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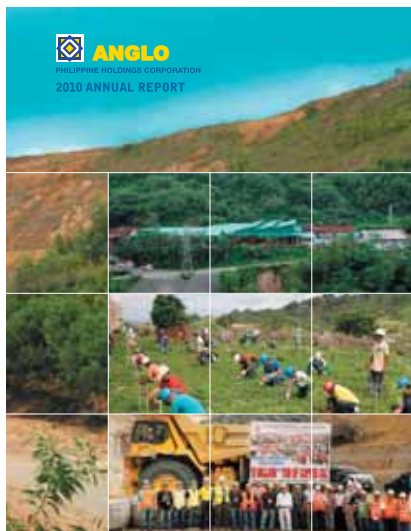
PHILIPPINE HOLDINGS CORPORATION

2010 ANNUAL REPORT



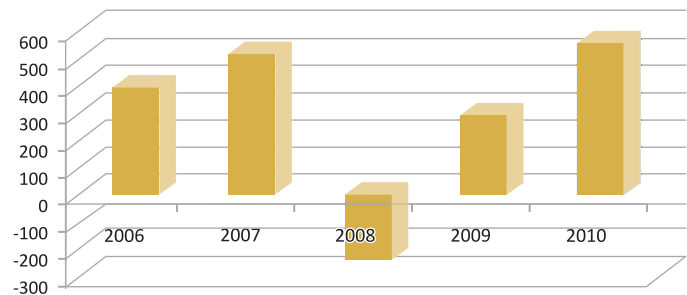
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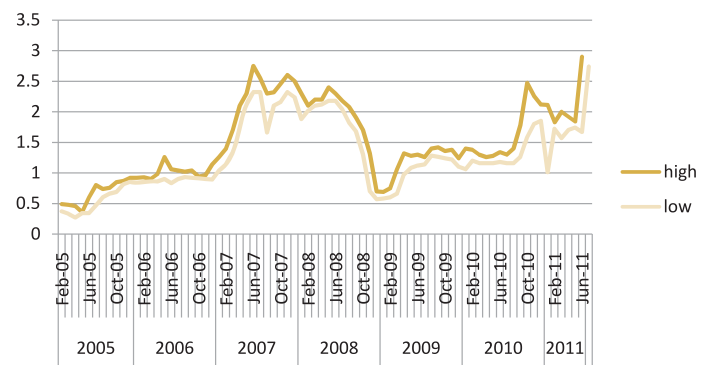


Our mining activities seek to harvest the wealth of the earth to boost the country's export revenues and create employment. Simultaneously, we pursue active replanting and reforestation activities to ensure environmental balance and protection. That is the essence of *sustainable development*.

NET INCOME/(LOSS) (in million pesos)

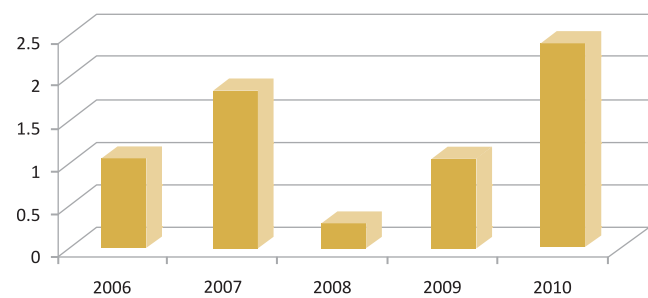


Php Per Share



Movement in Share Price of Anglo Philippine Holdings Corporation (Trading Symbol: APO) at the Philippine Stock Exchange from February 2005 to June 2011

Book Value Per Share



To our Stockholders and Friends:

We are pleased to present the status of operations of **Anglo Philippine Holdings Corporation** (the "Company") for the year 2010 to date.

FINANCIAL PERFORMANCE

The Company continued to pay out dividends to stockholders on the strength of continuing profitability.

Cash Dividend No. 5 was paid on May 24, 2010 at the rate of P0.03/share, while Cash Dividend No. 6 was paid on April 29, 2011 at the rate of P0.05/share.

Mark-to-market change in derivative asset and interest income arising from the Company's loan to Atlas Consolidated Mining & Development Corporation enabled the Company to recognize substantial gains in 2010. Likewise, the recovery of the Philippine stock market during the latter part of the year resulted in significant improvements in the value of the Company's Atlas and Shang Properties, Inc. investments.

The comparative financial highlights for the last three (3) years are presented below.

	2010	2009	2008 (restated)
Net Income	560,774,028	294,071,143	(236,936,198)
Total Assets	5,172,806,310	3,619,848,502	2,159,884,206
Total Liabilities	2,398,233,254	2,387,089,380	1,808,746,254
Net Worth	2,774,573,056	1,232,759,122	351,137,952
Outstanding Capital	1,165,000,000	1,165,000,000	1,165,000,000
Earnings Per Share	0.48	0.25	(0.20)
Return on Equity	28%	37%	-21%



INVESTMENT HIGHLIGHTS

Natural Resources

The Company boosted its ownership in *Atlas Consolidated Mining & Development Corporation* from 11.67% to 13.12% with the acquisition of additional shares arising from the conversion of its US\$11.5 million loan into Atlas equity.

Atlas subsidiary, Carmen Copper Corporation (CCC), shipped a total of 98,206 dry metric tons (dmt) of copper concentrate to China and Korea and posted a net income of P670 million in 2010, a turnaround from 2009's net loss of P1,662 million. Assuming stable copper prices, CCC's improvements in production, milling capacity and power cost are expected to contribute towards enhancing CCC's performance for the ensuing years.

Another Atlas subsidiary, Berong Nickel Corporation (BNC), remained under *Care & Maintenance* and its mining operations temporarily discontinued due to low nickel prices and demand in 2010. However, last March 2011, BNC stockholders approved the resumption of direct ore shipping operations due to improved nickel prices.

The Company owns 25.62% of *United Paragon Mining Corporation (UPMC)* which holds highly prospective gold mining properties in the Bicol area. UPMC posted a net loss of P35.5 million in 2010 as its mining and milling operations remain suspended. Nevertheless, UPMC continues to seek funding for the re-opening and rehabilitation of its mine from prospective local and foreign investors.

In *Oil Exploration*, the Company continues to hold participating interests in highly prospective areas in the Philippines including: (a) Service Contract 6A (Octon), where the Operator is actively seeking farminees into the block; (b) Service Contract No. 53 (Onshore Mindoro), where the interpretation of onshore seismic data and reprocessing of offshore seismic data continue; and (c) Service Contract No. 14 (Tara), where the farmin of Peak Oil, Blade Petroleum and Venturoil into the block has been submitted to the Department of Energy (DOE) for approval. The Company also owns a 1.68% interest in *The Philodrill Corporation*, a major player in the local oil exploration sector, which posted a net income of P557 million in 2010.



Property Development

The Company owns 15.79% of *North Triangle Depot Commercial Corporation (NTDCC)*, which owns and operates the TriNoma commercial center in Quezon City. For 2010, NTDCC posted an audited net income of P215.9 million.

The Company continues to maintain a 15.79% equity in *Metro Rail Transit Development Corporation (MRT Devco)*, which owns development rights in the MRT 3 System.

Shang Properties, Inc. (SPI), where the Company maintains 4.5% equity, registered a net income of P1.0 billion for 2010. SPI continues construction of One Shangri-La Place, a high-rise mixed use residential and commercial development project in the bustling Ortigas Center, where about 75% of the units have been sold, and has commenced civil works in Shangri-La at the Fort. SPI recently completed and sold out The St. Francis Shangri-La Place, a two-tower residential condominium project.

Infrastructure

In line with the new Administration's Public-Private Partnership mandate, the Company continues to explore suitable investments in infrastructure.

The Company is exploring participation in a proposed bulk water/power supply project to be spearheaded by an Atlas subsidiary, AquAtlas, Inc. The project seeks to utilize the existing Malubog Dam in the Toledo mine site of Atlas.

The Company's 18.6% equity in *Metro Rail Transit Holdings, Inc. (MRTHI)* remains the subject of an ongoing acquisition offer from Metro Pacific Investments Corp. (MPIC). MRTHI owns 84.9% of Metro Rail Transit Holdings II, which owns 100% of Metro Rail Transit Corp. (MRTC), the owner of the MRT 3 System.



THE DYNAMIC TRIANGLE

The Company's sustained profitability reflects the wisdom of the investments made and the enormous risks taken over these past few years. From feasibility to completion, the Company nurtured its varied investments in ***infrastructure, natural resources*** and ***property development***.

The benefits obtained from the MRT investment served as the foundation for the Company's investments in natural resources and property development. The property investments, in turn, have provided and continue to provide stable returns to the Company, while maturing its other investments. Now, the mining and oil sectors are primed for takeoff and their returns are anticipated to form the bulk of the Company's earnings in the near future. Looking ahead, new infrastructure opportunities indicate the beginning of a new cycle of working towards sustained profitability. The coming years indeed promise a season of harvest.

With the continuing support of our shareholders, bankers, partners and friends, the guidance of our board of directors, and the commendable work of our officers and staff, Management looks forward with optimism and enthusiasm to the years ahead.


ALFREDO C. RAMOS
Chairman of the Board


CHRISTOPHER M. GOTANCO
President

Mandaluyong City
May 15, 2011

The management of **Anglo Philippine Holdings Corporation** is responsible for all information and representations contained in the financial statements for the years ended December 31, 2010, 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 management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

SyCip Gorres Velayo & Co., the independent auditors and appointed by the stockholders, 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 upon completion of such examination, in its report to the Board of Directors and stockholders.



ALFREDO C. RAMOS
Chairman of the Board/CEO



CHRISTOPHER M. GOTANCO
President/Director/COO



AUGUSTO B. SUNICO
Treasurer/Director



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines
Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

The Stockholders and the Board of Directors
Anglo Philippine Holdings Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of Anglo Philippine Holdings Corporation, which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Anglo Philippine Holdings Corporation as at December 31, 2010 and 2009, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The statement of comprehensive income, statement of changes in equity and statement of cash flows of Anglo Philippine Holdings Corporation for the year ended December 31, 2008 were audited by other auditors whose report dated May 7, 2009 expressed an unqualified opinion on those statements. The opinion of such auditors, however, do not cover the restatements of those financial statements as discussed in Note 23 to the financial statements.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as whole. The supplementary information on taxes and licenses in Note 26 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Anglo Philippine Holdings Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SYCIP CORRES VELAYO & CO.

A handwritten signature in black ink that reads "John T. Villa".

