

**M**ABUHAY  
HOLDINGS CORPORATION

April 15, 2010

**JANET A. ENCARNACION**  
**Head, Disclosure Department**  
4/F The Philippine Stock Exchange, Inc.  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

**Re: Annual Report**

Gentlemen:

Enclosed is the Annual Report (SEC 17-A) of Mabuhay Holdings Corporation for the year ended December 31, 2009.

We trust you will find the report in order.

Very truly yours,

  
**ARACELI C. MOLINA**  
Treasurer and Finance Manager

35/F, Rufino Pacific Tower, 6784 Ayala Avenue Makati City 1223, Philippines  
Tel. (632) 750-2000 Fax (632) 751-0773

0 0 0 0 1 5 0 0 1 4

SEC Registration Number

M A B U H A Y H O L D I N G S C O R P O R A T I O N

(Company's Full Name)

3 5 / F R U F I N O P A C I F I C T O W E R

6 7 8 4 A Y A L A A V E N U E

M A K A T I C I T Y

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

ARACELI C. MOLINA

Contact Person

750-2000

Company Telephone Number

1 2

Month  
Fiscal Year

3 1

Day

FORM TYPE

0 5

Month  
Annual Meeting

Day

2009 Corporate Governance Scorecard

n/a

Secondary License Type, If Applicable

S E C

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

OK  
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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LCU

Document ID

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Cashier

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# SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

## ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the Year Ended **DECEMBER 31, 2009**
2. SEC Identification Number: **150014**
3. BIR Tax Identification Number: **050-000-473-206**
4. Exact Name of Registrant: **MABUHAY HOLDINGS CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
6. Industry Classification Code: \_\_\_\_\_
7. Address of Principal Office: **35/F, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, 1223**
8. Registrant's Telephone Number, Including Area Code: **(632) 750-2000**
9. Former Name, former address, former fiscal year, if changed from last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

**Common stock** **1,200,000,000 shares**

11. Are any or all of these securities listed on a Stock Exchange.

Yes [  ] No [  ]

**Philippine Stock Exchange** **Common shares of stock**

12. Check whether the Registrant:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a), thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months

Yes [  ] No [  ]

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

Yes [  ] No [  ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant

Total number of subscribed shares	1,200,000,000
Less: Shares held by affiliates	412,291,363
Shares held by non-affiliates	787,708,637
Market price as of December 31, 2009	0.40
Aggregate market value of voting stock held by non-affiliates	<b><u>P315,083,455</u></b>

14. Documents incorporated by reference: **None**

## Fiscal Year 2008 Form 17-A

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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1 – Business**

Mabuhay Holdings Corporation (hereafter referred to as “Registrant” or “MHC” or “Company”) was incorporated on April 06, 1988. It is a holding company principally engaged in the acquisition and disposition of investments in securities, stocks, real and personal properties, and of any kind of properties and of investments in other entities.

It was incorporated with an authorized capital of 200 million shares at a par value of P1 per share. It was listed at both the Makati and Manila stock exchanges in 1990. The Articles of Incorporation were amended in 1994 to increase authorized capital to 4 billion shares at P1 par value per share. Currently, capital stock issued and subscribed total 1.2 billion shares, of which around P939 million have been paid out of the P1.2 billion subscriptions.

The registrant currently holds office at 35/F, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, 1223. Its last annual stockholders’ meeting was on June 23, 2009.

As of December 31, 2009, the Registrant holds directly or indirectly substantial investments in several other corporations. Three of these are wholly owned subsidiaries while the rest are investees in which MHC has sizeable claims and interests. . For the past five years, operating activities of the Group have been kept to the minimum. Its affiliates engaged in the property business have likewise experienced a slowdown in growth and development. The Group’s main focus is to support the stock rights offering of its large associate, Interport Resources Corporation (IRC). IRC needs to secure funding of its planned residential development projects in its Binangonan Property. These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

#### **A. SUBSIDIARIES AND AFFILIATES**

Major investees of the Registrant are the following:

##### **1. T & M Holdings, Inc. (100%-owned by the Registrant)**

T & M Holdings, Inc. (T&MHI) which was registered with the Commission on November 10, 1995, is a holding company engaged in investments in real properties, marketable securities and stocks of other companies, domestic or foreign. Currently, it has a 40.07% stake in Interport Resources Corporation (IRC).

##### **2. M & M Holdings Corporation (M&MHC) (100%-owned by the Registrant)**

Like T&MHI, M & M Holdings Corporation which was registered with the SEC on April 21, 1995, is a holding company engaged in the business of acquiring and disposing of interests in real and personal properties of any kind or description, marketable securities and shares of stocks. Currently, M&MHC has no substantial property except for some advances to its parent company, and a minimal amount of cash.

**3. Shiun-Tung Investment Co., Ltd. (SICL) (100%-owned by the Registrant)**

Shiun-Tung Investment Co., Ltd., a Taiwan-based investment company, was acquired by the Registrant on March 4, 1999. It has a substantial amount of investments in First Steamship Co., Ltd., a medium-sized shipping company. The Company was incorporated on August 20, 1993. The Registrant acquired said company for the purpose of increasing its shares in First Steamship Co., Ltd. In 2008, investment in STICL have been acquired by a related party and later sold to a third party for a total consideration of P92.42 million.

**4. Interport Resources Corporation (IRC) (40%-owned by the Registrant thru T&M Holdings, Inc.)**

Interport Resources Corporation, a company listed in the Philippine Stock Exchange, was incorporated on February 24, 1975 primarily to engage in the acquisition, reclamation, development or exploitation of land, forests, minerals, oil, gas and other resources. It owns about 2,200-hectare of land in Binangonan, Rizal and an 896-hectare island located in Barangay Bintuan, Coron, Palawan known as Apo Island.

**5. Tagaytay Properties and Holdings Corporation (TPHC) (26.04%-owned by the Registrant)**

A real estate company established and registered with the SEC on April 13, 1998, TPHC owns a high potential and strategically-located land in Tagaytay City. This property was supposed to be developed into a mixed commercial and residential subdivision but such plans were postponed indefinitely as a result of changes in the zoning laws of the city.

**6. The Taal Company, Inc. (TTCI) (29.97%-owned by the Registrant)**

The Taal Company, incorporated on August 29, 1990, is a real estate company with property holdings in several parts of the Batangas province.

**7. The Angeles Corporation (TAC) (38.46%-owned by the Registrant)**

The Angeles Corporation is an investment company incorporated on October 14, 1994. Most of its assets are invested in shares of the Prosperity Taxi Cab Corporation (PTCC), which the Company sold to a third party in 2009.

**8. Mindanao Appreciation Corporation (MAC) (28.51%-owned by the Registrant)**

Mindanao Appreciation Corporation is an investment Company, incorporated and registered with the SEC on November 21, 1991. Most of its assets are invested in shares of Mabuhay Holdings Corporation and The Taal Company, Inc. It owns about 3.14 hectares of property in General Santos City.

**B. FOREIGN SALES.**

With the disposal of the Company's investment in Shiun Tung, this is no longer applicable to the Registrant.

**C. COMPETITIVE BUSINESS CONDITION/COMPETITIVE POSITION IN THE INDUSTRY.**

The competitiveness of the Registrant, given the nature of its business, is defined by the diversity of its interests. Most of the Registrant's business interests are concentrated in the real estate property business. The Tagaytay Properties & Holdings Corporation, The Taal Co., Inc., Mindanao Appreciation Corporation, T & M Holdings, Inc. and Interport Resources Corporation each hold an inventory of real properties in strategic locations like Tagaytay City, Batangas, Cavite, Gen. Santos City and Binangonan. The aggregate landholdings of the Registrant's investees easily run to 3,029 hectares, many of which are in prime locations.

**D. DEPENDENCE ON A FEW CUSTOMERS.** This disclosure is currently not applicable to the Registrant's business and concerns.

**E. TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES.** The Registrant's transactions with its subsidiaries and affiliates mainly consist of the granting of advances to /from them. The Registrant exercises control and management over some of its investees.

**F. NEED FOR GOVERNMENTAL APPROVAL OF PRODUCTS AND SERVICES.** Aside from being regulated by the PSE and the SEC, the Registrant generally is not subject to any other specific government regulation.

**G. EFFECT OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS TO THE BUSINESS.** This disclosure is currently not applicable to the Registrant's business and concerns.

**H. ESTIMATE OF AMOUNT SPENT FOR RESEARCH AND DEVELOPMENT ACTIVITIES.** This disclosure is currently not applicable to the Registrant's business and concerns.

**I. COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS.** This disclosure is currently not applicable to the Registrant's business and concerns.

**J. TOTAL NUMBER OF EMPLOYEES AND NUMBER OF FULL TIME EMPLOYEES.** As of December 31, 2009, The Registrant has 6 employees, all

rendering administrative services. Of the Company's 6 employees, 4 render support services: 2 for accounting/bookkeeping work and 2 doing office services functions while the other 2 belong to the management and administration of the Company. There is no Collective Bargaining Agreement between the employees and the Registrant and there had been no strikes or threats of strike for the past five (5) years. Aside from the statutory benefits prescribed by the labor code, the Registrant's employees enjoy Company-sponsored health insurance.

<b>Item 2 – Properties</b>
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All the following properties owned by MHC and its affiliates/subsidiaries are free from lien:

<b>Name of Property</b>	<b>Owner</b>	<b>Area</b>	<b>Location</b>
Genil Property	The Taal Co., Inc.	11,784 sq. m	Bugaan East, Laurel, Batangas
Landicho Property	The Taal Co., Inc.	39,781 sq. m	Lumang Lipa, M.Kahoy, Batangas
Zara Property	The Taal Co., Inc.	14,022 sq. m	Don Juan, Cuenca, Batangas
Rañola Property	The Taal Co., Inc.	778 sq. m	Tanza, Cavite
Tagaytay Property	Tagaytay Properties and Holdings Corp.	98,760 sq. m	Rotonda, Tagaytay City
Binangonan Property	Interport Resources Corp.	2,200 has. *	Binangonan, Rizal
Apo Island	Interport Resources Corp.	896 has	Apo Island, Palawan
Olalia	Tagaytay Properties and Holdings Corp.	20,459 sq. m	Tagaytay City
Mariano	Tagaytay Properties and Holdings corp.	22,500 sq. m	Tagaytay City
Carandang	Tagaytay Properties and Holdings Corp.	6,533 sq. m	Ambolong, Batangas
Atienza	Tagaytay Properties and Holdings corp.	2,636 sq. m	Ambolong, Batangas
Landicho	Tagaytay Properties and Holdings Corp.	15,605 sq. m	M. Kahoy, Batangas
Gen. Santos	Mindanao Appreciation Corp.	31,364 sq. m	Gen. Santos City
35F Rufino Tower (office condo unit)	Mabuhay Holdings Corp.	886 sq. m**	Ayala Avenue, Makati City

\* 121 hectares have been attached/mortgaged by a party to cover its liabilities.

\*\* Only half of the 35<sup>th</sup> Floor is leased out and the other half is being used by the Company as its office together with its associate, Interport Resources Corporation.

The Registrant has no plans to acquire property in the next 12 months.



### **Item 3 – Legal Proceedings**

The Registrant and its consolidated subsidiaries/affiliates are parties to various legal actions or proceedings. However, in the opinion of management, the ultimate liability, if any, resulting from these actions or proceedings, will not have a material effect on the Registrant's consolidated financial position.

### **Item 4 – Submission of Matters to a Vote of Security Holders**

There were no substantial matters submitted to a vote of the security holders during the 4<sup>th</sup> quarter of the year 2009. The last meeting of the Registrant's stockholders was the annual stockholders' meeting, which was held on June 23, 2009. In that meeting, the stockholders elected the directors for 2009. Messrs. Steven G. Virata and Rodrigo B. Supeña were the Registrant's independent directors in compliance with SEC Memorandum Circular No. 16, Series of 2002, Section 38 of the Securities Regulation Code and its implementing rules and regulations.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **Item 5 – Market for the Registrant's Common Equity and Related Stockholder Matters**

The Registrant's shares of common stock are being traded at the Philippine Stock Exchange. Of the authorized capital stock of four billion shares, 1.2 billion have been subscribed. As of December 31, 2009, MHC has received P194.7 million as deposits for future stock subscription.

**Dividends.** No dividend declarations were made during the two recent fiscal years of the Registrant. Aside from the accumulated deficit sustained by the company, there is no restriction that limits the ability to pay dividends on common equity.

**Stock Prices.** The shares of MHC traded along the following bands during 2008 and 2007:

	2009		2008	
	High	Low	High	Low
First Quarter	0.22	0.13	0.42	0.28
Second Quarter	0.36	0.15	0.42	0.26
Third Quarter	0.36	0.28	0.30	0.19
Fourth Quarter	0.48	0.27	0.20	0.07

The listed price of MHC shares as of April 8, 2010 is P0.44

**Recent Sales of Unregistered Securities.** No securities of the Registrant have been sold within the past three years which have not been registered under the Securities Regulation Code. Neither is there any claim for exemption from registration made by the Company.

## Stockholders.

Stockholders of record as at December 31, 2009 total two hundred sixty one (261) in number, broken down as follows:

<u>Citizen</u>	<u>No. of shares</u>	<u>Percentage</u>	<u>No. of Holders</u>
Filipino	721,415,675	60.11	247
American	908,000	.08	7
Chinese	545,000	.05	3
Other Alien	<u>477,131,325</u>	<u>39.76</u>	<u>4</u>
<b>Total</b>	<b><u>1,200,000,000</u></b>	<b><u>100.00</u></b>	<b><u>261</u></b>

Top 20 Stockholders as at December 31, 2009 all holding Common Stock:

<u>Name of Stockholder</u>	<u>No. of Shares Held</u>	<u>Percentage</u>
1. PCD Nominee Corporation	461,227,486	38.14
2. Prokey Investments Ltd.	351,289,763	29.27
3. PCD Nominee Corporation	124,841,512	10.40
4. Mindanao Appreciation Corporation	10,183,000	0.85
5. Belson Securities, Inc.	9,430,000	0.79
6. Lim, Edward	5,901,000	0.49
7. Castor, Arsenia Sonia	5,000,000	0.42
8. Avesco Marketing	1,600,000	0.13
9. Seng Chay Lee	1,324,000	0.11
10. Four Treasures Development Corp	1,200,000	0.10
11. Yan, Lucio W.	1,000,000	0.08
12. Prosperity Taxi Cab Corporation	1,000,000	0.08
13. Khoe, Valentin Khoe and/or Valentina Annette Lisa	1,000,000	0.08
14. Century Sports Philippines	812,000	0.07
15. Zosa, Rolando M..	800,000	0.07
16. Uy, Samson	700,000	0.06
17. Mendoza, Alberto	650,000	0.05
18. Sy, Siliman	546,000	0.05
19. Arsenia Sonia Castor ITF: Luzon Valentine	510,000	0.04
20. Arsenia Sonia Castor ITF: Visayas Laguna	510,000	0.04

There had been no sales of unregistered or exempt securities of the Registrant, or issuance of its securities constituting exempt transaction.

### **Item 6 – Management’s Discussion and Analysis or Plan of Operation**

The Group’s main focus is to support the stock rights offering of its large associate, Interport Resources Corporation (IRC). IRC needs to secure funding of its planned residential

development projects in its Binangonan Property. These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

The management of the Company has plans to sell some assets and pursue the development of its investment properties as well as the real properties of its subsidiaries and affiliated companies and to enter into joint ventures if opportune.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management, under the direction of the Board of Directors of the Group is responsible for the management of financial risks. Its objective is to minimize the adverse impacts on the Group's financial performance due to the unpredictability of financial markets.

The Company's equity position is in compliance with the minimum statutory requirements applicable to public companies. Given the very limited operating activities undertaken by the Group, it does not require intensive capitalization. The Group's main objective is to ensure it has adequate capital moving forward to pursue its land disposal plans at optimum gain.

The Group does not anticipate heavy requirement for working capital in 2010 given that its focus is mainly to ensure successful site clearance and future development activities of its major associate, Interport Resources Corporation (IRC) , which is 40.07% owned by the Company. IRC, is in the process of completing certain regulatory requirements so that it can raise additional P400 million capital through a stock rights offering. This program is expected to be completed by May 2010.

## **2009**

Total assets increased by P23.7M or 6.9% mainly due to the increase in Notes and other receivables and the recovery in market value of investment in listed shares offsetted by the share in net losses of associates and decrease in Prepayments. . Total liabilities increased by P4.4M or 5.3% due to the increase in Trade and other payables while total equity increased by P19.3M or 7.4% due to the decrease in accumulated deficit and a corresponding decrease in Non-controlling interest.

Operating revenues increased by P2.3M or 64% due to increase in rental income. Operating expenses decreased by P21.6M or 62.2% mainly due to the decrease in professional fees, impairment losses and Other expenses.

Registrant's operations for 2009 resulted in a net income of P19.3M, a reduction of P59.9M or 75.6% compared to last year's net income of 79.2M. This was mainly due to the extraordinary income earned last year arising from the sale of its investment in Shiun Tung, allowing it to have a gain on sale of P39.7M and a recovery of impairment losses of 68.1M. Interest income increased by P22.1M due to the increase of its Notes receivable.

Material Changes in the Financial Statements (2009 vs. 2008)

50.78% decrease in Cash on hand and in bank mainly due to advances made to Interport Resources Corporation, an associate.

60.05% increase in Financial assets at fair value through profit or loss due to acquisition of listed shares and recovery in market value.

11.17% increase in Notes and other receivables due to advances made to Interport Resources Corporation, an associate.

77.32% increase in Property and equipment and 19.42% decrease in Investment properties mainly due to reclassification of Office Building currently being used by the Company from Investment properties to Property and equipment.

10.58% increase in Accrued expenses and other payables due to accruals for professional fees, utilities and other recurring expenses.

