments held for trading:				
Investments in bonds	**₱296,205**	₱296,205	₱–	₱–
Investments in UITFs	**261,172**	261,172	–	–
Investments in trust accounts	**4,501**	4,501	–	–
Investments in marketable equity securities	**2,534**	2,534	–	–
Derivative assets	**6,865**	–	6,865	–
AFS investments:				
Quoted	**28,300**	28,300	–	–
	₱599,577	₱592,712	₱6,865	₱–

During the year ended December 31, 2009, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

32. Income Tax

The components of the Company's deferred tax assets and liabilities are as follows:

	2009	2008 (As Restated - see Note 7)
	(In Thousands)	
Deferred tax assets:		
Allowance for doubtful accounts	**₱9,584**	₱6,662
Revalued net assets of a subsidiary	**4,661**	4,903
Unamortized past service cost	**2,467**	–
Unearned tuition fee	**3,330**	12
Unrealized foreign exchange losses	**1,792**	1,984
Impairment loss	**1,290**	314
Retirement Benefits	**769**	–
Accrued retirement expense	**202**	753
Deferred Interest income on refunds from Meralco	**64**	131
Excess of straight-line recognition of management fee over contract payment terms	**64**	56
Advances from students	**–**	43
NOLCO	**–**	35,515
	24,223	50,373
Deferred tax liabilities:		
Revalued net assets	**(300,620)**	(65,881)
Expansion of school facilities	**(27,176)**	(12,435)
Pension asset	**(8,267)**	(6,628)
Unrealized foreign exchange gains	**(1,799)**	(33,992)
Excess of straight-line lease over lease contract terms	**(1,580)**	(2,428)
Derivative assets	**(833)**	–
Unamortized capitalized borrowing cost	**(735)**	(840)
Unamortized debt issuance cost	**(454)**	(937)
Unrealized gain on change in fair value	**(26)**	(512)
	(341,490)	(123,653)
	(₱317,267)	(₱73,280)

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

	2009	2008
	(In Thousands)	
Deferred tax assets - net	**₱5,602**	₱13,960
Deferred tax liabilities - net	**(322,869)**	(87,240)
	(₱317,267)	(₱73,280)

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, are as follows:

	2009	2008
	(In Thousands)	
NOLCO	**₱106,605**	₱43,101
Unrealized foreign exchange losses	**51,174**	5,259
Accrued personnel cost	**21,580**	1,790
Accrual for retirement benefits	**21,455**	19,888
MCIT	**12,735**	12,860
Unamortized past service cost	**7,771**	15,293
Allowance for:		
Doubtful accounts	**4,541**	32,409
Write-down of inventories to net realizable value	**59**	849
Unrealized loss on derivatives	**(4,088)**	26,857
Unrealized loss on change in fair value of investments held for trading	**(2,754)**	29,961
	₱219,078	₱188,267

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 regular corporate income tax (RCIT) due while NOLCO totaling ₱106.6 million can be claimed as deduction against taxable income as follows:

		Amount	
Date Incurred	Expiry Date	MCIT	NOLCO
		(In Thousands)	
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 and ₱1.4 million expired in 2009 and 2008, respectively. NOLCO of ₱139.6 million and ₱72.5 million expired in 2009 and 2008, respectively. MCIT and NOLCO totaling ₱0.2 million and nil in 2009 and ₱1.8 and ₱20.4 million in 2008 were claimed as deduction against regular taxable income.

A reconciliation between the statutory tax rates and the Company's effective tax rates on income before income tax and minority interest is as follows:

	2009	2008	2007
Applicable statutory tax rate	**30.0%**	35.0%	35.0%
Income tax effects of:			
Interest income subjected to lower final tax rate	**(4.8)**	(2.6)	(2.4)
Dividend income	**(0.4)**	(0.5)	(3.9)
Nondeductible interest expense	**6.2**	0.1	0.1
Change in unrecognized deferred tax assets and others	**(15.6)**	(11.3)	(13.4)
Effective tax rates	**15.4%**	20.7%	15.4%

The regular corporate income tax 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.

On December 18, 2008, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 16-2008 which implemented the provisions of Section 34(L) of the Tax Code of 1997, as amended by Section 3 of R.A. No. 9504, which allows individuals and corporations to adopt the Optional Standard Deduction (OSD) in computing their taxable income.