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 0783-A
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2009,
June 1, 2009, Valid until May 31, 2012
PTR No. 2641575, January 3, 2011, Makati City

April 11, 2011

	December 31	
	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 22)	P165,129,013	P79,588,042
Financial assets at fair value through profit or loss (FVPL; Notes 5, 22 and 23)	466,608,314	418,048,226
Receivables (Notes 6, 14 and 22)	277,946,757	696,481,904
Derivative asset (Notes 6 and 22)	-	79,799,174
Prepaid expenses and other current assets	2,942,679	4,431,763
Total Current Assets	912,626,763	1,278,349,109
Noncurrent Assets		
Available-for-sale (AFS) investments (Notes 7, 22 and 23)	3,033,803,476	1,108,558,736
Investments in associates (Notes 6, 7, 8, 23 and 24)	1,051,710,422	1,057,485,852
Property and equipment (Note 9)	18,047,144	19,465,931
Deferred exploration costs (Note 10)	156,519,409	155,988,874
Retirement benefit plan asset (Note 19)	99,096	-
Total Noncurrent Assets	4,260,179,547	2,341,499,393
TOTAL ASSETS	P5,172,806,310	P3,619,848,502
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans payable (Notes 5, 11, 22 and 23)	P125,000,000	P175,000,000
Current portion of long-term debt (Notes 12, 22 and 23)	467,027,152	196,834,798
Accounts payable and accrued expenses (Notes 13 and 22)	232,674,250	108,909,913
Income tax payable (Note 20)	4,390,218	1,738,019
Total Current Liabilities	829,091,620	482,482,730
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 12, 22 and 23)	1,554,031,303	1,864,136,997
Retirement benefit plan obligation (Note 19)	-	4,467,909
Deferred income tax liabilities - net (Notes 20 and 23)	15,110,331	36,001,744
Total Noncurrent Liabilities	1,569,141,634	1,904,606,650
Total Liabilities	2,398,233,254	2,387,089,380
EQUITY (Note 15)		
Capital stock - P1 par value		
Authorized - 2,000,000,000 shares		
Issued - 1,170,616,970 shares in 2010 and 1,170,611,970 shares in 2009	1,170,616,970	1,170,611,970
Subscribed - 7,383,030 shares in 2010 and 7,388,030 shares in 2009 (net of subscriptions receivable amounting to P1,367,688)	6,015,342	6,020,342
Additional paid-in capital	4,658,460	4,658,460
Net unrealized valuation gain (loss) on AFS investments (Notes 7 and 23)	962,683,079	(53,306,821)
Retained earnings (Note 23)	658,165,280	132,341,246
	2,802,139,131	1,260,325,197
Treasury stock - 13,000,000 shares (Note 15)	(27,566,075)	(27,566,075)
Total Equity	2,774,573,056	1,232,759,122
TOTAL LIABILITIES AND EQUITY	P5,172,806,310	P3,619,848,502

See accompanying Notes to Financial Statements.

	2010	2009	2008 (Note 23)
REVENUES			
Gains on:			
Mark-to-market changes in derivative asset (Notes 6 and 22)	₱307,718,166	₱31,052,472	₱-
Fair value changes of financial assets at FVPL (Notes 5, 22 and 23)	93,783,042	210,774,740	-
Discount on long-term debt	28,036,227	-	-
Sale of investment (Note 5)	11,566,735	-	-
Debt restructuring (Notes 11, 12 and 23)	-	-	82,987,619
Interest income (Note 18)	122,816,753	83,875,867	68,140,181
Equity in net earnings of associates (Notes 8 and 23)	38,199,720	2,237,326	-
Foreign exchange gains - net	-	12,196,179	-
Other revenues (Notes 16 and 23)	87,369,352	104,236,102	104,644,343
	689,489,995	444,372,686	255,772,143
COSTS AND EXPENSES			
Interest and other finance charges (Notes 11, 12, 14, 18 and 23)	98,600,218	97,632,227	76,422,827
General and administrative (Note 17)	25,686,713	24,017,953	25,663,851
Foreign exchange losses - net	387,991	-	11,862,805
Losses on:			
Sale of investment	-	10,000	1,018,987
Fair value changes of financial assets at FVPL (Notes 5, 22 and 23)	-	-	293,737,133
Impairment on receivables, deferred exploration costs and AFS investments (Notes 6, 7 and 10)	-	-	53,123,441
Equity in net losses of associates (Notes 8 and 23)	-	-	5,630,984
	124,674,922	121,660,180	467,460,028
INCOME (LOSS) BEFORE INCOME TAX	564,815,073	322,712,506	(211,687,885)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 20 and 23)			
Current	24,932,458	14,669,642	33,083,093
Deferred	(20,891,413)	13,971,721	(7,834,780)
	4,041,045	28,641,363	25,248,313
NET INCOME (LOSS)	560,774,028	294,071,143	(236,936,198)
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized valuation gain (loss) on AFS investments (Note 7)	1,015,989,900	762,300,000	(1,306,800,000)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱1,576,763,928	₱1,056,371,143	(₱1,543,736,198)
Basic and Diluted Earnings (Loss) Per Share (Note 21)	₱0.48	₱0.25	(₱0.20)

See accompanying Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(With Comparative Figures for 2008)

	Capital Stock (Note 15)		Subscriptions Receivable	Additional Paid-in Capital	Net unrealized Valuation Gain (Loss) on AFS Investments (Note 7)	Retained Earnings	Treasury Stock (Note 15)	Total
	Issued	Subscribed						
	Balances at January 1, 2008 (Note 23)	₱1,064,611,970						
Treasury stock	-	-	-	-	-	-	(4,508,710)	(4,508,710)
Total comprehensive loss	-	-	-	-	(1,306,800,000)	(236,936,198)	-	(1,543,736,198)
Stock dividends (Note 15)	106,000,000	-	-	-	-	(106,000,000)	-	-
Cash dividends (Note 15)	-	-	-	-	-	(53,037,500)	-	(53,037,500)
Balances at December 31, 2008 (Note 23)	1,170,611,970	7,388,030	(1,367,688)	4,658,460	(815,606,821)	13,020,076	(27,566,075)	351,137,952
Total comprehensive income	-	-	-	-	762,300,000	294,071,143	-	1,056,371,143
Cash dividends (Note 15)	-	-	-	-	-	(174,749,973)	-	(174,749,973)
Balances at December 31, 2009	1,170,611,970	7,388,030	(1,367,688)	4,658,460	(53,306,821)	132,341,246	(27,566,075)	1,232,759,122
Issuance	5,000	(5,000)	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	1,015,989,900	560,774,028	-	1,576,763,928
Cash dividends (Note 15)	-	-	-	-	-	(34,949,994)	-	(34,949,994)
Balances at December 31, 2010	₱1,170,616,970	₱7,383,030	(₱1,367,688)	₱4,658,460	₱962,683,079	₱658,165,280	(₱27,566,075)	₱2,774,573,056

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(With Comparative Figures for the Year Ended December 31, 2008)

	2010	2009	2008 (Note 23)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	₱564,815,073	₱322,712,506	(₱211,687,885)
Adjustments for:			
Interest and other finance charges (Note 18)	98,588,071	97,526,939	76,422,827
Depreciation (Note 9)	1,552,698	1,507,666	1,476,694
Losses (gains) on:			
Mark-to-market changes in derivative asset	(307,718,166)	(31,052,472)	-
Fair value changes of financial assets at FVPL (Note 5)	(93,783,042)	(210,774,740)	293,737,133
Discount on long-term debt	(28,036,227)	-	-
Sale of investment (Note 5)	(11,566,735)	10,000	1,018,987
Impairment on receivables, deferred exploration costs and AFS investments (Notes 6 and 10)	-	-	53,123,441
Debt restructuring (Note 23)	-	-	(82,987,619)
Interest income	(122,816,753)	(83,875,867)	(68,140,181)
Equity in net losses (earnings) of associates (Note 8)	(38,199,720)	(2,237,326)	5,630,984
Unrealized foreign exchange losses (gains)	(28,799,012)	(26,134,253)	835,849
Dividend income (Note 16)	(19,681,852)	(13,176,890)	(15,120,840)
Operating income before working capital changes	14,354,335	54,505,563	54,309,390
Decrease (increase) in:			
Financial assets at FVPL	(6,145,996)	(2,136,167)	17,518,150
Receivables (Note 25)	13,682,014	(380,936,670)	(49,974,337)
Prepaid expenses and other current assets	1,489,084	(2,265,184)	(312,114)
Increase (decrease) in:			
Accounts payable and accrued expenses	51,313,061	(5,308,109)	13,833,057
Retirement benefit plan asset	(4,567,005)	-	-
Retirement benefit plan obligation	-	(5,230,671)	(13,500,034)
Cash generated from (used in) operations	70,125,493	(341,371,238)	21,874,112
Dividends received	32,077,002	20,803,460	15,120,840
Interest received	23,222,385	16,055,911	68,140,181
Interest paid	(27,961,349)	(33,577,484)	(27,073,324)
Income taxes paid	(22,280,259)	(32,836,079)	(18,735,427)
Net cash from (used in) operating activities	75,183,272	(370,925,430)	59,326,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
AFS investments (Notes 7 and 25)	(17,290,000)	40,000	(13,588,390)
Deferred exploration costs	(530,535)	(181,001)	(384,194)
Proceeds from sale of investment	62,935,685	-	4,326,261
Redemption of investments in associates (Note 8)	31,580,000	31,580,000	31,580,000
Additions to property and equipment (Note 9)	(133,911)	(277,079)	(180,358)
Net cash from investing activities	76,561,239	31,161,920	21,753,319
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	104,179,403	677,365,918	308,762,500
Payments of borrowings	(137,257,500)	(104,820,000)	(336,267,162)
Cash dividends paid (Note 15)	(33,125,443)	(173,113,724)	(51,290,364)
Cost of treasury stock acquired (Note 15)	-	-	(4,508,710)
Net cash from (used in) financing activities	(66,203,540)	399,432,194	(83,303,736)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	85,540,971	59,668,684	(2,224,035)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	79,588,042	19,919,358	22,143,393
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱165,129,013	₱79,588,042	₱19,919,358

See accompanying Notes to Financial Statements.

STATEMENTS OF CASHFLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(With Comparative Figures for the Year Ended December 31, 2008)

1. Corporate Information

Anglo Philippine Holdings Corporation (the Company), was incorporated with the Philippine Securities and Exchange Commission (SEC) on June 25, 1958 originally as an oil and mineral exploration company with the corporate name of “Anglo Philippine Oil Corp.” In 1996, the Company changed its primary purpose to that of an investments holding firm focused on natural resources-based companies, infrastructure and property development. The Company is a public company under Section 17.2 of the Securities Regulation Code and its shares are listed on the Philippine Stock Exchange (PSE).

The Company’s registered office address is 6th Floor, Quad Alpha Centrum, 125 Pioneer Street, Mandaluyong City.

The financial statements of the Company as of and for the years ended December 31, 2010 and 2009, including the comparative financial statements for the year ended December 31, 2008, were authorized for issue by the Board of Directors (BOD) on April 11, 2011.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments, which are carried at fair value. The financial statements are presented in Philippine peso (₱), which is the Company’s functional and presentation currency. All values are rounded off to the nearest ₱ except when otherwise indicated.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

New, Revised and Amended Standards and Interpretations and Improved PFRS Adopted in Calendar Year 2010

Revised PFRS 3, *Business Combinations*, and Amendments to Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements*

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as “minority interests”), even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 will affect future acquisitions and transactions with non-controlling interests. Revised PFRS 3 will be applied prospectively while PAS 27 will be applied retrospectively with few exceptions. The revised standards are effective for annual periods beginning on or after July 1, 2009.