Below are the comparative key performance indicators of the Company and its subsidiaries:

	<b><u>Dec. 31, 2009*</u></b>	<b><u>Dec. 31, 2008*</u></b>	<b><u>Dec. 31, 2007*</u></b>
Return on Capital Employed	.07	.30	.34
Net Profit Ratio	3.26	21.72	74.44
Current ratio	3.21	2.94	1.81
Acid test	.08	.08	.07
Earnings (loss) per share	.0297	.0717	(. 0229)

\*Audited

Notes:

- 1.) Return on Capital Employed is derived at by dividing Net Income by Total Assets less Current Liabilities.
- 2.) Net Profit Ratio is computed by getting the ratio of Consolidated Net Income (Loss) to Total Revenues.
- 3.) Current Ratio is expressed as Current Assets : Current Liabilities.
- 4.) Acid Test Ratio is expressed as Total of Cash on hand and in banks + Financial assets at fair value : Current Liabilities.
- 5.) Earnings (loss) per share is arrived at by dividing the Consolidated Net Income (Loss) over the total no. of shares subscribed and outstanding.

## **2008**

Total assets decreased by P448M or 57% mainly due to the disposal of its investment in Shiun Tung. Total liabilities and total equity likewise decreased by P22M and P426M respectively for the same reason.

Operating revenues increased by P.24M or 7% due to increase in rental income. Operating expenses increased by P7.6M or 28% mainly due to the incurrence of bad debt expense of P12.3M, impairment losses of P1.1M, increase in professional fees of P4.4M offsetted by a P10.4M reduction in Other expenses.

The Registrant's operations for 2008 resulted in a net income of P79.2M vs. a loss of P27.2M in 2007 due to the sale of its investment in Shiun Tung allowing it to have a gain on sale of P39.7M and a recovery of impairment losses of 68.1M. However, the Registrant shared equity losses of its associates amounting to P9.6M.

### Material Changes in the Financial Statements (2008 vs. 2007)

11% decrease in Financial assets at fair value through profit and loss – mainly due to fair value adjustment.

97% increase in Notes and other receivables, net – mainly due to increase in interest bearing advances to IRC for 2008 amounting to P110M inclusive of interest coupled with the net effect of the sale of Shiun Tung investment amounting to P41M and reduced by the cancellation of subscription with the amount previously received as deposits applied against the Group's advances to concerned stockholders amounting to P47M.

42% increase in Prepayments – mainly due to increase in Input VAT and prepaid taxes.

100% decrease in Available-for-sale securities – mainly due to the sale of the Registrant's investment in Shiun Tung.

20% decrease in Investments in associates – due share in equity losses of associates.

309% increase in Property and equipment – due to the acquisition of Furniture, fixtures, office and communication equipment and Construction in progress pertaining to the renovation of the office of the Registrant (see Note 11 of Notes to Financial Statements).

6% decrease in Investment Properties – due to the annual depreciation of the Rufino Pacific Tower condominium units.

19% increase in Borrowings – due mainly to the additional borrowings carrying an interest of 18% per annum.

44% decrease in Trade and Other Payables – due mainly to the effect of the sale of Shiun Tung investment.

19% decrease in Deposits for Future Subscriptions – due to the cancellation of subscription with the amount previously received as deposits applied against the Group’s advances to concerned stockholders.

100% decrease in Accumulated Translation Adjustments – due to the sale of the investment in Shiun Tung.

100% decrease in Revaluation Reserves – due to the sale of the investment in Shiun Tung that holds the First Steamship shares.

## **2007**

The year 2007 saw the Philippine economy expand at a GDP growth of 7.3 percent, its highest in 31 years. Contributing much to this boom was the real estate sector. While the US housing market, especially the sub-prime housing sector, has been spiraling downwards, growth in the Philippine real estate industry has picked up speed with property firms registering record sales this year. However, some institutions believe that this feat will be difficult to replicate in 2008 as the Philippines faces three major challenges: the growing risks of US recession; the rapid rise of the peso; and the escalating prices of oil in the world market. The key challenge lies in mitigating the impact of these risks. Nonetheless, the Company’s Management believes that the upward trajectory in the real estate industry can be sustained in 2008. Hence in late 2007, it reopened doors to seriously indulge in full blast development of one of its affiliate firm, Interport Resources Corporation, a Company that owns considerable real estate properties in Binangonan and Apo Island in Palawan. To finance this project, the Company intends to raise capital through loans and/or rights offering.

Compared with last year, total assets increased by P252.5M mainly due to the increase in value of the First Steamship shares of stock included in the available for sale securities account in the balance sheet. The unrealized gain of such shares was lodged in the equity account. Total liabilities decreased by P1.1M mainly due to the elimination of the deferred tax liability. Revenues rose by P.8M due to the full occupancy of the Rufino property coupled with higher rental rates. Losses and expenses went up by P6.4M or 31% due to the increase in salaries and benefits of the officers and employees, particularly that of the new president, partly offsetted by the non- recurrence of loss on investment suffered last year.

### Material Changes in the Financial Statements (2007 vs. 2006)

46% decrease in Cash and 74% increase in Financial assets at fair value through profit and loss – mainly due to the purchase of publicly listed local stocks.

89% increase in Available-for-sale securities – mainly due to the increase in market price of First Steamship shares of stocks.

29% increase in Property and equipment – due to the acquisition of company car.

6% decrease in Investment properties – due to the sale of a property in Batangas.

82% decrease in Other non-current assets – mainly due to the elimination of the excess over book value of Mindanao Appreciation Corporation lodged in other non-current assets account.

14% increase in Interest-bearing loans and borrowings – due to incurrence of a P6M loan from Hongkong offsetted by amortization payments of the loan from Taiwan bank amounting to P2.8M

### **Item 7 – Financial Statements**

The audited consolidated financial statements of the Registrant as of and for the year ended December 31, 2009, as listed in the accompanying Index to Financial Statements and Supplementary Schedules, are filed as part of this Form 17-A.

The financial statements attached to the report include the audited balance sheets, statements of income, statements of changes in equity, statements of cash flows and the notes to the financial statements. Such reports form part of our attachment to our SEC Annual Report Form 17-A.

### **Item 8 – Independent Public Accountants**

(a) Audit and Audit-Related Fees

The Registrant changed its external auditors from Sison Corillo Parone & Co. in 2007 to Isla, Lipana & Co. in 2008 due to the downgrading of the former to Classification B by the SEC.

There were no disagreements with the auditors with respect to accounting principles and practices, financial disclosures, or auditing scope or procedures. As in previous years, representatives of the Registrant’s auditors are expected to be present at this year’s annual stockholders’ meeting, available to respond to questions that may be asked by the stockholders. The said auditors will have the opportunity to make a statement if they desire to do so.

The external auditors charged the Company and its subsidiaries an aggregate amount of P.9M for the last two (2) calendar years ending December 31, 2009 and 2008.

(b) Tax Fees

There were routinary professional services rendered by the external auditors for tax accounting, compliance, advice, planning and any other form of tax services in each of

the last two (2) calendar years ending December 31, 2008 and 2007. The fees for these services are included in the Audit and Audit-Related Fees mentioned above.

Tax consultancy services are secured from entities other than the external auditors.

(c) All Other Fees

There were no other professional services rendered by the external auditors during the period.

(d) Company Policy in Appointment of Independent Auditor

The President and the Treasurer recommend to the Board of Directors the appointment of the external auditor and the fixing of the audit fees. The Board of Directors approves their recommendation.

### **PART III -- CONTROL AND COMPENSATION INFORMATION**

<b>Item 9 – Directors and Executive Officers</b>
--

**A. DIRECTORS – *All directors’ term of office is for one (1) year.***

**Atty. Roberto V. San Jose, Director, Chairman of the Board**— He was elected Chairman of the Board in 2003. He has been a member of the Board of Directors for more than five years now. He is a consultant of the Castillo Laman Tan Pantaleon & San Jose Law Offices and a Director or Officer of the following companies: Anglo Philippine Holdings Corporation, Alsons Consolidated Resources Corporation, Philweb Corporation, CP Group of Companies, Carlos Palanca Foundation, Inc., MAA Consultants, Inc., Solid Group Inc., United Paragon Mining Corporation, The Metropolitan Club, Inc. and various client corporations of their law firm. Attorney San Jose, a Filipino, is 68 years old.

**Esteban G. Peña Sy, Director and President** He was elected as Director and President on Nov. 1, 2006. He graduated from the University of the Philippines in 1968 with the degree of A.B. Economics and completed the Program for Management Development at Harvard Business School in 1982. He was the Managing Director of Pan Asian Management Ltd. And AI Financial Services Ltd., which are management and investment consultancy firms based in Hongkong, and Pan Asian Oasis Telecom Ltd. that operates joint venture factories engaged in the manufacture of communication and fiber optic cables in China. His previous work experience includes the following: Asst. Secretary General of the Federation of Filipino-Chinese Chambers of Commerce and Industry from 1971-1979 and Executive Director from 1980-1986; various positions in the Ayala Group of Companies from 1979-1984. Mr. Peña Sy, a Filipino citizen, is 62 years old

**Atty. Delfin P. Angcao, Director and Corporate Secretary**—holds the position for more than five years. Currently a partner at the Castillo Laman Tan Pantaleon & San Jose Law Offices (CLTPSJ) since the year 2000. He was a junior associate with



CLTPSJ from 1995 to 1997. He climbed up to being a Senior Associate from 1997 to 2000. He was a former associate at the San Jose, Enriquez, Lacas, Santos, Borje & Vendero from 1992 to 1995. He is or has been elected as director and/or Corporate Secretary of various client corporations of CLTPSJ namely: Ajo.net Holdings, Inc., United Paragon Mining Corporation, Philcomsat Holdings Corporation, and Golden Valley Exploration Corporation. He is a member of the Integrated Bar of the Philippines and the Philippine Institute of Certified Public Accountants. Attorney Angcao, a Filipino, is 52years old.

**Atty. Ana Maria A. Katigbak, Assistant Corporate Secretary** -- holds the position since 1999. A member of the Integrated Bar of the Philippines and a graduate of Bachelor of Laws and Bachelor of Arts in Comparative Literature (Cum Laude) at the University of the Philippines, she is currently a partner at the Castillo Laman Tan Pantaleon San Jose Law Offices. She is also Assistant Corporate Secretary of publicly-listed companies and registered membership clubs such as: Boulevard Holdings, Inc., Premier Entertainment Productions, Inc., Solid Group, Inc., The Metropolitan Club, Inc., AJO.net Holdings, Inc. and PhilWeb.Corporation. She is also a lecturer at the Thames International Business School, Philippine Campus. Atty. Katigbak, a Filipino, is 40 years old.

**Steven G. Virata, Director** – joined the Company in 2001. A degree holder of B.S. Architecture from the University of the Philippines, he has more than 10 years experience in the aviation industry, marketing, architecture, graphic design and production, theater industry and farm management; A director of C. Virata and Associates from 1998 to present, Resident Manager of Caylabne Bay Resort from June 2002 to present, Officer-in-Charge of LBC Airways, Inc. from 1994 to present, Farm Manager of Rancho Leonor from 1984 to present, Vice-President for Sales of Air Ads, Inc. from 1996 to 2001. He was elected last year and is expected to be nominated this year, as an independent director. Mr. Virata, a Filipino, is 52 years old.

**Rodrigo B. Supeña, Director** -

## **INDEPENDENT DIRECTORS**

In compliance with SEC Memorandum Circular No. 16, series of 2002 (now SRC Rule 38), which provides for the guidelines on the nomination and election of independent directors, a Nomination Committee has been created with the following as members:

- |                        |                               |
|------------------------|-------------------------------|
| 1. Wong Peng Chong     | Chairman, Director            |
| 2. Roberto V. San Jose | Member                        |
| 3. Steven G. Virata    | Member (Independent Director) |

The Nomination Committee was tasked to accept and to pre-screen nominees for election as independent directors conformably with the criteria prescribed in the said SEC Memo Circular and the Company's Code of Corporate Governance, and to prepare and to make available to the SEC and the stockholders before the

stockholders' meeting a Final List of Candidates as required in the said SEC Memo Circular.

Stockholders may recommend nominees for election as independent directors by submitting to the Company at its principal office address the following:

1. Written recommendation signed by the nominating stockholder with the acceptance and the conformity of his nominee; and
2. Information about the nominee as required under Part IV (A) and (C) of Annex "C" of SRC Rule 12.

Mr. Steven G. Virata and Mr. Rodrigo B. Supeña were elected as the Company's independent directors at the last annual stockholders' meeting held on June 23, 2009. It is expected that for this year, Mr. Peña Sy will nominate Messrs. Steven G. Virata and Rodrigo B. Supeña as independent directors of the Company.

## **B. EXECUTIVE OFFICERS/CONTROL PERSONS**

**Esteban G Peña Sy, President** - See foregoing Director's Profile.

**Araceli C. Molina, Corporate Treasurer/Finance Manager** – effective August, 2004. Also acts as the Financial Manager of the group; a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants, has been for several years connected with listed companies such as Vulcan Industrial and Mining Corporation, A Brown Company, etc.. Her past affiliations cover dealings with banks and other financial institutions, the Philippine Stock Exchange, Inc., and government agencies such as the Department of Energy, Securities and Exchange Commission and Bureau of Internal Revenue. Miss Molina, a Filipino, is 53 years old.

All the directors and executive officers named above were elected to their positions for a term of one (1) year and to serve as such until their successors are elected and qualified.

None of the directors and officers of the Company was involved in the past five years in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

No directors and officers are related to the extent of the fourth civil degree either by consanguinity or affinity.

There is no other person aside from those listed under Directors and Executive Officers who makes a significant contribution to the business.

Except for the above directors and officers, the Registrant has no significant employees (as the term is defined under the SRC and its implementing rules and regulations).

### **Item 10 – Executive Compensation**

#### **DIRECTORS**

The Directors receive P1,000 as per diem transportation allowance for every board meeting.

#### **EXECUTIVE OFFICERS**

The annual compensation of the Company’s executive officers for the last two (2) fiscal years and the ensuing year 2010 (estimate) are as follows:

Executive Officer	Position	Salary			Bonus	Other Annual Compensation
		2010 (Estimate)	2009	2008		
Roberto V. San Jose	Chairman of the Board					
Esteban G. Peña Sy	President					
Araceli C. Molina	Treasurer					
Agnes Marie R. Lopez-Villano	Personnel & Administration Manager					
Total of all above named directors & officers as a group		P3.92M	P4.16	P3.55M	None	None

Directors receiving compensation were either employed as officers of the Company receiving fixed monthly salary or receiving reimbursement of representation expenses incurred from time to time.

Directors and executive officers employed by the Company, receiving fixed monthly salary (*see table above*) are Mr. Esteban G. Peña Sy and Araceli C. Molina. The Company has only two officers.

There are no outstanding warrants or options held by the Company’s executive officers and directors as a group.

### **Item 11 – Security Ownership of Certain Beneficial Owners and Management**

#### (1) Security Ownership of Certain Record and Beneficial Owners

Stockholders owning more than 5% of the Registrant’s shares of stocks as of December 31, 2009:

<b>Title of Class</b>	<b>Name And Address Of Record Owner And Relationship With Issuer</b>	<b>Beneficial Owner and Relationship with Record Owner</b>	<b>Citizenship</b>	<b>No. of Shares Held</b>	<b>Percent</b>
Common	PCD Nominee Corporation* G/F MSE Building 6767 Ayala Avenue, Makati City	Standard Chartered Bank*	Filipino	461,227,486	38.44
Common	Prokey Investment Ltd.** c/o Mabuhay Holdings Corporation: 35/F, Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, 1223	Strategic Asset Group Limited (SAGL)**	Filipino	351,289,763	29.27
Common	PCD Nominee Corporation* G/F MSE Building 6767 Ayala Avenue, Makati City	Citibank N.A. Citiomifor/	Other Alien	124,841,512	10.40
<b>TOTAL</b>				<b>937,358,761</b>	<b>78.11</b>

\* Out of the total shares held by PCD, 350,478,000 shares are in the name of Standard Chartered Bank while 59,866,000 shares are in the name of Citibank N.A.-CITIOMNIFOR. These banks are the only participants under the PCD that own more than 5% of the Company's voting stock. While in the past year, Atty. Roberto V. San Jose, the Chairman of the Meeting was appointed proxy for 350,128,000 shares in the name of Standard Chartered Bank, Registrant is not aware of the identity of its new proxy, if any, entitled to vote in the forthcoming annual stockholders' meeting.

\*\* Prokey Investment Ltd. (Prokey) is a wholly-owned subsidiary of Strategic Asset Group Limited (SAGL), the latter being the present beneficial owner of these shares, having acquired the same in 2002 from Mulpha International Berhad, the previous beneficial owner. SAGL is a private company incorporated in the British Virgin Islands. In October, 2009, Prokey was acquired by Mr. Esteban Peña Sy and on March 15, 2010, the SEC approved its registration of having a representative office in the Philippines. In the past year, Atty. Roberto V. San Jose, the Chairman of the Meeting has been designated as proxy entitled to vote for these shares.

## (2) Security Ownership of Management.

The following directors and officers are record/beneficial (R/B) owners of the Registrant's shares as indicated opposite their names as of December 31, 2009:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership			Citizenship	Percent of Ownership
		Shares	Amount	Nature		
Common	Roberto V. San Jose Director/Chairman of the Board	600	600	R & B	Filipino	0
Common	Esteban G. Peña Sy	351,289,863	351,289,863	R & B	Filipino	0
Common	Delfin P. Angcao Director/Corp. Secretary	100	100	R	Filipino	0
Common	Steven G. Virata Director	100	100	R	Filipino	0
Common	Rodrigo B. Supena	50	50	R	Filipino	0
Common	Ana Maria A. Katigbak Director/Asst. Corp. Secretary	100	100	R	Filipino	0
Common	Araceli C. Molina, Treasurer	50	50	R	Filipino	0
TOTAL		351,290,863	351,290,863			29.27

#### **Item 12 – Certain Relationships and Related Transactions**

There are no related party transactions other than those presented in Note 20 of the Notes to Consolidated Financial Statements attached herein.

#### **PART IV – CORPORATE GOVERNANCE**

#### **Item 13 – Compliance with Leading Practice on Corporate Governance**

The Company is committed to good corporate governance and continues to pursue efforts towards attaining full compliance with its Manual on Corporate Governance.

The Company has designated its Treasurer and Finance Manager, Ms. Araceli C. Molina, as Compliance Officer who is tasked with monitoring compliance with the provisions and requirements of the Company's Manual on Corporate Governance.

