

# COVER SHEET

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( Company's Full Name )

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

**ATTY. JOAQUIN E. SAN DIEGO**

Contact Person

**725-7875; 724-5055**

Company Telephone Number

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Month

**3 1**

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**1 7 - A**

FORM TYPE

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**2nd Thurs.**

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Annual Meeting

**(PC) LISTED SECURITIES**

Secondary License Type, If Applicable

**C F D**

Dept. Requiring this Doc.

Amended Articles Number/Section

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Total No. of Stockholders

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Foreign

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# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-A

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

1. For the fiscal year ended: **December 31, 2010**
2. SEC Identification No.: **98780**
3. BIR Tax Identification No.: **002-727-393**
4. Exact name of issuer as specified in its charter: **Abacus Consolidated Resources and Holdings, Inc.**
5. Province, country or other jurisdiction of incorporation or organization: **Philippines**
6. Industry Classification Code: \_\_\_\_\_ (SEC Use Only)
7. Address of principal office: **28 N. Domingo St.** Postal Code: **1112**  
**New Manila, Quezon City**
8. Issuer's telephone number, including area code: **(02)725-7875/724-5055/724-4355**
9. Former name, former address, former fiscal year: **Not applicable**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

| Title of Each Class | Number of shares outstanding |
|---------------------|------------------------------|
| Common              | 2,653,945,029                |

Amount of Debt Outstanding as of December 31, 2010: **₱44,685,720**

11. Are any or all of these securities listed on a Stock Exchange? Yes ☒ No ☐

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes ☒ No ☐

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

Yes ☒ No ☐

13. Aggregate market value of the voting stock held by non-affiliates: About **₱** million (based on average closing stock prices as of March 31, 2011)

## **DOCUMENTS INCORPORATED BY REFERENCE**

2010 Audited Consolidated Financial Statements of Abacus Consolidated Resources and Holdings, Inc. and Subsidiaries (incorporated as reference for Item 7 of SEC Form 17-A)

## TABLE OF CONTENTS

|          |   | <u>Page</u> |
|----------|---|-------------|
| PART I   | BUSINESS AND GENERAL INFORMATION  | 2           |
| Item 1   | Business  | 2           |
| Item 2   | Properties  | 5           |
| Item 3   | Legal Proceedings   | 5           |
| Item 4   | Submission of Matters to a Vote of Security Holders                                     | 5           |
| <br>     |   |             |
| PART II  | OPERATIONAL AND FINANCIAL INFORMATION   | 6           |
| Item 5   | Market for Issuer's Common Equity and Related<br>Stockholder Matters                    | 6           |
| Item 6   | Management's Discussion and Analysis or Plan of<br>Operation                            | 8           |
| Item 7   | Financial Statements  | 28          |
| Item 8   | Changes in and disagreements with Accountants<br>on Accounting and Financial Disclosure | 28          |
| <br>     |   |             |
| PART III | CONTROL AND COMPENSATION INFORMATION  | 29          |
| Item 9   | Directors and Executive Officers of the Issuer  | 29          |
| Item 10  | Executive Compensation  | 32          |
| Item 11  | Security Ownership of Certain Record and Beneficial<br>Owners and Management            | 33          |
| Item 12  | Certain Relationships and Related Transactions  | 34          |
| <br>     |   |             |
| PART IV  | CORPORATE GOVERNANCE  | 35          |
| Item 13  | Corporate Governance  | 35          |
| <br>     |   |             |
| PART V   | EXHIBITS AND SCHEDULES  | 36          |
| Item 14  | Exhibits and Reports on SEC Form 17-C   | 36          |

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

Abacus Consolidated Resources and Holdings, Inc. (“Abacus”) was incorporated on April 30, 1981 as Piedra Negra Mining Corporation, a coal mining company, and publicly listed its shares on October 28, 1987. In 1989 the current majority owners bought out the original stockholders, gained control of the company and converted it into a holding company under its present name.