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

The amendments to PFRS 2, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions.

Amendment to PAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items

Amendment to PAS 39 will be effective for annual periods beginning on or after July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

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

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

Improvements to PFRS Effective 2010

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The following improvements are effective for annual period financial years beginning January 1, 2010 except if otherwise stated.

PFRS 2, Share-based Payment

- Clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3.
- The amendment is effective for financial years beginning on or after July 1, 2009.

PFRS 5, Non-current Assets Held for Sale and Discontinued Operations

- Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.

PFRS 8, Operating Segments

- Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

PAS 1, Presentation of Financial Statements

- Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

PAS 7, Statement of Cash Flows

- Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

PAS 17, Leases

- Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either

“finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

PAS 36, *Impairment of Assets*

- Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

PAS 38, *Intangible Assets*

- Clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

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

- that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
- that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
- that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*

- Clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of a joint venture.

Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

- States that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2010

The Company will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations from IFRIC to have significant impact on its financial statements.

Effective in 2011:

Amendment to PAS 24, *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the

identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instruments, or to acquire a fixed number of the entity’s own equity instruments for a fixed amount in any currency.

Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011, with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

Improvements to PFRS Effective 2011

The omnibus amendments to PFRSs issued in 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2011 except otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- Revised PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

Effective in 2012:

Amendment to PFRS 7, *Financial Instruments: Disclosures - Disclosures - Transfers of Financial Assets*

The amendments to PFRS 7 are effective for annual periods beginning on or after July 1, 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*

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

Amendment to PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

Effective in 2013:

• PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Revenue Recognition

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

Interest Income

Interest income from bank deposits and short-term investments are recognized as they accrue using the effective interest rate (EIR) method.

Management Fees

Management fees, which are included as part of the "Other revenues" account in the statement of comprehensive income, are recognized when services are rendered based on the contractual agreement between the parties.

Dividend Income

Dividend income, which is included as part of the "Other revenue" account in the statement of comprehensive income, is recognized when the shareholder's right to receive payment is established.

Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. General and administrative expenses are

generally recognized when the services are used or the expenses arise while interest expenses are accrued in the appropriate period. Employee-related expenses are provided in the period when services are rendered.

Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of Recognition

Financial instruments are recognized in the balance sheet when the Company becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using trade date accounting.

Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value. The initial measurement of financial instruments, except for those classified at FVPL, includes transaction cost.

The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, loans and receivables and AFS financial assets. The Company classifies its financial liabilities as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the financial assets were acquired or liabilities incurred and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every balance sheet date. As of December 31, 2010 and 2009, the Company has no HTM investments and financial liabilities at FVPL.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Determination of Fair Value

The fair value of financial instruments traded in active market at the reporting date is based on their quoted market price or dealer market price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable prices exist, option pricing models and other relevant valuation models.

Day 1 Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (Day 1 difference) in the statement of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which

is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the Day 1 difference amount.

Financial Assets at FVPL

Financial assets at FVPL include financial assets held for trading purposes, financial assets designated upon initial recognition as at FVPL and derivative instruments.

Financial assets are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Fair value gains or losses are recognized in statement of comprehensive income. Interest and dividend income or expense is recognized in the statement of comprehensive income, according to the terms of the contract, or when the right to the payment has been established.

Financial assets may be designated as at FVPL by management on initial recognition when any of the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or
- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that would need to be separately recorded.

As at December 31, 2010, the Company's financial assets at FVPL consist of investments in quoted equity shares.

Derivative Financial Instruments

Derivative financial instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized in the statement of comprehensive income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives

An embedded derivative is separated from hybrid or combined contract if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes a party to the contract. Reassessment is only done when there are changes in the terms of the contract that significantly modifies the contractual cash flows.

Changes in fair values of bifurcated derivatives are recognized in "Mark-to-market changes in derivative asset" in the statement of comprehensive income.

As of December 31, 2009, the Company has bifurcated embedded derivative relating to its equity call option on the loan extended to ACMDC (see Note 22).

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 not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS financial asset or designated as at FVPL. This accounting policy relates to the Company's "Cash and cash equivalents" and "Receivables" accounts, which arise primarily from advances to related parties and other types of receivables.

After initial measurement, loans and receivables are measured at amortized cost using EIR method, less allowance for doubtful accounts. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in the "Interest income" account in the statement of comprehensive income. Losses arising from impairment of loans and receivables, if any, are reported as provision for impairment losses.

Loans and receivables are classified as current assets when they are expected to be realized within 12 months after the balance sheet date or within the normal operating cycle, whichever is longer. Otherwise, they are classified as noncurrent assets.

AFS Investments

AFS investments are those nonderivative financial assets designated as such or are not classified as at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS financial assets are measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded net of tax from reported earnings and are reported as "Net unrealized valuation gain (loss) on AFS investments" in the equity section of the balance sheet and as part of other comprehensive income, net of deferred income taxes in the statement of comprehensive income. When the investment is disposed of, the cumulative gains or losses previously recognized in equity is recognized as income in the statement of comprehensive income. Dividends earned on holding AFS investments are recognized when the right of payment has been established. The losses arising from impairment of such investments are recognized as provision for impairment losses.

The fair value of AFS investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. AFS investments whose fair value cannot be reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, are carried at cost.

The Company's AFS investments are presented as noncurrent assets in the balance sheets (see Note 7).

Other Financial Liabilities

Issued financial instruments or their components, which are not designated as at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with

the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in the “Foreign exchange gains - net” and “Foreign exchange losses - net” account in the statement of comprehensive income.

Other financial liabilities are classified as current liabilities when they are expected to be settled within twelve (12) months from the balance sheet date or the Company does not have an unconditional right to defer settlement for at least 12 months from balance sheet date. Otherwise, they are classified as noncurrent liabilities.

This accounting policy applies primarily to the Company’s “Accounts payable and accrued expenses”, “Short-term loans payable”, “Long-term debt” and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as retirement benefit plan obligation and income tax payable).

Impairment of Financial Assets

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

Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization.

Loans and Receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original EIR (i.e., the EIR computed at initial recognition). The carrying amount of the asset is reduced through use of allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized. Receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any difference between loss estimates and actual loss experience.

AFS Investments

For AFS investments, the Company assesses at each reporting date whether there is objective evidence that an AFS investment is impaired.

In the case of an AFS equity investment, this would include a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is to be evaluated against cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. If an AFS investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in net income, is transferred from other comprehensive income to income in the statement of comprehensive income.

Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in equity through the consolidated statement of comprehensive income.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liabilities

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Investments in Associates

The Company’s investments in associates are accounted for using the equity method. An associate is an entity in which the Company has significant influence. Under the equity method, the investments in associates are carried in the balance sheet at cost plus post acquisition changes in the Company’s share of net assets of the associate.

The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on the Company’s investment in associates. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment comprises its purchase price, including import duties, nonrefundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is computed using the straight-line method over the estimated useful lives of the asset or its significant components. The estimated useful lives of property and equipment are as follows:

Category	Number of Years
Condominium units and improvements	20
Office equipment	5
Furniture and fixtures	5

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

When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated property and equipment are retained in the accounts until these are no longer in use.

Impairment of Property and Equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset’s net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does

not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Deferred Exploration Costs

Deferred exploration costs include costs incurred after the Company has obtained legal rights to explore in a specific area, including the determination of the technical feasibility and commercial viability of extracting mineral resources. Deferred exploration costs include, among others, acquisition of rights to explore, topographical and geophysical studies, exploratory drilling, trenching, sampling and activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. All exploration costs and related expenses are carried as deferred exploration costs, net of impairment losses, if any.

The costs and expenses for exploration activities which do not result in the discovery of petroleum or mineral deposits that are commercially productive are recognized in the statement of comprehensive income after the project is abandoned and when management expects no further recovery. When the results of exploration costs are determined to be negative, the accumulated costs are written off. If the results are positive, the deferred exploration costs shall be capitalized and amortized based on the unit of production method from the start of commercial operations.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax amount that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when receipt of reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Capital Stock and Additional Paid-in Capital

The Company has issued capital stock that is classified as equity. Incremental costs directly attributable to the issue of new capital stock or options are shown in equity as a deduction, net of tax, from the proceeds. Amount of contribution in excess of par value is accounted for as an additional paid-in capital.

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

Retained Earnings

The amount included in retained earnings includes profit attributable to the Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are declared. Interim dividends are deducted from equity when they are paid.

Retained earnings are appropriated for the cost of treasury shares acquired. When the appropriation is no longer needed, it is reversed. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on the weighted average number of shares outstanding and subscribed for each respective period with retroactive adjustments for stock dividends declared, if any. When shares are dilutive, the unexercised portion of stock options is included as stock equivalents in computing diluted earnings per share.

Diluted earnings (loss) per share amounts are calculated by dividing the net profit (loss) by the weighted average number of ordinary shares outstanding, adjusted for any stock dividends declared during the year plus weighted average number of ordinary shares that would be issued on the conversion of all the dilutive ordinary shares into ordinary shares.

Segment Reporting

An operating segment is a component of an entity that: (a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

The Company's segments pertain to its investments in associates. This segment is carried by North Triangle Depot Commercial Corporation (NTDCC) and United Paragon Mining Corporation (UPMC), the Company's associates. The summarized financial and other relevant information of the Company's associates are disclosed in Notes 8 and 24 to the financial statements.

Income Taxes

Current Income Tax

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

Deferred Income Tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is

settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Retirement Benefit Plan

The Company has a defined retirement benefit plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

Operating Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease payments under an operating lease are recognized as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Balance Sheet Date

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

3. Significant Accounting Judgments and Estimates

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. The judgments and estimates used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the ₱. The ₱ is the currency of the primary economic environment in which the Company operates.

Determining Classification of Leases

The Company has entered into various lease agreements as lessee. On certain lease commitments, the Company has determined that the lessor retains all significant risks and rewards of ownership of these properties. These lease agreements are accounted for as operating leases (see Note 17).

The Company's financial assets and financial liabilities are disclosed in Note 22 to the financial statements.

Determining Whether Significant Influence Exists for Purposes of Applying PAS 28, Investment in Associates

The Company evaluates various factors in determining whether significant influence exists. Under PAS 28, there is a presumption that if ownership is below 20%, significant influence does not exist unless otherwise supported. Among the factors being considered by management in the assessment are, degree of representation in the BOD of the investee, representations in management committees of the investee, corporate governance arrangements, and power to veto significant operating and financial decisions.

Under the exercise of this judgment, the Company classified its 15.79% investment in NTDCC as an investment in associate. The carrying value of this investment is ₱403,127,978 and ₱413,009,968 as of December 31, 2010 and 2009, respectively (see Note 8).

The Company has investment in UPMC where ownership is 25.62%. This is classified as an investment in associate. The carrying value of this investment is ₱648,582,444 and ₱644,475,884 as of December 31, 2010 and 2009, respectively (see Note 8).