The Company is continuing to pursue efforts towards attaining full compliance with its Manual on Good Corporate Governance. The Company is presently developing a plan and timetable for compliance with certain leading practices and principles of good corporate governance, such as structured monitoring of compensation, benefits, succession planning and continuous training for management and key personnel on the leading practices of good corporate governance.

## PART V -- EXHIBITS AND SCHEDULES

### Item 14 – Exhibits and Reports on Form 17-C

**A. Exhibits --** The exhibits, as indicated in the Index to Exhibits, are either not applicable to the Company or require no answer.

**B. Report on SEC Form 17-C**

The following current reports have been reported by Mabuhay Holdings Corporation during the year 2009 through official disclosure letters dated:

- |                  |  |
|------------------|--|
| January 19, 2009 | : information on the demise of Mr. J. Marsh Thomson, one of the independent directors of MHC.  |
| January 27, 2009 | : approval of Isla Lipana & Co. as the external auditors of MHC  |
| March 31, 2009   | : election of Mr. Rodrigo B. Supeña as Independent Director as replacement of Mr. J. Marsh Thomson.<br>Setting of Annual Stockholders' Meeting to June 23, 2009.   |
| June 23, 2009    | : election of directors for the term 2009-2010<br>MHC's stockholders appointed Isla Lipana & Co as external auditors<br>Election of officers and committee members in accordance with MHC's Code of Corporate Governance |
| August 19, 2009  | : appointment of Araceli C. Molina as MHC's compliance officer and non-director member of the Nomination Committee   |

**MABUHAY**  
HOLDINGS CORPORATION


**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of **MABUHAY HOLDINGS CORPORATION and Subsidiaries** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates 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 Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company. Isla Lipana & Co., the independent auditors appointed by the Board of Directors, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation in accordance with Philippine Financial Reporting Standards upon completion of such examination, in its report to stockholders.

  
**ROBERTO V. SAN JOSE**  
Chairman of the Board of Directors

  
**ESTEBAN G. PEÑA SY**  
President


  
**ARACELI C. MOLINA**  
Treasurer  
(Also acting as the Company's Chief Financial Officer)

REPUBLIC OF THE PHILIPPINES )  
MAKATI CITY )

**SUBSCRIBED AND SWORN TO** before me, a Notary Public, for and in Makati City, this 8th day of April 2010, affiants exhibiting to me their Community Tax Certificates/Passports, as follows:

Affiant	CTC No./ Passport No.	Date of Issue	Place of Issue
Roberto V. San Jose	28599107	January 25, 2010	Makati City
Esteban G. Peña Sy	XX2946474	Feb. 05, 2009	Manila
Araceli C. Molina	29753346	January 18, 2010	Mandaluyong City

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PAGE NO. : 47 :  
BOOK NO. : ✓ :  
SERIES OF : 9210 :

  
**ATTY. GERVACIO B. ORTIZ JR.**  
NOTARY PUBLIC FOR MAKATI CITY  
UNTIL DECEMBER 31, 2010  
IBF NO. 626155 - LIFETIME MEMBER  
PTR NO. 2975548 JAN. 4, 2010 MAKATI CITY  
APPT - 84201 ROLL NO. 40991



## MABUHAY HOLDINGS CORPORATION

### INDEX TO EXHIBITS

SEC FORM 17-A

Plan of Acquisition, Reorganization, Arrangements, Liquidation or Succession	*
Instruments Defining the Rights of Security Holders, Including Indentures	*
Voting Trust Agreement	*
Material Contracts	*
Annual Report of Security Holders, Form 17-Q or Quarterly Report to Security Holders	*
Report Furnished to Security Holders	*
Subsidiary of the Registrant	
Published Report Regarding Matters Submitted to Vote of Security Holders	*
Consents of Experts and Independent Counsel	*
Power of Attorney	*
Additional Exhibits	*

\* Either not applicable to the Company or requires no answer

## **SUBSIDIARIES OF THE REGISTRANT**

The following are the subsidiaries of the Registrant over which it exercises considerable control:

### **A. Wholly-owned subsidiaries**

T & M Holdings, Incorporated  
M & M Holdings Corporation  
Shiun-Tung Investment Company, Ltd. (sold in 2008)

### **B. Others**

<u>Subsidiary</u>	<u>Ownership</u>
The Taal Company, Incorporated (TTCI)	29.97
Tagaytay Properties and Holdings Corporation	26.04
Mindanao Appreciation Corporation	28.51
The Angeles Corporation	38.46
Interport Resources Corporation	40.07 (thru T&M Holdings Inc.)

# MABUHAY HOLDINGS CORPORATION

## INDEX TO SUPPLEMENTARY SCHEDULES SEC FORM 17-A

Page No.

### Supplementary Schedules

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D. Indebtedness of Unconsolidated Subsidiaries and Related Parties	27
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**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**MARKETABLE SECURITIES - (INVESTMENT IN LISTED EQUITY AND DEBT SECURITIES)  
DECEMBER 31, 2009**

Name of issuing entity and association of each issue	Number of shares of principal amount of bonds and notes	Amount shown in the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
BASIC( PET.B)CONSO.INC	3,300	Php 512	Php 512	-
VULCAN INDUSTRIAL	5,000	3,100	3,100	-
PHIL. REALTY A	1,900,000	1,406,000	1,406,000	-
IRC "A"	1,910,000	1,528,000	1,528,000	-
ANSCOR	190	391	391	-
AYALA LAND, INC.	50,000	562,500	562,500	-
SPLASH CORPORATION	100,000	340,000	340,000	-
ALCORN GOLD RES.CORP	500,000	4,000	4,000	-
FILIPINO FUND INC.	157	926	926	-
FILINVEST LAND, INC.	84,250	75,825	75,825	-
FIL-ESTATE LAND INC.	6,850	2,055	2,055	-
MLA MINING CORP. "A"	5,924,345	154,033	154,033	-
MLA MINING CORP. "B"	6,859,551	178,348	178,348	-
AYALA CORPORATION	58	17,545	17,545	-
BDO UNIBANK, INC.	90	3,510	3,510	-
GMA NETWORK,INC.	1,000	7,800	7,800	-
RFM CORPORATION	40,000	22,400	22,400	-
CHEMREZ TECH. INC.	15,000	36,000	36,000	-
MUSX CORPORATION	623,000	74,760	74,760	-
NAT"L REINS. CORP.	5,000	7,900	7,900	-
SWIFT FOOD INC.	44,621	6,470	6,470	-
UNITED P. MINING CORP.	750,000	5,626	5,626	-
UNIWIDE HOLDINGS, INC.	1,410,000	141,000	141,000	-
BASIC ENERGY CORP.	1,110,000	172,050	172,050	-
<b>Total</b>	<b>21,342,412</b>	<b>Php 4,750,751</b>	<b>Php 4,750,751</b>	

SCHEDULE B

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND  
 PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)  
 DECEMBER 31, 2009

Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non-current	Balance at end of period
Jojit Arcega (Messenger/Janitor)	Php -	Php 5,000	Php -	Php -	Php 5,000	Php	Php 5,000

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

CURRENT MARKETABLE EQUITY SECURITIES  
 OTHER LONG-TERM INVESTMENT IN STOCK AND OTHER INVESTMENT  
 DECEMBER 31, 2009

Name of issuing entity and description of investments	Number of shares or principal amount of bonds and notes	Amount in Pesos	Equity in earnings (losses) of investees for the period	Othe r	Distribution of earnings by investees	Othe r	Number of shares or principal amounts of bonds and notes	Amount in Pesos	Dividends received from investments not accounted for by the equity method
<b>NOT APPLICABLE</b>									

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**INDEBTEDNESS OF UNCONSOLIDATED SUBSIDIARIES AND RELATED PARTIES  
DECEMBER 31, 2009

Name of related parties	Balance at the beginning of period	Balance at the end of period
Interport Resources Corporation		
Notes Payable	Php 128,240,600	Php 201,555,546
Interest Payable	39,230,023	71,339,664
	Php 167,470,623	Php 272,895,210

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**INTANGIBLE ASSETS - OTHER ASSETS  
DECEMBER 31, 2009

Description	Beginning balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending
<b>NOT APPLICABLE</b>						



**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

LONG-TERM DEBT  
DECEMBER 31, 2009

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet
<b>NOT APPLICABLE</b>			

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)  
DECEMBER 31, 2009

Name of related party	Balance at beginning of period	Balance at the end of period
<b>NOT APPLICABLE</b>		

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**Guarantees of Securities of Other Issuers  
December 31, 2009

Name of issuing entity of securities guaranteed by the company for which this statements is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
<b>NOT APPLICABLE</b>				

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

Capital Stock  
December 31, 2009

Title of issue	Number of shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
<b>see note 15 of the audited financial statements</b>						

*Isla Lipana & Co.*

**MABUHAY HOLDINGS CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2009 AND 2008  
(With comparative figures as of and for  
the year ended December 31, 2007)**

## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**Mabuhay Holdings Corporation**  
35 Floor, Rufino Pacific Tower  
6784 Ayala Avenue  
Makati City

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Mabuhay Holdings Corporation and its Subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of total comprehensive income, changes in equity and cash flows for the years then ended, 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 consolidated 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Mabuhay Holdings Corporation  
Page 2

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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mabuhay Holdings Corporation and its Subsidiaries as of December 31, 2009 and 2008, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates that the Group has incurred continuous losses in prior years and has an accumulated losses of P820,791,366 and P839,841,577 as of December 31, 2009 and 2008, respectively. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Management plans in regard to this matter are also disclosed in Note 1 of the financial statements.

*Other matters*

The consolidated financial statements of the Group as of December 31, 2007 and the year then ended, prior to restatement described in Note 23 of the consolidated financial statements, were audited by other auditors whose report dated March 12, 2008 expressed an unqualified opinion on those statements and included an emphasis of a matter that described the existence of material uncertainty which cast significant doubt about the Group's ability to continue as a going concern.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Mabuhay Holdings Corporation  
Page 3

### **Report on Other Legal and Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on Schedules A, B, C, D, E, F, G, H, and I is presented for purposes of additional analysis and is not required part of the basic financial statements. Such information, as required by Securities Regulation Code (SRC) Rule 68.1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Isla Lipana & Co.***



Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 13, 2010, Makati City

SEC A.N. (individual) as general auditors 0791-A

SEC A.N. (firm) as general auditors 0009-FR-2

TIN 152-015-078

BIR A.N. 08-000745-42-2008, issued on December 2, 2008; effective until December 2, 2011

BOA/PRC Reg. No. 0142, effective until December 31, 2010

Makati City  
April 8, 2010



**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2009 AND 2008  
(With comparative figures as of December 31, 2007)  
(All amounts in Philippine Peso)

	Notes	2009	2008 (As restated)	2007 (As restated)
<u>ASSETS</u>				
<b>CURRENT ASSETS</b>				
Cash on hand and in banks	6	1,885,133	3,830,325	4,011,569
Financial assets at fair value through profit or loss	7	4,750,751	2,968,347	3,338,111
Notes and other receivables, net	8,23	270,037,668	242,907,834	188,533,923
Prepayments		2,358,618	3,048,562	2,148,842
Total current assets		279,032,170	252,755,068	198,032,445
<b>NON-CURRENT ASSETS</b>				
Investments in associates	9,23	48,889,618	49,274,657	61,689,602
Property and equipment, net	10	10,361,049	5,843,267	1,427,441
Investment properties	11	28,673,921	35,586,581	37,707,034
Other non-current assets	12	319,787	165,705	551,368,800
Total non-current assets		88,244,375	90,870,210	652,192,877
Total assets		367,276,545	343,625,278	850,225,322
<u>LIABILITIES AND EQUITY</u>				
<b>CURRENT LIABILITIES</b>				
Borrowings	13	30,416,144	30,296,477	25,525,100
Accrued expenses and other payables	14	43,151,430	39,022,226	69,465,774
Due to related parties	19	13,313,820	13,192,220	9,386,990
Total current liabilities		86,881,394	82,510,923	104,377,864
<b>EQUITY</b>				
Capital attributable to Parent Company's equityholders	15			
Share capital		939,484,053	939,484,053	939,484,053
Treasury shares	23	(61,768,327)	(61,768,327)	(61,768,327)
Deposits on future subscriptions		194,695,275	194,695,275	241,620,861
Revaluation reserves	23	-	-	517,035,382
Deficit	23	(805,983,877)	(839,841,577)	(921,510,317)
		266,427,124	232,569,424	714,861,652
Non-controlling interest		13,968,027	28,544,931	30,985,806
Total equity		280,395,151	261,114,355	745,847,458
Total liabilities and equity		367,276,545	343,625,278	850,225,322

The notes on pages 1 to 30 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF TOTAL COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(With comparative figures for the year ended December 31, 2007)  
(All amounts in Philippine Peso)**

	Notes	2009	2008	2007 (As restated)
<b>REVENUES</b>				
Rental	11,20	5,921,012	3,648,283	3,374,990
Other		-	-	29,404
		5,921,012	3,648,283	3,404,394
<b>OPERATING EXPENSES</b>				
Salaries and employee benefits	21	3,127,554	3,145,910	2,954,045
Depreciation and amortization	10,11	2,779,501	1,952,181	2,304,690
Professional fees		2,153,216	5,757,281	1,363,271
Impairment losses	8,9,16	-	13,351,916	-
Others	16	5,057,325	10,456,780	5,740,806
		13,117,596	34,664,068	12,362,812
<b>LOSS FROM OPERATIONS</b>		7,196,584	31,015,785	8,958,418
<b>OTHER INCOME (EXPENSES)</b>				
Finance income, net				
Interest income	8	32,305,278	10,193,017	3,064,139
Interest expense	13	(3,088,783)	(2,910,511)	(786,060)
Share in net losses of associates	9	(5,876,784)	(9,639,704)	(7,259,260)
Unrealized gain (loss) on securities	7	2,329,923	(2,709,748)	-
Foreign exchange losses, net		1,291,049	4,995,694	(14,700,939)
(Loss) gain on disposal of assets	22	(512,882)	107,822,377	-
Others		792,916	2,709,748	-
		27,240,717	110,460,873	(19,682,120)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		20,044,133	79,445,088	(28,640,538)
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	17	763,337	217,223	(1,462,424)
<b>NET INCOME (LOSS) FOR THE YEAR</b>		19,280,796	79,227,865	(27,178,114)
<b>OTHER COMPREHENSIVE INCOME</b>				
Net change in fair value of available-for-sale securities		-	-	280,585,246
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		19,280,796	79,227,865	253,407,132
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>				
	18	0.0297	0.0717	(0.0229)
<b>Net income attributable to:</b>				
Equity holders of the Parent Company		33,857,700	81,668,740	(26,033,840)
Non-controlling interest		(14,576,904)	(2,440,875)	(1,144,274)
		19,280,796	79,227,865	(27,178,114)
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Parent Company		33,857,700	81,668,740	254,551,406
Non-controlling interest		(14,576,904)	(2,440,875)	(1,144,274)
		19,280,796	79,227,865	253,407,132

The notes on pages 1 to 30 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(With comparative figures for the year ended December 31, 2007)  
(All amounts in Philippine Peso)**

	Note	Equity Holders of the Company					Non-controlling interest	Total
		Share capital (Note 15)	Treasury shares (Note 15)	Deposits on future subscriptions (Note 15)	Revaluation reserves	Deficit		
Balances at January 1, 2007		939,484,053	(40,501,200)	241,620,861	236,450,136	(936,822,980)	(19,131,372)	421,099,498
Restatements	23	-	(21,267,127)	-	-	41,346,503	51,261,452	71,340,828
Balance as restated		939,484,053	(61,768,327)	241,620,861	236,450,136	(895,476,477)	32,130,080	492,440,326
Total comprehensive income for the year		-	-	-	280,585,246	(26,033,840)	(1,144,274)	253,407,132
Balances at December 31, 2007		939,484,053	(61,768,327)	241,620,861	517,035,382	(921,510,317)	30,985,806	745,847,458
Cancellation of deposits of future subscriptions		-	-	(46,925,586)	-	-	-	(46,925,586)
Total comprehensive income for the year		-	-	-	-	81,668,740	(2,440,875)	79,227,865
Fair value reserve recycled to profit or loss		-	-	-	(517,035,382)	-	-	(517,035,382)
Balances at December 31, 2008		939,484,053	(61,768,327)	194,695,275	-	(839,841,577)	28,544,931	261,114,355
Total comprehensive income for the year		-	-	-	-	33,857,700	(14,576,904)	19,280,796
Balances at December 31, 2009		939,484,053	(61,768,327)	194,695,275	-	(805,983,877)	13,968,027	280,395,151

The notes on pages 1 to 30 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
 (With comparative figures for the year ended December 31, 2007)  
 (All amounts in Philippine Peso)

	Notes	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax		20,044,133	79,445,088	(28,640,538)
Adjustments for:				
Share in net losses of associates	9	5,876,784	9,639,704	17,740,740
Impairment losses		-	13,351,916	-
Unrealized (gain) loss on securities	7	(2,329,923)	2,709,748	4,337,155
Depreciation and amortization	10,11	2,779,501	1,952,181	2,304,417
Interest expense		3,088,782	2,910,511	786,060
Interest income	8	(32,305,277)	(10,193,017)	(3,064,139)
Loss (gain) on sale of assets	22	512,882	(107,822,377)	-
Operating (loss) profit before working capital changes		(2,333,118)	(8,006,246)	(6,536,305)
Decrease (increase) in:				
Notes and other receivables	8	(4,740,007)	(95,243,221)	(2,248,692)
Prepaid expenses		146,443	(925,194)	(31,907)
Other non-current assets		(154,081)	(1,031,502)	592,534
Increase (decrease) in:				
Accrued expenses and other payables		1,045,091	2,980,570	(3,490,782)
Due to related parties		121,600	8,858,109	3,926,830
Cash used in operations		(5,914,072)	(93,367,484)	(7,788,322)
Income tax paid		(104,833)	-	(158,346)
Net cash used in operating activities		(6,018,905)	(93,367,484)	(7,946,668)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	10	(384,629)	(5,009,707)	(1,471,778)
Proceeds from disposals of property and equipment		-	2,503,306	253,717
Net increase in financial asset at fair value through profit or loss		(291,658)	(1,118,517)	968,751
Proceeds from disposal of investment in associates	9	4,750,000	-	-
Proceeds from disposal of available-for-sale securities		-	89,347,580	-
Net cash provided by (used in) investing activities		4,073,713	85,722,662	(249,310)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	13	-	7,463,578	4,771,377
NET DECREASE IN CASH ON HAND AND IN BANKS		(1,945,192)	(181,244)	(3,424,601)
<b>CASH ON HAND AND IN BANKS</b>				
January 1		3,830,325	4,011,569	7,436,170
December 31		1,885,133	3,830,325	4,011,569

The notes on pages 1 to 30 are an integral part of these financial statements.