Under RR No. 16-2008, corporations may claim OSD equivalent to 40% of gross income, excluding passive income subjected to final tax, in lieu of the itemized deductions. A corporate taxpayer who elected to avail of the OSD shall signify such in the income tax return. Otherwise, it shall be considered as having availed of the itemized deductions allowed under Section 34 of the National Internal Revenue Code. Election is done on an annual basis. In 2009 and 2008, the Company computed its income tax based on itemized deductions.

33. Pension and Other Post-employment Benefits

BCII, UGC, BIPC, Toon City, COC and AU have actuarially computed retirement plans covering all permanent employees.

Pension and other post-employment benefits consist of accruals for:

	2009	2008
	(In Thousands)	
Net pension liability	**₱34,501**	₱255
Vacation and sick leave	**6,446**	4,897
	₱40,947	₱5,152

Employee benefits included under general and administrative expenses consist of:

	2009	2008	2007
		(In Thousands)	
Net pension expense	**₱18,433**	₱12,632	₱17,667
Vacation and sick leave	**1,549**	1,595	303
	₱19,982	₱14,227	₱17,970

Annual contribution to the retirement plans consists of a payment to cover the current service costs for the year plus a payment toward funding the actuarial accrued liability.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated statements of financial position for the respective plans.

Net pension expense consists of:

	2009	2008	2007
		(In Thousands)	
Current service cost	**₱17,354**	₱8,174	₱9,228
Interest cost on defined benefit obligation	**10,317**	7,348	7,722
Expected return on plan assets	**(8,462)**	(4,554)	(3,530)
Net actuarial loss recognized	**(776)**	1,664	2,429
Effects of curtailment in COC pension plan on:			
Unrecognized net actuarial losses	**–**	–	6,635
Present value of the defined benefit obligation	**–**	–	(4,817)
Net pension expense	**₱18,433**	₱12,632	₱17,667

Details of net pension liability are as follows:

	2009	2008
	(In Thousands)	
Present value of defined benefit obligation	**₱156,033**	₱47,564
Fair value of plan assets	**(81,870)**	(73,022)
Unfunded obligation (surplus)	**74,163**	(25,458)
Unrecognized net actuarial losses (gains)	**(39,662)**	25,713
Benefit liability	**₱34,501**	₱255

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

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱47,564**	₱86,921
Actuarial loss (gains)	**83,097**	(49,843)
Interest cost on defined benefit obligation	**10,317**	7,348
Current service cost	**17,354**	8,174
Benefits paid	**(1,858)**	(5,036)
Discontinued operation (see Note 6)	**(441)**	–
Balance at end of year	**₱156,033**	₱47,564

Change in the fair value of plan assets are as follows:

	2009	2008
	(In Thousands)	
Balance at beginning of year	**₱73,022**	₱64,809
Expected return	**8,462**	4,554
Contributions by employer	**8,406**	12,513
Actuarial losses	**(6,162)**	(3,818)
Benefits paid	**(1,858)**	(5,036)
Balance at end of year	**₱81,870**	₱73,022
Actual return on plan assets	**₱2,300**	₱736

The Company expects to contribute ₱4.3 million and ₱6.7 million to its defined benefit pension plans in 2009 and 2008, respectively.

The principal assumptions used in determining pension benefits are as follows:

	2009	2008	2007
Discount rates	**8–11%**	8–30%	8–9%
Expected rates of return on plan assets	**5–8%**	5–10%	5–7%
Rates of salary increase	**5–12%**	5–11%	5–9%

The major categories of plan assets as a percentage of the fair value of the plan assets are as follows:

	2009	2008
Equities	**7%**	13%
Mutual and trust funds	**–**	13
Property	**19**	6
Fixed income securities and others	**74**	68
	100%	100%

The expected return on plan assets is based on the Company's expectation that assets will yield at least equal to the risk-free rate for the applicable period over which the obligation is to be settled.

The plan assets include shares of stock of BCII with a fair value of ₱1.9 million and ₱1.8 million as 2009 and 2008, respectively.

