REPORT TO SHAREHOLDERS 2010

Keppel Philippines Properties

Building Strengths

Defining Distinction

Enhancing Value / Delivering Quality

To be a developer of choice, creating hallmark quality properties of enduring value for the community and achieving sustainable returns for our shareholders.

Contents

Financial Highlights 2010

	2010	2009
For the year (In ₱'000)		
Revenue	32,607	51,311
Profit before income tax	12,856	30,170
Net profit	10,165	27,280
At Year-end (In ₱'000)		
Cash and cash equivalents	325,737	385,886
Total assets	1,704,906	1,754,167
Total liabilities	297,176	77,566
Stockholders' equity	1,407,730	1,676,601
Per share		
Earnings (cents)	0.03	0.09
Net tangible assets (₱)	2.77	3.22

The Philippine property market remained resilient during the year, in line with the country's strong economic growth. Increased buyer confidence also saw encouraging demand for well-located properties.

DEAR SHAREHOLDERS,

On behalf of the Board of Directors, I present the Annual Report of Keppel Philippines Properties, Inc. (KPP) for the year ended 31 December 2010.

Financial Performance

KPP posted a profit before income tax of ₱12.9 million, lower by ₱17.3 million or 57% compared to ₱30.2 million in 2009.

Overall performance was affected by lower profits from KPP's associates, which contributed ₱11.7 million in 2010, compared with ₱25.1 million in 2009. The decrease of ₱13.4 million or 53% is due primarily to a decline in rental revenue at SM-Keppel Land, Inc. as a result of the closure of its office building - Benguet Centre Building – for redevelopment.

Interest income from bank deposits amounted to ₱13.9 million, a decrease of 24% from ₱18.3 million in 2009. The decrease is attributed to a lower level of money market placements and a decrease in interest rates.

The above factors resulted in a decrease in net income from ₱27.3 million in 2009 to ₱10.2 million. Earnings per share correspondingly decreased to ₱0.03, compared to ₱0.09 in 2009.

“KPP will continue to seek new growth opportunities and maximise the value of its assets. We will also actively explore development prospects for homes and offices on the SMKL site.”

Mr. Ang Wee Gee, Chairman

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1_The Podium offers extensive retail, entertainment and food and beverage options with over 150 stores.
2_Palmdale Heights features a host of amenities that cater to the needs of residents as well as enhances family and community living.

Overview

Despite the global economic crisis. The Philippines recorded its highest Gross Domestic Product (GDP) growth rate in more than two decades in 2010. Its full year GDP growth of 7.3% in 2010 was higher than the World Bank's forecast of 3.7%.

The Philippine property market remained resilient during the year, in line with the country's strong economic growth. Increased buyer confidence also saw encouraging demand for well-located properties.

Robust domestic demand, coupled with low interest rates and flexible mortgage packages from banks contributed to the positive demand for homes in the middle-income and affordable housing sectors.

During the year, KPP focused our efforts on two of our development projects in Metro Manila – Palmdale Heights and SMKL Towers.

Palmdale Heights, a quality condominium catered for the middle-income segment, was well-received with 86% of the 828 units in Phases 1 and 2 sold as at 31 December 2010.

The rebound in domestic spending also saw improvements in the retail sector. The Podium at SMKL Towers, which houses over 152 specialty shops and restaurants, as well as two state-of-the-art cinemas, recorded healthy tenancy and incomes during the year.

Prospects

With strong economic fundamentals, supported by steady overseas remittance, the Philippine government is expecting another year of robust growth with GDP targets of between 7.0% and 7.4% for 2011.

Demand for properties across all segments is also expected to remain strong in 2011.

KPP will continue to seek new growth opportunities and maximise the value of its assets. We will also actively explore development prospects for homes and offices on the SMKL site.

Corporate Governance

KPP continues to uphold the highest standards of business ethics, corporate disclosure, transparency, integrity and accountability through the timely reporting of financial and non-financial information. We are committed to provide stakeholders with a clear and balanced assessment of the Company's operations, strategies, business plans and prospects.

KPP will also continue to strengthen on management practices, policies and procedures based on the country's code of corporate governance. We will also evaluate potential risks the Company may be exposed to and implement strategic measures in tandem with changes in the business environment. KPP has in place a system of internal controls to safeguard stakeholders' investments and assets of the Company. All these factors are significant to achieve long-term and sustainable returns for the shareholders.

Acknowledgment

I would like to thank our shareholders, business partners and customers for your continuous support and interest in KPP.

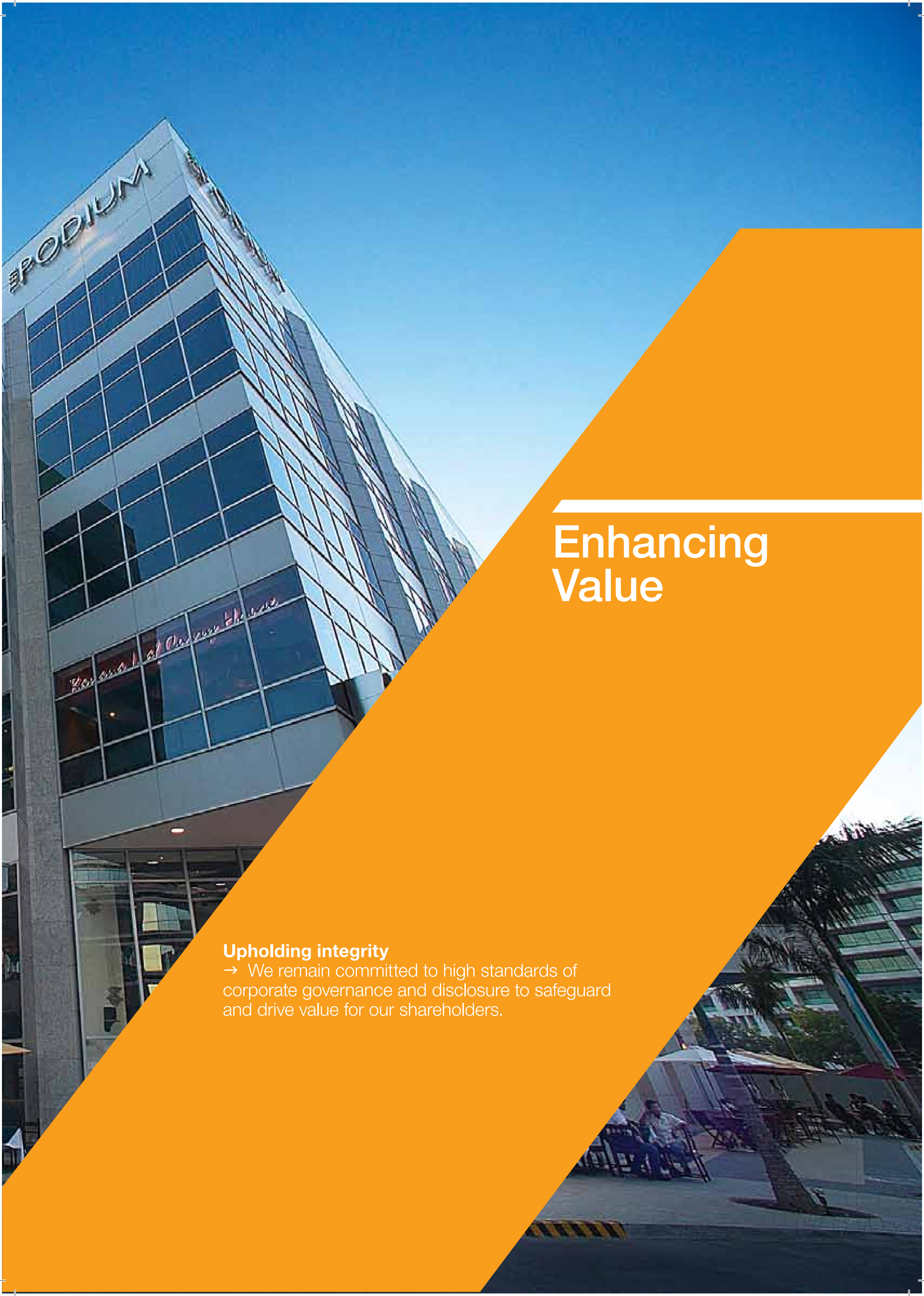
I would also like to thank the management and staff for your dedication and hard work throughout this challenging year.

I look forward to your continued support as we steer KPP towards further growth.

Sincerely,

Ang Wee Gee
Chairman

21 February 2011



Enhancing Value

Upholding integrity

→ We remain committed to high standards of corporate governance and disclosure to safeguard and drive value for our shareholders.

Delivering Quality

Differentiating quality

→ As a developer of choice, we will continue to invest in excellence to deliver quality homes of enduring value for our buyers.

Board of Directors

Ang Wee Gee

Director
Chairman of the Board
Mr Ang has been a Director of the Company since June 1999. He was the President of the Company from June 1999 to August 2006, when he was appointed as Vice Chairman of the Company. He was appointed as Chairman of the Board of Directors in June 2007.

He is the Executive Vice Chairman of Keppel Land China Limited. He is also the Chairman of Keppel Thai Properties Public Co Ltd, and Director of Sedona Hotels International Pte Ltd and a number of other subsidiaries and associated companies in KLL Group.

Mr Ang joined Keppel Land Group in 1991 and was appointed the Executive Director of Keppel Land International Limited (KLL) and Chief Executive Officer, International in 2008. Prior to these appointments, he was the Director of Regional Investments of Keppel Land International Limited, in charge of the overseas investments of the Keppel Land Group.

He holds a Master of Business Administration from Imperial College, University of London. He graduated summa cum laude with a degree in Bachelor of Science in Business Administration from University of Denver USA.

Linson Lim Soon Kooi

Director
President
Mr Lim has been a Director since November 2006 and was elected President of the Company in June 2009. He joined Keppel Land International Limited in 1995 and is currently its President in Vietnam and Thailand. He is also concurrently the Chief Representative of Keppel Land Vietnam Properties, Director of Keppel Thai Properties Public Co. Ltd., Director of a number of other subsidiaries and associated companies of KLL.

Mr Lim holds a Bachelor of Engineering Degree from Monash University, Australia and is a member of the Institute of Engineers in Malaysia.

Lee Foo Tuck

Director
Senior Vice President
Mr Lee was elected as a Director of the Company in May 2008. He is currently the Senior Vice President of the Company. He was formerly Vice President (Finance and Administration) and Treasurer of the Company from April 2004 to June 2008.

Mr Lee is a Certified Accountant and is a Fellow of the Association of Chartered Certified Accountants (U.K.). He has more than thirty years of experience in accounting and finance. He has held various managerial positions in several companies prior to joining the Company.