## **MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

(With comparative notes and figures as of and for the year ended December 31, 2007).  
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

#### **Note 1 – General information**

Mabuhay Holdings Corporation (the “Company” or “Parent Company”) was incorporated in the Philippines on April 6, 1988 primarily to engage in the acquisition of and disposition of investments in marketable securities, shares of stocks and real estate properties. The Parent Company is 29.3% owned by Prokey Investments Limited, a 100% Filipino-owned company registered in the British Virgin Islands and licensed by the Securities and Exchange Commission (SEC) on March 15, 2010 to operate a representative office in the Philippines. The remaining 70.7% is owned by various individuals and corporations. The Parent Company’s common shares were listed in the Philippine Stock Exchange (PSE) in 1990.

The Company and its subsidiaries have no commercial operations as of December 31, 2009 and 2008. The subsidiaries’ operations consist mainly of monitoring and maintenance of existing investments and recognition of interest income on their cash deposits in banks. The Parent Company, in addition to interest income on cash deposits in banks, earns revenue through rental of its condominium units and interest income on notes receivable from a related party.

The Group’s main focus is to support the stock rights offering of its large associate, Interport Resources Corporation (IRC). IRC needs to secure funding of its planned residential development projects in its Binangonan Property. These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

The Group has incurred accumulated losses amounting to P805.98 million and P839.84 million as of December 31, 2009 and 2008, respectively. Also, the recoverability of the Group’s assets consisting mainly of notes and other receivables, available-for-sale securities, investments in associates and investment properties, as well as the Group’s ability to settle its liabilities, are dependent upon the success of future operations of the Group and its associate, IRC. The management of the Parent Company has plans to sell some assets and pursue the development of its investment properties as well as the real properties of its subsidiaries and affiliated companies and to enter into joint ventures. The outcome of these plans cannot be presently determined. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The registered office of the Group is at 35/F Rufino Pacific Tower, Ayala Avenue, Makati City.

The consolidated financial statements have been approved and authorized for issue by the Board of Directors on April 8, 2010.

## **Note 2 – Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippines Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale investments.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements as disclosed in Note 5.

The Group has adopted the following accounting standards and interpretations approved by the FRSC which are effective for annual periods beginning on or after January 1, 2009:

#### New accounting pronouncements

a) Effective for the Group beginning January 1, 2009

In 2009, the Group adopted the following accounting pronouncements:

- *PAS 1, Presentation of Financial Statements.* The amendment requires that all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. Dividends recognized as distributions to owners and related per share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income. Following the adoption of PAS 1, the Group's basic financial statements include a statement of total comprehensive income.

- *PFRS 1 (Amendment), First time adoption of PFRS, and PAS 27, Consolidated and Separate Financial Statements.* The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from PAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group has already adopted PFRS 1, therefore this amendment is not relevant to the group's financial statements. The Group applied PAS 27 amendment and has no material financial impact on the financial statements.
- *PFRS 7 (Amendment), Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments.* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of fair value measurement hierarchy. The adoption of the amendment resulted in additional disclosures (see Note 3.4) but did not have an impact on the financial position or total comprehensive income of the Group.
- *PAS 23 (Amended), Borrowing Costs.* The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The adoption of amended PAS 23 did not have a significant impact on the consolidated financial statements of the Group as the Group has no qualifying assets.
- *PFRS 8, Operating Segment* (effective from January 1, 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have a significant impact on the consolidated financial statements as the Group is being managed as a single operating unit.

b) Effective for the Group subsequent to 2009

The following standards, amendments and interpretations to existing standards have been published and are applicable for the Group beginning on or after January 1, 2010 but the Group has not early adopted.

- *PAS 27 (Revised), Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from January 1, 2010.

- *PFRS 3 (Revised), Business Combinations* (effective for annual periods beginning on or after July 1, 2009). This revision enhances the relevance, reliability and comparability of the information that entity provides in its financial statements about a business combination and its effects by establishing principles and requirements for how an acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Group has not early adopted PFRS 3 (Revised), Business Combination and will apply in its financial statements for the period commencing January 1, 2010. This standard is currently not applicable to the Group as there is no business combination during the year.
- *Philippine Interpretation IFRIC 17, Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009). This interpretation addresses accounting by an entity that makes a non-cash asset distribution to owners. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. If an entity gives its owner a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognized in equity as adjustment to the amount of the distribution. This interpretation will be adopted by the Company on its financial year beginning January 1, 2010.
- *Philippine Interpretation IFRIC 15, Agreement for the Construction of Real Estate* (effective for annual periods from January 1, 2012). This interpretation clarifies whether PAS 18, Revenue or PAS 11, Construction Contract, should be applied to particular transactions. It is likely that PAS 18 will be applied to a wider range of transactions. The Interpretation is effective for annual periods beginning on or after January 1, 2012 and is to be applied retrospectively. The FRSC decided to require mandatory application of the Interpretation for Philippine financial reporting purposes in 2012 to allow entities engaged in the real estate business time to prepare for implementation of the Interpretation. This interpretation will be adopted by the Group on January 1, 2012.

The adoption of the above accounting pronouncements are not expected to have a significant on the consolidated financial statements of the Group.

#### c) Improvements to PFRS

Improvements to PFRS comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual PFRS standards. Most of the amendments became effective in January 1, 2009 but their adoption did not have significant impact on the Group. Likewise, no material changes to the Group's accounting policies are expected for amendments that will be effective starting January 1, 2010 and onwards.

The adoption of the above accounting pronouncements are not expected to have a significant on the consolidated financial statements of the Group.



## 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2009 and 2008. The subsidiaries' financial statements are prepared using the same reporting year as the Parent Company. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. This consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2009 and 2008:

Subsidiaries	Percentage of ownership		
	Direct	Indirect	Total
T&M Holdings, Inc. (TMHI)	100.00%	-	100.00%
M&M Holdings Corporation (MMHC)	100.00%	-	100.00%
Mindanao Appreciation Corporation (MAC)	28.51%	13.98%	42.49%
The Angeles Corporation (TAC)	38.46%	15.02%	53.48%
The Taal Company, Inc. (TTCI)	29.97%	14.49%	44.46%
Tagaytay Properties and Holding Corporation (TPHC)	26.04%	-	26.04%

All subsidiaries are domestic companies registered in the Philippines.

### (e) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

MAC, TAC, TTCI and TPHC are consolidated because the Parent Company takes effective and absolute control over key decisions, operating strategies, and key policies of the entities. Consistent with PAS 27, the entities have been consolidated in the Group's financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share in the net assets acquired, the difference is recognized directly in profit or loss.

Intercompany transactions, balances and intragroup gains on transactions between the Group of companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The results of the subsidiaries acquired or disposed of during the year are included in profit or loss from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

TPHC holds interests in the companies listed above namely: (1) The Angeles Corporation, 57.69%; (2) The Taal Company, Inc., 55.64%; and (3) Mindanao Appreciation Corporation, 53.68%.

*(b) Transactions with non-controlling interests*

Interests in the equity of subsidiaries not attributable to the Parent Company are reported in the balance sheets as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statement of total comprehensive income.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Parent Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in the statement of capital funds. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, it does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intragroup gains on transactions between the Group and its associates are eliminated to the extent of its interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## **2.3 Cash on hand and in banks**

Cash consist of cash on hand and deposits at call with banks.

## **2.4 Financial assets**

### **2.4.1 Classification of financial assets**

The Group classifies its financial assets at initial recognition depending on the purpose for which the financial assets were acquired. As at reporting dates, the Group's financial assets are categorized as follows: (i) at fair value through profit or loss; (ii) loans and receivables and (iii) available-for-sale. There are no financial assets that are classified as held-to-maturity.

(a) Financial assets at fair value through profit or loss

The Group's financial assets falling under this category include listed equity securities (Note 7) that are held for trading.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those that will mature more than 12 months after the balance sheet date. These are classified as non-current assets. Significant financial assets falling under this classification include cash in banks and financial receivables such as notes receivables and other receivables and refundable deposits.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the balance sheet date.

#### **2.4.2 Initial recognition and measurement**

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on financial assets carried at fair value through profit or loss are expensed as incurred.

Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of profit or loss (as "Unrealized gain on securities") in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (as "Net change in fair value of available-for-sale securities"), until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the Group's right to receive payment is established.

### **2.4.3 Derecognition of financial assets**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

### **2.4.4 Impairment of financial assets**

#### *(i) Assets carried at amortized cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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.

The amount of impairment loss is measured as the difference between the financial 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 asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

#### *(ii) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss. Impairment losses recognized on equity instruments are not reversed through profit or loss.

## **2.5 Financial liabilities**

### **2.5.1 Classification and measurement of financial liabilities**

The Group's financial liabilities include financial instruments that are carried at amortized cost. These include borrowings and trade and other payables, excluding provisions and payable to government agencies. The Group holds no financial liabilities classified at fair value through profit or loss.

### **2.5.2 Initial recognition and derecognition of financial liabilities**

Financial liabilities are initially recognized at fair value of the consideration received less directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired.

### **2.5.3 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## **2.6 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and amortization and impairment, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which they are incurred.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	3 to 5 years
Office equipment	5 years
Office condominium	25 years
Communication and other equipment	5 years
Building improvements	10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the life of its assets or lease term, whichever is shorter.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in profit or loss.

## **2.7 Investment properties**

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

Investment properties are stated at historical cost less accumulated depreciation and amortization and impairment, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Investment properties are carried at cost less accumulated depreciation and less impairment, if any.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the financial period in which they are incurred.

Depreciation of building classified as investment property is calculated using the straight-line method over the estimated useful lives of 25 years.

Removal of an item within investment property is triggered by a change in use, by sale or disposal. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Gain or loss arising on disposal is calculated as the difference between any disposal proceeds and the carrying amount of the related asset. This is recognized in the profit or loss.

Property that is being constructed or developed for future use as investment property is classified as investment property.

## **2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example land, are not subject to depreciation and amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.9 Construction-in-progress**

Construction-in-progress is stated at cost. This represents the accumulated costs for the construction of the projects. Construction-in-progress is transferred to property and equipment or investment property when completed and ready for its intended use.

## **2.10 Accrued expenses and other payables**

Trade and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

## **2.11 Borrowings and borrowing costs**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Until December 31, 2008, all borrowing costs are recognized and charged to operations in the year which they are incurred.

Effective January 1, 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

## **2.12 Revenue and expenses recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is possible that future economic benefits will flow into the Group and specific criteria have been met for each of its activities as described below.

### *(a) Rental income*

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

### *(b) Interest income and expense*

Interest income and expense are recognized in the profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

*(c) Other income*

Other income is recognized when earned.

*(d) Expenses*

Operating expenses are recognized when they are incurred.

## **2.13 Income tax**

*(a) Current income tax*

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

*(b) Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

The Group reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.

*(c) Recent tax laws*



On December 20, 2008, Revenue Regulations No. 16-2008 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income; "cost of goods sold" and "cost of services" will be allowed to be deducted from gross sales.

For taxable period 2008, the maximum 40% deduction shall only cover the period beginning July 06, 2008. However, July 1, 2008 shall be considered as the start of the period when the 40% OSD may be allowed.

On February 18, 2010, Revenue Regulations No. 2-2010, amending Revenue Regulations No.16-2008 with respect to the manner and period for making the election to claim OSD in the income tax returns was published. The regulation states that the election to claim either the OSD or the itemized deduction for the taxable year must be signified in the income tax return filed for the first quarter of the taxable year adopted by the taxpayer. Once the election is made, the same type of deduction must be consistently applied for all the succeeding quarterly returns and in the final income tax return for the taxable year.

The Group did not avail of the OSD for purposes of income tax calculation in 2009 and 2008.

#### **2.14 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **2.15 Share capital**

##### *(a) Common shares*

Common shares are classified as equity.

##### *(b) Treasury shares*

Where any member of the Group purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's equity holders.

## **2.16 Leases**

### *(a) The Group is the lessor*

Properties leased out under operating leases are included in investment property in the consolidated balance sheets. Lease income is recognized over the term of the lease on a straight-line basis.

### *(b) The Group is the lessee*

Leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease.

## **2.17 Foreign currency transactions and translation**

### *(a) Functional and presentation currency*

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

### *(b) Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

## **2.18 Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares in issue during the year. Diluted earnings per share is computed in the same manner as basic earnings per share, however, profit attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

There are no dilutive potential common shares as of December 31, 2009 and 2008.

## **2.19 Operating segment**

**Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Parent Company has determined its President as its chief operating decision maker.**

In view of the current status of the Group's operation which is limited only to rental income, the performance of the Group is being assessed as a single unit. Consequently, detailed segment reporting as required under PFRS 8 are deemed not relevant.

## **2.20 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

## **2.21 Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

## **2.22 Subsequent events (or events after the balance sheet date)**

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## **Note 3 – Financial instruments and risk management objectives and policies**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management, under the direction of the Board of Directors of the Group is responsible for the management of financial risks. Its objective is to minimize the adverse impacts on the Group's financial performance due to the unpredictability of financial markets.

### **3.1 Market risk**

#### *a. Currency risk*

The Group's exposure to currency risk relates only to the foreign currency denominated receivables amounting to Hongkong Dollar 11,831,930 at December 31, 2008. This was fully settled in 2009.

Comparing the average Hongkong Dollar-Philippine Peso exchange rates, the Hongkong Dollar strengthened by 5% against the Philippine Peso from December 31, 2007 to December 31, 2008 based on analysis performed using historical movements of the Hongkong Dollar against the Philippine Peso. At December 31, 2008, if the Philippine Peso had weakened/strengthened by +/- 5% against

Hongkong Dollar with all variables held constant, the effect on income before tax and equity will be P3.64 million.

*b. Price risk*

The Group's exposure on price risk is minimal and limited only to investments classified as at fair value through profit or loss (Note 7) and available-for-sale securities (Note 12). Changes in market prices of these investments are not expected to impact significantly the financial position or results of operations of the Group.

*c. Interest rate risk*

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest-bearing financial instruments include notes receivable (Note 8) and various loans payable and borrowings (Note 13). These financial instruments are not exposed to fair value interest rate risk as they are carried at amortized cost. Likewise, these instruments are not exposed to variability in cash flows as they carry fixed interest rates.

**3.2 Credit risk**

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to discharge an obligation.

*(a) Maximum exposure to credit risk*

The Group's exposure to credit risk primarily relates to cash in banks and financial receivables as shown below.

The table below shows the credit quality of significant financial assets as of December 31:

2009	Fully performing	Past due but not impaired	Past due and impaired	Total
Cash in banks	1,870,133	-	-	1,870,133
Notes and other receivables	102,209,572	167,828,096	18,188,191	288,225,859
Refundable deposits	131,189	-	-	131,189
	104,210,894	167,828,096	18,188,191	290,227,181

2008	Fully performing	Past but not impaired	Past due and impaired	Total
Cash in banks	3,815,325	-	-	3,815,325
Notes and other receivables	167,828,096	75,079,738	18,188,191	261,096,025
Refundable deposits	137,202	-	-	137,202
	171,780,623	75,079,738	18,188,191	265,048,552

*(i) Cash in banks*

The Group manages credit risk on its cash balances by depositing in banks that qualified in the criteria of the Group. Some of these criteria are stability, financial performance, industry-accepted ratings, quality, diversity and responsiveness of products and services.

As at December 31, 2009 and 2008, the Group's funds are maintained with depository banks which are locally classified as universal banks.

*(ii) Notes and other receivables*

Notes receivables are current and expected to be settled by IRC, a related party, in 2010. This will be funded by IRC's proceeds from stock rights offering which is expected to happen in 2010.

Past due but not impaired notes and other receivables are not collateralized and are overdue by more than one year.

*(ii) Refundable deposits*

Refundable deposits are considered highly recoverable as the counterparty is assessed to have strong capacity to meet its obligation.

### **3.3 Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations to repay creditors and fulfill commitments. The Group's liquidity management process as carried out within the Group includes:

- a. Day-to-day funding requirement, managed by monitoring future cash flows to ensure that requirements can be met;
- b. Monitoring balance sheet liquidity ratios against internal requirements; and
- c. Maintaining standby credit facility with a local bank.

Accordingly, each financial asset and liability is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The amounts disclosed in the table below are the expected undiscounted cash flows of financial assets and liabilities, which the Group uses to manage the inherent liquidity risk.

Substantial component of expected cash inflows in 2009 and foreseeable future is the expected payments from IRC.

The table below analyzes the maturities of financial assets and liabilities as of December 31:

	2009	2008
<b>Assets</b>		
Cash on hand and in banks	1,885,133	3,830,325
Financial asset at fair value through profit or loss	4,750,751	2,968,347
Notes and other receivables	270,037,668	242,907,834
Other non-current assets	319,787	165,705
<b>Total financial assets</b>	<b>276,993,339</b>	<b>249,872,211</b>
<b>Liabilities</b>		
Borrowings	30,416,144	30,296,477
Accrued expenses and other payables	16,990,778	12,861,574
Due to related parties	13,313,820	13,192,220
<b>Total financial liabilities</b>	<b>60,720,742</b>	<b>56,350,271</b>

All financial assets and liabilities are current as at reporting dates.

### 3.4 Fair value of financial assets and liabilities

PFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments listed on exchanges
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial instruments measured at fair value fall under the category of Level 1. These are valued using published quoted prices from Philippine Stock Exchange. These include financial assets at fair value through profit or loss (Note 7) and available-for-sale securities (Note 12).

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities at December 31 not presented in the balance sheets at fair value.