Amounts for the current and previous four periods are as follows:

	2009	2008	2007	2006	2005
			(In Thousands)		
Present value of defined benefit obligation	**₱156,033**	₱47,564	₱86,921	₱107,929	₱91,556
Fair value of plan assets	**(81,870)**	(73,022)	(64,809)	(50,363)	(54,669)
Unfunded (surplus) obligation	**(74,163)**	(25,458)	22,112	57,567	36,887
Experience adjustments on plan liabilities	**(1,284)**	1,900	1,000	(3,100)	–
Experience adjustments on plan assets	**–**	36	11,300	1,000	–

34. **Commitment and Contingencies**

a. Unused Credit Lines

UGC has the following unused approved credit lines with local banks and financial institutions as of December 31, 2009:

Nature	Amount
	(In Thousands)
Letters of credit/trust receipts	₱935,345
Bills purchase line	145,000
Invoice financing	100,000
Settlement risk	200,000
Forward contract	65,000

b. Commitments Under Operating Lease Agreements

Lessee
UGC entered into lease agreements covering its warehouse premises which have terms ranging from one to two years, renewable at the option of UGC under certain terms and conditions.

Future minimum rental payable as of December 31, 2009 are as follows:

	Amount
	(In Thousands)
2010	₱10,184
2011	9,060

Lessor
API's lease contracts related to its building space were for five to seven years ending 2011 to 2013, respectively. The lease contracts included a provision for an annual escalation of 5%, 7% and 10%.

Future minimum rental receivables under the non-cancelable operating leases as of December 31, 2009 and 2008 are as follows:

	2009	2008
	(In Thousands)	
Within one year	**₱39,941**	₱42,899
After one year but not more than five years	**16,342**	49,373
	₱56,283	₱92,272

PSHC's commitment under its operating lease agreement with UPPC is discussed in Note 29 to the consolidated financial statements.

c. Property Agreement

On March 2, 2006, API entered into an agreement with Paramount Property Management Company for services to manage, administer, operate and maintain the building for a monthly rate of ₱0.07 million exclusive of VAT. In consideration, API shall pay a pre-agreed management fee. Such fee is subject to an annual escalation of 10%. The agreement shall be for a period of five years up to March 2, 2011.

d. Others

There are contingent liabilities arising from lawsuits primarily involving collection cases filed by third parties and for tax assessments occurring in the ordinary course of business. On the basis of information furnished by the Company's legal counsel, management believes that none of these contingencies will materially affect the Company's financial position and results of operations.

35. EPS Computation

	2009	2008	2007
		(In Thousands)	
(a) Net income attributable to equity holders of the parent	**₱447,370**	₱273,160	₱330,410
(b) Net income from continuing operations attributable to equity holder of the parent (see Note 36)	**₱382,280**	₱270,000	₱308,883
(c) Number of shares outstanding at beginning of year	**257,737,307**	234,306,566	203,744,777
(d) Effects of 10% and 15% stock dividends declared in 2008 and 2007	**–**	23,430,741	53,992,530
(e) Weighted average number of common shares outstanding (c+d)	**257,737,307**	257,737,307	257,737,307
Basic/Diluted EPS attributable to equity holders of the parent (a/e)	**₱1.74**	₱1.06	₱1.28
Basic/Diluted EPS from continuing operations attributable to equity holder of the parent (b/e)	**₱1.48**	₱1.05	₱1.20

36. Segment Information *(see next page for table presentation)*

For management purposes, the Company's operating businesses are organized and managed separately according to business activities and has four 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.

37. Events after the Reporting Period

On March 3, 2010, the Company's BOD declared a cash dividend of ₱0.40 a share to all common shareholders of record as of March 29, 2010 payable on April 23, 2010.

Segment Information

Financial information on the operating segments are summarized as follows:

	Continuing Operations							Discontinued Operation - Property Development (see Note 6)	Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	BPO	Eliminations	Total		
					(In Thousands)				
Year Ended December 31,2009									
Revenues									
Segment revenue	₱25,827	₱42,843	₱2,503,987	₱828,385	₱257,209	₱–	₱3,658,251	₱5,292	₱3,663,543
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Total revenues	₱395,526	₱43,514	₱2,504,695	₱830,719	₱257,238	(₱261,035)	₱3,770,657	₱5,292	₱3,775,949
Results									
Segment results	₱29,499	₱11,267	₱271,859	₱166,687	₱4,320	(₱89,735)	₱393,897	₱66,371	₱460,268
Investment income	369,699	671	708	2,334	29	(261,035)	112,406	–	112,406
Equity in net earnings of an associate	–	29,772	–	–	–	87,885	117,657	–	117,657
Interest expense and financing charges	(15,946)	(783)	(47,575)	(37,632)	(3,846)	–	(105,782)	(1,219)	(107,001)
Benefit from (provision for) income tax	(3,798)	(3,067)	(73,116)	(18,821)	–	19,960	(78,842)	–	(78,842)
Share of minority interest	–	–	–	(2,395)	–	(54,661)	(57,056)	(62)	(57,118)
Net income attributable to equity holders of parent	₱379,454	₱37,860	₱151,876	₱110,173	₱503	(₱297,586)	₱382,280	₱65,090	₱447,370
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	₱–	₱7,681,058
Investment in associates	–	325,925	–	–	–	1,010,738	1,336,663	–	1,336,663
Deferred tax assets	–	–	–	941	–	4,661	5,602	–	5,602
Total assets	₱6,256,991	₱691,062	₱1,541,441	₱2,117,380	₱502,529	(₱2,086,080)	₱9,023,323	₱–	₱9,023,323
Segment liabilities	₱453,689	₱10,787	₱727,165	₱872,628	₱80,994	(₱276,906)	₱1,868,357	₱–	₱1,868,357
Income and other taxes payable	5,486	556	48,912	10,778	–	–	65,732	–	65,732
Deferred tax liabilities	–	1,516	60,466	100,887	12,784	147,215	322,868	–	322,868
Total liabilities	₱459,175	₱12,859	₱836,543	₱984,293	₱93,778	(₱129,691)	₱2,256,957	₱–	₱2,256,957
Other Segment Information									
Capital expenditures	₱79,627	₱2	₱37,501	₱25,156	₱6,352	₱–	₱148,638	₱–	₱148,638
Depreciation and amortization	7,519	26,716	70,273	71,030	9,934	63,978	249,450	1,627	251,077
Noncash items other than depreciation, amortization and provision for impairment losses	385,519	146	53,427	54,661	1,107	–	494,860	–	494,860

	Continuing Operations							Discontinued Operation -	
	Investment Holdings	Property Development	Steel	Educational Services	BPO (As Restated- see Note 7)	Eliminations	Total	Property Development (see Note 6)	Total Operations
					(In Thousands)				
Year Ended December 31, 2008									
Revenues									
Segment revenue	₱25,395	₱42,911	₱2,723,285	₱329,682	₱–	₱–	₱3,121,273	₱57,004	₱3,178,277
Investment income	238,514	2,054	832	1,341	–	(163,673)	79,068	6,714	85,782
Total revenues	₱263,909	₱44,965	₱2,724,117	₱331,023	₱–	(₱163,673)	₱3,200,341	₱63,718	₱3,264,059
Results									
Segment results	₱131,810	₱11,358	₱281,773	₱39,530	₱–	(₱98,575)	₱365,896	₱6,577	₱372,473
Investment income	238,514	2,054	832	1,341	–	(163,673)	79,068	6,714	85,782
Equity in net earnings of an associate	–	39,839	–	–	–	1,747	41,586	–	41,586
Interest expense and financing charges	(16,793)	–	(69,941)	(6,449)	–	–	(93,183)	(6,679)	(99,862)
Benefit from (provision for) income tax	(4,435)	(3,384)	(72,364)	(2,539)	–	2,270	(80,452)	(2,300)	(82,752)
Share of minority interest	–	–	–	–	–	(42,915)	(42,915)	(1,152)	(44,067)
Net income attributable to equity holders of parent	₱349,096	₱49,867	₱140,300	₱31,883	₱–	(₱301,146)	₱270,000	₱3,160	₱273,160
As at December 31, 2008									
Assets and Liabilities									
Segment assets	₱6,129,210	₱376,069	₱1,939,046	₱699,258	₱551,329	(₱3,036,681)	₱6,658,231	₱596,270	₱7,254,501
Investment in associates	–	323,976	–	–	–	927,402	1,251,378	–	1,251,378
Deferred tax assets	–	–	–	8,774	–	4,903	13,677	283	13,960
Total assets	₱6,129,210	₱700,045	₱1,939,046	₱708,032	₱551,329	(₱2,104,376)	₱7,923,286	₱596,553	₱8,519,839
Segment liabilities	₱482,359	₱16,047	₱1,053,072	₱202,714	₱119,459	(₱214,348)	₱1,659,303	₱40,528	₱1,699,831
Income and other taxes payable	2,704	2,460	40,562	2,408	–	–	48,134	6,342	54,476
Deferred tax liabilities	–	2,372	68,992	38,252	(14,373)	(8,003)	87,240	–	87,240
Total liabilities	₱485,063	₱20,879	₱1,162,626	₱243,374	₱105,086	(₱222,351)	₱1,794,677	₱46,870	₱1,841,547
Other Segment Information									
Capital expenditures	₱530	₱8,661	₱80,353	₱25,741	₱13,362	₱–	₱128,647	₱–	₱128,647
Depreciation and amortization	8,041	26,313	55,593	35,192	–	₱640	125,779	12,173	137,952
Provision for impairment losses	–	–	–	–	–	–	–	–	–
Noncash items other than depreciation, amortization and provision for impairment losses	9,302	–	23,252	21,336	–	–	53,890	–	53,890