Choo Chin Teck

Director
Mr Choo has been a Director of the Company since November 1999. He is the Director of Corporate Services of Keppel Land International Limited and Company Secretary of KLL. He has held various senior positions in the Keppel Land Group, and is presently a Director of Keppel Thai Properties Public Co Limited, and a number of other subsidiaries and associated companies of KLL.

Mr Choo holds a Master of Business Administration from Brunel University. He graduated with Bachelor of Science in Accountancy from the University of Singapore.

Ramon J Abejuela

Independent Director
Mr Abejuela has been an Independent Director of the Company since November 1999 until June 2008. He was re-elected in June 2009. He also serves as Director of Philippine Nutrifoods Corporation and NCP Publishing Corporation. He is currently the Chairman of the Audit Committee of the Company.

Mr Abejuela holds a Degree in Bachelor of Science in Chemical Engineering (Cum Laude) from De La Salle University and Master's Degree in Business Management - General Management Curriculum from Asian Institute of Management.

Celso P Vivas

Independent Director
Mr Vivas has been an Independent Director of the Company since November 2004. He is a Certified Public Accountant and is currently Vice-Chairman and CEO of the Corporate Governance Institute of the Philippines (CGIP). He is also the Vice Chairman and Risk Management Director of Corporate Holdings Management, Inc. (CHMI) and member of Marubeni Foundation's Board of Trustees and Canadian Chamber of Commerce's Board of Governors. He is also an Independent Director and Chairman of the Audit Committee of Keppel Philippines Marine, Inc. and Independent Director and Chairman of the Audit Committee of Keppel Philippines Holdings Inc.

He was a Risk Consulting Partner and an Assurance Business Advisory Partner of SGV & Company until his retirement in 2001.

Mr Vivas has a Bachelor Degree in Business Administration (Cum Laude) from the University of the East. He also obtained a Master's Degree in Business Management from the Asian Institute of Management (as SGV & Co. Scholar). He is also a graduate of Company Directors' Course from Australian Institute of Company Directors (as ICD Scholar). He has 44 years of experience in audit, finance, enterprise risk management and corporate governance.

Stefan Tong Wai Mun

Director
Mr Tong was elected as a Director of the Company in June 2007. He is currently the President and Director of Keppel Philippines Holdings, Inc. He is a Director of Kepwealth Property Philippines, Inc., Director and Treasurer of Keppel Communications Philippines, Inc., Keppel IVI Investments, Inc., and Trisilco Folec Philippines, Inc. He is also a Director of Emerging Markets Capital Holdings, Inc., Kepwealth, Inc., Kepventure, Inc., Keppel IVI Capital, Inc., and KPSI Property, Inc.

Mr Tong has a Bachelor of Commerce Degree with Honours at the University of Western Australia. He was also a Chartered Accountant in the Institute of Chartered Accountants in Australia.

Organisational Structure and Major Shareholders

Board of Directors

Audit Committee

The Audit Committee consists:
Ramon J Abejuela, Chairman
Celso P Vivas, Member
Stefan Tong Wai Mun, Member

Screening Committee

The Screening Committee consists:
Ang Wee Gee, Chairman
Celso P Vivas, Member
Stefan Tong Wai Mun, Member

Compensation Committee

The Compensation Committee consists:
Ang Wee Gee, Chairman
Ramon J Abejuela, Member
Stefan Tong Wai Mun, Member

Ten Major Shareholders
(as at 31 December 2010)

No.	Shareholders' Name	No. of shares	%
1	Keppel Land Limited	148,365,050	50.49
2	Kepwealth, Inc.	51,033,178	17.37
3	Keppel Corporation Limited	35,783,741	12.18
4	PCD Nominee Corporation - Filipino	28,240,961	9.61
5	PCD Nominee Corporation - Foreign	5,320,106	1.81
6	International Container Terminal Services Inc.	4,265,171	1.45
7	George S. Dee, Jr.	3,442,891	1.17
8	PNOC Shipping and Transport Corporation	2,227,511	0.76
9	Visayan Surety & Insurance Corporation	1,671,664	0.57
10	Lee Foo Tuck	1,455,708	0.50

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1_Palmdale Heights, a middle-income residential condominium located in Pasig City.

The growing business confidence from investors has boosted demand from the residential and office sectors.

Property Market Review

ECONOMY

Continued growth

The Philippine economy recovered positively to achieve a GDP growth rate of 7.3% in 2010, supported by the industry, service and agriculture sectors, which remained the key sources of the nation's domestic growth market. Further, the record economic growth was influenced mainly by the world economy recovering from the global financial crisis.

The inflow of Overseas Filipino Workers (OFW) remittances also exceeded expectations. OFW remittances grew by 8.2% to US$18.8 billion in 2010. This has contributed to a strong domestic economy, resulting in a 7.2% growth in Gross National Product.

Despite higher oil and food prices, inflation remained manageable, averaging 3.8% in 2010. The government is targeting an average inflation rate of 4.2% in 2011.

To support credit growth, the central bank has maintained interest rates at current low levels of 4.25% for overnight borrowing and 6.25% for overnight lending.

The Philippine government aims to sustain economic growth through improvement in infrastructure works, as well as the creation of new jobs and public-private partnerships.

Supported by sound macroeconomic fundamentals and brighter economic prospects, which are expected to improve household finances, the Philippine government is anticipating another year of robust growth with a target GDP of between 7% and 7.4% for 2011.

RESIDENTIAL

Steady Demand

In 2010, over 1,100 and 760 condominium units were completed in Makati and Ortigas respectively. This brought the total supply of residential condominiums to about 13,100 units in Makati and 7,500 units in Ortigas. The influx of expatriates also supported the demand for prime residential condominiums.

Occupancy rates in Makati decreased slightly to 91.2% during the year. Despite the decline in demand for studio and one-bedroom units, demand for quality two- and three-bedroom units remained strong. More than 15,000 residential units will be completed in the major Central Business Districts (CBDs) in the Philippines over the next three years, with more than 6,000 units expected in Makati alone.

Rents of prime units in Makati and Ortigas increased slightly from the previous year at an average of ₱550 psm per month and ₱340 psm per month respectively.

Capital values in Makati rose 3% from the previous year to ₱102,000 psm while capital values in Ortigas increased by 2% to ₱58,000 psm. Prices of luxury condominiums were higher at about ₱150,000 psm in Ortigas and ₱250,000 psm in Makati. Investment yields remained within the range of 6.8% to 7% during the year.

With renewed optimism in the residential market, rental rates and capital values are expected to increase marginally, between 3.5% and 6.0% in 2011.

OFFICE

BPOs to Boost Demand

The supply of office space in Makati and Ortigas CBDs remained relatively stable at 2.7 million sm and 1.1 million sm respectively, as at the end of 2010. Except for one upcoming office building with a net lettable area of 65,000 sm, there is no other new office development in the pipeline in Makati. In Ortigas, 28,000 sm of office space will be completed in the next three years.

Makati's office occupancy rate remained almost unchanged at 94.5%. However, occupancy rates of premium and Grade A buildings have declined significantly due to the presence of alternative office locations which offer superior infrastructure and facilities at flexible rental terms. In Ortigas, occupancy rate increased to 96.8% in 2010.

Since the start of 2010, rental rates of premium grade office buildings in Makati have declined by 3% to ₱800 psm per month. There is however, growing demand expected from the Business Process Outsourcing (BPO) industry, both from companies seeking expansion as well as new industry entrants.

With no new supply and an increased need for office space, rents in Makati CBD are expected to increase by 10% to 15% in 2011. Meanwhile, Grade A rental rates in Ortigas have increased to ₱550 psm per month since the beginning of 2011.

Capital values in Makati and Ortigas increased marginally from the start of the year to ₱101,000 psm and ₱55,000 psm respectively as at end-2010, and are expected to rise minimally in 2011.

Demand for office space in 2011 will continue to be driven by the BPO industry, which currently occupies 125,000 sm of office space.

RETAIL

Positive Rental Growth Prospects

Supply of retail space in Metro Manila increased slightly to 5.1 million sm in 2010. The current trend saw mall developers expand through the development of small-scale community malls as well as retro-fitting and expansion of existing malls. Average occupancy rate remained stable at

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2_The Podium is one of Ortigas CBD's preferred lifestyle malls.

91.7%, a slight improvement from 90.8% at the beginning of 2010.

Effective rental rates in Makati and Ortigas were down to ₱1,120 psm per month and ₱1,035 psm per month respectively. As consumer sentiments continue to improve, strong retail sales are expected, which will likely push up occupancy and effective rental rates by between 3% and 5% in the first half of 2011.

PALMDALE HEIGHTS

Palmdale Heights is a middle-income residential condominium development located in Pasig City. The quality development which sits on a 7.6-hectare site offers residents convenient and easy access to the Makati and Ortigas CBDs.

Developed in phases, Palmdale Heights will comprise 29 residential blocks of 10-storey buildings with over 4,000 homes when completed. The development features elegantly designed living spaces, quality fittings and finishes, and well-thought out lifestyle and sporting amenities including a guard house with round-the-clock security, fully-landscaped surroundings, children's playground, picnic area, clubhouse, swimming pool, and a multi-purpose outdoor court.

The first two phases, each comprising three 10-storey blocks with 828 condominium units, were completed in October 2003 and June 2004 respectively. 714 units or 86% of the 828 units have been sold as at 31 December 2010.

The third and fourth phases will comprise eight residential blocks with 1,264 units, and will be launched in accordance to market conditions.

SMKL TOWERS

Strategically located in the heart of Ortigas CBD, SMKL Towers is a mixed-use development with residential, office and retail components on a 2-hectare site.

Phase one of the retail component, The Podium, was officially opened in 2002 and is a popular shopping destination. With over 18,000 sm of leasable space, it features a good mix of 152 specialty stores, restaurants and two state-of-the-art cinemas.

Key Personnel

Ang Wee Gee
Chairman

Linson Lim Soon Kooi
President

Lee Foo Tuck
Senior Vice President

Elizabeth M Perez
Assistant Accounting Manager

Ma Melva E Valdez
Corporate Secretary

Myla Gloria A Amboy
Assistant Corporate Secretary

Directory

Registered Office
Keppel Philippines Properties, Inc.
Penthouse, Benguet Centre Building
12 ADB Avenue, Ortigas Center
1550 Mandaluyong City
Philippines

Temporary Office
Keppel Philippines Properties, Inc.
22nd Floor, Unit 2203 & 2204
Raffles Corporate Center
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Telephone: (632) 584 6170
Facsimile: (632) 584 3915
Email: keppel.prop@kepland.com.ph

Auditors
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6760 Ayala Avenue
1226 Makati City
Philippines
Telephone: (632) 891 0307
Facsimile: (632) 818 1377
Email: sgv_information@sgv.com.ph

Transfer Agent
Securities Transfer Services, Inc.
Ground Floor, Benpres Building
Meralco Avenue corner Exchange Road
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Telephone: (632) 490 0060
Facsimile: (632) 631 7148
Email: stsi@fphc.com

Legal Counsels
Jimenez Gonzales Liwanag Bello Valdez
Caluya & Fernandez (JG Law)
6th Floor, SOL Building, 112 Amorsolo St.
Legaspi Village, 1229 Makati City
Philippines
Telephone: (632) 815 9071
Facsimile: (632) 817 3251
Email: info@jglawph.com

Share Listing
The Company's shares are listed on the
Philippine Stock Exchange.