As a holding company Abacus owns a controlling interest in companies engaged in financial services, real estate, gold mining, and coal mining. It also has a significant stake in Pacific Online Systems Corporation, a company that holds an exclusive right to lease online lottery equipment for the lotto operations of the Philippine Charity Sweepstakes Office in Visayas and Mindanao.

|                             |  |
|-----------------------------|--|
| Financial services          | Philippine Regional Investment Development Corporation (PRIDE) |
| Real Estate                 | Omnikor Industrial Estate and Realty Center, Inc. (Omnikor)    |
| Gold mining                 | Abacus Goldmines Exploration & Development Corp.               |
| Coal mining                 | Abacus Coal Exploration & Development Corp.                    |
| Leasing of gaming equipment | Pacific Online Systems Corporation (POSC)                      |

#### Financial services

Abacus owns a 97.5% controlling interest in Philippine Regional Investment Development Corporation (PRIDE). Incorporated in 1979, PRIDE is a duly-licensed investment house and a member of the Investment House Association of the Philippines. PRIDE is mostly engaged in arranging project financing for a variety of real estate, logistics and infrastructure projects. PRIDE has two financial services subsidiaries, namely, Philippine International Infrastructure Fund, a newly-established mutual fund, and Rural Bank of Batangas, a 55-year old bank which is now a development bank or thrift bank known as Pride Star Development Bank, Inc.

#### Real estate

The real estate activities of Abacus are lodged mainly under Omnikor Industrial Estate and Realty Center, Inc. (Omnikor), a fully owned real estate subsidiary of PRIDE.

Omnikor's main real estate project is a residential, pilgrimage and recreation complex located in a 100-hectare plus property located in Matuco Point, Batangas City. Matuco Point lies at the southwest tip of Batangas Bay, 30 minutes drive from Batangas City proper. With a peak elevation of 180 meters above sea level, Matuco point slopes down toward white-sand beaches facing Verde Island Passage, a very special strip of sea that is home to spectacular reef formations of more than 300 species of coral and underwater rock canyons and hosts nearly 60 percent of the world's known shorefish species. On a quiet spot of Matuco Point, a pilgrimage site called Monte Maria will be built, a retreat house, meditation gardens, condotels and other facilities. The project is still in its development stage.

### Gold mining

Abacus holds 102 gold mining claims in San Francisco and Rosario, Agusan del Sur, which are covered by Exploration Permit Application No. 000028-XIII. Abacus is at present working to complete all the requirements to be able to perfect the said application. The goal is to obtain the exploration permit by third quarter of 2011.

### Coal mining

Abacus has spun off its coal mining rights per its Coal Operating Contract No. 148 with the Department of Energy (DOE) to Abacus Coal Exploration and Development Corporation (Abacus Coal), a fully owned subsidiary. The coal contract covers Coal Block Nos. L38-84 to -89 and L38-249, located in Tago and Marihatag, Surigao del Sur. These coal blocks contain coal that are generally of the sub-bituminous type. Production in Block No. L38-85 up to 1990 yielded 3,024 metric tons. On September 24, 2008 Abacus entered into a Heads of Agreement with listed firms Music Semiconductors Corporation (Music) and Lodestar Investment Holdings Corporation (Lodestar). The agreement provides for the sale of Abacus Coal in favor of the Music and Lodestar, subject to due diligence to be performed by the purchasers. In May 2009 Music assigned its right to acquire 55% participation and equity interest in Abacus Coal to Lodestar. The due diligence process was completed in June 2009. On November 3, 2010 Abacus entered into a Revised Heads of Agreement with Lodestar pursuant to which the acquisition of the coal mining property by Lodestar will be effected primarily via a merger of Lodestar and Abacus Coal with Lodestar as the surviving corporation. The merger is expected to be completed by the second quarter of 2011. In the meantime, the parties are completing the requirements for the issuance of a development and production permit by the DOE. The said permit is also expected to be issued by the second quarter of 2011. The issuance of said permit will pave the way for the actual extraction and production of coal which will be sold to power generation plants and cement plants, among others.