	Carrying Value/Fair Value	
	2009	2008
<b>Financial assets</b>		
Cash in bank	1,885,133	3,830,325
Notes and other receivables	270,037,668	242,907,834
Other non-current assets	319,787	165,705
<b>Financial liabilities</b>		
Borrowings	30,416,144	30,296,477
Accrued expenses and other payables	16,990,778	12,861,574
Due to related parties	13,313,820	13,192,220

These carrying amounts approximate fair values at reporting dates due to the short-term nature of financial assets and liabilities.

#### **Note 4 – Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, capital is represented by total equity as shown in the balance sheets.

In order to maintain or adjust the capital structure, the Group may, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the very limited pre-operating activities undertaken by the Group, it does not require intensive capitalization as of December 31, 2009 and 2008. The Group's main objective is to ensure it has adequate capital moving forward to pursue its major land development plans.

The Group does not anticipate heavy requirement for working capital in 2009 given that its focus is mainly to ensure successful site clearance and future development activities of its major associate, Interport Resources Corporation (IRC), which is 40.07% owned by the Company. IRC, is in the process of completing certain regulatory requirements so that it can raised additional P600 million capital through a stock rights offering. This program is expected to be completed in 2010.

There are no external minimum capitalization requirements imposed to the Company.

#### **Note 5 – Critical accounting estimate, assumption and judgment**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimate

*Estimation of provision for impairment losses (Note 8)*

Allowance for impairment losses is maintained at a level considered adequate to provide for potentially uncollectible receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. The provision is recognized in the statement of total comprehensive income.

Management believes that carrying amount of notes receivables at reporting dates is fully collectible given the positive operating prospects of IRC.

The Group considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the estimation of provision for impairment losses as the major assumptions used may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year are different from assumptions could require a material adjustment to the carrying amount of notes receivables.

(b) Judgment

*Recognition of deferred income tax assets (Note 17)*

Management reviews at each reporting date the carrying amounts of deferred income tax assets. The carrying amount of deferred income tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that the non-recognition of deferred income tax assets of P9,924,742 (2008 – P11,668,051) is appropriate due to the Group's limited capacity to generate sufficient taxable income.



**Note 6 – Cash on hand and in banks**

The account at December 31 consists of:

	2009	2008
Cash in banks	1,870,133	3,815,325
Cash on hand	15,000	15,000
	<b>1,885,133</b>	<b>3,830,325</b>

**Note 7 – Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss at December 31 consists of:

	2009	2008
Invested equity securities	7,015,137	7,562,659
Accumulative fair value adjustment	(2,264,386)	(4,594,312)
	<b>4,750,751</b>	<b>2,968,347</b>

The movement of financial assets at fair value through profit or loss is summarized as follows:

	2009	2008
Balance at January 1	2,968,347	7,562,659
Disposals	(547,519)	(1,884,564)
Fair value adjustment	2,329,923	(2,709,748)
Balance at December 31	<b>4,750,751</b>	<b>2,968,347</b>

Gain on disposals of financial assets at fair value through profit or loss amounts to P326,925 (2008 – P1,227,227).

**Note 8 – Notes and other receivables**

The account at December 31 consists of:

	Note	2009	2008	2007
Notes receivable		272,537,737	167,828,096	176,232,228
Due from related parties	19	10,009,928	10,387,861	10,021,507
Advances and other receivables		5,678,194	82,880,068	8,170,117
		288,225,859	261,096,025	194,423,852
Provision for impairment losses		(18,188,191)	(18,188,191)	(5,889,929)
		<b>270,037,668</b>	<b>242,907,834</b>	<b>188,533,923</b>

Notes receivable represents loans granted to IRC with no definite payment terms and bears annual interest rates ranging from 12% to 18%. The account also includes accrued interest receivable of P71.34 million (2008 - P39.23 million; 2007 – P13.32 million). Total interest income recognized from this loan for the years ended December 31, 2009, 2008 and 2007 amounts to P32.31 million, P10.19 million and P3.06 million, respectively. These loans are due and demandable at balance sheet dates.

Advances and other receivables in 2008 include receivable amounting to P63 million arising from the disposal of available-for-sale investment (Note 12). This was fully collected in 2009.

The movement in allowance for impairment losses is summarized below:

	2009	2008	2007
January 1	18,188,191	5,889,929	5,889,929
Impairment loss for the year	-	12,298,262	-
December 31	18,188,191	18,188,191	5,889,929

Additional provision of P12.30 million in 2008 has been recorded to cover possible losses from uncollectible due from related parties and advances to officers and employees. There were no accounts written-off in 2009 and 2008.

#### Note 9 – Investment in associates

Details of the account at December 31 follow:

	Ownership	2009	2008	2007
Acquisition cost				
Interport Resources Corporation (IRC)	40.07%	382,040,940	382,040,940	382,040,940
The Prosperity Tax Cab Corporation (TPTCC)	30.30%	-	7,832,396	7,832,396
Total acquisition costs		382,040,940	389,873,336	389,873,336
Accumulated share in net losses of associates				
Balance at January 1		(340,598,679)	(328,183,734)	(318,049,896)
Share in net losses of associates		(5,876,784)	(9,639,704)	(7,259,260)
Disposal of TPTCC		13,324,141	-	-
Balance, December 31		(333,151,322)	(337,823,438)	(325,309,156)
Accumulated impairment losses				
		-	(2,775,241)	(2,874,578)
Total		48,889,618	49,274,657	61,689,602

The movement in accumulated impairment loss at December 31 follows:

	2009	2008
January 1	2,775,241	1,721,587
Impairment loss for the year	-	1,053,654
Disposal for the year	(2,775,241)	-
December 31	-	2,775,241

On June 15, 2009, the Group disposed its interests in TPTCC to a third party for a total consideration of P4,750,000. Gain on sale on the disposals amounts to P839,807.

The summarized financial information of the associates as of and for the years ended December 31, 2009 and 2008 follows:

	IRC		TPTCC
	2009	2008	2008
	(in millions of Peso)		
total assets	1,806.88	1,680.06	11.10
total liabilities	1,748.64	1,562.93	0.52
total equity	58.24	117.13	10.57
total revenue	-	-	0.87
net loss	(51.62)	(86.32)	(0.16)

## Note 10 – Property and equipment

Details and movements of property and equipment as of and for the years ended December 31, 2009 and 2008 follow:

	Furniture and fixtures	Office equipment	Communicatio n and other equipment	Office condominium	Building improvements	Transportation equipment	Leasehold improvement s	Construction in progress	Total
<b>Cost</b>									
Balances at January 1, 2008	1,074,746	902,866	906,181	-	-	1,451,488	20,841	-	4,356,122
Additions	1,172,336	218,845	136,963	-	-	-	-	3,481,563	5,009,707
Disposals	(672,334)	(360,919)	-	-	-	-	(20,841)	-	(1,054,094)
Balances at December 31, 2008	1,574,748	760,792	1,043,144	-	-	1,451,488	-	3,481,563	8,311,735
Additions	-	6,950	-	-	-	-	-	377,679	384,629
Reclassification from construction in progress	-	-	-	-	3,859,242	-	-	(3,859,242)	-
Reclassification from investment property (Note 11)	-	-	-	13,746,305	-	-	-	-	13,746,305
Disposals	(220,639)	(33,900)	-	-	-	-	-	-	(254,539)
Balances at December 31, 2009	1,354,109	733,842	1,043,144	13,746,305	3,859,242	1,451,488	-	-	22,188,130
<b>Accumulated depreciation</b>									
Balances at January 1, 2008	1,074,660	797,821	906,158	-	-	148,303	1,737	-	2,928,679
Depreciation and amortization	14,473	43,160	6,848	-	-	148,303	625	-	213,409
Disposals	(310,341)	(360,917)	-	-	-	-	(2,362)	-	(673,620)
Balances at December 31, 2008	778,792	480,064	913,006	-	-	296,606	-	-	2,468,468
Depreciation and amortization	128,592	70,061	27,393	381,682	284,698	148,303	-	-	1,040,729
Reclassification from investment property	-	-	-	8,572,419	-	-	-	-	8,572,419
Disposals	(220,637)	(33,898)	-	-	-	-	-	-	(254,535)
Balances at December 31, 2009	686,747	516,227	940,399	8,954,101	284,698	444,909	-	-	11,827,081
<b>Net book value</b>									
December 31, 2008	795,956	280,728	130,138	-	-	1,154,882	-	3,481,563	5,843,267
December 31, 2009	667,362	217,615	102,745	4,792,204	3,574,544	1,006,579	-	-	10,361,049

## Note 11 – Investment properties

The Group's investment properties include several parcels of land and condominium units held for lease. Land includes properties of MAC, TICI and TPHC held for appreciation purposes, including those strategically located and potentially high value land in Tagaytay City and Batangas with a total land area of 29 hectares. The condominium units, which are located in Makati with a total floor area of 888 square meters, are being leased out to third parties. Income from these properties amounted to P5.92 million, P3.65 million and P3.37 million in 2009, 2008 and 2007, respectively, and is shown as Rental revenue in the statements of total comprehensive income. Other than the depreciation expense below, there are no direct costs relating to investment properties.

The changes to the carrying amounts presented in the balance sheets as of December 31, 2009 and 2008 are summarized as follows:

	Note	2009		
		Land	Condominium	Total
<b>Investment Properties</b>				
Balance at January 1, 2009		13,498,605	57,276,270	70,774,875
Classification to property and equipment	10	-	(13,746,305)	(13,746,305)
Balance at December 31, 2009		13,498,605	43,529,965	57,028,570
<b>Cumulated Depreciation</b>				
Balance at January 1, 2009		-	35,188,296	35,188,296
Depreciation for the year		-	1,738,772	1,738,772
Classification to property and equipment	10	-	(8,572,419)	(8,572,419)
Balance, December 31, 2009		-	28,354,649	28,354,649
Net carrying value at December 31, 2009		13,498,605	15,175,316	28,673,921
<b>Investment Properties</b>				
		2008		
		Land	Condominium	Total
Balance at December 31, 2008		13,498,605	57,276,270	70,774,875
<b>Cumulated Depreciation</b>				
Balance at January 1, 2008		-	33,067,842	33,067,842
Depreciation for the year		-	2,120,452	2,120,452
Balance at December 31, 2008		-	35,188,294	35,188,294
Net carrying value at December 31, 2008		13,494,605	22,087,976	35,586,581

The estimated fair value of the condominium property as of December 31, 2009 and 2008 amounted to P59 million. The fair value of the properties is based on market data approach. The land has an estimated fair value of P127.63 million as of December 31, 2009 and 2008 determined by an independent firm of appraisers using the market data approach.

**Note 12 – Other non-current assets**

Other non-current assets at December 31 consist of :

	2009	2008
fundable deposits	131,189	137,202
available-for-sale investments	188,598	28,503
	319,787	165,705

In 2008, the Group generated P589 million from the sale of available-for-sale investments. Related gain from the disposal amounted to P106 million.

**Note 13 – Borrowings**

Borrowings at December 31 consist of unsecured short-term interest-bearing loans obtained from the following:

	2009	2008
Principia Value Management Ltd. (Phils.) Co.	13,624,642	13,504,975
Philippine Strategic International Holdings, Inc.	450,000	450,000
Others	16,341,502	16,341,502
	30,416,144	30,296,477

These borrowings carry interest rates of 10%-18% per annum and are payable on demand.

Interest expense incurred from these borrowings amounts to P3.09 million, P2.91 million and P786 thousand for the years ended December 31, 2009, 2008 and 2007, respectively.

**Note 14 – Accrued expenses and other payables**

The account at December 31 consists of:

	Note	2009	2008
Accrued expenses		15,119,187	10,771,961
Provisions	24	26,160,652	26,160,652
Others		1,871,591	2,089,613
		43,151,430	39,022,226

Accrued expenses represent accruals for professional fees, utilities and other recurring expenses.

Provisions pertain to liabilities related to guarantees arising from acquisition of an asset which currently under legal proceedings.

## Note 15 – Equity

### (a) Share capital

Share capital at December 31, 2009, 2008, and 2007 consists of:

<hr/>	
<hr/>	
Common shares – P1 par value	
In shares	
Authorized	4,000,000,000
Subscribed	1,200,000,000
Issued and outstanding	1,200,000,000
<hr/>	
Amount	
Subscribed capital stock	1,200,000,000
Subscriptions receivable	(260,515,947)
Paid up	939,484,053
<hr/>	

In accordance with the Parent Company's articles of incorporation, certain restrictions have been imposed on the Parent Company and some subsidiaries regarding the issuance and transfer of share capital.

No shareholder shall, because of his ownership of share have a pre-emptive or other right to purchase, subscribe for, or take any part of any share or any other securities convertible into carrying options or warrants to purchase share of the corporation without first offering such share or securities or any part thereof to existing equity holders.

No issuance or transfer of shares of stock of the Parent Company which would reduce the share ownership of the Filipino citizens shall be allowed or permitted to be recorded in the books of the Parent Company.

### (b) Deposits for future subscriptions

In 1997, the Group received from certain shareholders deposits on future stock subscriptions totaling P241.62 million. Movements of P46.93 million in 2008 pertain to cancellation of subscription with the amount previously received as deposits applied against the Group's advances to concerned shareholders. There were no movements in the account in 2009.

### (c) Treasury shares

Treasury shares represent investment of MAC, a subsidiary, to the Parent Company's shares. Acquisition cost of these shares amounts to P61,768,327.

## Note 16 – Operating expenses

a) Other operating expenses for the years ended December 31 consist of:

	Note	2009	2008	2007
Transportation and travel		1,443,435	1,302,124	846,359
Taxes and licenses		868,105	5,104,400	722,581
Communication, light and water		532,903	482,223	572,592
Patent	20	-	576,491	484,668
Representation and entertainment		36,297	536,528	273,681
Professional fees		487,586	339,515	709,912
Other miscellaneous		1,688,999	2,115,499	2,131,013
		5,057,325	10,456,780	5,740,806

b) Impairment losses in 2008 include additional provision for impairment of receivables of P12.30 million provided to notes and other receivables (Note 8) and impairment on investment in associates of P1.05 million (Note 9).

## Note 17 – Income taxes

On May 24, 2005, Republic Act 9337 (the “Act”) changed the normal corporate income tax rate from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009.

On November 21, 2007, under Republic Act 9361, the NIRC was amended anew with the deletion of the provision imposing the 70% cap on input tax that may be credited in every taxable quarter.

Provision for income tax for the years ended December 31 follows:

	2009	2008	2007
Current	763,337	217,223	135,346
Deferred	-	-	(1,597,770)
Provision for (benefit from) income tax	763,337	217,223	(1,462,424)

The reconciliations of tax on pretax loss computed at the statutory income tax rates to tax expense (benefit) are as follows:

	2009	2008	2007
Tax on pretax loss	610,243	27,805,781	(9,935,892)
Adjustment for income subjected to lower tax rates	(58,691)	(13,514,126)	(40,248)
Share in net losses of associates	6,205,282	3,373,846	2,524,599
Unrecognized deferred tax assets from impairment losses, NOLCO and MCIT	-	4,127,941	5,966,117
Non-taxable income	803,485	(19,785,052)	-
Others	(6,796,982)	(1,791,167)	23,000
	763,337	217,223	(1,462,424)



The deferred tax assets of the Group as of December 31, 2009 and 2008 which were not recognized consist of the following:

	2009	2008
NOLCO	2,346,490	2,346,490
MCIT	1,258,519	591,157
realized foreign exchange loss	902	2,411,573
allowance for impairment	6,318,831	6,318,831
	9,924,742	11,668,051

The NOLCO will expire in 2011.

The Group is liable to MCIT equivalent to 2% of gross income, as defined in the tax regulations. The details of the Group's unrecognized MCIT which can be claimed as deduction against future corporate income tax due are as follows:

Year	Valid Until	2009	2008
2009	2012	763,337	-
2008	2011	217,223	217,223
2007	2010	135,347	135,347
2006	2009	142,612	142,612
2005	2008	-	95,975
		1,258,519	591,157

#### Note 18 – Basic and diluted earnings per share

The computation of basic earnings per share for the years ended December 31 follows:

	2009	2008	2007
Net income (loss) attributable to the equity holders of the Parent Company	33,857,700	81,668,740	(26,033,840)
Divided by the average number of outstanding common shares	1,139,013,000	1,139,013,000	1,139,013,000
Basic earnings per share	0.0297	0.0717	(0.0229)

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

## Note 19 – Related party transactions

The Group's transactions with related parties include those with associates and other related parties described below

### a) Due from related parties

Details of the account at December 31 follow:

	2009	2008
Due from a shareholder	10,000,000	10,000,000
Others	9,928	387,861
	10,009,928	10,387,861

Due from shareholder represents advances which is payable on demand.

The outstanding receivables from related parties are presented as Due from related parties under Notes and other receivables account in the balance sheets (see Note 8).

Receivables from related parties are non-interest bearing and have no definite repayment terms.

### b) Due to related parties

This account is composed of advances from the following related parties which were obtained for working capital purposes:

	2009	2008
Due from Intrinsic Value Management Ltd. (Phils.) Co., Inc., a subsidiary of a major shareholder	12,850,148	12,728,548
Others	463,672	463,672
	13,313,820	13,192,220

The above advances are non-interest bearing and are payable on demand.

## Note 20 – Leases

The Company leases its office space under a two-year lease agreement up to October 31, 2008. Rental expense related to the lease amounted to P576,491 and P484,668 in 2008 and 2007, respectively.

In 2009, the Company occupied a portion of its investment in condominium units and converted it into an office space. The portion which is owner-occupied is properly reclassified as property and equipment (Notes 10 and 11). The remaining portion is leased to other parties. Rental income from investment in condominium units amounts to P5.92 million (2008 – P3.65 million).

**Note 21 – Salaries and employee benefits**

The balance of employee benefits at December 31 consists of:

	2009	2008	2007
Salaries and wages	2,382,996	2,391,687	2,337,611
Gratuities and allowances	116,280	117,800	117,360
Life, SSS, Philhealth and HDMF	89,909	93,434	94,246
Others	538,369	542,989	404,828
	<b>3,127,554</b>	<b>3,145,910</b>	<b>2,954,045</b>

The total compensation of the Group's executive officers for the years ended December 31, 2009, 2008 and 2007 amounted to P2.89 million , P2.55 million and P2.41 million, respectively.