Directors' Report & Financial Statements

Contents

Statement of Management's Responsibility for Financial Statements

For the financial year ended 31 December 2010

21 February 2011

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong City

The management of Keppel Philippines Properties, Inc. and Subsidiaries (the Group) is responsible for all information and representations contained in the consolidated statements of financial position as of December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years ended December 31, 2010. The consolidated 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 weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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

Ang Wee Gee
Chairman of the Board

Lee Foo Tuck
Senior Vice President
Chief Executive Officer

Elizabeth M Perez
Asst. Manager – Finance & Administration
Chief Financial Officer

Report of Independent Auditors

For the financial year ended 31 December 2010

The Stockholders and the Board of Directors
Keppel Philippines Properties, Inc.
Penthouse, Benguet Centre Building
12 ADB Avenue, Ortigas Center
Mandaluyong City

We have audited the accompanying consolidated financial statements of Keppel Philippines Properties, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Keppel Philippines Properties, Inc. and Subsidiaries as of December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Jessie D. Cabaluna
Partner
CPA Certificate No. 36317
SEC Accreditation No. 0069-AR-2
Tax Identification No. 102-082-365
PTR No. 2641508, January 3, 2011, Makati City

February 21, 2011

Consolidated Statements of Financial Position

As at 31 December 2010

	December 31 2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6, 22 and 23)	**₱ 325,737,487**	₱ 385,886,218
Receivables (Notes 7, 22 and 23)	**1,099,620**	1,231,416
Due from related parties (Notes 15, 22 and 23)	**221,833,623**	226,456,649
Other current assets (Note 8)	**14,912,037**	12,496,557
Total Current Assets	**563,582,767**	626,070,840
Non-current Assets		
Available-for-sale financial assets (Notes 9, 22 and 23)	**225,000**	570,264
Investments in associates (Note 10)	**1,137,774,469**	1,126,104,624
Investment properties - net (Note 11)	**1**	1
Property and equipment - net (Note 12)	**2,551,756**	825,541
Refundable deposits (Notes 22 and 23)	**360,388**	278,656
Deferred tax assets (Note 18)	**412,031**	317,150
Total Non-Current Assets	**1,141,323,645**	1,128,096,236
	₱1,704,906,412	₱1,754,167,076
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 13, 15, 19, 22 and 23)	**₱ 4,556,822**	₱ 4,574,048
Provisions (Note 19)	**2,940,815**	2,562,364
Due to related parties (Notes 15, 22 and 23)	**289,678,861**	70,429,657
Net pension liability (Note 17)	**-**	-
Total Current Liabilities	**297,176,498**	77,566,069
Equity		
Capital stock (Note 14)	**356,104,000**	369,704,000
Additional paid-in capital (Note 14)	**602,885,517**	725,285,517
Unrealized gain on available-for-sale financial assets (Note 9)	**-**	236,413
Retained earnings (Note 14)	**451,408,042**	584,042,722
	1,410,397,559	1,679,268,652
Less cost of treasury stock (Note 14)	**2,667,645**	2,667,645
Total Equity	**1,407,729,914**	1,676,601,007
	₱1,704,906,412	₱1,754,167,076

See accompanying notes to financial statements.

Consolidated Statements of Comprehensive Income

For the financial year ended 31 December 2010

	2010	2009	2008
REVENUE			
Interest income (Notes 6 and 15)	**₱13,942,720**	₱18,313,497	₱22,592,706
Equity in net earnings of associates (Note 10)	**11,669,845**	25,125,819	39,057,108
Management consultancy and franchise fees (Note 15)	**6,994,920**	7,871,466	8,684,279
	32,607,485	51,310,782	70,334,093
GENERAL AND ADMINISTRATIVE EXPENSES (Note 16)	**(19,958,659)**	(20,599,310)	(28,909,285)
OTHER INCOME (CHARGES)			
Gain on sale of available-for-sale financial assets (Note 9)	**461,320**	–	687,286
Rental income and others (Note 11)	**8,666**	200,344	271,603
Gain on sale of property and equipment (Note 12)	**–**	–	322,254
Foreign exchange losses - net	**(262,486)**	(741,860)	(5,269,740)
	207,500	(541,516)	(3,988,597)
PROFIT BEFORE INCOME TAX	**12,856,326**	30,169,956	37,436,211
PROVISION FOR INCOME TAX (Note 18)			
Current	**2,785,887**	3,604,374	4,428,037
Deferred	**(94,881)**	(714,485)	3,377,533
	2,691,006	2,889,889	7,805,570
NET INCOME (Note 20)	**10,165,320**	27,280,067	29,630,641
OTHER COMPREHENSIVE INCOME (LOSS)			
Net fair value gains (loss) on available-for-sale financial assets (Note 9)	**(236,413)**	146,328	(2,999,200)
TOTAL COMPREHENSIVE INCOME	**₱ 9,928,907**	₱27,426,395	₱26,631,441
Basic Earnings Per Share (Note 20)	**₱ 0.03**	₱ 0.09	₱ 0.10

See accompanying notes to financial statements.

Consolidated Statements of Changes in Equity

For the financial year ended 31 December 2010

	Capital Stock	
	Common (Note 14)	Preferred (Note 14)
At January 1, 2010	**₱296,629,900**	**₱73,074,100**
Other comprehensive income	**–**	**–**
Net income	**–**	**–**
Total comprehensive income	**–**	**–**
Preferred shares redemption	**–**	(13,600,000)
At December 31, 2010	**₱296,629,900**	**₱59,474,100**
At January 1, 2009	₱296,629,900	₱73,074,100
Other comprehensive income	–	–
Net income	–	–
Total comprehensive income	–	–
At December 31, 2009	₱296,629,900	₱73,074,100
At January 1, 2008	₱296,629,900	₱73,074,100
Other comprehensive income	–	–
Net income	–	–
Total comprehensive income	–	–
At December 31, 2008	₱296,629,900	₱73,074,100

See accompanying notes to financial statements.

	Additional Paid-in Capital (Note 14)	Unrealized Gain on Available-for-sale Financial Assets (Note 9)	Retained Earnings (Note 14)	Treasury Stock (Note 14)	Total Equity
	₱725,285,517	**₱ 236,413**	**₱584,042,722**	**(₱2,667,645)**	**₱1,676,601,007**
	–	(236,413)	**–**	**–**	**(236,413)**
	–	**–**	10,165,320	**–**	**10,165,320**
	–	(236,413)	10,165,320	**–**	**9,928,907**
	(122,400,000)	**–**	(142,800,000)	**–**	**(278,800,000)**
	₱602,885,517	**₱ –**	**₱451,408,042**	**(₱2,667,645)**	**₱1,407,729,914**
	₱725,285,517	₱ 90,085	₱556,762,655	(₱2,667,645)	₱1,649,174,612
	–	146,328	–	–	146,328
	–	–	27,280,067	–	27,280,067
	–	146,328	27,280,067	–	27,426,395
	₱725,285,517	₱ 236,413	₱584,042,722	(₱2,667,645)	₱1,676,601,007
	₱725,285,517	₱3,089,285	₱527,132,014	(₱2,667,645)	₱1,622,543,171
	–	(2,999,200)	–	–	(2,999,200)
	–	–	29,630,641	–	29,630,641
	–	(2,999,200)	29,630,641	–	26,631,441
	₱725,285,517	₱ 90,085	₱556,762,655	(₱2,667,645)	₱1,649,174,612

Consolidated Statements of Cash Flows

For the financial year ended 31 December 2010

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	**₱ 12,856,326**	₱ 30,169,956	₱ 37,436,211
Adjustments for:			
Interest income (Notes 6 and 15)	**(13,942,720)**	(18,313,497)	(22,592,706)
Equity in net earnings of associates and joint ventures (Note 10)	**(11,669,845)**	(25,125,819)	(39,057,108)
Depreciation and amortization (Note 12)	**490,100**	462,304	677,386
Gain on sale of available-for-sale financial assets (Note 9)	**(461,320)**	–	(687,286)
Unrealized foreign exchange losses (gains)	**247,318**	575,635	(1,936,878)
Dividend income	**(1,400)**	(67,083)	(131,221)
Gain on sale of property and equipment (Note 12)	**–**	–	(322,254)
Loss before changes in working capital	**(12,481,541)**	(12,298,504)	(26,613,856)
Decrease (increase) in:			
Receivables	**104,509**	(235,540)	(11,453)
Amounts due from related parties	**4,623,026**	(2,267,296)	23,391,171
Other current assets	**(2,415,480)**	(783,622)	(4,978,888)
Increase (decrease) in:			
Accounts payable and other current liabilities	**(17,226)**	(4,424,893)	3,298,497
Provisions	**378,451**	(747,715)	–
Net pension liability	**–**	(45,119)	(8,803)
Net cash used in operations	**(9,808,261)**	(20,802,689)	(4,923,332)
Interest received	**13,962,713**	18,878,801	22,194,373
Income tax paid	**(2,785,887)**	(3,604,374)	(4,428,037)
Net cash provided by (used in) operating activities	**1,368,565**	(5,528,262)	12,843,004
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment (Note 12)	**(2,216,315)**	(163,008)	(334,303)
Decrease (increase) in refundable deposits	**(81,732)**	–	748,060
Dividend received	**8,694**	59,788	131,221
Proceeds from sale of:			
Available-for-sale financial assets	**570,171**	–	2,841,038
Property and equipment (Note 12)	**–**	–	841,428
Net cash provided by (used in) investing activities	**(1,719,182)**	(103,220)	4,227,444
CASH FLOWS FROM FINANCING ACTIVITY			
Decrease in amounts due to related parties	**(59,550,796)**	(96,599,539)	(60,387,329)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(247,318)**	(446,182)	1,943,573
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(60,148,731)**	(102,677,203)	(41,373,308)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**385,886,218**	488,563,421	529,936,729
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	**₱325,737,487**	₱385,886,218	₱488,563,421

See accompanying notes to financial statements.