Determining Whether Investments in Associates Qualify as Operating Segments for Purposes of Applying PFRS 8

The Company exercises judgment in determining whether investments in associates qualify as operating segments as prescribed by PFRS 8 although the Company does not control the investees. Management considers the following factors in its assessment: review of operating results and performance of an equity method investee for purposes of making resource allocations, evaluating financial performance or evaluating whether to retain the investor-investee relationship. Based on management judgment, the Company considers its investments in UPMC and NTDCC as operating segments. The carrying value of the Company's investments in associates amounted to ₱1,051,710,422 and ₱1,057,485,852 as of December 31, 2010 and 2009, respectively (see Note 8).

Estimates

Estimating Impairment of Receivables

The Company assesses at each reporting date whether there is any objective evidence that receivables are impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the affiliated companies and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the financial asset, as well as on historical loss experience. Allowance for impairment loss is provided when management believes that the receivable balance cannot be collected or realized after exhausting all efforts and courses of action.

As of December 31, 2010 and 2009, no allowance for impairment losses on receivables was recognized by the Company. The receivables are carried at ₱277,946,757 and ₱696,481,904 as of December 31, 2010 and 2009, respectively (see Note 6).

Estimating Impairment of AFS Equity Investments

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in fair value below its cost. This determination of what is significant or prolonged requires judgment. The Company treats "significant" generally as 20% or more of the original cost of the investment, and "prolonged" as greater than 12 months. In making this judgment, the Company evaluates among other factors, the normal volatility of quoted prices, evidence of deterioration in the financial health of the investee, industry or sector performance, changes in technology and economic environment. For AFS investments carried at cost, the Company estimates the expected future cash flows from the investment and calculates the amount of impairment as the difference between the present value of expected future cash flows from the investment and its acquisition cost and recognizes the amount in the statement of comprehensive income.

AFS investments amounted to ₱3,033,803,476 and ₱1,108,558,736 as of December 31, 2010 and 2009, respectively. There are no impairment losses on AFS investments recognized in 2010 and 2009 (see Note 7).

Estimating Fair Values of Financial Assets and Financial Liabilities

Where the fair values of financial assets and liabilities recorded in the balance sheets cannot be derived from active markets, they are determined using generally accepted market valuation models. The inputs to these models are taken from observable markets, where possible but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility and correlation. Certain financial assets and liabilities were initially recorded at its fair value (see Note 22).

Estimating Impairment of Property and Equipment

The Company assesses impairment on property and equipment and other noncurrent assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the net selling price.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No impairment losses were recognized in 2010 and 2009 for property and equipment. As of December 31, 2010 and 2009, the net book values of property and equipment amounted to ₱18,047,144 and ₱19,465,931, respectively (see Note 9).

Estimating Impairment of Deferred Exploration Costs

The Company assesses impairment on deferred exploration costs when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. Until the Company has sufficient data to determine technical feasibility and commercial viability, deferred exploration costs need not be assessed for impairment. Facts and circumstances that would require an impairment assessment as set forth in PFRS 6, *Exploration for and Evaluation of Mineral Resources*, are as follows:

- The period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The carrying value of deferred exploration costs amounted to ₱156,519,409 and ₱155,988,874 as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, no allowance for impairment losses on deferred exploration costs was recognized by the Company (see note 10).

Estimating Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives is based on the collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

As of December 31, 2010 and 2009, the net book values of property and equipment amounted to **₱18,047,144** and **₱19,465,931**, respectively (see Note 9). The estimated useful lives are disclosed in Note 2 to the financial statements.

Estimating Realizability of Deferred Income Tax Assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company can generate sufficient taxable profit to allow all or part of its deferred income tax assets to be utilized.

The Company has deferred income tax assets amounting to **₱11,881,759** and **₱20,170,329** as of December 31, 2010 and 2009, respectively (see Note 20).

Estimating Retirement Benefits Expense

The determination of the Company's obligation and cost for retirement is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. These assumptions are described in Note 19 to the financial statements. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that its assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the Company's retirement obligations.

As of December 31, 2010 and 2009, the retirement benefit plan obligation (asset) amounted to (**₱99,096**) and **₱4,467,909**, respectively. Net retirement benefit expense for the years ended December 31, 2010, 2009 and 2008 amounted to **₱3,053,129**, **₱2,389,463** and **₱2,273,300**, respectively (see Note 19).

4. Cash and Cash Equivalents

	2010	2009
Cash on hand and with banks	₱3,708,565	₱64,383,119
Short-term deposits	161,420,448	15,204,923
	₱165,129,013	₱79,588,042

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

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at January 1:

	2009	2008
Cash on hand and with banks	₱4,919,358	₱15,987,341
Short-term deposits	15,000,000	6,156,052
	₱19,919,358	₱22,143,393

5. Financial Assets at FVPL

This account consists of investments in shares of stock of the following companies:

	2010	2009
Shang Properties, Inc. (SPI)	₱451,847,514	₱376,896,506
Vulcan Industrial and Mining Corporation (VIMC)	9,922,500	-
The Philodrill Corporation (TPC)	4,838,300	4,515,730
Philippine Seven Corporation	-	31,984,697
Manila Water Company	-	4,650,000
Oriental Petroleum	-	1,293
	₱466,608,314	₱418,048,226

In 2010, the Company purchased 12,250,000 shares of VIMC for **₱0.52** per share and sold all of its shares of stock in Philippine Seven Corporation, Manila Water Company and Oriental Petroleum.

Gains (losses) on fair value changes of financial assets at FVPL recognized in 2010, 2009 and 2008 amounted to **₱93,783,042**, **₱210,774,740**, and (**₱293,737,133**), respectively. Unrealized gain on fair value changes of financial assets at FVPL amounted to **₱281,509,353** and **₱203,412,074** as of December 31, 2010 and 2009, respectively.

6. Receivables

	2010	2009
Due from related parties (see Note 14)	₱166,329,686	₱652,026,615
Others	111,617,071	44,455,289
	₱277,946,757	₱696,481,904

The following are the significant transactions entered into by the Company in relation to its receivables:

- On July 9, 2009, the Company extended a loan of **₱531,300,000** (**\$11,500,000**) to ACMDC, a publicly-listed entity under common control. The loan is collectible 365 days after July 9, 2009 and bears interest of 15% per annum, collectible semi-annually in arrears. Based on the terms of the loan agreement, the Company has the option to demand early repayment of loan and accrued interest 180 days after July 9, 2009.

In addition, the Company has the option to effect payment of principal and interest through any one or combination of the following:

- Cash payment equal to amount of loan and interest, either in \$ or ₱ or a combination of both currencies;
- Delivery of common shares of Aquatlas, Inc. (AI), a subsidiary of ACMDC, at a conversion price which shall be mutually agreed upon by the parties; and/or
- Delivery of common shares of ACMDC at a conversion price of **₱10** per share.

The embedded equity call option was accounted for separately since it is not closely related to the host debt contract. Derivative asset relating to the option amounted to ₱- and ₱79,799,174, in 2010 and 2009, respectively. The mark-to-market gain on derivative asset recognized in the statement of comprehensive income amounted to ₱307,718,166 and ₱31,052,472 in 2010 and 2009, respectively.

The net movement in the discount recognized on the receivable arising from the bifurcation of the embedded equity call option is as follows:

	2010	2009
Balance at beginning of year	₱25,374,995	₱-
Discount on receivable	-	48,746,701
Accretion of discount on receivable (see Note 18)	(25,374,995)	(23,371,706)
Balance at end of year	₱-	₱25,374,995

Accrued interest receivable, which is presented as “Others” under the “Receivables” account in the balance sheet, amounted to ₱110,723,765 and ₱44,448,250 as of December 31, 2010 and 2009, respectively.

On December 29, 2010, the Company converted into shares of stock of ACMDC the entire principal of the loan amounting to \$11.5 million which the Company extended to ACMDC pursuant to the Agreement (“the Conversion”). The conversion of advances consist of entitlement to 50,450,000 shares of ACMDC at the price of ₱10.00 per share. The fair value of ACMDC’s share as of December 29, 2010 is ₱17.68 per share. Additional investment in ACMDC, classified as AFS investment, amounted to ₱891,964,840 as of December 29, 2010 (see Note 7).

- b. On December 16, 2009, the Company assigned without recourse its receivables from Europhil Textiles Co., Inc. (ETCI), an entity under common control, amounting to ₱277,529,288 to Euronote Profits Limited (EPL). Such amount was considered as partial payment of the outstanding loans from EPL (see Note 12).
- c. The Company provided advances to its related parties, namely, Alakor Corporation (Alakor) and National Bookstore (NBS). As of December 31, 2010 and 2009, these advances amounted to ₱96,885,118 and ₱91,869,996 respectively (see Note 14).
- d. In 2009, advances to Filipinas Energy Corporation (FEC), a related party, amounting to ₱16,908,435 were collected in full.
- e. As of December 31, 2010 and 2009, the Company has advances to VIMC amounting to ₱2,130,186 (see Note 14).

There were no impaired receivables as of December 31, 2010 and 2009. The receivables are assessed to be collectible and in good standing as of December 31, 2010 and 2009 (see Note 22).

7. AFS Investments

	2010	2009
Quoted shares - at fair value	₱2,996,959,740	₱1,089,000,000
Unquoted shares - at cost	36,843,736	19,558,736
	₱3,033,803,476	₱1,108,558,736

Quoted AFS investments represent investment in ACMDC. As discussed in Note 6, the Company converted its advances to additional shares of stock of ACMDC on December 29, 2010. Accordingly, the Company’s ownership in ACMDC increased from 11.67% in 2009 to 14.42% in 2010.

The aggregate cost of the AFS investments amounted to ₱2,071,120,397 and ₱1,161,865,557 as of December 31, 2010 and 2009, respectively.

In 2010, the Company advanced ₱15,790,000 for future subscription to Rail Transit and Development, Inc. and made additional advances to MRT Development Corporation amounting to ₱1,500,000. These are included in unquoted shares.

No impairment loss was recognized in 2010, 2009 and 2008 for the Company’s investment in ACMDC quoted shares, due to the volatility of the fair market value of ACMDC’s shares.

Movements in the unrealized valuation gain (loss) on AFS investments recognized as a separate component of equity are as follows:

	2010	2009	2008
Balances at beginning of year	(₱53,306,821)	(₱815,606,821)	₱491,193,179
Changes in fair value of AFS investments	1,015,989,900	762,300,000	(1,306,800,000)
Balances at end of year	₱962,683,079	(₱53,306,821)	(₱815,606,821)

No AFS investments were sold in 2010, 2009 and 2008.

8. Investments in Associates

	2010	2009
Acquisition cost:		
Balances at beginning of year	₱1,068,506,080	₱1,100,086,080
Redemption*	(31,580,000)	(31,580,000)
Balances at end of year	1,036,926,080	1,068,506,080
Accumulated equity in net earnings (losses):		
Balances at beginning of year	(11,020,228)	(5,630,984)
Equity in net earnings during the year	38,199,720	2,237,326
Dividends received	(12,395,150)	(7,626,570)
Balances at end of year	14,784,342	(11,020,228)
	₱1,051,710,422	₱1,057,485,852

*The redemption has no impact on the % of ownership.