The Group has six (6) employees at December 31, 2009 (2008 – seven (7) employees). Accordingly, the Group has not accrued any retirement benefits for the year ended December 31, 2009, 2008 and 2007 since the Group is exempt from Republic Act 7641.

**Note 22 – (Loss) gain on disposal of assets**

The account includes gains (losses) resulting from the sale of the following assets:

	Notes	2009	2008
Investment in associates	9	(839,807)	-
Financial asset at fair value through profit or loss	7	326,925	1,227,227
Available-for-sale investments	12	-	106,595,150
		<b>(512,882)</b>	<b>107,822,377</b>

**Note 23 – Restatement**

The Group has restated investments in 2007 to reflect the cumulative difference between the carrying value of investment and Group's share in underlying net asset of its associates. Details of adjustments are summarized below:

	As previously reported	Restatements	As restated
<u>2007</u>			
Investment in associates- January 1, 2007	263,531,445	(201,841,843)	61,689,602
Net (loss) income, December 31, 2007	(26,925,839)	(252,275)	(27,178,114)
Deficit, December 31, 2007	(735,233,412)	(186,276,905)	(921,510,317)

In 2009, certain accounts at December 31, 2008 and 2007 have been restated to correct certain adjustments on these accounts noted below. The restatements arose from detailed review of beginning balances undertaken by management during the year. The net effect of the adjustments is not material.

The effects of restatement as of and for the year ended December 31, 2008 and 2007 are as follows:

	As previously reported	Restatements	As restated
<u>2008</u>			
Notes and other receivables, net	230,635,579	12,272,255	242,907,834
Treasury shares	(40,501,200)	(21,267,127)	(61,768,327)
Revaluation reserves	(589,589)	589,589	-
Deficit	(881,188,080)	41,346,503	(839,841,577)
Non-controlling interest	36,941,641	(8,396,710)	28,544,931
<u>2007</u>			
Notes and other receivables, net	117,193,095	71,340,828	188,533,923
Treasury shares	(40,501,200)	(21,267,127)	(61,768,327)
Deficit	(962,856,820)	41,346,503	(921,510,317)
Non-controlling interest	(20,275,646)	51,261,452	30,985,806

#### **Note 24 – Contingencies**

In the normal course of business, the Group is a defendant of a case which is pending with the Court of Appeals. The case arose from a demand for payment of minimum guaranteed return on investment by corporation was formerly a co-shareholder of the Parent Company. Details of this pending case follow:

In 1996, the Parent Company entered into a shareholders agreement with a couple of other corporate entities involving a venture in fast craft shipping business. The claimant (one of the co-shareholders) violated a number of the terms of the agreement, including a direct purchase of the shares of the other shareholder without the consent of the Parent Company as stipulated under the agreement.

In 1999, the plaintiff demanded full payment of the guaranteed return on its investment after audits of the fast craft business revealed a significant amount of loss. The Parent Company denied the liability. The plaintiff filed a request for Arbitration to compel the Parent Company to pay the minimum guaranteed return. The arbitrator rendered an award in favor of the plaintiff. Thus, the plaintiff instituted the present action to enforce the arbitral award.

After the termination of mediation proceedings, the case has been sent back to the regional trial court of Makati (Makati RTC). On May 23, 2008, the Makati RTC dismissed the petition for the recognition and enforcement of the Arbitral Award on the ground that the award was issued in violation of the agreement and the payment obligation ordered by the sole arbitrator is void. The plaintiff filed its motion for reconsideration in June 2008. On July 25, 2008, the Makati RTC denied the plaintiff's motion for reconsideration for lack of merit.

In view of the Notice of Appeal by the plaintiff, the RTC ordered the case to be transferred to Court of Appeals for further proceedings.

The case is pending as of April 14, 2010.

**MABUHAY HOLDINGS CORPORATION  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2009 AND 2008  
(With comparative figures as of and for  
the year ended December 31, 2007)**

## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**Mabuhay Holdings Corporation**  
35 Floor, Rufino Pacific Tower  
6784 Ayala Avenue  
Makati City

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Mabuhay Holdings Corporation and its Subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2009 and 2008, and the consolidated statements of total comprehensive income, changes in equity and cash flows for the years then ended, 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 consolidated 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Mabuhay Holdings Corporation  
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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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of Mabuhay Holdings Corporation and its Subsidiaries as of December 31, 2009 and 2008, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 of the financial statements which indicates that the Group has incurred continuous losses in prior years and has an accumulated losses of P820,791,366 and P839,841,577 as of December 31, 2009 and 2008, respectively. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Management plans in regard to this matter are also disclosed in Note 1 of the financial statements.

*Other matters*

The consolidated financial statements of the Group as of December 31, 2007 and the year then ended, prior to restatement described in Note 23 of the consolidated financial statements, were audited by other auditors whose report dated March 12, 2008 expressed an unqualified opinion on those statements and included an emphasis of a matter that described the existence of material uncertainty which cast significant doubt about the Group's ability to continue as a going concern.

Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Mabuhay Holdings Corporation  
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### **Report on Other Legal and Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information on Schedules A, B, C, D, E, F, G, H, and I is presented for purposes of additional analysis and is not required part of the basic financial statements. Such information, as required by Securities Regulation Code (SRC) Rule 68.1 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Isla Lipana & Co.***



Roderick M. Danao  
Partner

CPA Cert. No. 88453

P.T.R. No. 0011280, issued on January 13, 2010, Makati City

SEC A.N. (individual) as general auditors 0791-A

SEC A.N. (firm) as general auditors 0009-FR-2

TIN 152-015-078

BIR A.N. 08-000745-42-2008, issued on December 2, 2008; effective until December 2, 2011

BOA/PRC Reg. No. 0142, effective until December 31, 2010

Makati City  
April 8, 2010



**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2009 AND 2008  
(With comparative figures as of December 31, 2007)  
(All amounts in Philippine Peso)

	Notes	2009	2008 (As restated)	2007 (As restated)
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash on hand and in banks	6	1,885,133	3,830,325	4,011,569
Financial assets at fair value through profit or loss	7	4,750,751	2,968,347	3,338,111
Notes and other receivables, net	8,23	270,037,668	242,907,834	188,533,923
Prepayments		2,358,618	3,048,562	2,148,842
Total current assets		279,032,170	252,755,068	198,032,445
<b>NON-CURRENT ASSETS</b>				
Investments in associates	9,23	34,082,129	49,274,657	61,689,602
Property and equipment, net	10	10,361,049	5,843,267	1,427,441
Investment properties	11	28,673,921	35,586,581	37,707,034
Other non-current assets	12	319,787	165,705	551,368,800
Total non-current assets		73,436,886	90,870,210	652,192,877
Total assets		352,469,056	343,625,278	850,225,322
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Borrowings	13	30,416,144	30,296,477	25,525,100
Accrued expenses and other payables	14	43,151,430	39,022,226	69,465,774
Due to related parties	19	13,313,820	13,192,220	9,386,990
Total current liabilities		86,881,394	82,510,923	104,377,864
<b>EQUITY</b>				
Capital attributable to Parent Company's equityholders	15			
Share capital		939,484,053	939,484,053	939,484,053
Treasury shares	23	(61,768,327)	(61,768,327)	(61,768,327)
Deposits on future subscriptions		194,695,275	194,695,275	241,620,861
Revaluation reserves	23		-	517,035,382
Deficit	23	(820,791,366)	(839,841,577)	(921,510,317)
		251,619,635	232,569,424	714,861,652
Non-controlling interest		13,968,027	28,544,931	30,985,806
Total equity		265,587,662	261,114,355	745,847,458
Total liabilities and equity		352,469,056	343,625,278	850,225,322

The notes on pages 1 to 33 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF TOTAL COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

(With comparative figures for the year ended December 31, 2007)

(All amounts in Philippine Peso)

	Notes	2009	2008	2007 (As restated)
<b>REVENUES</b>				
Rental	11,20	5,921,012	3,648,283	3,374,990
Other		-	-	29,404
		5,921,012	3,648,283	3,404,394
<b>OPERATING EXPENSES</b>				
Salaries and employee benefits	21	3,127,554	3,145,910	2,954,045
Depreciation and amortization	10,11	2,779,501	1,952,181	2,304,690
Professional fees		2,153,216	5,757,281	1,363,271
Impairment losses	8,9,16		13,351,916	-
Others	16	5,057,325	10,456,780	5,740,806
		13,117,596	34,664,068	12,362,812
<b>LOSS FROM OPERATIONS</b>		7,196,584	31,015,785	8,958,418
<b>OTHER INCOME (EXPENSES)</b>				
Finance income, net				
Interest income	8	32,305,278	10,193,017	3,064,139
Interest expense	13	(3,088,783)	(2,910,511)	(786,060)
Share in net losses of associates	9	(20,684,273)	(9,639,704)	(7,259,260)
Unrealized gain (loss) on securities	7	2,329,923	(2,709,748)	-
Foreign exchange losses, net		1,291,049	4,995,694	(14,700,939)
(Loss) gain on disposal of assets	22	(512,882)	107,822,377	-
Others		792,916	2,709,748	-
		12,433,228	110,460,873	(19,682,120)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		5,236,644	79,445,088	(28,640,538)
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>	17	763,337	217,223	(1,462,424)
<b>NET INCOME (LOSS) FOR THE YEAR</b>		4,473,307	79,227,865	(27,178,114)
<b>OTHER COMPREHENSIVE INCOME</b>				
Net change in fair value of available-for-sale securities		-	-	280,585,246
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		4,473,307	79,227,865	253,407,132
<b>BASIC AND DILUTED (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY</b>	18	0.0167	0.0717	(0.0229)
Net income attributable to:				
Equity holders of the Parent Company		19,050,211	81,668,740	(26,033,840)
Non-controlling interest		(14,576,904)	(2,440,875)	(1,144,274)
		4,473,307	79,227,865	(27,178,114)
Total comprehensive income attributable to:				
Equity holders of the Parent Company		19,050,211	81,668,740	254,551,406
Non-controlling interest		(14,576,904)	(2,440,875)	(1,144,274)
		4,473,307	79,227,865	253,407,132

The notes on pages 1 to 33 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(With comparative figures for the year ended December 31, 2007)  
(All amounts in Philippine Peso)**

	Equity Holders of the Company							Total
	Note	Share capital (Note 15)	Treasury shares (Note 15)	Deposits on future subscriptions (Note 15)	Revaluation reserves	Deficit	Non-controlling interest	
Balances at January 1, 2007		939,484,053	(40,501,200)	241,620,861	236,450,136	(936,822,980)	(19,131,372)	421,099,498
Restatements	23	-	(21,267,127)	-	-	41,346,503	51,261,452	71,340,828
Balance as restated		939,484,053	(61,768,327)	241,620,861	236,450,136	(895,476,477)	32,130,080	492,440,326
Total comprehensive income for the year		-	-	-	280,585,246	(26,033,840)	(1,144,274)	253,407,132
Balances at December 31, 2007		939,484,053	(61,768,327)	241,620,861	517,035,382	(921,510,317)	30,985,806	745,847,458
Cancellation of deposits of future subscriptions		-	-	(46,925,586)	-	-	-	(46,925,586)
Total comprehensive income for the year		-	-	-	-	81,668,740	(2,440,875)	79,227,865
Fair value reserve recycled to profit or loss		-	-	-	(517,035,382)	-	-	(517,035,382)
Balances at December 31, 2008		939,484,053	(61,768,327)	194,695,275	-	(839,841,577)	28,544,931	261,114,355
Total comprehensive income for the year		-	-	-	-	19,050,211	(14,576,904)	4,473,307
Balances at December 31, 2009		939,484,053	(61,768,327)	194,695,275	-	(820,791,366)	13,968,027	265,587,662

The notes on pages 1 to 33 are an integral part of these financial statements.

**MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(With comparative figures for the year ended December 31, 2007)  
(All amounts in Philippine Peso)

	Notes	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income (loss) before income tax		5,236,644	79,445,088	(28,640,538)
Adjustments for:				
Share in net losses of associates	9	20,684,273	9,639,704	17,740,740
Impairment losses			13,351,916	-
Unrealized (gain) loss on securities	7	(2,329,923)	2,709,748	4,337,155
Depreciation and amortization	10,11	2,779,501	1,952,181	2,304,417
Interest expense		3,088,782	2,910,511	786,060
Interest income	8	(32,305,277)	(10,193,017)	(3,064,139)
Loss (gain) on sale of assets	22	512,882	(107,822,377)	-
Operating (loss) profit before working capital changes		(2,333,118)	(8,006,246)	(6,536,305)
Decrease (increase) in:				
Notes and other receivables	8	(4,740,007)	(95,243,221)	(2,248,692)
Prepaid expenses		146,443	(925,194)	(31,907)
Other non-current assets		(154,081)	(1,031,502)	592,534
Increase (decrease) in:				
Accrued expenses and other payables		1,045,091	2,980,570	(3,490,782)
Due to related parties		121,600	8,858,109	3,926,830
Cash used in operations		(5,914,072)	(93,367,484)	(7,788,322)
Income tax paid		(104,833)	-	(158,346)
Net cash used in operating activities		(6,018,905)	(93,367,484)	(7,946,668)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property and equipment	10	(384,629)	(5,009,707)	(1,471,778)
Proceeds from disposals of property and equipment		-	2,503,306	253,717
Net increase in financial asset at fair value through profit or loss		(291,658)	(1,118,517)	968,751
Proceeds from disposal of investment in associates	9	4,750,000	-	-
Proceeds from disposal of available-for-sale securities		-	89,347,580	-
Net cash provided by (used in) investing activities		4,073,713	85,722,662	(249,310)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from borrowings	13	-	7,463,578	4,771,377
NET DECREASE IN CASH ON HAND AND IN BANKS		(1,945,192)	(181,244)	(3,424,601)
<b>CASH ON HAND AND IN BANKS</b>				
January 1		3,830,325	4,011,569	7,436,170
December 31		1,885,133	3,830,325	4,011,569

The notes on pages 1 to 33 are an integral part of these financial statements.

## **MABUHAY HOLDINGS CORPORATION AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

(With comparative notes and figures as of and for the year ended December 31, 2007).  
(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

#### **Note 1 – General information**

Mabuhay Holdings Corporation (the “Company” or “Parent Company”) was incorporated in the Philippines on April 6, 1988 primarily to engage in the acquisition of and disposition of investments in marketable securities, shares of stocks and real estate properties. The Parent Company is 29.3% owned by Prokey Investments Limited, a 100% Filipino-owned company registered in the British Virgin Islands and licensed by the Securities and Exchange Commission (SEC) on March 15, 2010 to operate a representative office in the Philippines. The remaining 70.7% is owned by various individuals and corporations. The Parent Company’s common shares were listed in the Philippine Stock Exchange (PSE) in 1990.

The Company and its subsidiaries have no commercial operations as of December 31, 2009 and 2008. The subsidiaries’ operations consist mainly of monitoring and maintenance of existing investments and recognition of interest income on their cash deposits in banks. The Parent Company, in addition to interest income on cash deposits in banks, earns revenue through rental of its condominium units and interest income on notes receivable from a related party.

The Group’s main focus is to support the stock rights offering of its large associate, Interport Resources Corporation (IRC). IRC needs to secure funding of its planned residential development projects in its Binangonan Property. These projects of IRC are expected to generate significant amount of sustainable income stream and operating cash flows to the Group.

The Group has incurred accumulated losses amounting to P820.79 million and P839.84 million as of December 31, 2009 and 2008, respectively. Also, the recoverability of the Group’s assets consisting mainly of notes and other receivables, available-for-sale securities, investments in associates and investment properties, as well as the Group’s ability to settle its liabilities, are dependent upon the success of future operations of the Group and its associate, IRC. The management of the Parent Company has plans to sell some assets and pursue the development of its investment properties as well as the real properties of its subsidiaries and affiliated companies and to enter into joint ventures. The outcome of these plans cannot be presently determined. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The registered office of the Group is at 35/F Rufino Pacific Tower, Ayala Avenue, Makati City.

The consolidated financial statements have been approved and authorized for issue by the Board of Directors on April 8, 2010.

## **Note 2 – Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippines Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale investments.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements as disclosed in Note 5.

The Group has adopted the following accounting standards and interpretations approved by the FRSC which are effective for annual periods beginning on or after January 1, 2009:

#### New accounting pronouncements

- a) Effective for the Group beginning January 1, 2009

In 2009, the Group adopted the following accounting pronouncements:

- *PAS 1, Presentation of Financial Statements*. The amendment requires that all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. Dividends recognized as distributions to owners and related per share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income. Following the adoption of PAS 1, the Group's basic financial statements include a statement of total comprehensive income.

- *PFRS 1 (Amendment), First time adoption of PFRS, and PAS 27, Consolidated and Separate Financial Statements.* The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from PAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group has already adopted PFRS 1, therefore this amendment is not relevant to the group's financial statements. The Group applied PAS 27 amendment and has no material financial impact on the financial statements.
  - *PFRS 7 (Amendment), Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments.* The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurement by level of fair value measurement hierarchy. The adoption of the amendment resulted in additional disclosures (see Note 3.4) but did not have an impact on the financial position or total comprehensive income of the Group.
  - *PAS 23 (Amended), Borrowing Costs.* The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The adoption of amended PAS 23 did not have a significant impact on the consolidated financial statements of the Group as the Group has no qualifying assets.
  - *PFRS 8, Operating Segment* (effective from January 1, 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard did not have a significant impact on the consolidated financial statements as the Group is being managed as a single operating unit.
- b) Effective for the Group subsequent to 2009

The following standards, amendments and interpretations to existing standards have been published and are applicable for the Group beginning on or after January 1, 2010 but the Group has not early adopted.

- *PAS 27 (Revised), Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from January 1, 2010.