1. Corporate Information

Keppel Philippines Properties, Inc. ("the Parent") and the following subsidiaries (collectively referred to as "the Group") were incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC):

Subsidiaries	Percentage of Ownership	Nature of Business
Buena Homes, Inc. (BHI)	100%	Investment holding
CSRI Investment Corporation (CSRI)	100%	Investment holding

The Parent is listed in the Philippine Stock Exchange (PSE). Its parent company is Keppel Land Limited (KLL) and the ultimate parent company is Keppel Corporation Limited (KCL), both incorporated in Singapore.

The Group holds investments in and advances to associates involved in property holding and development and render management consultancy services to associates. Incidental to its investment holding activity, the Parent charges interest on certain advances to SM Keppel Land, Inc. (SMKL).

In December 2010, the Group temporarily transferred its business office to 22nd Floor Units 2203 and 2204 Raffles Corporate Center, F. Ortigas Jr. Avenue (formerly Emerald Avenue), Ortigas Center, Pasig City from Penthouse, Benguet Centre Building 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The following are the Group's associates, which are all incorporated in the Philippines:

	Percentage of Ownership	Nature of Business
Opon Realty and Development Corporation (ORDC)	40%	Land leasing
Opon Ventures, Inc. (OVI)	40%	Investment holding
Opon-KE Properties, Inc. (OKEP)	40%	Investment holding
SM Keppel Land, Inc. (SMKL)	40%	Lease of mall and office spaces, cinema ticket sales and carpark
Buena Homes (Sandoval) Inc. (BHSI)	40%	Real estate

The consolidated financial statements of the Group have been authorized for issue by the Board of Directors (BOD) on February 21, 2011.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements of the Group have been prepared under the historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), which is the Group's functional currency. Amounts are rounded off to the nearest Philippine Peso unit, except where otherwise indicated.

Statement of Compliance
The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The accompanying consolidated financial statements comprise the financial statements of Keppel Philippines Properties, Inc. and its subsidiaries, as described in Note 1, as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. The financial statements of the subsidiaries are prepared for the same reporting year as the parent, using consistent accounting policies.

A subsidiary is an entity in which the parent company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or exercise control over the operations and management of the entity.

All intra-group balances and transactions, including income, expenses and dividends are eliminated in full during consolidation in accordance with the accounting policy on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date of the acquisition or up to the date of the disposal, as appropriate.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) and amendments to existing standards which became effective on January 1, 2010. Except as otherwise indicated, the adoption of the new and amended Standards and Philippine Interpretations did not have a significant impact on the financial statements of the Group.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
  This amendment 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. This 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.

- Revised PFRS 3, *Business Combinations and 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.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This Philippine Interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g. items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

- Amendments to PFRS 2, *Share-based Payment: Group Cash-settled Transactions*
  The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction.

Improvements to PFRS
The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wordings. The amendments are effective for annual period beginning January 1, 2010 except as otherwise stated. There are separate transitional provisions for each standard. The adoption of these amendments did not have any significant impact on the consolidated financial statements of the Group, unless otherwise indicated.

- PFRS 2, *Share-based Payment*
  This Amendment 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.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  This Amendment clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such non-current assets or discontinued operations.

- PFRS 8, *Operating Segment Information*
  This Amendment 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*
  This Amendment 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*
  This Amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  This Amendment removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. This Amendment requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17.

- PAS 36, *Impairment of Assets*
  This Amendment 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:*
  This Amendment 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. This 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*
  This Amendment clarifies the following: 1) 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; 2) that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken and 3) that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives: clarifies that it does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.

- Philippine Interpretation IFRIC16, 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.

<u>Future changes in Accounting Policies</u>

The Group will adopt the following Standards and Philippine Interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended Standards and Philippine Interpretations to have significant impact on its consolidated financial statements

- Amendment to PAS 32, *Classification of Rights Issues*
  This amendment to PAS 32, Financial Instruments: Presentation, addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

  The amendment is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*
  This Interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. This Interpretation clarifies the requirements of PFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. It clarifies that (a) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (b) the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished; and (c) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit or loss for the period.

  The Philippine Interpretation is effective for annual periods beginning on or after July 1, 2010, with earlier application permitted.

- Revised PAS 24, *Related Party Disclosures*
  The standard was revised in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The revised standard addresses these concerns by providing a partial exemption for government-related entities and by providing by simplifying the definition of a related party and removing inconsistencies.

  The revised standard is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

- Amendments to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*
  Philippine Interpretation IFRIC 14, which is itself an Interpretation of PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, applies to limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.

  The amendment is effective for annual periods beginning on or after January 1, 2011, with early adoption permitted.

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
  This Philippine Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors which should be applied retroactively and prospectively. The Philippine 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

  The Philippine Interpretation is effective for annual periods beginning on or after January 1, 2012, with early adoption permitted.

- PFRS 9, *Financial Instruments: Classification and Measurement*
  The Standard introduces new requirements on the classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in PAS 39, *Financial Instruments: Recognition and Measurement.* The approach in the new Standard

is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new Standard also requires a single impairment method to be used, replacing the many different impairment methods in PAS 39.

The Standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

Improvements to PFRSs
The omnibus amendments to PFRSs issued in May 2010 were issued primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard and will become effective January 1, 2011, except as otherwise indicated. The Group does not expect the adoption of these new standards to have significant impact on its consolidated financial statements.

- PFRS 3, *Business Combinations (Revised)*
  This amendment clarifies that the amendments to PFRS 7, *Financial Instruments: Disclosures*, PAS 32, *Financial Instruments: Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement,* that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

  It also limits the scope of the measurement choices that only the components of non-controlling interest (NCI) that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either: at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. Other components of NCI are measured at their acquisition date fair value, unless another measurement basis is required by another PFRS.

- PFRS 7, *Financial Instruments: Disclosures*
  This amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments to quantitative and credit risk disclosures are as follows:

  a) Clarify that only financial asset whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk.
  b) Requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk).
  c) Remove disclosure of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired.
  d) Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired.
  e) Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

- PAS 1, *Presentation of Financial Statements*
  This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- PAS 27, *Consolidated and Separate Financial Statements*
  This amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, *The Effect of Changes in Foreign Exchange Rates,* PAS 28, *Investments in Associates* and PAS 31 *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when PAS 27 is applied earlier.

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This amendment clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

4. Summary of Significant Accounting Policies

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

Financial Instruments
Date of recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it 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 settlement date accounting.

Initial recognition. Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables. The Group also classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liability 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 total liabilities and equity, net of any related income tax benefits.

The Group has no financial assets and liabilities at FVPL and HTM investments as of December 31, 2010 and 2009.

Determination of fair value. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and 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 current market prices exist, option pricing models, and other relevant valuation models.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Day 1 profit. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” profit) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model values is recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” profit amount.

Loans and receivables. Loans and receivables are nonderivative 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 designated as AFS financial assets or financial assets at FVPL.

Loans and receivables are carried at cost or amortized cost in the consolidated statement of financial position. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months from the reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy relates to the consolidated statement of financial position captions “cash and cash equivalents”, “receivables”, “due from related parties” and “refundable deposits” (see Notes 6, 7 and 15).

AFS financial assets. AFS financial assets are nonderivatives that are either designated in this category or not classified in any other categories. Subsequent to initial recognition, AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in the fair value of such assets are reported as unrealized gain or loss on AFS financial assets as other comprehensive income until the investment is derecognized or the investment is determined to be impaired. Assets under this category are classified as current assets if maturity is within twelve months from the end of the reporting date and as noncurrent assets if maturity date is more than a year from the end of the reporting date.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any allowance for impairment loss.

Classified under this category are the Group’s investments in listed securities in the PSE carried at fair value and unquoted club shares carried at cost (see Note 9).

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

The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest rate method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This accounting policy applies to the Group’s “Accounts payable and other current liabilities” and “Due to related parties” and other obligations that meet the above definition (other than liabilities covered by other accounting standards (see Notes 13 and 15).

<u>Impairment of Financial Assets</u>
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Loans and receivables
If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Group 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, 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, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of impairment loss is recognized in profit or loss.

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit and loss, is transferred from other comprehensive income to profit and loss. Reversals in respect of equity instruments classified as AFS are not recognized in profit and loss. Reversals of impairment losses on debt instruments are reversed through profit and loss if the increase in the fair value of the investment can be objectively related to an event occurring after the impairment loss was recognized in profit and loss.

AFS financial assets carried at cost
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, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group 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 Group has transferred its rights to receive cash flows from an asset 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 Group'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 or the maximum amount of consideration that the Group could be required to repay.

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 on a net basis, or to realize the asset and settle the liability simultaneously.

Investments in Associates and Joint Venture
Associates are entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures of the Group. A joint venture is an entity, not being a subsidiary nor an associate, in which the Group exercises joint control together with one or more venturers. Investments in associates and joint venture are accounted for under the equity method of accounting.

Under the equity method, the investments in associates and joint venture are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less dividends declared and impairment in value. If the Group's share of losses of an associate and joint venture equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses. The interest in an associate and joint venture is the carrying amount of the investment in the associate and joint venture under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate and joint venture. After application of the equity method, the Group determines whether it is necessary to recognize any impairment loss with respect to the Group's net investments in the associates and joint ventures. The profit or loss reflects the

Group's share of the results of operations of the associates and joint ventures. After the Group's interest is reduced to zero, additional losses are provided to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associates and joint ventures. Where there has been a change recognized directly in other comprehensive income of the associates and joint ventures, the Group recognizes its share of any changes and discloses this, when applicable, in profit or loss.

The reporting dates of the associates and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Unrealized gains arising from intercompany transactions with its associates are eliminated to the extent of the Group's interest in the associate, against the investment in the associate. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

Upon loss of significant influence over the associate, the Group 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 and loss.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Depreciation of investment properties is computed using the straight-line method over the estimated useful life of the assets of 10 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when such cost is incurred if the recognition criteria are met.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Transportation equipment	2-5 years
Office equipment	1-4 years
Furniture and fixtures	4 years

Leasehold improvements are amortized over the term of the lease or estimated useful life of two (2) years, whichever is shorter.

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

Impairment of Nonfinancial Assets
The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell or its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in associates and joint venture
After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the investee companies. The Group determines at each reporting date whether there is any objective evidence that the investments in associates or jointly controlled entities are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value and the carrying value of the investee company and recognizes the difference in profit or loss.

Provisions
Provisions are recognized when the Group 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. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where 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 an interest expense.

Treasury Share
Treasury share is recorded at cost and is presented as a deduction from equity. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-in capital to the extent of the specific or average additional paid-in capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income. Interest income is recognized as interest accrues, taking into account the effective yield on the asset.

Management consultancy and franchise fees. Management consultancy and franchise fees are recognized on an accrual basis in accordance with the terms and conditions of the agreement.