The carrying values of investments in associates are as follows:

	Percentage of Ownership	2010	2009
UPMC	25.62	₱648,582,444	₱644,475,884
NTDCC	15.79	403,127,978	413,009,968
		₱1,051,710,422	₱1,057,485,852

The investment in NTDCC includes investment in voting and redeemable preferred shares amounting to ₱361,338,276 and ₱392,918,276 as of December 31, 2010 and 2009, respectively.

The summarized financial information of the associates as of and for the years ended December 31, 2010 and 2009 are as follows (in thousands):

UPMC

	2010	2009
Total assets	₱1,112,092	₱1,112,244
Total liabilities	599,015	374,332
Revenue	-	-
Net loss	35,502	45,052

NTDCC

	2010	2009
Total assets	₱907,578	₱7,665,524
Total liabilities	1,673,805	5,029,584
Revenues	1,782,891	1,626,241
Net income	215,916	87,267

Investment in UPMC

UPMC's main business is the exploration, development, exploitation, recovery and sale of gold. UPMC became an associate on August 1, 2008 with the conversion of the Company's receivable from UPMC to the latter's common shares.

Investment in NTDCC

NTDCC owns and operates the Triangle North of Manila (TriNoma) Commercial Center which is built adjacent to the Metro Rail Transit (MRT) Depot. The development rights over the 8.3-hectare portion of the MRT Depot were acquired from MRTDC in 2002.

9. Property and Equipment

	2010			
	Condominium Units and Improvements	Office Equipment	Furniture and Fixtures	Total
Cost:				
Balances at beginning of year	₱22,091,616	₱1,968,186	₱475,229	₱24,535,031
Additions	-	133,911	-	133,911
Balances at end of year	22,091,616	2,102,097	475,229	24,668,942
Accumulated depreciation:				
Balances at beginning of year	3,529,683	1,254,279	285,138	5,069,100
Depreciation	1,105,211	352,441	95,046	1,552,698
Balances at end of year	4,634,894	1,606,720	380,184	6,621,798
Net book values	₱17,456,722	₱495,377	₱95,045	₱18,047,144

	2009			
	Condominium Units and Improvements	Office Equipment	Furniture and Fixtures	Total
Cost:				
Balances at beginning of year	₱22,091,616	₱1,691,107	₱475,229	₱24,257,952
Additions	-	277,079	-	277,079
Balances at end of year	22,091,616	1,968,186	475,229	24,535,031
Accumulated depreciation:				
Balances at beginning of year	2,424,472	946,870	190,092	3,561,434
Depreciation	1,105,211	307,409	95,046	1,507,666
Balances at end of year	3,529,683	1,254,279	285,138	5,069,100
Net book values	₱18,561,933	₱713,907	₱190,091	₱19,465,931

10. Deferred Exploration Costs

The Company is a participant in certain Services Contracts (SC) and Geophysical Survey and Exploration Contracts (GSEC) with the Philippine Government through the Department of Energy (DOE), for the exploration, development and exploitation of the contract areas situated in Northwest Palawan, Sulu Sea and Mindoro Island.

The aforementioned SC and GSEC, which provide for minimum work expenditure obligations and the drilling of the specified number of wells, are covered by operating agreements which set forth the participating interests, rights and obligations of the participants to the contracts. The deferred exploration costs represent the Company's share in the jointly controlled assets of the aforementioned SCs and GSECs. The full recovery of the deferred exploration costs incurred in connection with the Company's participation in the exploration of the contract areas is dependent upon the discovery of mineral resources from the respective contract areas and the success of the future development thereof.

The percentage of participation and the balances of the deferred exploration costs as of December 31 are as follows:

	Percentage of Participation	2010	2009
SC 6 (Offshore Northwest Palawan)	11.11		
Block A (Octon)		₱54,938,245	₱54,407,710
Saddle Rock Prospect		7,325,361	7,325,361
Esperanza Prospect		823,118	823,118
SC 41 (Sulu Sea)	1.68	47,376,414	47,376,414
SWAN Block (Northwest Palawan)	33.58		
SC 39 (Busuanga/Calauit)		15,891,445	15,891,445
GSEC 86 (Northwest Malampaya)		10,345,190	10,345,190
GSEC 83 (North Calamian Project)		533,923	533,923
SC 53 (Onshore Mindoro)	5.00	15,090,930	15,090,930
SC 14 (Northwest Palawan, Tara Block)	2.50	4,194,783	4,194,783
		₱156,519,409	₱155,988,874

SC 6 Block A

In July 2009, the DOE approved the extension of the term of Service Contract 6, Octon Block to be reckoned from March 1, 2009. The 15-year term extension shall be for a series of three five-year terms, subject to compliance with certain conditions, including the annual submission of work program and budget and payment of technical assistance and training fund to the DOE.

With the commerciality of the Octon Field being tied up to Phase 2 of the Galoc development, Vitol GPC undertook the reprocessing of about 75 square-kilometers of Octon 3D seismic data in conjunction with the reprocessing of the adjoining Galoc 3D data as part of the Galoc Phase 2 evaluation activities. Reprocessing of the 3D data set was completed at the end of 2009.

In October 2010, Vitol GPC presented to the consortium the results of their evaluation of the reprocessed data which showed a much improved image of the Octon reservoir. However, in November 2010, citing the protracted Phase 2 work in the Galoc Field, GPC (formerly, Vitol GPC) declined to exercise their farmin option.

With exit of GPC from the joint venture, the consortium submitted, and the DOE approved, the 2011 work program and budget for the Octon block consisting of the PSTM/PSDM reprocessing of some 400 square-kilometers of 3D data at a cost of about USD546,000.

SC 14

Since 2008, the Tara Block and the SC 14D Retention Block remain under evaluation by VenturOil as part of their due diligence leading to a possible farmin. The Tara Field is currently shut-in. The consortium continues to await notice of readiness to negotiate a farmin from the potential farminee, who had indicated that they are negotiating to bring in a new partner in their evaluation of the potential of these areas.

In late 2009, however, VenturOil lost their exclusive right to farmin over these areas due to the long period to complete their technical due diligence. VenturOil requested a further extension but the consortium suggested that VenturOil must first secure accreditation from the DOE as a qualified service contractor before they can negotiate with the consortium.

SC 41

Following the unsuccessful drilling of the Lumba Lumba 1/1A well in 2008, Tap Oil requested and was granted an extension of the term of SC 14 to undertake seismic data reprocessing and inversion to rectify seismic data quality issues which will help in de-risking numerous prospects and in the selection of the next drilling prospect. In July 2009, the reprocessing and inversion works were completed. Tap Oil then proceeded to evaluate the results and, at the same time, promote the block to potential farminees.

In August 2010, after failing to secure an extension of the SC term, the consortium decided to surrender the contract to the DOE. The consortium partners have agreed to re-apply for a new contract over the area at the opening of a new contracting round by the DOE.

SC 53

In April 2009, Pitkin requested for the extension of Sub-Phase 1 for Pitkin to acquire its onshore seismic commitment for SC 53. In response to Pitkin's request, the DOE merged the first 2 sub-phases to form a new Sub-Phase 1 (July 2005 to March 2011) with the work commitment of minimum 200 line-km 2D seismic acquisition and drilling of one well. The new Sub-Phase 2 will be for the period March 2011 to July 2012 with commitment to drill 2 wells. The DOE likewise increased the Onshore Mindoro Block area from 600,000 hectares to 734,000 hectares.

Pitkin's seismic acquisition program which was originally scheduled to commence in April was deferred to November 2009 when weather conditions are more favorable for onshore seismic acquisition. Actual recording started at the San Jose Area in late November 2009. The survey was completed in May 2010.

Processing of the new land seismic data was completed at the end of 2010, while reprocessing of the offshore seismic data continues in Singapore.

SWAN Block

In November 2009, Energy Development Corporation (EDC) advised TPC that their technical and legal groups continue to evaluate the relevant data that TPC had provided EDC to assess the block's potential and the merit of TPC's proposed participation in SC 57 and SC 58 blocks. For 2010, TPC continued to wait for PNOC-EC's evaluation of the merits of the TPC's offer.

11. Short-term Loans Payable

Short-term loans payable represents loan obtained from LBP amounting to ₱125,000,000 and ₱175,000,000 as of December 31, 2010 and 2009, respectively. These are short-revolving bank loans which mature every six months and bear interest at variable rates per annum with rates of 8.25% in 2010 and 8.25 to 9.4% in 2009, subject to monthly repricing. Payments made by the Company amounted to ₱50,000,000 and ₱25,000,000 in 2010 and 2009, respectively. The expected maturities of the LBP loans range from February 16, 2011 to April 20, 2011.

Interest expense relating to the above loans amounted to ₱11,901,771, ₱16,113,549 and ₱23,068,584 for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 18).

12. Long-term Debt

The long-term debt of the Company pertains to loans availed from EPL which are summarized as follows:

	2010	2009
EPL loans, net of discount of ₱61,075,521 in 2010 and ₱81,306,819 in 2009	₱2,021,058,455	₱2,060,971,795
Less current portion	467,027,152	196,834,798
<u>Noncurrent portion</u>	₱1,554,031,303	₱1,864,136,997

Related interest expense amounted to ₱33,283,076, ₱34,157,959, and ₱17,175,528 for the years ended December 31, 2010, 2009 and 2008, respectively (see Note 18).

- a. In 2007, EPL granted the Company with a loan amounting to ₱846,105,746 which bears interest of 1% payable quarterly and is scheduled to mature on October 23, 2012. The unamortized discount on the said loan amounted to ₱37,360,592 and ₱50,011,937 as of December 31, 2009 and 2008, respectively (see Note 23).

On various dates in 2007 and 2008, EPL granted various loans to the Company with maturity dates in 2008. These loans bear interest of 1% every year.

On June 27, 2008, EPL and the Company entered into a loan restructuring and conversion agreement. All restructured loans bear interest of 1.5% per annum and may be prepaid anytime without penalty. Accordingly, these loans were reclassified as long-term debt. The restructured loans have maturity dates from 2010 and 2011.

The substantial modifications of terms of the existing loans were accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

In 2009, the Company restated its prior year financial statements to recognize the gain on debt restructuring as a result of the derecognition of a portion of EPL loan and to recognize the day 1 difference arising from the off-market interest rate of the EPL loan (see Note 23).

- b. In 2009, EPL extended loans to the Company with an aggregate amount of ₱900,900,000 (\$19,500,000). As mentioned in Note 6 to the financial statements, the Company assigned its receivables from ETICI on

December 16, 2009 amounting to ₱277,529,288 to EPL, wherein ₱268,589,082 was applied against the advances from EPL and the remaining ₱8,940,205 represented interest and finance charges incurred by the Company. As a result of the assignment, PN 09-01 was issued by the Company to EPL on the same date for the remaining amount of ₱632,310,918 (\$13,686,383), which is scheduled to mature on December 31, 2013 and is subject to interest of 1.5% per annum.