- *PFRS 3 (Revised), Business Combinations* (effective for annual periods beginning on or after July 1, 2009). This revision enhances the relevance, reliability and comparability of the information that entity provides in its financial statements about a business combination and its effects by establishing principles and requirements for how an acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Group has not early adopted PFRS 3 (Revised), Business Combination and will apply in its financial statements for the period commencing January 1, 2010. This standard is currently not applicable to the Group as there is no business combination during the year.
- *Philippine Interpretation IFRIC 17, Distribution of Non-Cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009). This interpretation addresses accounting by an entity that makes a non-cash asset distribution to owners. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. If an entity gives its owner a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognized in equity as adjustment to the amount of the distribution. This interpretation will be adopted by the Company on its financial year beginning January 1, 2010.
- *Philippine Interpretation IFRIC 15, Agreement for the Construction of Real Estate* (effective for annual periods from January 1, 2012). This interpretation clarifies whether PAS 18, Revenue or PAS 11, Construction Contract, should be applied to particular transactions. It is likely that PAS 18 will be applied to a wider range of transactions. The Interpretation is effective for annual periods beginning on or after January 1, 2012 and is to be applied retrospectively. The FRSC decided to require mandatory application of the Interpretation for Philippine financial reporting purposes in 2012 to allow entities engaged in the real estate business time to prepare for implementation of the Interpretation. This interpretation will be adopted by the Group on January 1, 2012.

The adoption of the above accounting pronouncements are not expected to have a significant on the consolidated financial statements of the Group.

#### c) Improvements to PFRS

Improvements to PFRS comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual PFRS standards. Most of the amendments became effective in January 1, 2009 but their adoption did not have significant impact on the Group. Likewise, no material changes to the Group's accounting policies are expected for amendments that will be effective starting January 1, 2010 and onwards.

The adoption of the above accounting pronouncements are not expected to have a significant on the consolidated financial statements of the Group.



## 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2009 and 2008. The subsidiaries' financial statements are prepared using the same reporting year as the Parent Company. The accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. This consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries as of December 31, 2009 and 2008:

Subsidiaries	Percentage of ownership		
	Direct	Indirect	Total
T&M Holdings, Inc. (TMHI)	100.00%	-	100.00%
M&M Holdings Corporation (MMHC)	100.00%	-	100.00%
Mindanao Appreciation Corporation (MAC)	28.51%	13.98%	42.49%
The Angeles Corporation (TAC)	38.46%	15.02%	53.48%
The Taal Company, Inc. (TTCI)	29.97%	14.49%	44.46%
Tagaytay Properties and Holding Corporation (TPHC)	26.04%	-	26.04%

All subsidiaries are domestic companies registered in the Philippines.

### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

MAC, TAC, TTCI and TPHC are consolidated because the Parent Company takes effective and absolute control over key decisions, operating strategies, and key policies of the entities. Consistent with PAS 27, the entities have been consolidated in the Group's financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share in the net assets acquired, the difference is recognized directly in profit or loss.

Intercompany transactions, balances and intragroup gains on transactions between the Group of companies are eliminated. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The results of the subsidiaries acquired or disposed of during the year are included in profit or loss from the effective acquisition date or up to the effective date on which control ceases, as appropriate.

TPHC holds interests in the companies listed above namely: (1) The Angeles Corporation, 57.69%; (2) The Taal Company, Inc., 55.64%; and (3) Mindanao Appreciation Corporation, 53.68%.

*(b) Transactions with non-controlling interests*

Interests in the equity of subsidiaries not attributable to the Parent Company are reported in the balance sheets as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statement of total comprehensive income.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Parent Company. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in the statement of capital funds. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, it does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intragroup gains on transactions between the Group and its associates are eliminated to the extent of its interest in the associates. Intragroup losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## **2.3 Cash on hand and in banks**

Cash consist of cash on hand and deposits at call with banks.

## **2.4 Financial assets**

### **2.4.1 Classification of financial assets**

The Group classifies its financial assets at initial recognition depending on the purpose for which the financial assets were acquired. As at reporting dates, the Group's financial assets are categorized as follows: (i) at fair value through profit or loss; (ii) loans and receivables and (iii) available-for-sale. There are no financial assets that are classified as held-to-maturity.

(a) Financial assets at fair value through profit or loss

The Group's financial assets falling under this category include listed equity securities (Note 7) that are held for trading.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those that will mature more than 12 months after the balance sheet date. These are classified as non-current assets. Significant financial assets falling under this classification include cash in banks and financial receivables such as notes receivables and other receivables and refundable deposits.

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the balance sheet date.

#### **2.4.2 Initial recognition and measurement**

Regular purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Transaction costs on financial assets carried at fair value through profit or loss are expensed as incurred.

Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of profit or loss (as "Unrealized gain on securities") in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in equity (as "Net change in fair value of available-for-sale securities"), until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the Group's right to receive payment is established.

### **2.4.3 Derecognition of financial assets**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

### **2.4.4 Impairment of financial assets**

#### *(i) Assets carried at amortized cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial 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.

The amount of impairment loss is measured as the difference between the financial 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 asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

#### *(ii) Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in profit or loss. Impairment losses recognized on equity instruments are not reversed through profit or loss.

## **2.5 Financial liabilities**

### **2.5.1 Classification and measurement of financial liabilities**

The Group's financial liabilities include financial instruments that are carried at amortized cost. These include borrowings and trade and other payables, excluding provisions and payable to government agencies. The Group holds no financial liabilities classified at fair value through profit or loss.

### **2.5.2 Initial recognition and derecognition of financial liabilities**

Financial liabilities are initially recognized at fair value of the consideration received less directly attributable transaction costs. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired.

### **2.5.3 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## **2.6 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation and amortization and impairment, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which they are incurred.

Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the related assets as follows:

Furniture and fixtures	3 to 5 years
Office equipment	5 years
Office condominium	25 years
Communication and other equipment	5 years
Building improvements	10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the life of its assets or lease term, whichever is shorter.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in profit or loss.

## **2.7 Investment properties**

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

Investment properties are stated at historical cost less accumulated depreciation and amortization and impairment, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Investment properties are carried at cost less accumulated depreciation and less impairment, if any.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the financial period in which they are incurred.

Depreciation of building classified as investment property is calculated using the straight-line method over the estimated useful lives of 25 years.

Removal of an item within investment property is triggered by a change in use, by sale or disposal. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Gain or loss arising on disposal is calculated as the difference between any disposal proceeds and the carrying amount of the related asset. This is recognized in the profit or loss.

Property that is being constructed or developed for future use as investment property is classified as investment property.

## **2.8 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example land, are not subject to depreciation and amortization and are tested annually for impairment. Assets that have definite useful life are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## **2.9 Construction-in-progress**

Construction-in-progress is stated at cost. This represents the accumulated costs for the construction of the projects. Construction-in-progress is transferred to property and equipment or investment property when completed and ready for its intended use.

## **2.10 Accrued expenses and other payables**

Trade and other payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

## **2.11 Borrowings and borrowing costs**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Until December 31, 2008, all borrowing costs are recognized and charged to operations in the year which they are incurred.

Effective January 1, 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

## **2.12 Revenue and expenses recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Group's activities.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is possible that future economic benefits will flow into the Group and specific criteria have been met for each of its activities as described below.

### *(a) Rental income*

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

### *(b) Interest income and expense*

Interest income and expense are recognized in the profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss.

(c) *Other income*

Other income is recognized when earned.

(d) *Expenses*

Operating expenses are recognized when they are incurred.

## **2.13 Income tax**

(a) *Current income tax*

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

(b) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

The Group reassesses at each balance sheet date the need to recognize a previously unrecognized deferred income tax asset.



*(c) Recent tax laws*

On December 20, 2008, Revenue Regulations No. 16-2008 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. For corporations, OSD shall be 40% based on gross income; "cost of goods sold" and "cost of services" will be allowed to be deducted from gross sales.

For taxable period 2008, the maximum 40% deduction shall only cover the period beginning July 06, 2008. However, July 1, 2008 shall be considered as the start of the period when the 40% OSD may be allowed.

On February 18, 2010, Revenue Regulations No. 2-2010, amending Revenue Regulations No.16-2008 with respect to the manner and period for making the election to claim OSD in the income tax returns was published. The regulation states that the election to claim either the OSD or the itemized deduction for the taxable year must be signified in the income tax return filed for the first quarter of the taxable year adopted by the taxpayer. Once the election is made, the same type of deduction must be consistently applied for all the succeeding quarterly returns and in the final income tax return for the taxable year.

The Group did not avail of the OSD for purposes of income tax calculation in 2009 and 2008.

## **2.14 Provisions**

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## **2.15 Share capital**

*(a) Common shares*

Common shares are classified as equity.

*(b) Treasury shares*

Where any member of the Group purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's equity holders.

## **2.16 Leases**

### *(a) The Group is the lessor*

Properties leased out under operating leases are included in investment property in the consolidated balance sheets. Lease income is recognized over the term of the lease on a straight-line basis.

### *(b) The Group is the lessee*

Leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the period of the lease.

## **2.17 Foreign currency transactions and translation**

### *(a) Functional and presentation currency*

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's financial statements are presented in Philippine Peso, which is the Parent Company's functional and presentation currency.

### *(b) Transactions and balances*

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

## **2.18 Earnings per share**

Basic earnings per share is calculated by dividing net income attributable to common shareholders by the weighted average number of common shares in issue during the year. Diluted earnings per share is computed in the same manner as basic earnings per share, however, profit attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

There are no dilutive potential common shares as of December 31, 2009 and 2008.

## **2.19 Operating segment**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Parent Company has determined its President as its chief operating decision maker.

In view of the current status of the Group's operation which is limited only to rental income, the performance of the Group is being assessed as a single unit. Consequently, detailed segment reporting as required under PFRS 8 are deemed not relevant.

## **2.20 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

## **2.21 Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

## **2.22 Subsequent events (or events after the balance sheet date)**

Post year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## **Note 3 – Financial instruments and risk management objectives and policies**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Management, under the direction of the Board of Directors of the Group is responsible for the management of financial risks. Its objective is to minimize the adverse impacts on the Group's financial performance due to the unpredictability of financial markets.

### 3.1 Market risk

#### (a) Currency risk

The Group's exposure to currency risk relates only to the foreign currency denominated receivables amounting to Hongkong Dollar 11,831,930 at December 31, 2008. This was fully settled in 2009.

Comparing the average Hongkong Dollar-Philippine Peso exchange rates, the Hongkong Dollar strengthened by 5% against the Philippine Peso from December 31, 2007 to December 31, 2008 based on analysis performed using historical movements of the Hongkong Dollar against the Philippine Peso. At December 31, 2008, if the Philippine Peso had weakened/strengthened by +/- 5% against Hongkong Dollar with all variables held constant, the effect on income before tax and equity will be P3.64 million.

#### (b) Price risk

The Group's exposure on price risk is minimal and limited only to investments classified as at fair value through profit or loss (Note 7) and available-for-sale securities (Note 12). Changes in market prices of these investments are not expected to impact significantly the financial position or results of operations of the Group.

#### (c) Interest rate risk

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest-bearing financial instruments include notes receivable (Note 8) and various loans payable and borrowings (Note 13). These financial instruments are not exposed to fair value interest rate risk as they are carried at amortized cost. Likewise, these instruments are not exposed to variability in cash flows as they carry fixed interest rates.

### 3.2 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to discharge an obligation.

#### (a) Maximum exposure to credit risk

The Group's exposure to credit risk primarily relates to cash in banks and financial receivables as shown below.

The table below shows the credit quality of significant financial assets as of December 31:

2009	Fully performing	Past due but not impaired	Past due and impaired	Total
Cash in banks	1,870,133	-	-	1,870,133
Notes and other receivables	102,209,572	167,828,096	18,188,191	288,225,859
Refundable deposits	131,189	-	-	131,189
	104,210,894	167,828,096	18,188,191	290,227,181

2008	Fully performing	Past but not impaired	Past due and impaired	Total
Cash in banks	3,815,325	-	-	3,815,325
Notes and other receivables	167,828,096	75,079,738	18,188,191	261,096,025
Refundable deposits	137,202	-	-	137,202
	171,780,623	75,079,738	18,188,191	265,048,552

*(i) Cash in banks*

The Group manages credit risk on its cash balances by depositing in banks that qualified in the criteria of the Group. Some of these criteria are stability, financial performance, industry-accepted ratings, quality, diversity and responsiveness of products and services.

As at December 31, 2009 and 2008, the Group's funds are maintained with depository banks which are locally classified as universal banks.

*(ii) Notes and other receivables*

Notes receivables are current and expected to be settled by IRC, a related party, in 2010. This will be funded by IRC's proceeds from stock rights offering which is expected to happen in 2010.

Past due but not impaired notes and other receivables are not collateralized and are overdue by more than one year.

*(ii) Refundable deposits*

Refundable deposits are considered highly recoverable as the counterparty is assessed to have strong capacity to meet its obligation.

### 3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations to repay creditors and fulfill commitments. The Group's liquidity management process as carried out within the Group includes:

- a. Day-to-day funding requirement, managed by monitoring future cash flows to ensure that requirements can be met;
- b. Monitoring balance sheet liquidity ratios against internal requirements; and
- c. Maintaining standby credit facility with a local bank.

Accordingly, each financial asset and liability is structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. The amounts disclosed in the table below are the expected undiscounted cash flows of financial assets and liabilities, which the Group uses to manage the inherent liquidity risk.

Substantial component of expected cash inflows in 2009 and foreseeable future is the expected payments from IRC.

The table below analyzes the maturities of financial assets and liabilities as of December 31:

	2009	2008
<b>Assets</b>		
Cash on hand and in banks	1,885,133	3,830,325
Financial asset at fair value through profit or loss	4,750,751	2,968,347
Notes and other receivables	270,037,668	242,907,834
Other non-current assets	319,787	165,705
<b>Total financial assets</b>	<b>276,993,339</b>	<b>249,872,211</b>
<b>Liabilities</b>		
Borrowings	30,416,144	30,296,477
Accrued expenses and other payables	16,990,778	12,861,574
Due to related parties	13,313,820	13,192,220
<b>Total financial liabilities</b>	<b>60,720,742</b>	<b>56,350,271</b>

All financial assets and liabilities are current as at reporting dates.

### 3.4 Fair value of financial assets and liabilities

PFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments listed on exchanges
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's financial instruments measured at fair value fall under the category of Level 1. These are valued using published quoted prices from Philippine Stock Exchange. These include financial assets at fair value through profit or loss (Note 7) and available-for-sale securities (Note 12).

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities at December 31 not presented in the balance sheets at fair value.

	Carrying Value/Fair Value	
	2009	2008
<b>Financial assets</b>		
Cash in bank	1,885,133	3,830,325
Notes and other receivables	270,037,668	242,907,834
Other non-current assets	319,787	165,705
<b>Financial liabilities</b>		
Borrowings	30,416,144	30,296,477
Accrued expenses and other payables	16,990,778	12,861,574
Due to related parties	13,313,820	13,192,220

These carrying amounts approximate fair values at reporting dates due to the short-term nature of financial assets and liabilities.

#### **Note 4 – Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, capital is represented by total equity as shown in the balance sheets.

In order to maintain or adjust the capital structure, the Group may, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the very limited pre-operating activities undertaken by the Group, it does not require intensive capitalization as of December 31, 2009 and 2008. The Group's main objective is to ensure it has adequate capital moving forward to pursue its major land development plans.

The Group does not anticipate heavy requirement for working capital in 2009 given that its focus is mainly to ensure successful site clearance and future development activities of its major associate, Interport Resources Corporation (IRC), which is 40.07% owned by the Company. IRC, is in the process of completing certain regulatory requirements so that it can raised additional P600 million capital through a stock rights offering. This program is expected to be completed in 2010.

There are no external minimum capitalization requirements imposed to the Company.

#### **Note 5 – Critical accounting estimate, assumption and judgment**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimate

*Estimation of provision for impairment losses (Note 8)*

Allowance for impairment losses is maintained at a level considered adequate to provide for potentially uncollectible receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance. The provision is recognized in the statement of total comprehensive income.

Management believes that carrying amount of notes receivables at reporting dates is fully collectible given the positive operating prospects of IRC.

The Group considers that it is impracticable to discuss with sufficient reliability the possible effects of sensitivities surrounding the estimation of provision for impairment losses as the major assumptions used may differ significantly. With this, it is reasonably possible, based on existing knowledge, that the outcomes within the next financial year are different from assumptions could require a material adjustment to the carrying amount of notes receivables.

(b) Judgment

*Recognition of deferred income tax assets (Note 17)*

Management reviews at each reporting date the carrying amounts of deferred income tax assets. The carrying amount of deferred income tax assets is reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which the related tax assets can be utilized. Management believes that the non-recognition of deferred income tax assets of P9,924,742 (2008 – P11,668,051) is appropriate due to the Group's limited capacity to generate sufficient taxable income.



**Note 6 – Cash on hand and in banks**

The account at December 31 consists of:

	2009	2008
Cash in banks	1,870,133	3,815,325
Cash on hand	15,000	15,000
	<b>1,885,133</b>	<b>3,830,325</b>

**Note 7 – Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss at December 31 consists of:

	2009	2008
Listed equity securities	7,015,137	7,562,659
Cumulative fair value adjustment	(2,264,386)	(4,594,312)
	<b>4,750,751</b>	<b>2,968,347</b>

The movement of financial assets at fair value through profit or loss is summarized as follows:

	2009	2008
Balance at January 1	2,968,347	7,562,659
Disposals	(547,519)	(1,884,564)
Fair value adjustment	2,329,923	(2,709,748)
Balance at December 31	<b>4,750,751</b>	<b>2,968,347</b>

Gain on disposals of financial assets at fair value through profit or loss amounts to P326,925 (2008 – P1,227,227).

**Note 8 – Notes and other receivables**

The account at December 31 consists of:

	Note	2009	2008	2007
Notes receivable		272,537,737	167,828,096	176,232,228
Due from related parties	19	10,009,928	10,387,861	10,021,507
Advances and other receivables		5,678,194	82,880,068	8,170,117
		288,225,859	261,096,025	194,423,852
Allowance for impairment losses		(18,188,191)	(18,188,191)	(5,889,929)
		<b>270,037,668</b>	<b>242,907,834</b>	<b>188,533,923</b>

Notes receivable represents loans granted to IRC with no definite payment terms and bears annual interest rates ranging from 12% to 18%. The account also includes accrued interest receivable of P71.34 million (2008 - P39.23 million; 2007 – P13.32 million). Total interest income recognized from this loan for the years ended December 31, 2009, 2008 and 2007 amounts to P32.31 million, P10.19 million and P3.06 million, respectively. These loans are due and demandable at balance sheet dates.