Dividend income. Dividend income is recognized when the shareholders' right to receive the payment is established.

Rental income. Rental income is recognized on the basis of the terms of the hotel management contract computed as a percentage of the net profit of the condominium operations.

General and Administrative Expenses

General and administrative expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. General and administrative expenses are recognized in profit or loss in the period these are incurred.

Equity

Capital stock is measured at par value for all shares issued.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss of the Group, net of any dividend distribution.

Leases

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

(a) there is a change in the contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal and extension was initially included in the lease term;
(c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

Group as a lessee. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Group as a lessor. Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Foreign Currency Translation

The consolidated financial statements are presented in Philippine Peso, which is the Group's functional currency. The Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at balance sheet date. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

For income tax reporting purposes, foreign exchange gains or losses are treated as taxable income or deductible expenses, in the period such are realized.

Retirement Cost

The Group has a funded, non-contributory retirement plan, administered by a trustee, covering its regular employees. Retirement cost is actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains or losses, the effect of any past service cost and curtailment or settlement. 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 have already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The net pension liability recognized by the Group in respect of the defined benefit pension plan is the present value of the defined benefit obligation less fair value of the plan assets at the balance sheet date, together with the adjustments for unrecognized actuarial gains or losses that shall be recognized in later periods. The present value of the defined benefit obligation is calculated by an independent actuary using the projected unit credit method and is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to the terms of the related pension liability or applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

A portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation or fair value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

Income Tax

Current tax. Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of reporting date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of minimum corporate income tax (MCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of reporting date.

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

Movements in the deferred income tax assets and liabilities arising from changes in the tax rates are charged against or credited to income for the period.

Value-Added Tax (VAT)

Revenue, expenses and assets are recognized net of the amount of sales tax except:

- where the tax incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the Group’s statement of financial position.

Basic Earnings Per Share (EPS)

EPS is computed by dividing net income for the year attributable to common shareholders by the weighted average number of common shares issued and outstanding during the year, with retroactive adjustments for any stock dividends declared.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the accompanying consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates

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

Provisions and contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Provisions for estimated losses on claims by a third party amounted to ₱2.9 million and ₱2.6 million in 2010 and 2009, respectively (see Note 19).

Functional currency. The Group determined its functional currency to be the Philippine Peso. The determination of functional currency was based on the primary economic environment in which the Group generates and expends cash.

Operating leases - Group as lessor. The Group has entered into operating leases on the investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and accounts for them as operating leases. Rental income amounted to ₱0.1 million in 2008 (see Note 11).

Operating leases - Group as lessee. The Group has entered into commercial property leases related to its office spaces. Substantially, all the risks and benefits incidental to ownership of the leased items are not transferred to the Group. Total rent expense charged to operations amounted to ₱0.8 million, ₱0.4 million and ₱0.6 million in 2010, 2009 and 2008, respectively (see Notes 16 and 21).

Financial assets not quoted in an active market. The Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. The carrying values of financial assets not quoted in active market amounted to ₱225,000 as December 31, 2010 and 2009 (see Note 9).

Impairment of AFS equity investments. The Group treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more and 'prolonged' as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

The fair value and carrying value of AFS equity investments amounted to ₱0.2 million and ₱0.6 million as of December 31, 2010 and 2009, respectively. No allowance for impairment was provided for AFS equity investments in 2010, 2009 and 2008 (see Note 9).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years, are discussed below:

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the consolidated balance sheet or disclosed in the notes to the consolidated financial statements cannot be derived from active markets, they are determined using internal valuation techniques 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.

Allowance for doubtful accounts. The Group maintains allowance for doubtful accounts on their receivables at a level adequate to provide for any potential uncollectible receivables. The level of this allowance is regularly evaluated by the Group. The Group assesses whether objective impairment exists for the receivable by considering the financial condition and credit history of the counterparty. Moreover, the Group also considers its historical loss experience in assessing collective impairment of receivables. The Group reviews the status of the receivables and identifies amounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in the Group's allowance for doubtful accounts on receivables would increase the Group's recorded expenses and decrease current assets.

Receivables and due from related parties amounted to ₱222.9 million and ₱227.7 million as of December 31, 2010 and 2009, respectively. No allowance was provided for these receivables as of December 31, 2010 and 2009 (see Notes 7, 15, 22 and 23).

Estimated useful lives of property and equipment and investment properties. The useful life of each of the Group's items of property and equipment and investment properties is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each item of property and equipment and investment properties is reviewed periodically and 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 asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment and investment properties would increase the recorded general and administrative expenses and decrease non-current assets.

The carrying value of the Group's property and equipment and investment properties as of December 31, 2010 and 2009 amounted to ₱2.6 million and ₱0.8 million, respectively (see Notes 11 and 12).

Impairment of non-financial assets. The Group assesses impairment on non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount.

This requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material adverse impact on the Group's financial condition and results of operations.

As of December 31, 2010, the Group did not recognize any impairment loss on its non-financial assets. The carrying values of investments in associates and joint venture, investment properties and property and equipment as of December 31, 2010 and 2009 amounted to ₱1,140.3 million and ₱1,126.9 million, respectively (see Notes 10, 11 and 12).

Retirement benefits. The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, estimated future salary rate increases. Due to the long-term nature of this plan, such estimates are subject to significant uncertainty.

The assumptions used in the actuarial valuation are disclosed in Note 17 to the consolidated financial statements. As of December 31, 2010 and 2009, net pension liability is nil.

Recognition of deferred tax assets. The Group's assessment on the recognition of deferred tax assets on non-deductible temporary differences and carryforward benefit of NOLCO is based on the forecasted taxable income of the following reporting period. This forecast is based on the Group's past results and future expectations on revenues and expenses.

As of December 31, 2010 and 2009, net deferred tax assets amounted to ₱0.4 million and ₱0.3 million, respectively. The amount of unrecognized deferred tax assets of subsidiaries amounted to ₱16.8 million and ₱13.7 million as of December 31, 2010 and 2009, respectively (see Note 18).

6. Cash and Cash Equivalents

This account consists of:

	2010	2009
Cash on hand and in banks	**₱ 44,804,100**	₱ 62,110,272
Cash equivalents	**280,933,387**	323,775,946
	₱325,737,487	₱385,886,218

Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term deposits made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates.

Interest income from deposits and savings accounts of the Group amounted ₱11.8 million, ₱15.8 million and ₱19.7 million in 2010, 2009 and 2008, respectively.

7. Receivables

This account consists of:

	2010	2009
Interest	**₱ 484,736**	₱ 504,729
Trade (Note 15)	**411,689**	327,383
Receivable from employees	**153,195**	290,251
Others	**50,000**	109,053
	₱1,099,620	₱1,231,416

Interest pertains to accrued interest on cash and cash equivalents. Receivables are generally within 30- to 60- day terms. As of December 31, 2010 and 2009, the Group has no past due receivables.

8. Other Current Assets

This account consists of:

	2010	2009
Creditable withholding taxes	**₱13,173,228**	₱12,386,662
Prepayments	**682,330**	39,357
Others	**1,056,479**	70,538
	₱14,912,037	₱12,496,557

Prepayments are advance rental deposits for one year which arises from temporary transfer of office address.

9. Available-for-Sale Financial Assets

The Group's AFS financial assets consist of quoted and unquoted equity securities as summarized below:

	2010	2009
Unquoted – at cost	**₱225,000**	₱225,000
Quoted – at fair value	**-**	345,264
	₱225,000	₱570,264

Unquoted AFS financial assets pertain to investment in equity securities in Club Filipino Inc. de Cebu.

The movements in this account are as follow:

	2010	2009
At January 1	**₱570,264**	₱423,936
Disposals	**(345,264)**	–
Net fair value gain	**–**	146,328
At December 31	**₱225,000**	₱570,264

The movements of unrealized gain on AFS financial assets follow:

	2010	2009
At January 1	**₱236,413**	₱ 90,085
Transfers to profit and loss	**(236,413)**	–
Mark-to-market gains (losses)	**–**	146,328
At December 31	**₱ –**	₱236,413

In 2010, the Parent and CSRI sold all of their quoted AFS financial assets consisting of investments in ordinary shares of publicly listed companies and club shares for ₱0.4 million and ₱0.2 million which resulted in a gain of ₱0.3 million and ₱0.2 million, respectively.

In 2008, CSRI sold AFS financial assets consisting of investments in ordinary shares of publicly listed companies and club shares which resulted in a gain of ₱0.7 million.

10. Investments in Associates and Joint Venture

The details and movements of this account are summarized below:

	2010	2009
Cost		
At January 1	**₱ 806,321,443**	₱ 515,109,443
Advances converted to preferred shares (Note 15)	**–**	291,212,000
At December 31	**806,321,443**	806,321,443
Advances for conversion to preferred shares of associates and joint venture of associates		
At January 1	**79,287,230**	370,499,230
Advances converted to preferred shares (Note 15)	**–**	(291,212,000)
At December 31	**79,287,230**	79,287,230
Accumulated equity in net earnings (Notes 14 and 18):		
At January 1	**240,495,951**	215,370,132
Equity in net earnings of associates and joint venture for the year	**11,669,845**	25,125,819
At December 31	**252,165,796**	240,495,951
	₱1,137,774,469	₱1,126,104,624

In 2009, the SEC approved the conversion of advances to joint venture into investment in preferred shares of SMKL amounting to ₱291.2 million (see Note 15).

The carrying values of the Group's investments in associates and joint venture and the related percentages of ownership are shown below.

	Percentage of Ownership		Carrying Amount	
	2010	2009	**2010**	2009
SM Keppel Land, Inc. (SMKL)	**40%**	40%	**₱ 793,653,669**	₱ 781,365,232
Buena Homes (Sandoval) Inc. (BHSI)	**40**	40	**176,178,561**	177,884,523
Opon-KE Properties, Inc. (OKEP)	**40**	40	**99,363,990**	98,520,057
Opon Ventures, Inc. (OVI)	**40**	40	**57,835,968**	57,488,442
Opon Realty and Development Corporation (ORDC)	**40**	40	**10,742,281**	10,846,370
			₱1,137,774,469	₱1,126,104,624

In 2006, the stockholders approved the conversion of the advances to associates into investments in preferred shares of OVI and OKEP amounting to ₱48.0 million and ₱31.3 million, respectively. As of December 31, 2010, the application for the conversion of advances to preferred shares has been submitted to SEC, pending approval.

The Group is obligated to provide financial support to OVI proportionate to its shareholdings.