	Continuing Operations						Discontinued Operation - Property Development (see Note 6)	Total Operations
	Investment Holdings	Property Development	Steel	Educational Services	Eliminations	Total		
				(In Thousands)				
Year Ended December 31, 2007								
Revenues								
Segment revenue	₱36,532	₱62,716	₱2,105,295	₱312,403	(₱36,801)	₱2,480,145	₱124,837	₱2,604,982
Investment income	187,268	4,109	864	654	–	192,895	884	193,779
Total revenues	₱223,800	₱66,825	₱2,106,159	₱313,057	(₱36,801)	₱2,673,040	₱125,721	₱2,798,761
Results								
Segment results	(₱6,878)	₱5,937	₱207,322	₱41,564	(₱42,506)	₱205,439	₱35,673	₱241,112
Investment income	187,268	4,109	864	654	–	192,895	884	193,779
Equity in net earnings of an associate	–	19,526	–	–	88,952	108,478	–	108,478
Interest expense and financing charges	(354)	(16,494)	(78,402)	(10,878)	–	(106,128)	(3,265)	(109,393)
Benefit from (provision for) income tax	(6,578)	(3,769)	(48,912)	(6,366)	2,824	(62,801)	(3,920)	(66,721)
Share of minority interest	–	–	–	–	(29,000)	(29,000)	(7,845)	(36,845)
Net income attributable to equity holders of parent	₱173,458	₱9,309	₱80,872	₱24,974	₱20,270	₱308,883	21,527	₱330,410
As at December 31, 2007								
Assets and Liabilities								
Segment assets	₱5,124,315	₱676,360	₱1,684,826	₱703,595	(₱877,386)	₱7,311,710	₱644,961	₱7,956,671
Investment in associates	–	228,706	–	–	963,359	1,192,065	–	1,192,065
Total assets	₱5,124,315	₱905,066	₱1,684,826	₱703,595	₱85,973	₱8,503,775	₱644,961	₱9,148,736
Segment liabilities	₱154,894	₱226,279	₱898,387	₱219,522	(₱58,342)	₱1,440,740	₱95,880	₱1,536,620
Income and other taxes payable	5,422	67	25,128	3,447	–	34,064	1,098	35,162
Deferred tax liabilities	–	2,565	77,336	29,384	(46,093)	63,192	2,789	65,981
Total liabilities	₱160,316	₱228,911	₱1,000,851	₱252,353	(₱104,435)	₱1,537,996	₱99,767	₱1,637,763
Other Segment Information								
Capital expenditures	₱2,153	₱14,986	₱20,954	₱27,474	₱–	₱65,567	₱–	₱65,567
Depreciation and amortization	8,693	26,249	50,008	32,963	4,460	122,373	15,088	137,461
Provision for impairment losses	–	–	–	–	15,393	15,393	–	15,393
Noncash items other than depreciation, amortization and provision for impairment losses	250,035	649	23,233	11,015	–	284,932	–	284,932

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