- c. In 2010, the original EPL loan amounting to ₱169,452,079 matured. Upon maturity, the loan was extended for another 5 years. The new loan bears interest of 1.5% per annum, subject to adjustment upon mutual agreement of both parties (same as original loan).

The old loan was derecognized as it already matured, and a new loan was recognized at its present value using 10.23% as effective interest rate. This resulted in a Day 1 difference of ₱28,036,227. Accretion of Day 1 difference for 2010 amounted to ₱6,122,111. The effective interest rate applied on the original loan was 7.70%.

13. Accounts Payable and Accrued Expenses

	2010	2009
Accrued interest (see Notes 11 and 12)	₱94,203,406	₱71,844,209
Deposit	89,419,081	–
Accrued guarantee fee (see Note 14)	16,154,146	10,293,035
Dividends payable	6,512,855	4,688,303
Others	26,384,762	22,084,366
	₱232,674,250	₱108,909,913

“Deposit” pertains to advances received from Metro Pacific Investments Corporation (MPIC) in relation to the potential acquisition by MPIC of the shares owned by the Company in Metro Rail Transit Holdings, Inc. (MRTHI), subject to the completion of certain closing requirements.

“Others” consist mainly of accrued taxes and various accrued expenses, among others.

14. Related Party Transactions

In addition to those mentioned in Notes 5, 6, 7 and 8 to the financial statements, the Company has the following related party transactions in the normal course of business:

- a. The Company grants interest-bearing and noninterest-bearing advances to its related parties with less than one year credit term. The following are the amounts due from related parties, which are included as part of the “Receivables” account in the balance sheets (see Note 6):

	2010	2009
Entities under common control:		
Alakor	₱94,985,314	₱76,951,413
NBS	69,214,186	67,020,011
VIMC	2,130,186	2,130,186
ACMDC, net of discount of ₱25,374,996 in 2009	–	505,925,005
	₱166,329,686	₱652,026,615

- i. Advances to Alakor have various terms of not more than one year. If the related party is not able to settle at maturity date, the outstanding balance is subjected to 12% and 15% interest per annum.

- ii. On July 9, 2009, the Company extended ₱531,300,000 (\$11,500,000) to ACMDC for the latter’s working capital requirements (see Note 6). On December 29, 2010, the Company converted its advances to ACMDC with a carrying amount of ₱504,447,500 to 50,450,500 shares of ACMDC at ₱10.00 per share in accordance with “the Conversion”.

- iii. The Company also provided advances to Alakor and NBS amounting to ₱96,885,118 and ₱91,869,996 as of December 31, 2010 and 2009, respectively. Also, in prior years, the Company made advances to VIMC which is still outstanding as of December 31, 2010 amounting to ₱2,130,186 (see Note 6).

- b. On January 1, 2002, the Company entered into a Guarantee Agreement with Alakor to have the latter’s Chairman of the BOD as a guarantor of the Company’s long-term debt. The guarantee fee is equivalent to 4% and 5% per annum of the amount guaranteed without collateral and amount guaranteed with real estate or other types of collateral, respectively.

Accrued guarantee fee amounted to ₱16,154,146 and ₱10,293,035 as of December 31, 2010, and 2009, respectively (see Note 13). Guarantee fees, which are recognized as part of “Interest and other finance charges” account in the statements of comprehensive income, amounted to ₱5,861,111, ₱7,741,667, and ₱8,788,470 in 2010, 2009 and 2008, respectively (see Note 18).

- c. Compensation of key management personnel are as follows:

	2010	2009	2008
Short-term employee benefits	₱6,949,654	₱6,510,290	₱2,990,718
Post employment benefits	3,789,573	2,236,005	3,786,527
	₱10,739,227	₱8,746,295	₱6,777,245

15. Equity

- a. On April 12, 2010, the Company’s BOD approved the declaration of cash dividends amounting to ₱34,949,994 at ₱0.03 per share to stockholders of record as of April 30, 2010. The cash dividends were paid on May 24, 2010.
- b. On April 22, 2009, the Company’s BOD approved the declaration of cash dividends amounting to ₱174,749,973 at ₱0.15 per share to stockholders of record as of May 8, 2009. The cash dividends were paid on May 29, 2009.
- c. On September 19, 2008, the stockholders approved the declaration of a 10% stock dividend to stockholders of record as of October 31, 2008. The stock dividends amounting to ₱106,000,000 were issued in November 2008.
- d. On April 25, 2008, the BOD approved the declaration of a cash dividend amounting to ₱53,037,500 at ₱0.05 per share to stockholders of record as of May 30, 2008. The cash dividends were paid on June 25, 2008.
- e. Treasury shares, totalling 13 million common shares in 2008 are stated at acquisition cost. In 2007, the BOD approved to reacquire. The retained earnings are restricted in the amount of ₱27,566,075 as of December 31, 2010 and 2009, representing the cost of shares held in treasury.

f. The movements in capital stock of the Company are as follows:

	2010	2009	2008
Issued and outstanding:			
Balances at beginning of year	1,170,611,970	1,170,611,970	1,064,611,970
Stock dividends	-	-	106,000,000
Issuance	5,000	-	-
Balances at end of year	1,170,616,970	1,170,611,970	1,170,611,970
Subscribed:			
Balances at beginning and end of year	7,388,030	7,388,030	7,388,030
Issuance	(5,000)	-	-
Balances at end of year	7,383,030	7,388,030	7,388,030
Subscriptions receivable:			
Balances at beginning and end of year	(1,367,688)	(1,367,688)	(1,367,688)
	1,176,632,312	1,176,632,312	1,176,632,312

The par value of the shares of stock is ₱1.

16. Other Revenues

	2010	2009	2008
Management fees	₱67,687,500	₱91,059,212	₱89,523,503
Dividend income	19,681,852	13,176,890	15,120,840
	₱87,369,352	₱104,236,102	₱104,644,343

The Company signed an agreement with EPL whereby it provides general administration and risk management services to the latter for the efficient management and supervision of EPL's Philippine investment operations. In consideration for such services, the Company is paid a monthly management fee for a period of 3.5 years from July 2007 to December 2010, subject to renewal thereafter as may be mutually agreed upon by the parties.

Dividend income pertains to dividends received from SPI, TPC and Manila Water Company (see Note 5).

17. General and Administrative Expenses

	2010	2009	2008
Salaries, wages and employee benefits	₱10,792,947	₱11,112,646	₱5,373,991
Pension (see Note 19)	3,053,129	2,389,463	2,273,300
Rent	2,272,108	2,048,622	2,044,640
Outside services	1,949,978	960,720	869,983
Depreciation (see Note 9)	1,552,698	1,507,666	1,476,694
Communication, light and water	1,218,549	1,251,742	1,307,820
Insurance	1,071,754	1,058,303	1,134,715
Repairs and maintenance	515,623	202,242	462,491
Office supplies	382,690	454,974	656,678
Representation and entertainment	281,572	213,156	840,073
Transportation and travel	200,845	332,393	577,235
Taxes and licenses	823,221	862,303	7,105,694
Others	1,571,599	1,623,723	1,540,537
	₱25,686,713	₱24,017,953	₱25,663,851

Miscellaneous expenses consist mainly of membership fees and gas and oil expenses, among others.

18. Interest Income, Interest Expense and Other Finance Charges

Interest income consist of:

	2010	2009	2008
Interest income on bank deposits and receivables	₱97,441,758	₱60,504,161	₱68,140,181
Accretion of discount on receivable (see Note 6)	25,374,995	23,371,706	-
	₱122,816,753	₱83,875,867	₱68,140,181

Interest and other finance charges consist of:

	2010	2009	2008
Amortization of discount on long-term debt (see Notes 12 and 23)	₱48,267,526	₱39,513,764	₱26,670,153
Interest expense (see Notes 11 and 12)	44,459,435	50,271,508	40,244,112
Guarantee fee (see Notes 12, 13 and 14)	5,861,110	7,741,667	8,788,470
Bank charges and others	12,147	105,288	720,092
	₱98,600,218	₱97,632,227	₱76,422,827

19. Pension Benefits Costs

The Company has a funded, noncontributory defined pension plan covering all its regular employees. The retirement benefit plan obligation is determined using the projected unit credit method. There was no plan of termination or curtailment for the years ended December 31, 2010, 2009 and 2008.

The following tables summarize the funded status and the amounts recognized in the balance sheets, the components of net retirement benefit expense recognized in the statements of comprehensive income and the changes in the present value of the defined benefit obligation and the fair value of plan assets.

Retirement Benefit Plan Obligation (Asset)

	2010	2009
Present value of defined benefit obligation	₱44,010,909	₱38,548,974
Fair value of plan assets	52,793,224	43,021,990
Funded status	(8,782,315)	(4,473,016)
Unrecognized actuarial gains	8,683,219	8,940,925
Retirement benefit plan obligation (asset)	(₱99,096)	₱4,467,909

Components of Net Retirement Benefit Expense

	2010	2009	2008
Current service cost	₱1,568,489	₱1,424,604	₱1,581,691
Interest cost	3,893,446	3,251,024	2,765,039
Expected return on plan assets	(2,151,100)	(1,855,116)	(2,073,430)
Net actuarial gain recognized	(257,706)	(431,049)	-
Net retirement benefit expense	₱3,053,129	₱2,389,463	₱2,273,300
Actual return on plan assets	₱-	₱2,109,600	₱2,367,478

Movements in the Retirement Benefit Plan Obligation (Asset) Recognized in the Balance Sheets

	2010	2009
Balances at beginning of year	P4,467,909	P9,698,580
Net retirement benefit expense	3,053,129	2,389,463
Contributions paid	(7,620,134)	(7,620,134)
Balances at end of year	(P99,096)	P4,467,909

Changes in the Present Value of the Defined Benefit Obligation

	2010	2009
Balances at beginning of year	P38,548,974	P31,471,674
Current service cost	1,568,489	1,424,604
Interest cost	3,893,446	3,251,024
Actuarial losses	-	2,401,672
Balances at end of year	P44,010,909	P38,548,974

Changes in the Fair Value of Plan Assets

	2010	2009
Balances at beginning of year	P43,021,990	P33,292,255
Contributions paid	7,620,134	7,620,134
Expected return on plan assets	2,151,100	1,855,116
Actuarial gains	-	254,485
Balances at end of year	P52,793,224	P43,021,990

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

	2010	2009	2008
Government securities	97.0%	97.0%	97.0%
Others	3.0%	3.0%	3.0%

The principal assumptions used to determine retirement benefit plan obligation are as follows:

	2010	2009	2008
Discount rates	10.10%	10.10%	10.33%
Expected return on plan assets	5.00%	5.00%	5.00%
Wage and salary increases	5.00%	5.00%	5.00%
Average expected future service years of active plan members	16.5	17.5	18.5

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

	2010	2009	2008	2007	2006
Present value of defined benefit obligation	P44,010,909	P38,548,974	P31,471,674	P38,350,057	P30,183,323
Fair value of plan assets	52,793,224	43,021,990	33,292,255	15,151,443	1,488,049
Unfunded (funded) status	(8,782,315)	(4,473,016)	(1,820,581)	23,198,614	28,695,284
Experience adjustments on plan liabilities	-	2,401,672	(11,225,113)	4,034,068	-
Experience adjustments on plan assets	-	254,484	294,048	-	-

20. Income Taxes

The provision for current income tax in 2010, 2009 and 2008 represents the regular corporate income tax.