Significant financial information of the associates and joint venture follows:

	2010				
	BHSI	SMKL	OKEP	OVI	ORDC
			(In Thousands)		
Current assets	**₱280.6**	**₱331.7**	**₱9.3**	**₱0.3**	**₱4.3**
Non-current assets	**346.9**	**1,521.5**	**281.8**	**119.8**	**89.5**
Total Assets	**627.5**	**1,853.2**	**291.1**	**120.1**	**93.8**
Current liabilities	**181.4**	**150.4**	**78.7**	**0.8**	**72.1**
Non-current liabilities	**5.6**	**85.2**	**–**	**–**	**–**
Total Liabilities	**187.0**	**235.6**	**78.7**	**0.8**	**72.1**
Gross revenues (loss)	**(15.8)**	**229.7**	**3.6**	**–**	**0.1**
Cost and expenses - net	**(10.6)**	**180.0**	**0.3**	**0.4**	**0.9**
Profit (loss) before income tax	**(5.2)**	**49.7**	**3.3**	**(0.4)**	**(0.8)**
Net profit (loss)	**(6.3)**	**30.7**	**3.3**	**(0.4)**	**(0.8)**

	2009				
	BHSI	SMKL	OKEP	OVI	ORDC
			(In Thousands)		
Current assets	₱281.5	₱279.1	₱9.1	₱0.2	₱8.9
Non-current assets	357.6	1,539.4	278.8	119.8	85.5
Total Assets	639.1	1,818.5	287.9	120.0	94.4
Current liabilities	186.8	142.9	78.7	0.3	72.1
Non-current liabilities	5.6	88.7	–	–	–
Total Liabilities	192.4	231.6	78.7	0.3	72.1
Gross revenues	(14.3)	245.8	5.8	–	0.4
Cost and expenses	(15.4)	166.5	0.2	0.2	0.5
Profit (loss) before income tax	1.1	79.3	5.6	(0.2)	(0.1)
Net profit (loss)	0.5	55.5	5.6	(0.2)	(0.2)

11. Investment Properties - net

The details of the investment properties account, which comprise condominium units, are as follows:

	2010	2009
Cost	**₱4,000,000**	₱4,000,000
Accumulated depreciation	**3,999,999**	3,999,999
Net book value at December 31	**₱ 1**	₱ 1

Rental income (included as part of "Rental income and others" account in profit or loss) amounted to ₱87,748 in 2008. The contract with OHMC was no longer renewed upon expiration in 2008.

The Group did not incur any operating expenses on this investment property in 2010, 2009 and 2008.

The fair value of the investment properties determined in reference to the fair value of similar properties within the same local market approximates ₱0.2 million as of December 31, 2010 and 2009.

12. Property and Equipment

The movement of this account is as follows:

	Transportation Equipment	Office Equipment	Furniture and Fixtures	Leasehold Improvements	Total
Cost					
At January 1, 2009	₱2,068,142	₱3,028,339	₱433,161	₱451,499	₱5,981,141
Additions	–	163,008	–	–	163,008
Disposals	–	(301,743)	–	(451,499)	(753,242)
At December 31, 2009	2,068,142	2,889,604	433,161	–	5,390,907
Additions	–	115,012	2,101,303	–	2,216,315
At December 31, 2010	**₱2,068,142**	**₱3,004,616**	**₱2,534,464**	**₱ –**	**₱7,607,222**
Accumulated depreciation and amortization					
At January 1, 2009	₱1,660,635	₱2,342,360	₱ 401,830	₱451,479	₱4,856,304
Depreciation and amortization (Note 16)	85,791	360,493	16,000	20	462,304
Disposals	–	(301,743)	–	(451,499)	(753,242)
At December 31, 2009	1,746,426	2,401,110	417,830	–	4,565,3
Depreciation and amortization (Note 16)	85,790	342,634	61,676	–	490,100
Retirements	–	–	–	–	–
At December 31, 2010	₱1,832,216	₱2,743,744	₱ 479,506	₱ –	₱5,055,466
Net book value					
At December 31, 2010	**₱ 235,926**	**₱ 260,872**	**₱2,054,958**	**₱ –**	**₱2,551,756**
At December 31, 2009	**₱ 321,716**	**₱ 488,494**	**₱ 15,331**	**₱ –**	**₱ 825,541**

Depreciation and amortization expense charged against operations amounted to ₱0.5 million, ₱0.5 million and ₱0.7 million in 2010, 2009 and 2008 respectively (Note 16).

The gain on sale of property and equipment amounting to ₱0.3 million in 2008 resulted from the retirement of office equipment and leasehold improvements.

13. Accounts Payable and Other Current Liabilities

This account consists of:

	2010	2009
Taxes payable	**₱1,773,343**	₱2,178,118
Accrued expenses (Note 15)	**1,244,371**	1,444,143
Trade accounts payable	**662,544**	181,219
Dividends payable	**553,981**	553,981
Others	**322,583**	216,587
	₱4,556,822	₱4,574,048

Accrued expenses pertain to accruals on consultancy fees, salaries and other employee benefits and professional fees. Accrued expenses and other payables are payable within 30-to 60-day terms.

Trade accounts payable represents payable to suppliers and are normally settled within one year.

Dividends payable pertain to amounts declared when the parent company's name was still Cebu Shipyard and Engineering Works, Inc. The Parent Company will assign a stock transfer agent in trust for the payees.

14. Equity

a) Capital Stock

The authorized capital stock of the Parent as of December 31, 2010 and 2009 follows:

	2010	2009	2008
Common stock - ₱1 par value	**375,000,000**	375,000,000	375,000,000
Preferred stock - ₱1 par value	**135,700,000**	135,700,000	135,700,000

Issued and outstanding shares of the Parent as of December 31, 2010 and 2009 are as follows:

	2010	2009	2008
Common stock (net of treasury shares of 2,801,000)	**293,828,900**	293,828,900	293,828,900
Preferred stock	**59,474,100**	73,074,100	73,074,100

Preferred shares, which were issued on November 11, 2003, are redeemable in full or in part at the option of the Parent, not later than November 11, 2010, and provided that the Parent has sufficient unrestricted retained earnings. The redemption price will be ₱10 per share and calculated to give the holders an estimated return of fifteen percent (15%) per annum.

On November 10, 2010, the Parent exercised its option to redeem 13,600,000 or approximately 19% of its outstanding redeemable preferred shares at a redemption price of ₱20.50 per share or a total consideration of ₱278.8 million (see Note 15).

After this redemption, the Company will have 59,474,100 of its RPS outstanding. The features of these remaining RPS were amended and approved by stockholders on November 26, 2010.

Preferred stockholders have preference over common stockholders with respect to the distribution of assets upon dissolution but not with respect to the payment of dividends.

Preferred stockholders are not entitled to dividends. Moreover, no voting right is vested on the preferred stockholders, except for the cases provided for under Section 6, Paragraph 6 of the Corporation Code (Code) of the Philippines as follows:

i. Amendment of the articles of incorporation;
ii. Adoption and amendment of by-laws;
iii. Sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the corporate property;
iv. Incurring, creating or increasing bonded indebtedness;
v. Increase or decrease of capital stock;
vi. Merger or consolidation of the corporation with another corporation or other corporations;
vii. Investment of corporate funds in another corporation or business in accordance with this Code; and
viii. Dissolution of the corporation.

On October 6, 2010, the BOD authorized the amendment of its articles of incorporation, particularly article 7 to read as follows:

Preferred shares may be redeemed in full or in part, at the option of the issuer, within a call period of seven (7) years from the date of approval of the amended articles. The redemption price will be equivalent to the issue price with an annual premium to be approved by the BOD. Likewise, the annual premium rate must be confirmed by an independent financial advisor. The issue price will be ₱10 per share.

b) Additional paid-in capital

The details of "Additional paid-in capital" account presented in the consolidated balance sheets and consolidated statements of changes in equity as of December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Common stock	**₱ 67,618,617**	₱ 67,618,617	₱ 67,618,617
Preferred stock	**535,266,900**	657,666,900	657,666,900
	₱602,885,517	₱725,285,517	₱725,285,517

c) Retained earnings

The portion of retained earnings corresponding to the Parent's undistributed equity in net earnings of the associates amounted to ₱252.2 million and ₱240.5 million as of December 31, 2010 and 2009, respectively. These amounts are not available for distribution as dividends until declared by associates. Retained earnings are further restricted by ₱2.7 million representing the cost of shares held in treasury as of December 31, 2010 and 2009.

In accordance with SEC Memorandum Circular No. 11 issued in December 2008, the Group's retained earnings available for dividend declaration as of December 31, 2010 and 2009 amounted to ₱196.2 million and ₱340.6 million, respectively.

15. Related Party Transactions

Outstanding balances arising from related party transactions

Outstanding balances of transactions with related parties follows:

a) Receivables:

		Trade		Due from related parties	
Related Party	Relationship	**2010**	2009	**2010**	2009
BHSI	Associate	**₱ –**	₱ –	**₱107,200,000**	₱107,200,000
OKEP	Associate	**–**	–	**78,642,052**	78,642,052
SMKL	Associate	**–**	–	**35,280,791**	33,175,177
OVI	Associate	**–**	–	**710,780**	314,549
Swansville	Affiliate*	**–**	–	**–**	7,124,871
Residencia Grande	Affiliate*	**411,689**	327,383	**–**	–
		₱411,689	₱327,383	**₱221,833,623**	₱226,456,649

** The Parent and its affiliates have common ultimate parent company, KCL of Singapore*

b) Payables:

Related Party	Relationship	Due to related parties 2010	2009
KLL	Stockholder	**₱289,357,195**	₱70,428,067
Keppel Land International Limited (KLIL)	Entity under common control	**321,666**	–
Keppel Land Vietnam	Entity under common control	**–**	1,590
		₱289,678,861	₱70,429,657

On November 10, 2010, the Parent partially redeemed 13,600,000 preferred shares of KLL amounting to ₱278.8 million. This amount remains unpaid as of December 31, 2010 and included in "Due to related parties" in the consolidated statements of financial position.

In 2010 and 2009, the Group made payments to KLL amounting to ₱52.7 million and ₱96.5 million, respectively.

Terms and Conditions of Transactions with Related Parties

Outstanding balances of accounts with related parties at year-end are unsecured and are settled in cash. Amounts due from related parties represent interest and non-interest bearing cash advances for working capital. Interest-bearing advances bear interest at prevailing market rates. Amounts due to related parties are non-interest bearing.

As of December 31, 2010 and 2009, the Parent has interest-bearing advances to SMKL aggregating to ₱35.3 million and ₱33.2 million, respectively.

For the years ended December 31, 2010 and 2009, the Group has not made any provision for doubtful accounts relating to amounts owed by related parties based on review of the financial position of the related parties.

Amounts due from/due to related parties are payable on demand.