Advances and other receivables in 2008 include receivable amounting to P63 million arising from the disposal of available-for-sale investment (Note 12). This was fully collected in 2009.

The movement in allowance for impairment losses is summarized below:

	2009	2008	2007
At January 1	18,188,191	5,889,929	5,889,929
Impairment loss for the year	-	12,298,262	-
At December 31	18,188,191	18,188,191	5,889,929

Additional provision of P12.30 million in 2008 has been recorded to cover possible losses from uncollectible due from related parties and advances to officers and employees. There were no accounts written-off in 2009 and 2008.

#### Note 9 – Investment in associates

Details of the account at December 31 follow:

	Ownership	2009	2008	2007
Acquisition cost				
Interport Resources Corporation (IRC)	40.07%	382,040,940	382,040,940	382,040,940
The Prosperity Tax Cab Corporation (TPTCC)	30.30%	-	7,832,396	7,832,396
Total acquisition costs		382,040,940	389,873,336	389,873,336
Accumulated share in net losses of associates				
Balance at January 1		(340,598,679)	(328,183,734)	(318,049,896)
Share in net losses of associates		(20,684,273)	(9,639,704)	(7,259,260)
Disposal of TPTCC		13,324,141	-	-
Balance, December 31		(347,958,811)	(337,823,438)	(325,309,156)
Accumulated impairment losses		-	(2,775,241)	(2,874,578)
Total		34,082,129	49,274,657	61,689,602

The movement in accumulated impairment loss at December 31 follows:

	2009	2008
At January 1	2,775,241	1,721,587
Impairment loss for the year	-	1,053,654
Disposal for the year	(2,775,241)	-
At December 31	-	2,775,241

On June 15, 2009, the Group disposed its interests in TPTCC to a third party for a total consideration of P4,750,000. Gain on sale on the disposals amounts to P839,807.

The summarized financial information of the associates as of and for the years ended December 31, 2009 and 2008 follows:

	IRC		TPTCC
	2009	2008	2008
	(in millions of Peso)		
Total assets	1,806.88	1,680.06	11.10
Total liabilities	1,748.64	1,562.93	0.52
Total equity	58.24	117.13	10.57
Total revenue	-	-	0.87
Net loss	(51.62)	(86.32)	(0.16)

## Note 10 – Property and equipment

Details and movements of property and equipment as of and for the years ended December 31, 2009 and 2008 follow:

	Furniture and fixtures	Office equipment	Communication and other equipment	Office condominium	Building improvements	Transportation equipment	Leasehold improvements	Construction in progress	Total
<b>Cost</b>									
Balances at January 1, 2008	1,074,746	902,866	906,181	-	-	1,451,488	20,841	-	4,356,122
Additions	1,172,336	218,845	136,963	-	-	-	-	3,481,563	5,009,707
Disposals	(672,334)	(360,919)	-	-	-	-	(20,841)	-	(1,054,094)
Balances at December 31, 2008	1,574,748	760,792	1,043,144	-	-	1,451,488	-	3,481,563	8,311,735
Additions	-	6,950	-	-	-	-	-	377,679	384,629
Reclassification from construction in progress	-	-	-	-	3,859,242	-	-	(3,859,242)	-
Reclassification from investment property (Note 11)	-	-	-	13,746,305	-	-	-	-	13,746,305
Disposals	(220,639)	(33,900)	-	-	-	-	-	-	(254,539)
Balances at December 31, 2009	1,354,109	733,842	1,043,144	13,746,305	3,859,242	1,451,488	-	-	22,188,130
<b>Accumulated depreciation</b>									
Balances at January 1, 2008	1,074,660	797,821	906,158	-	-	148,303	1,737	-	2,928,679
Depreciation and amortization	14,473	43,160	6,848	-	-	148,303	625	-	213,409
Disposals	(310,341)	(360,917)	-	-	-	-	(2,362)	-	(673,620)
Balances at December 31, 2008	778,792	480,064	913,006	-	-	296,606	-	-	2,468,468
Depreciation and amortization	128,592	70,061	27,393	381,682	284,698	148,303	-	-	1,040,729
Reclassification from investment property	-	-	-	8,572,419	-	-	-	-	8,572,419
Disposals	(220,637)	(33,898)	-	-	-	-	-	-	(254,535)
Balances at December 31, 2009	686,747	516,227	940,399	8,954,101	284,698	444,909	-	-	11,827,081
<b>Net book value</b>									
December 31, 2008	795,956	280,728	130,138	-	-	1,154,882	-	3,481,563	5,843,267
December 31, 2009	667,362	217,615	102,745	4,792,204	3,574,544	1,006,579	-	-	10,361,049

## Note 11 – Investment properties

The Group's investment properties include several parcels of land and condominium units held for lease. Land includes properties of MAC, TICI and TPHC held for appreciation purposes, including those strategically located and potentially high value land in Tagaytay City and Batangas with a total land area of 29 hectares. The condominium units, which are located in Makati with a total floor area of 888 square meters, are being leased out to third parties. Income from these properties amounted to P5.92 million, P3.65 million and P3.37 million in 2009, 2008 and 2007, respectively, and is shown as Rental revenue in the statements of total comprehensive income. Other than the depreciation expense below, there are no direct costs relating to investment properties.

The changes to the carrying amounts presented in the balance sheets as of December 31, 2009 and 2008 are summarized as follows:

	Note	2009		
		Land	Condominium	Total
<b>Cost</b>				
Balance at January 1, 2009		13,498,605	57,276,270	70,774,875
Reclassification to property and equipment	10	-	(13,746,305)	(13,746,305)
Balance at December 31, 2009		13,498,605	43,529,965	57,028,570
<b>Accumulated Depreciation</b>				
Balance at January 1, 2009		-	35,188,296	35,188,296
Depreciation for the year		-	1,738,772	1,738,772
Reclassification to property and equipment	10	-	(8,572,419)	(8,572,419)
Balance, December 31, 2009		-	28,354,649	28,354,649
Net carrying value at December 31, 2009		13,498,605	15,175,316	28,673,921
<b>2008</b>				
		Land	Condominium	Total
<b>Cost</b>				
Balance at December 31, 2008		13,498,605	57,276,270	70,774,875
<b>Accumulated Depreciation</b>				
Balance at January 1, 2008		-	33,067,842	33,067,842
Depreciation for the year		-	2,120,452	2,120,452
Balance at December 31, 2008		-	35,188,294	35,188,294
Net carrying value at December 31, 2008		13,494,605	22,087,976	35,586,581

The estimated fair value of the condominium property as of December 31, 2009 and 2008 amounted to P59 million. The fair value of the properties is based on market data approach. The land has an estimated fair value of P127.63 million as of December 31, 2009 and 2008 determined by an independent firm of appraisers using the market data approach.

**Note 12 – Other non-current assets**

Other non-current assets at December 31 consist of :

	2009	2008
Refundable deposits	131,189	137,202
Available-for-sale investments	188,598	28,503
	<u>319,787</u>	<u>165,705</u>

In 2008, the Group generated P589 million from the sale of available-for-sale investments. Related gain from the disposal amounted to P106 million.

**Note 13 – Borrowings**

Borrowings at December 31 consist of unsecured short-term interest-bearing loans obtained from the following:

	2009	2008
Intrinsic Value Management Ltd. (Phils.) Co.	13,624,642	13,504,975
Philippine Strategic International Holdings, Inc.	450,000	450,000
Others	16,341,502	16,341,502
	<u>30,416,144</u>	<u>30,296,477</u>

These borrowings carry interest rates of 10%-18% per annum and are payable on demand.

Interest expense incurred from these borrowings amounts to P3.09 million, P2.91 million and P786 thousand for the years ended December 31, 2009, 2008 and 2007, respectively.

**Note 14 – Accrued expenses and other payables**

The account at December 31 consists of:

	Note	2009	2008
Accrued expenses		15,119,187	10,771,961
Provisions	24	26,160,652	26,160,652
Others		1,871,591	2,089,613
		<u>43,151,430</u>	<u>39,022,226</u>

Accrued expenses represent accruals for professional fees, utilities and other recurring expenses.

Provisions pertain to liabilities related to guarantees arising from acquisition of an asset which currently under legal proceedings.

## Note 15 – Equity

### (a) Share capital

Share capital at December 31, 2009, 2008, and 2007 consists of:

<hr/>	
Common shares – P1 par value	
In shares	
Authorized	4,000,000,000
Subscribed	1,200,000,000
Issued and outstanding	1,200,000,000
<hr/>	
Amount	
Subscribed capital stock	1,200,000,000
Subscriptions receivable	(260,515,947)
Paid up	939,484,053
<hr/>	

In accordance with the Parent Company's articles of incorporation, certain restrictions have been imposed on the Parent Company and some subsidiaries regarding the issuance and transfer of share capital.

No shareholder shall, because of his ownership of share have a pre-emptive or other right to purchase, subscribe for, or take any part of any share or any other securities convertible into carrying options or warrants to purchase share of the corporation without first offering such share or securities or any part thereof to existing equity holders.

No issuance or transfer of shares of stock of the Parent Company which would reduce the share ownership of the Filipino citizens shall be allowed or permitted to be recorded in the books of the Parent Company.

### (b) Deposits for future subscriptions

In 1997, the Group received from certain shareholders deposits on future stock subscriptions totaling P241.62 million. Movements of P46.93 million in 2008 pertain to cancellation of subscription with the amount previously received as deposits applied against the Group's advances to concerned shareholders. There were no movements in the account in 2009.

### (c) Treasury shares

Treasury shares represent investment of MAC, a subsidiary, to the Parent Company's shares. Acquisition cost of these shares amounts to P61,768,327.

**Note 16 – Operating expenses**

a) Other operating expenses for the years ended December 31 consist of:

	Note	2009	2008	2007
Transportation and travel		1,443,435	1,302,124	846,359
Taxes and licenses		868,105	5,104,400	722,581
Communication, light and water		532,903	482,223	572,592
Rental	20	-	576,491	484,668
Representation and entertainment		36,297	536,528	273,681
Other fees		487,586	339,515	709,912
Miscellaneous		1,688,999	2,115,499	2,131,013
		5,057,325	10,456,780	5,740,806

b) Impairment losses in 2008 include additional provision for impairment of receivables of P12.30 million provided to notes and other receivables (Note 8) and impairment on investment in associates of P1.05 million (Note 9).

**Note 17 – Income taxes**

On May 24, 2005, Republic Act 9337 (the “Act”) changed the normal corporate income tax rate from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009.

On November 21, 2007, under Republic Act 9361, the NIRC was amended anew with the deletion of the provision imposing the 70% cap on input tax that may be credited in every taxable quarter.

Provision for income tax for the years ended December 31 follows:

	2009	2008	2007
Current	763,337	217,223	135,346
Deferred	-	-	(1,597,770)
Provision for (benefit from) income tax	763,337	217,223	(1,462,424)

The reconciliations of tax on pretax loss computed at the statutory income tax rates to tax expense (benefit) are as follows:

	2009	2008	2007
Tax on pretax income (loss)	1,570,993	27,805,781	(9,935,892)
Adjustment for income subjected to lower tax rates	(862,177)	(13,514,126)	(40,248)
Share in net losses of associates	6,205,282	3,373,846	2,524,599
Unrecognized deferred tax assets from impairment losses, NOLCO and MCIT	763,337	4,127,941	5,966,117
Non-taxable income	803,485	(19,785,052)	-
Others	(7,717,583)	(1,791,167)	23,000
	763,337	217,223	(1,462,424)



The deferred tax assets of the Group as of December 31, 2009 and 2008 which were not recognized consist of the following:

	2009	2008
NOLCO	2,346,490	2,346,490
MCIT	1,258,519	591,157
Unrealized foreign exchange loss	902	2,411,573
Allowance for impairment	6,318,831	6,318,831
	9,924,742	11,668,051

The NOLCO will expire in 2011.

The Group is liable to MCIT equivalent to 2% of gross income, as defined in the tax regulations. The details of the Group's unrecognized MCIT which can be claimed as deduction against future corporate income tax due are as follows:

Year	Valid Until	2009	2008
2009	2012	763,337	-
2008	2011	217,223	217,223
2007	2010	135,347	135,347
2006	2009	142,612	142,612
2005	2008	-	95,975
		1,258,519	591,157

#### **Note 18 – Basic and diluted earnings per share**

The computation of basic earnings per share for the years ended December 31 follows:

	2009	2008	2007
Net income (loss) attributable to the equity holders of the Parent Company	19,050,211	81,668,740	(26,033,840)
Divided by the average number of outstanding common shares	1,139,013,000	1,139,013,000	1,139,013,000
Basic earnings per share	0.0167	0.0717	(0.0229)

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

### Note 19 – Related party transactions

The Group's transactions with related parties include those with associates and other related parties described below

#### a) Due from related parties

Details of the account at December 31 follow:

	2009	2008
Due from a shareholder	10,000,000	10,000,000
Others	9,928	387,861
	10,009,928	10,387,861

Due from shareholder represents advances which is payable on demand.

The outstanding receivables from related parties are presented as Due from related parties under Notes and other receivables account in the balance sheets (see Note 8).

Receivables from related parties are non-interest bearing and have no definite repayment terms.

#### b) Due to related parties

This account is composed of advances from the following related parties which were obtained for working capital purposes:

	2009	2008
Intrinsic Value Management Ltd. (Phils.) Co., Inc., a subsidiary of a major shareholder	12,850,148	12,728,548
Others	463,672	463,672
	13,313,820	13,192,220

The above advances are non-interest bearing and are payable on demand.

### Note 20 – Leases

The Company leases its office space under a two-year lease agreement up to October 31, 2008. Rental expense related to the lease amounted to P576,491 and P484,668 in 2008 and 2007, respectively.

In 2009, the Company occupied a portion of its investment in condominium units and converted it into an office space. The portion which is owner-occupied is properly reclassified as property and equipment (Notes 10 and 11). The remaining portion is leased to other parties. Rental income from investment in condominium units amounts to P5.92 million (2008 – P3.65 million).

**Note 21 – Salaries and employee benefits**

The balance of employee benefits at December 31 consists of:

	2009	2008	2007
Salaries and wages	2,382,996	2,391,687	2,337,611
Bonus and allowances	116,280	117,800	117,360
SSS, Philhealth and HDMF	89,909	93,434	94,246
Others	538,369	542,989	404,828
	<b>3,127,554</b>	<b>3,145,910</b>	<b>2,954,045</b>

The total compensation of the Group's executive officers for the years ended December 31, 2009, 2008 and 2007 amounted to P2.89 million , P2.55 million and P2.41 million, respectively.

The Group has six (6) employees at December 31, 2009 (2008 – seven (7) employees). Accordingly, the Group has not accrued any retirement benefits for the year ended December 31, 2009, 2008 and 2007 since the Group is exempt from Republic Act 7641.

**Note 22 – (Loss) gain on disposal of assets**

The account includes gains (losses) resulting from the sale of the following assets:

	Notes	2009	2008
Investment in associates	9	(839,807)	-
Financial asset at fair value through profit or loss	7	326,925	1,227,227
Available-for-sale investments	12	-	106,595,150
		<b>(512,882)</b>	<b>107,822,377</b>

**Note 23 – Restatement**

The Group has restated investments in 2007 to reflect the cumulative difference between the carrying value of investment and Group's share in underlying net asset of its associates. Details of adjustments are summarized below:

	As previously reported	Restatements	As restated
<u>2007</u>			
Investment in associates- January 1, 2007	263,531,445	(201,841,843)	61,689,602
Net (loss) income, December 31, 2007	(26,925,839)	(252,275)	(27,178,114)
Deficit, December 31, 2007	(735,233,412)	(186,276,905)	(921,510,317)

In 2009, certain accounts at December 31, 2008 and 2007 have been restated to correct certain adjustments on these accounts noted below. The restatements arose from detailed review of beginning balances undertaken by management during the year. The net effect of the adjustments is not material.

The effects of restatement as of and for the year ended December 31, 2008 and 2007 are as follows:

	As previously reported	Restatements	As restated
<u>2008</u>			
Notes and other receivables, net	230,635,579	12,272,255	242,907,834
Treasury shares	(40,501,200)	(21,267,127)	(61,768,327)
Revaluation reserves	(589,589)	589,589	-
Deficit	(881,188,080)	41,346,503	(839,841,577)
Non-controlling interest	36,941,641	(8,396,710)	28,544,931
<u>2007</u>			
Notes and other receivables, net	117,193,095	71,340,828	188,533,923
Treasury shares	(40,501,200)	(21,267,127)	(61,768,327)
Deficit	(962,856,820)	41,346,503	(921,510,317)
Non-controlling interest	(20,275,646)	51,261,452	30,985,806

#### **Note 24 – Contingencies**

In the normal course of business, the Group is a defendant of a case which is pending with the Court of Appeals. The case arose from a demand for payment of minimum guaranteed return on investment by corporation was formerly a co-shareholder of the Parent Company. Details of this pending case follow:

In 1996, the Parent Company entered into a shareholders agreement with a couple of other corporate entities involving a venture in fast craft shipping business. The claimant (one of the co-shareholders) violated a number of the terms of the agreement, including a direct purchase of the shares of the other shareholder without the consent of the Parent Company as stipulated under the agreement.

In 1999, the plaintiff demanded full payment of the guaranteed return on its investment after audits of the fast craft business revealed a significant amount of loss. The Parent Company denied the liability. The plaintiff filed a request for Arbitration to compel the Parent Company to pay the minimum guaranteed return. The arbitrator rendered an award in favor of the plaintiff. Thus, the plaintiff instituted the present action to enforce the arbitral award.

After the termination of mediation proceedings, the case has been sent back to the regional trial court of Makati (Makati RTC). On May 23, 2008, the Makati RTC dismissed the petition for the recognition and enforcement of the Arbitral Award on the ground that the award was issued in violation of the agreement and the payment obligation ordered by the sole arbitrator is void. The plaintiff filed its motion for reconsideration in June 2008. On July 25, 2008, the Makati RTC denied the plaintiff's motion for reconsideration for lack of merit.

In view of the Notice of Appeal by the plaintiff, the RTC ordered the case to be transferred to Court of Appeals for further proceedings.

The case is pending as of April 14, 2010.