The components of the Company's net deferred income tax liabilities are as follows:

	2010	2009
Deferred income tax assets:		
Unamortized past service cost	P8,173,441	P7,509,139
Nondeductible accrued expenses	3,708,318	3,708,318
Unamortized discount of receivable	-	7,612,499
Retirement benefit plan obligation	-	1,340,373
	11,881,759	20,170,329
Deferred income tax liabilities:		
Unamortized discount of long-term debt	9,336,650	11,509,982
Gain on debt restructuring	8,986,007	12,882,064
Unrealized foreign exchange gains	8,639,704	7,840,275
Retirement benefit plan asset	29,729	-
Unrealized mark-to-market gains on derivative assets	-	23,939,752
	26,992,090	56,172,073
	P15,110,331	P36,001,744

The reconciliation of income tax computed at statutory tax rates to provision for income tax follows:

	2010	2009	2008
Income tax at statutory rates of 30% in 2010 and 2009 and 35% in 2008	P169,444,522	P96,813,752	(P74,090,760)
Additions to (reductions in) income tax resulting from:			
Nondeductible interest expense	114,195	235,438	63,669
Mark-to-market changes in derivative asset relating to receivable converted to equity	(116,255,202)	-	-
Fair value changes of financial assets at FVPL	(28,134,913)	(63,232,422)	102,807,997
Equity in net losses (earnings) of associates	(11,459,916)	(671,198)	1,970,844
Dividend income subject to zero-rated income tax	(5,904,556)	(3,953,067)	(5,292,294)
Income subjected to transfer tax	(3,470,020)	-	-
Effects of change in tax rates	-	-	2,369,359
Interest income subjected to final tax and others	(293,065)	(551,140)	(2,580,502)
	P4,041,045	P28,641,363	P25,248,313

In accordance with RA No. 9337, the statutory income tax rate and unallowable interest expense rate are reduced from 35% to 30% and 42% to 33%, respectively, beginning January 1, 2009.

21. Basic and Diluted EPS

Basic and diluted earnings (loss) per share are computed as follows:

	2010	2009	2008
Net income (loss) for the year	P560,774,028	P294,071,143	(P236,936,198)
Divided by weighted average number of common shares	1,165,000,000	1,165,000,000	1,166,508,333
Basic and diluted earnings (loss) per share	P0.48	P0.25	(P0.20)

The resulting per share amounts are the same for both basic and diluted earnings (loss) per share in 2010, 2009 and 2008 since the Company does not have any debt or equity securities that will potentially cause an earnings (loss) per share dilution.

22. Financial Risk Management and Capital Management

The main purpose of the Company's financial liabilities is to finance the Company's operations and capital expenditures. The Company has various financial assets such as cash and cash equivalents, receivables and financial assets at FVPL and AFS investments which arise directly from its operations.

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and manage the Company's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company has exposure to credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk from the use of its financial instruments. The Board reviews and approves the policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash with banks, short term deposits and receivables.

The Company ensures that its financial assets are considered high grade by transacting only with top banks in the Philippines and maintaining good relationships with related parties, key employees, debtors and lessors who are highly reputable and with good credit standing.

Cash with banks are deposits made with reputable banks duly approved by the BOD.

Receivable balances are monitored on an ongoing basis with the result that the Company's exposure to credit risk is not significant. There were no impaired receivables as of December 31, 2010, 2009 and 2008. The receivables are not past due and are assessed to be collectible and in good standing as of December 31, 2010, 2009 and 2008.

The Company's maximum exposure to credit risk is equal to the aggregate carrying amount of its financial assets.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objectives to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility in operations. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The Company's financial assets used for liquidity management are its cash and cash equivalents, financial assets at FVPL and AFS investments.

As of December 31, 2010 and 2009, the Company's cash and cash equivalents may be withdrawn anytime, while its financial assets at FVPL and

AFS investments are traded in the stock exchange and may be converted to cash by selling them during the normal trading hours on any business day.

The Company's financial assets used for liquidity management based on their maturities are as follows:

	2010				
	Within 6 months	6 to 12 months	1 to 2 years	2 to 4 years	Total
Cash and cash equivalents	P165,119,013	P-	P-	P-	P165,119,013
Financial assets at FVPL	-	466,608,314	-	-	466,608,314
Receivables	113,747,257	-	164,199,500	-	277,946,757
AFS investments	-	-	-	3,033,803,476	3,033,803,476
	P278,866,270	P466,608,314	P164,199,500	P3,033,803,476	P3,943,477,560

	2009				
	Within 6 months	6 to 12 months	1 to 2 years	2 to 4 years	Total
Cash and cash equivalents	P79,578,042	P-	P-	P-	P79,578,042
Financial assets at FVPL	-	418,048,226	-	-	418,048,226
Receivables	2,137,225	550,373,255	143,971,424	-	696,481,904
AFS investments	-	-	-	1,108,558,736	1,108,558,736
	P81,715,267	P968,421,481	P143,971,424	P1,108,558,736	P2,302,666,908

The Company's financial liabilities based on contractual undiscounted payments are as follows:

	2010				
	Within 6 months	6 to 12 months	1 to 2 years	2 to 4 years	Total
Accounts payable and accrued expenses	P26,084,878	P105,573,227	P99,887,804	P-	P231,545,909
Short-term loans payable:					
Principal	125,000,000	-	-	-	125,000,000
Future interest	5,156,250	-	-	-	5,156,250
Long-term debt:					
Principal	467,027,152	-	846,105,746	769,001,078	2,082,133,976
Future interest	15,616,005	12,113,301	35,761,619	5,069,701	68,560,626
	P638,884,285	P117,686,528	P981,755,169	P774,070,779	P2,512,396,761

	2009				
	Within 6 months	6 to 12 months	1 to 2 years	2 to 4 years	Total
Accounts payable and accrued expenses	P13,804,771	P10,293,035	P84,497,783	P-	P108,595,589
Short-term loans payable:					
Principal	175,000,000	-	-	-	175,000,000
Future interest	7,218,750	-	-	-	7,218,750
Long-term debt:					
Principal	196,834,798	-	467,027,152	1,478,416,664	2,142,278,614
Future interest	16,067,090	16,067,090	29,181,657	22,176,250	83,492,087
	P408,925,409	P26,360,125	P580,706,592	P1,500,592,914	P2,516,585,040

Market Risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and other market variables which will adversely affect the Company's total comprehensive income or value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters. The exposures to specific market risks are as follows:

Interest Rate Risk

The Company's exposure to interest rate risk pertains to its short-term and long-term debt obligations. Floating rate instruments expose the Company to cash flow interest rate risk, whereas, fixed interest rate instruments expose the Company to fair value risk. The Company regularly monitors the market interest rate movements and manages its interest rate risks by using a mix of fixed and variable rates.

The following tables set out the carrying amounts, by maturity, of the Company's short-term and long-term debt obligations:

Floating rate short-term loans payable with LBP (subject to monthly repricing):

	Coupon rate %	Within 6 months				Total
		6 to 12 months	1 to 2 years	2 to 4 years		
2010	8.25%	P125,000,000	P-	P-	P-	P125,000,000
2009	8.25%	175,000,000	-	-	-	175,000,000

Fixed rate long-term debt with EPL:

	Coupon rate %	Within 6 months				Total
		6 to 12 months	1 to 2 years	2 to 4 years		
2010	1.50%	P467,027,152	P-	P-	P1,615,106,824	P2,082,133,976
2009	1.50%	196,834,798	-	467,027,152	1,478,416,664	2,142,278,614

The table below demonstrates the sensitivity to a reasonably possible change in prevailing interest rates, with all variables held constant, of the Company's income before income tax (through the impact on floating-rate borrowings with LBP). There is no other impact on the Company's equity other than those already affecting the statement of comprehensive income.

	1% appreciation	1% depreciation
Increase (decrease) in income before income tax and in equity		
2010	(P119,018)	P119,018
2009	(161,135)	161,135
2008	(230,686)	230,686

Foreign Exchange Risk

The Company uses the P as its functional currency and is therefore exposed to foreign exchange movements, primarily in \$ currencies. The Company follows a policy to manage its currency risk by closely monitoring its cash flow position and by providing forecast on all other exposures in non-P currencies.

Information on the Company's \$-denominated monetary assets and liabilities and their P equivalent are as follows:

	2010		2009	
	\$	P	\$	P
Financial Assets:				
Cash and cash equivalents	1,192,079	52,260,743	1,300,804	60,097,156
Receivables	2,525,633	110,723,751	12,462,083	575,748,250
	3,717,712	162,984,494	13,762,887	635,845,406
Financial Liabilities:				
Long-term debt	13,904,405	609,569,115	(13,686,384)	(632,310,918)
Net foreign currency-denominated assets (liabilities)	(10,186,693)	(446,584,621)	76,503	3,534,488

As of December 31, 2010 and 2009, the exchange rates of the Philippine peso to the USD are P43.84 and P46.20, respectively.

The following table demonstrates the sensitivity to a reasonably possible change in Philippine P/\$, with all other variables held constant, of the Company's income before income tax.

There is no other impact on the Company's equity other than those affecting the statements of comprehensive income.

	Change in P/\$ exchange rate	
	\$ strengthens by 5%	\$ weakens by 5%
Increase (decrease) in income before income tax and in equity		
2010	(P22,329,231)	P22,329,231
2009	176,724	(176,724)
2008	71,817	(71,817)

Equity Price Risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of the listed shares. The non-trading equity price risk exposure arises from the Company's investment in financial assets at FVPL and quoted AFS investments.

The effects on equity and income before income tax (as a result of a change in the fair value of AFS equity instruments and financial assets at FVPL, respectively, at December 31, 2010, 2009 and 2008 due to a reasonably possible change in bid market price, with all other variables held constant), are as follows:

Financial Assets at FVPL

	Change in fair market value	
	Increase in market indices by 5%	Increase in market indices by 5%
Increase (decrease) in income before income tax and in equity		
2010	P10,271,590	(P10,271,590)
2009	11,725,409	(11,725,409)
2008	10,256,866	(10,256,866)

AFS Investments

	Change in fair market value	
	Increase in market indices by 5%	Increase in market indices by 5%
Increase (decrease) in other comprehensive income and in equity		
2010	P149,847,987	(P149,847,987)
2009	54,450,000	(54,450,000)
2008	16,335,000	(16,335,000)

The impact on the Company's equity already excludes the impact on transactions affecting the net income in the statement of comprehensive income.