Significant Transactions with Related Parties

a) **KLIL**

KLIL provides consultancy, advisory and support services to the Parent. Management consultancy fees, which are based on time spent by KLIL personnel, amounted to ₱6.1 million, ₱8.8 million and ₱13.3 million in 2010, 2009 and 2008, respectively (see Note 16). As of December 31, 2010 and 2009, outstanding payable of consultancy fees included in the "Accrued expenses" account amounted to ₱0.3 million and ₱0.4 million, respectively (see Note 13). Accrued expenses are payable within 30-to 60-day terms.

b) **BHSI**

The Group manages the construction of the Palmdale Heights Project. The management consultancy fee which is based on the signed agreements is computed at 1.5% of the estimated construction costs of this Project. No management consultancy fee was billed in 2010, 2009 and 2008 as construction of Phases 1 & 2 of Palmdale Heights Project was completed in 2004. Phase 3 & 4 of the Palmdale Heights Project has yet to commence as of December 31, 2010.

c) **SMKL**

i. The Group provides management advisory and consultancy services to SMKL. The management consultancy fee is computed at 2.5% of SMKL's annual net revenues. Further, the Parent also bills SMKL a franchise fee equivalent to 1.0% of SMKL's net revenues for the rights, license and privilege to use the name "Keppel". Management consultancy and franchise fees amounted to ₱7.0 million, ₱7.9 million and ₱8.7 million in 2010, 2009 and 2008, respectively.

ii. The Group extended interest and non-interest bearing cash advances to SMKL for its working capital requirements. Interest income charged to SMKL amounted to ₱2.2 million, ₱2.5 million and ₱2.9 million in 2010, 2009 and 2008, respectively. Interest rate ranged from 7.65% to 8.25%, 8.43% to 10.20% and 7.52% to 8.58% in 2010, 2009 and 2008, respectively

iii. As discussed in Note 10, in 2009, the SEC approved the conversion of advances amounting to ₱291.2 million of SMKL into preferred shares. The conversion was approved by the stockholders in 2006.

The terms and conditions of the redeemable preferred shares are as follows:

- The redeemable preferred shares shall have no voting rights.
- The redeemable preferred shares shall be entitled to preference in the distribution of dividends at a fixed yield of three percent (3%) per annum. After payment of such preferred dividends, the holders of such preferred shares shall be entitled to participate pro rata with holders of common shares in the remaining profits.
- The redeemable preferred shares may be redeemed at the option of the issuer, in full or in part, within a period of ten (10) years from issuance, at a price to be determined by the Board. If the preferred shares are not redeemed within the period of ten (10) years, the holder shall have the option to:
  a) Convert the preferred shares to participating preferred shares; or
  b) Remain as redeemable preferred shares for another five (5) years, after which the holder can choose to convert either Common Shares or Participating Preferred Shares; or
  c) The preferred shares shall be redeemed at ten pesos (₱10) per share.

Compensation of Key Management Personnel of the Group

Details of the compensation of key management personnel of the Group are as follows:

	2010	2009	2008
Salaries and other short-term employee benefits	**₱3,019,406**	**₱2,660,777**	₱3,483,002
Retirement benefits	**–**	**–**	189,726
Bonuses and allowances	**197,857**	**38,538**	162,715
	₱3,217,263	**₱2,699,315**	₱3,835,443

16. General and Administrative Expenses

This account consists of:

	2010	2009	2008
Management consultancy fee (Note 15)	**₱ 6,061,297**	₱ 8,825,048	₱13,306,705
Salaries, wages and employee benefits	**5,976,731**	5,316,295	7,001,569
Professional fees	**2,653,050**	1,977,804	2,020,810
Rental (Note 21)	**752,885**	429,770	578,929
Utilities	**655,548**	458,323	627,682
Postage, printing and advertising	**491,110**	305,530	227,156
Depreciation and amortization (Note 12)	**490,100**	462,304	677,386
Membership and dues	**407,530**	328,330	334,441
Transportation and travel	**386,557**	480,747	829,619
Taxes and licenses	**333,046**	94,639	687,526
Insurance	**213,787**	186,834	244,847
Retirement benefits (Note 17)	**198,247**	71,573	330,771
Repairs and maintenance	**159,947**	250,872	130,727
Supplies	**144,394**	207,207	431,768
Security and other services	**100,625**	218,625	133,806
Staff recreation and others	**76,394**	216,333	471,113
Bank and other charges	**35,849**	101,835	31,387
Other expenses	**821,562**	667,241	843,043
	₱19,958,659	₱20,599,310	₱28,909,285

Other expenses pertain to storage costs, retainers' fee, printing costs and interest expense on penalty.

17. Retirement Benefits

The Group has a funded, non-contributory defined benefit retirement plan, administered by a trustee, covering its regular employees.

The latest actuarial valuation date of the Group's retirement plan is as of December 31, 2010.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of comprehensive income, under "General and administrative expenses" account, and the funded status and amounts recognized in the consolidated statements of financial position for the plan:

The amounts recognized in profit or loss is as follows:

	2010	2009	2008
Current service cost	**₱175,833**	₱ 7,626	₱231,694
Interest cost	**68,248**	120,330	105,426
Expected return on plan assets	**(39,772)**	(36,559)	(22,185)
Actuarial loss (gain) recognized	**(6,062)**	(19,824)	15,836
Net benefit expense (Note 16)	**₱198,247**	₱71,573	₱330,771

The amounts recognized in the consolidated statements of financial position are as follows:

	2010	2009
Present value of obligation	**₱489,372**	₱633,689
Fair value of plan assets	**1,129,956**	859,016
	(640,584)	(225,327)
Unrecognized actuarial gain	**640,584**	225,327
Net pension liability	**₱ –**	₱ –

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

	2010	2009
At January 1	**₱633,689**	₱320,368
Current service cost	**175,833**	7,626
Interest cost	**68,248**	120,330
Actuarial loss (gain)	**(388,398)**	(285,326)
Benefits paid	**–**	(99,961)
At December 31	**₱489,372**	₱633,689

Changes in the fair value of retirement plan assets are as follows:

	2010	2009
At January 1	**₱ 859,016**	₱812,433
Expected return in plan assets	**39,772**	36,559
Contributions	**198,247**	116,692
Benefits paid	**–**	(99,961)
Actuarial gain (loss)	**32,921**	(6,707)
At December 31	**₱1,129,956**	₱859,016
Actual return on retirement plan assets	**₱ 72,693**	₱ 29,852

Changes in unrecognized net actuarial gain are as follows:

	2010	2009
At January 1	**₱225,327**	₱537,184
From plan assets	**32,921**	(6,707)
From defined benefit obligation	**388,398**	(285,326)
Amortization of actuarial gain	**(6,062)**	(19,824)
At December 31	**₱640,584**	₱225,327

Movements in the net pension liability are as follows:

	2010	2009
At January 1	**₱–**	₱45,119
Net benefit expense	**198,247**	71,573
Contributions	**(198,247)**	(116,692)
At December 31	**₱–**	₱ –

The Group expects to contribute ₱0.1 million to the plan in 2011.

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

	2010	2009
Asset allocation:		
Short-term deposits	**98.75%**	91.20%
Cash in bank and interest receivables	**1.25%**	8.80%
	100.00%	100.00%

The principal actuarial assumptions used in determining retirement benefit obligations are as follows:

	2010	2009
Discount rate	**9.71%**	10.77%
Expected rate of return on plan assets	**5.00%**	4.63%
Salary increase rate	**5.00%**	10.00%
Average remaining working lives of employees	**23 years**	23 years

The expected rate of return on plan assets is determined based on the market expectations, at the beginning of the period, for returns over the entire life of the related obligation.

Experience adjustment on benefit obligation amounted to ₱129,060 and ₱325,997 in 2010 and 2009, respectively.

Amounts of current and previous periods are as follows:

	2010	2009	2008	2007	2006
Plan assets	**₱1,129,956**	₱859,016	₱812,433	₱588,473	₱440,112
Defined benefit obligation	**(489,372)**	(633,689)	(320,638)	(1,136,060)	(496,639)
Surplus (deficit)	**₱ 640,584**	₱225,327	₱492,065	(₱547,587)	(₱56,527)

18. Income tax

Current Income Tax

The provision for current income tax for the years ended December 31, 2010, 2009 and 2008 represents final tax paid on interest income.

The reconciliation between the statutory income tax rate and the effective income tax rate is as follows:

	2010	2009	2008
Statutory income tax rate	**30.0%**	30.0%	35.0%
Add (deduct) tax effects of:			
Equity in net earnings of associates	**(27.2)**	(25.0)	(36.5)
Interest income subjected to final tax	**(10.5)**	(6.1)	(9.1)
Change in unrecognized deferred tax assets	**27.1**	10.1	30.9
Nondeductible expenses	**1.5**	0.6	0.6
Effective income tax rate	**20.9%**	9.6%	20.9%

Deferred Tax

The components of deferred tax assets as of December 31, 2010 and 2009 computed at 30%, follow:

	2010	2009
Accrued expenses	**₱334,549**	₱144,459
Unrealized foreign exchange loss	**77,482**	172,691
	₱412,031	₱317,150

As of December 31, 2010, details of unexpired NOLCO which can be claimed as deduction from future taxable income are as follows:

Year Incurred	NOLCO	Expired	Balance	Expiry Year
2010	₱11,343,910	₱ –	₱11,343,910	2013
2009	12,216,746	–	12,216,746	2012
2008	32,475,984	–	32,475,984	2011
2007	925,545	925,545	–	2010
	₱56,962,185	₱925,545	₱56,036,640	

Deferred tax assets on NOLCO amounting to ₱16.8 million and ₱13.7 million as of December 31, 2010 and 2009, respectively, have not been recognized since management believes that the benefits will not be realized prior to their expiry dates.

As of December 31, 2010 and 2009, deferred income tax liabilities have not been recognized on the undistributed earnings of associates since such amounts are not taxable. Such undistributed earnings presented as "Accumulated equity in net earnings" in the "Investments in Associates" account in the consolidated balance sheets amounted to ₱252.2 million and ₱240.5 million as of December 31, 2010 and 2009, respectively (see Note 10).

19. Provisions and Contingencies

- The Parent is a party to a lawsuit involving a claim for commission by an agent amounting to ₱1.8 million plus damages. The case is now pending with the Regional Trial Court of Cebu City, Philippines. The Parent's management and legal counsel believe that the said agent has no valid claim from the Parent. No provision for commission has been made for the years ended December 31, 2010, 2009 and 2008.

- In 2006, provisions of ₱2.6 million were recognized for estimated losses on claims by third party. As of December 31, 2010 and 2009, the outstanding balance of the provision amounted to ₱2.9 million and ₱2.6 million, respectively. The information usually required by PAS 37 is not disclosed because of the sensitivity of the information.