Fair Values of Financial Instruments

Fair value is defined as the amount at which the financial instruments could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The table below presents a comparison by category of carrying amounts and estimated fair values of the Company's financial assets and liabilities as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets at FVPL:				
Investment in shares of stock	P466,608,314	P466,608,314	P418,048,226	P418,048,226
Derivative asset	-	-	79,799,174	79,799,174
	P466,608,314	P466,608,314	P497,847,400	P497,847,400
AFS investments				
Quoted	P2,996,959,740	P2,996,959,740	P1,089,000,000	P1,089,000,000
Unquoted	36,843,736	36,843,736	19,558,736	19,558,736
	P3,033,803,476	P3,033,803,476	P1,108,558,736	P1,108,558,736
Loans and receivables:				
Cash and cash equivalents	P165,129,013	P165,129,013	P79,588,042	P79,588,042
Receivables	277,946,757	277,946,757	696,481,904	696,481,904
	P443,075,770	P443,075,770	P776,069,946	P776,069,946

	2010		2009	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Other financial liabilities:				
Accounts payable and accrued expense	P232,674,250	P232,674,250	P108,909,913	P108,909,913
Short-term loans payable	125,000,000	125,000,000	175,000,000	175,000,000
Long-term debt	2,021,058,455	2,033,715,887	2,060,971,795	2,227,534,795
	P2,378,732,705	P2,391,390,137	P2,344,881,708	P2,511,444,708

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and Cash Equivalents, Receivables, Accounts Payable and Accrued Expenses and Short-term Loans Payable

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses and short-term loans payable approximate their fair values due to their short-term maturities.

Financial Assets at FVPL and AFS Investments

The fair values of publicly traded instruments and similar investments are determined based on quoted bid market prices at the balance sheet date. For unquoted equity securities for which no reliable basis of fair value measurement is available, these are carried at cost, less impairment loss.

Derivative Instruments

The fair values of derivative instruments are calculated by using the Black-Scholes option pricing model with market observable inputs such as share price and volatility.

Long-term Debt

The fair value of the long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

Fair Value Hierarchy

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

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

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

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

	2010		
	Level 1	Level 2	Level 3
Financial Assets			
Financial assets at FVPL	P466,608,313	P-	P-
AFS investments - quoted	2,996,959,740	-	-
	P3,463,568,053	P-	P-

	2009		
	Level 1	Level 2	Level 3
Financial Assets			
Financial assets at FVPL	P418,048,226	P-	P-
Derivative asset	-	79,799,174	-
AFS investments - quoted	1,089,000,000	-	-
	P1,507,048,226	P79,799,174	P-

For the years ended December 31, 2010, and 2009 there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of the level 3 measurements.

Derivative Asset

The Company has bifurcated the embedded equity call option on the loan extended to ACMDC in 2009. The Company's derivative financial instruments are accounted for as transactions not designated as hedges. The gains or losses on these instruments are accounted for directly in the statements of comprehensive income. As of December 31, 2010 and 2009, the derivative asset is carried at P- and P79,799,174, respectively. Fair value changes of the derivative asset, which are presented in the statement of comprehensive income as "Mark-to-market changes in derivative asset", amounted to P307,718,166 and P31,052,472 in 2010 and 2009, respectively.

On December 29, 2010, the Company converted its advances to ACMDC with a carrying amount of P504,447,500 into 50,450,500 shares of ACMDC at P10.00 per share (see Note 6).

Capital Management

The Company's objectives when managing capital is to maintain a capital structure that provides a balance between the risk associated with higher level of borrowings and the advantages and security of a sound capital position.

The BOD has overall responsibility in monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying the Company's business operations and industry.

The Company monitors capital on the basis of the debt-equity ratio which is calculated as total debt divided by total equity. Total debt is equivalent to accounts payable and accrued expenses, income tax payable, short-term loans payable, long-term debt, pension liability and deferred income tax liability. Total equity comprises all components of equity including capital stocks, additional paid-in capital, unrealized valuation gains (losses) on AFS investments, retained earnings, reduced by treasury shares.

There were no changes in the Company's approach to capital management during the year. The Company is also not subject to any externally-imposed capital requirements.

The debt-to-equity ratio as of December 31, 2010 and 2009 is as follows:

	2010	2009
Total liabilities	₱2,398,233,254	₱2,387,089,380
Total equity	2,774,573,056	1,232,759,122
Debt-to-equity ratio	0.86	1.94

The following table pertains to the account balance the Company considers as its core capital:

	2010	2009
Capital stock	₱1,176,632,312	₱1,176,632,312
Additional paid-in capital	4,658,460	4,658,460
Retained earnings	658,165,280	132,341,246
Treasury stock	(27,566,075)	(27,566,075)
	₱1,811,889,977	₱1,286,065,943

23. Restatements

In 2009, the Company restated its prior year financial statements with respect to accounting for investments and financial liabilities to conform with the provisions of PAS 39 and PAS 28. The effects of the restatements are as follows:

- (1) Reclassification of investments in SPI and TPC from investments in associates to financial assets at FVPL. In addition, the financial assets at FVPL were revalued based on their bid market prices (see Notes 5 and 8).
 - a. Recognition of dividend income amounting to ₱5,996,082 in 2008; recognition of loss on fair value changes of financial assets at FVPL amounting to ₱282,927,498 in 2008; derecognition of equity in net earnings of associates amounting to ₱21,262,212 in 2008; decrease in net income by ₱298,193,629 in 2008; and
 - b. Reduction in retained earnings by ₱302,730,761 as of December 31, 2008.
- (2) Recognition of gain on debt restructuring as a result of the loan restructuring and conversion agreement entered into by the Company and EPL (see Note 12).
 - a. Recognition of gain on debt restructuring of ₱82,987,619 in 2008;
 - b. Increase in interest expense by ₱13,184,984 in 2008 for the accretion of the imputed discount on the new loan;
 - c. Net increase in deferred income tax liability and provision for deferred income tax amounting to ₱20,940,790; and
 - d. Increase in retained earnings and net income as of and for the year ended December 31, 2008 by ₱48,861,845.
- (3) Recognition of day 1 difference arising from the off-market interest rate of the EPL loan (see Note 12).
 - a. Increase in interest expense by ₱13,485,168 in 2008 for the amortization of the gain on discount of long-term debt; increase in provision for deferred income tax by ₱4,045,550 in 2008; decrease in net income by ₱9,439,618 in 2008; and
 - b. Increase in retained earnings by ₱35,712,564 as of December 31, 2008.

The table below summarizes the accounts affected by the restatements mentioned above as of and for the years ended December 31, 2008:

	As Previously Reported	Restatements	As Restated
Statement of Comprehensive Income			
Equity in net earnings (losses) of associates (see Note 8)	₱20,508,894	(₱26,139,878)	(₱5,630,984)
Gains (losses) on:			
Fair value changes of financial assets at FVPL	(10,809,635)	(282,927,498)	(293,737,133)
Debt restructuring	-	82,987,619	82,987,619
Other revenues	98,648,261	5,996,082	104,644,343
Interest and other finance charges	(49,752,674)	(26,670,153)	(76,422,827)
Provision for income tax	(8,353,073)	(16,895,240)	(25,248,313)
Net income (loss)	26,712,870	(263,649,068)	(236,936,198)
Basic and diluted earnings (loss) per share	0.03	(0.23)	(0.20)

24. Segment Reporting

As discussed in Note 2 the financial statements, the Company has adopted PFRS 8 with effect from January 1, 2009. PFRS 8 requires operating segments to be identified on the basis of internal reports, which is similar to management basis, about components of the Company that are regularly reviewed by the chief operating decision maker.

For management purposes, the Company's operating segments pertain to its investments in NTDCC and UPMC, associates. Investments in associates amounted to ₱1,051,710,422 and ₱1,057,485,852 as of December 31, 2010 and 2009, respectively. NTDCC owns and operates the Trinoma Commercial Center, while UPMC's main business is the exploration, development, exploitation, recovery and sales of gold.

Management monitors the operating results of its investments in associates separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on total revenues.

(in thousands)

	NTDCC		UPMC	
	2010	2009	2010	2009
Revenue				
External customers	₱1,607,807	₱1,459,677	₱-	₱-
Interest income	78,555	71,207	7,020	3,012
Other income	96,529	95,357	1,457	3,127
Total revenue	1,782,891	1,626,241	8,477	6,139
Costs and Expenses				
Direct operating	841,971	783,475	-	-
Depreciation	345,437	340,466	-	-
Interest expense	244,415	320,563	29,675	24,859
General and administrative	42,618	57,073	14,263	11,771
Total costs and expenses	1,474,441	1,501,577	43,938	36,630
Income (loss) before income tax	308,450	124,664	(35,461)	(30,491)
Provision for income tax	(92,534)	(37,397)	(40)	(63)
Net income (loss)	₱215,916	₱87,267	(₱35,501)	(₱30,554)
Operating assets	₱907,578	₱7,665,524	₱1,112,092	₱1,112,244
Operating liabilities	₱1,673,805	₱5,029,584	₱599,015	₱563,664
Other disclosure:				
Capital expenditures	₱-	₱10,212	₱-	₱-

Capital expenditures consist of additions to property and equipment.

Other required information for both segments are disclosed in Note 8 to the financial statements.

25. Note to Statements of Cash Flows

Noncash Operating and Investing Activities in 2010:

Conversion of advances to ACMDC to AFS investment amounting to P504,447,500.

26. Supplementary Tax Information under Revenue Regulations (RR) No. 15-2010

RR No. 15-2010 amends certain provisions of RR No. 21-2002, as amended, authorizing the Commissioner of Internal Revenue to prescribe additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns.

The Company's reported and/or paid the following types of taxes in 2010:

Value-added tax (VAT)

- a. The Company has zero-rated/exempt sales on services amounting to P67,687,500 pursuant to the provisions of Section 108 (B) of the National Internal Revenue Code.

- b. The amount of input VAT claimed are broken down as follows:

Balance at beginning of year	P917,165
Goods other than resale or manufacture	32,738
Services lodged under other accounts	382,998
Balance at end of year	P1,332,901

Withholding Taxes

The below summarizes the total withholding taxes paid or accrued by the Company:

Final withholding taxes	P1,608,727
Withholding taxes on compensation and benefits	2,078,109
Expanded withholding taxes	774,070
Total	P4,460,906

Other Taxes and Licenses for 2010

Taxes and licenses, local and national, include real property taxes, licenses and permit fees as follows:

Documentary stamp taxes	P689,512
Real property taxes	37,783
Business permits and others	95,926
Total	P823,221



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6760 Ayala Avenue

1226 Makati City

Philippines

Phone : (632) 891 0307

Fax : (632) 819 0872

www.sgv.com.ph

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CORPORATE OFFICES

6th Floor, Quad Alpha Centrum

125 Pioneer Street, Mandaluyong City

Metro Manila, Philippines 1550

Telephone Nos. : (632) 631-5139

(632) 635-6120/30

Facsimile : (632) 631-3113

E-mail Address : info@anglophil.com

Website : www.anglophil.com

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ANGLO PHILIPPINE HOLDINGS CORPORATION

Natural Resources • Property Development • Infrastructure
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6th Floor, Quad Alpha Centrum, 125 Pioneer Street,
Mandaluyong City, Philippines 1550
Telephone : +63.2.6315139 / +63.2.6356130
Facsimile: +63.2.6313113
E-mail Address: info@anglophil.com