20. Basic Earnings Per Share

	2010	2009	2008
Net income (a)	₱10,165,320	₱27,280,067	₱29,630,641
Weighted average number of common shares issued and outstanding (b) (Note 14)	293,828,900	293,828,900	293,828,900
Basic Earnings per share (a/b)	₱ 0.03	₱ 0.09	₱ 0.10

21. Commitments

a. The Parent has operating lease contracts expiring on various dates until December 2009. These agreements have been renewed for one year until December 2010. Total rent expense charged to operations amounted to ₱0.8 million, ₱0.4 million and ₱0.6 million in 2010, 2009 and 2008, respectively (see Note 16).

As of December 31, 2010 and 2009, the required advance rentals and deposits amounted to ₱0.7 million and nil, respectively. These are included in "Other current assets" and "Refundable deposits" accounts in the statements of financial position, respectively.

b. There are no assets of the Group pledged as collaterals to any loans of its stockholders and associates nor are there any restrictions on revenue.

22. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents, AFS financial assets and amounts due to and from related parties. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk. The Group's BOD and management review and agree on the policies for managing each of these risks as summarized below.

Credit Risk

Credit risk arises when counterparty to a financial asset of the Group is unable to fulfill its obligation at the time the obligation becomes due. Credit risk arises from the Group's financial assets, which comprise cash and cash equivalents, receivables, amounts due from related parties, refundable deposits and AFS financial assets. The Group's maximum exposure to credit risk is equal to the carrying amount of these instruments.

The Group's due from related parties are approximately ninety-nine percent (99%) of total receivables.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position:

	2010	2009
Loans and receivables:		
Cash and cash equivalents *	**₱325,722,487**	₱385,871,218
Receivables		
Interest	**484,736**	504,729
Trade	**411,689**	327,383
Receivable from employees	**153,195**	290,251
Dividends receivable	**-**	59,053
Others	**50,000**	50,000
Due from related parties	**221,833,623**	226,456,649
Refundable deposits	**360,388**	278,656
AFS financial assets		
Unquoted	**225,000**	225,000
Quoted	**-**	345,264
	₱549,241,118	₱614,408,203

** Cash and cash equivalents exclude cash on hand.*

Credit quality

As of December 31, 2010 and 2009, the Group determined that the financial assets are rated high grade as the counterparties possess strong to very strong capacity to meet its obligations.

Since the Group trades only with related parties, there is no requirement for collateral. Due from related parties aggregating to ₱221.8 million and ₱226.5 million as of December 31, 2010 and 2009, respectively are collectible. Cash and cash equivalents are placed with reputable financial institutions with strong financial capacity.

As of December 31, 2010 and 2009, the Group has no past due and impaired financial assets.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and short-term deposits. The Group also monitors its risk to shortage of funds through monthly evaluation of the projected and actual cash flow information.

The table below summarizes the maturity profile of the Group's non-derivative financial assets and liabilities based on contractual undiscounted payments:

December 31, 2010

	On Demand	Less than 3 months	More than one year	Total
Financial Assets:				
Cash and cash equivalents	**₱325,737,487**	**₱–**	**₱ –**	**₱325,737,487**
Receivables	**1,099,620**	**–**	**–**	**1,099,620**
Due from related parties	**221,833,623**	**–**	**–**	**221,833,623**
Refundable deposits	**–**	**–**	**360,388**	**360,388**
	₱548,670,730	**₱–**	**₱360,388**	**₱549,031,118**
Financial Liabilities:				
Accounts payable and other current liabilities	**₱ –**	**₱2,783,479**	**₱–**	**₱ 2,783,479**
Due to related parties	**289,678,861**	**–**	**–**	**289, 678,861**
	₱289,678,861	**₱2,783,479**	**₱–**	**₱292,462,340**

December 31, 2009

	On Demand	Less than 3 months	More than one year	Total
Financial Assets:				
Cash and cash equivalents	₱385,886,218	₱–	₱ –	₱385,886,218
Receivables	1,231,416	–	–	1,231,416
Due from related parties	226,456,649	–	–	226,456,649
Refundable deposits	–	–	278,656	278,656
	₱613,574,283	₱–	₱278,656	₱613,852,939
Financial Liabilities:				
Accounts payable and other current liabilities	₱ –	₱2,395,930	₱–	₱ 2,395,930
Due to related parties	70,429,657	–	–	70,429,657
	₱70,429,657	₱2,395,930	₱–	₱72,825,587

Foreign Currency Risk

The Group's exposure to foreign currency arises only from US dollar denominated bank accounts.

The Group's foreign currency denominated financial asset pertains to cash in bank account amounting to ₱2.2 million (US$0.1 million) and ₱7.4 million (US$0.2 million) in 2010 and 2009, respectively. In translating the foreign currency denominated cash in bank account into Philippine Peso amounts, the exchange rates used were ₱43.84 and ₱46.20 to US$1.0 as of December 31, 2010 and 2009, respectively.

The foreign currency denominated financial liabilities of the Group pertain to advances from related parties amounting to ₱0.3 million (SG$9,688) in 2010. In translating the foreign currency denominated advances from related parties into Philippine Peso amounts, the exchange rate used was ₱33.20 as of December 31, 2010.

The Group manages its foreign currency exposure risk by matching, as far as possible, receipts and payments in each individual currency. Foreign currency is converted into relevant domestic currency as and when the management deems necessary.

The following table demonstrates the sensitivity to a reasonably possible change in the Philippine Peso exchange rate with all other variables held constant, of the Group's income before tax. There is no impact on the Group's comprehensive income other than those already affecting the net income.

December 31, 2010

Currency	Change in variable	Effect on Income Before Tax
USD	**+1**	**₱50,132**
	-1	**(50,132)**
SGD	**+1**	**9,688**
	-1	**(9,688)**

December 31, 2009

Currency	Change in variable	Effect on Income Before Tax
USD	+1	₱164,940
	-1	(164,940)

In 2010 and 2009, the Group used the average change in the year-end closing rates for the year in determining the reasonable possible change in foreign exchange rates.

<u>Interest Rate Risk</u>
The Group's exposure to the risk for changes in market interest rates relates primarily to placements in short-term deposits with floating interest rates. The Group earned interest ranging from 2.75% to 4.00% in 2010 and 2009. The Group manages its exposure to interest rate risk by actively monitoring various short-term placements and related coupon rates. Furthermore, the Group has no significant concentration of interest rate risk.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates with all other variables held constant, of the Group's income before tax (through the impact on floating rates). There is no impact on the Group's equity other than those already affecting net income.

December 31, 2010

Currency	Change in variable	Effect on Income Before Tax
PHP	**+1.0%**	**₱2,809,334**
	-1.0	**(2,809,334)**
	+0.5	**1,404,667**
	-0.5	**(1,404,667)**

December 31, 2009

Currency	Change in variable	Effect on Income Before Tax
PHP	+1.0%	₱3,237,760
	-1.0	(3,237,760)
	+0.5	1,618,880
	-0.5	(1,618,880)

In 2010 and 2009, the Group determined the reasonable possible change in interest rates using the percentage changes in coupon rates of outstanding placements in short-term deposits on a quarterly basis.

<u>Capital Management</u>
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using percentage of debt to equity, which is total current debt divided by total equity net of treasury stock. The Group's policy is to maintain the percentage of debt to equity ratio below 100%. The Group includes, within total debt, accounts payables and accrued expenses and amounts due to related parties.

The Group's objective is to ensure that there are no known events that may trigger direct or contingent financial obligation that is material to the Group, including default or acceleration of an obligation, which was not disclosed. The percentages of debt to equity as of December 31, 2010 and 2009 are as follows:

	2010	2009
Liabilities	**₱297,176,498**	₱77,566,069
Equity	**1,407,729,914**	1,676,601,007
Percentage of debt to equity	**21.11%**	4.63%

23. Financial Instruments

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments recognized in the consolidated balance sheets as of December 31, 2010 and 2009:

	2010		2009	
	Carrying Amount	**Fair value**	Carrying Amount	Fair value
Financial assets				
Loans and receivables				
Cash and cash equivalents	**₱325,737,487**	**₱325,737,487**	₱385,886,218	₱385,886,218
Receivables				
Interest	**484,736**	**484,736**	504,729	504,729
Trade	**411,689**	**411,689**	327,383	327,383
Receivable from employees	**153,195**	**153,195**	290,251	290,251
Dividends receivable	**–**	**–**	59,053	59,053
Others	**50,000**	**50,000**	50,000	50,000
Due from related parties	**221,833,623**	**221,833,623**	226,456,649	226,456,649
Refundable deposits	**360,388**	**360,388**	278,656	278,656
Total loans and receivables	**549,031,118**	**549,031,118**	613,852,939	613,852,939
AFS financial assets				
Unquoted	**225,000**	**225,000**	225,000	225,000
Quoted	**–**	**–**	345,264	345,264
Total Financial Assets	**₱549,256,118**	**₱549,256,118**	₱614,423,203	₱614,423,203
Financial liabilities				
Other financial liabilities				
Accounts payable and other current liabilities	**₱ 2,783,479**	**₱ 2,783,479**	₱ 2,395,930	₱ 2,395,930
Due to related parties	**289,678,861**	**289,678,861**	70,429,657	70,429,657
Total Financial Liabilities	**₱292,462,340**	**₱292,462,340**	₱72,825,587	₱72,825,587

Due to the short-term nature of cash and cash equivalents, receivables, amounts due to and from related parties and accounts payable and other current liabilities, their carrying values reported in the consolidated balance sheet approximate their fair values at reporting date.

The fair values of the AFS financial assets are determined by reference to quoted market bid prices at the close of business on the reporting date since these are actively traded in organized financial markets. The unquoted club shares are valued at cost less any impairment in value.

The Group has no financial assets carried at fair value as of December 31, 2010. In 2009, financial assets carried at fair value amounting to ₱0.3 million are classified under Level 1 of the fair value hierarchy. There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

24. Segment Information

The Group has only one segment as it derives its revenues primarily from investments and management consultancy services rendered to its associates.

Significant information of the reportable segment follows:

	2010	2009	2008
Operating assets	**₱1,704,906,412**	₱1,754,167,076	₱1,828,825,829
Operating liabilities	**297,176,498**	77,566,069	179,651,217
Revenue	**32,607,485**	51,310,782	70,334,093
Cost and expenses	**19,751,159**	21,140,826	32,897,882
Segment profit	**10,165,320**	27,280,067	29,630,641

All revenues are from domestic entities incorporated in the Philippines.

There are no revenue derived from single external customer above 10% of total revenue.

There is no need to present reconciliation since the Group's operating assets, operating liabilities, revenue, cost and expenses and segment profit pertains to a single operating segment.

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