### Leasing of gaming equipment

Abacus owns an 18% stake in Pacific Online Systems Corporation (POSC), lessor of online betting equipment for the lotto operations of the Philippine Charity Sweepstakes Office (PCSO) in Visayas and Mindanao. POSC disclosed that its full year 2010 net income increased to 430 million, a 63% increase compared to the full year 2009 net income of P263 million. The said net profit included P157.8 million in extraordinary gains on marketable securities. 2010 revenues increased 30% to P1.25 billion compared to P962 million in 2009. Further revenue increases in 2011 are expected from further rollout of terminals for all online PCSO lottery products nationwide, introduction of new games, more intensified marketing and wider distribution of instant ticket sales, and larger network of retail lottery. POSC has also recently laid the groundwork for future growth by participating, together with Vantage Equities, Inc. and Grand Shares Corporation, in a P1.1 billion investment in Leisure Resorts World Corp. for the gaming component of the \$1-billion integrated resort complex along Roxas Boulevard in Manila.

### Competition

The company may face competition for its real estate projects from other companies also engaged in similar types of development. Abacus' properties, however, possess unique features that give them an edge over similar types of development. Matuco Point is situated beside a pilgrimage site and next to a center of marine biodiversity; the Rosario property combines fertile climate and soil with easy access to the principal markets for agricultural products in Calabarzon; etc.

In the area of financial services, Abacus will face normal competition from other parties that offer similar services in the capital and financial markets although, since the project financing activities of PRIDE are concentrated on projects of affiliate companies, its business is hardly affected by such competition.

Insofar as the company's mining businesses are concerned, both its gold and coal mining properties are still in pre-operating stage. Competition among producers of gold, on the one hand, and coal, on the other is not very significant given high worldwide demand for both. Once this demand dips, however, the company will face greater competition from mining companies in the Philippines and in other mine-producing countries.

Abacus' interest in the lease of lottery equipment is through Pacific Online Systems Corporation (POSC) which enjoys an exclusive right to lease betting equipment to PCSO in Visayas and Mindanao and therefore faces minimal competition in that regard.

#### Assessment of business risk

The success of the company's real estate projects is dependent on quality of execution and marketing. The ongoing real estate projects represent the company's first foray into property development as such. Execution risks therefore exist, which the company hopes to mitigate with its signing with a reliable development partner.

The company's financial services business carries the usual attendant risks, but since, as stated above, PRIDE services mainly its affiliate companies, these risks are properly contained.

For the leasing of lottery equipment, revenues may be threatened by cultural and political factors. More significantly, this business is also dependent on the grant of lease renewals beyond the current lease periods.

For its mining interests, the company faces the risk of non-recovery of pre-operating costs in the event actual exploration does not yield significant results.

#### Other information on the company's business

1. There were no bankruptcy, receivership or similar proceedings for company or its subsidiaries, nor was there any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets of the company in the ordinary course of business for the past three (3) years.
2. There were no major existing sales contracts for the company and its subsidiaries.
3. The company does not hold any patent, trademark, copyrights, franchise, concession or royalty agreement.
4. The company has not incurred any costs nor experienced any effects resulting from compliance with environmental laws since the company is yet to commence exploration of the mining properties.
5. The company has five (5) employees. None of these employees belongs to a union. The company has no supplemental benefits or incentive arrangements with its employees.

## Item 2. Properties

As of end of 2010 the company's real estate properties are as follows:

| Location   | Area (hectares) | Status/Development Concept   |
|--|-----------------|--|
| Matuco and Pagkilatan, Batangas City                             | 117             | residential and townhouse subdivision project                                  |
| Rosario, Batangas  | 11 <sup>1</sup> | residential and leisure farm project   |
| San Salvador, Lipa City  | 40 <sup>2</sup> | part of consolidation for the Fernando Air Base expansion and township project |
| Malinis, Lemery, Batangas  | 33              | hotel and resort development   |
| Mataas na Bayan, Lemery, Batangas                                | 35              | agro-industrial or tourist/recreational development                            |
| Padre Garcia and Rosario   | 80.2            | agricultural   |
| Mataas na Bayan, Lemery  | 9.0             | wellness resort  |
| Malinis, Lemery  | 3.7             | aquaculture project  |
| San Juan, Mabini   | 3.0             | industrial   |
| Manghinao, Bauan   | 1.5             | Industrial   |
| Simlong, Batangas City   | 9.6             | industrial   |
| Wawa, Batangas City  | 3.7             | agricultural   |
| Mataas na Kahoy, San Salvador Kalingatan, and Tanguay, Lipa City | 22.0            | part of Fernando Air Base redevelopment and township project                   |
| Banay-banay, Lipa City/San Jose                                  | 3.6             | part of Haven of Infinity Memorial Park project                                |
| Poblacion, Lipa City   | 349 sq.m.       | Commercial   |

<sup>1</sup>Part of a total of 92 hectares; the bigger portion is owned by an affiliate of PRIDE.

<sup>2</sup>The total area being consolidated is approximately 1,000 hectares. The other parcels are owned by affiliates and by partners who are expected to eventually form a consortium with PRIDE for the project.

The other properties of Abacus consist of its gold and coal mining rights, as stated above, and its mining-related properties such as a 2,280-square meter property in Tandag, Surigao del Sur which contains the staff house, storage and staging areas; roads and other improvements; and transportation equipment.

Some of the above properties are mortgaged for occasional financial requirements of Abacus and its subsidiaries.

Abacus has no significant lease properties.

## Item 3. Legal Proceedings

There are no pending legal proceedings that are material to which the company is a party or of which any of its property is the subject.

## Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 2010.



## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

#### Market Information

The company's shares are traded at the Philippine Stock Exchange (PSE). The company's stock was trading at the following prices during the first quarter of 2011 and the two (2) previous fiscal years:

|             |    | <u>HIGH</u> | <u>LOW</u> |
|-------------|----|-------------|------------|
| <u>2011</u> | 1Q | 0.93        | 0.90       |
| <u>2010</u> | 1Q | 0.63        | 0.59       |
|             | 2Q | 0.63        | 0.61       |
|             | 3Q | 0.62        | 0.59       |
|             | 4Q | 0.98        | 0.93       |
| <u>2009</u> | 1Q | 0.91        | 0.87       |
|             | 2Q | 0.96        | 0.95       |
|             | 3Q | 0.91        | 0.88       |
|             | 4Q | 0.90        | 0.86       |

#### Holders

#### Top 20 stockholders as of December 31, 2010

|    | <u>Name of Stockholder</u>                          | <u>No. of Shares</u> | <u>Percentage of Ownership</u> |
|----|---|----------------------|--------------------------------|
| 1  | PCD Nominee Corporation                             | 1,534,006,523        | 76.7228%                       |
| 2  | Blue Stock Development Holdings, Inc.               | 263,000,000          | 13.1538%                       |
| 3  | Countrywide Transcapital Development Holdings, Inc. | 70,100,000           | 3.5060%                        |
| 4  | Phil. Regional Investment Development Corporation   | 32,635,000           | 1.6322%                        |
| 5  | Omnikor Industrial Estate & Realty Center, Inc.     | 21,755,000           | 1.0880%                        |
| 6  | Ramon De Leon                                       | 21,572,221           | 1.0789%                        |
| 7  | Richard Raymond Leong                               | 7,190,739            | 0.3596%                        |
|    | Rosselle Leong                                      | 7,190,739            | 0.3596%                        |
|    | Ricardo Leong                                       | 7,190,739            | 0.3596%                        |
| 8  | Calixto Y. Laureano                                 | 3,595,370            | 0.1798%                        |
| 9  | Jackson Laureano                                    | 2,493,889            | 0.1247%                        |
|    | James Laureano                                      | 2,493,889            | 0.1247%                        |
| 10 | Jose V. Romero, Jr.                                 | 2,360,010            | 0.1180%                        |
| 11 | Lucio W. Yan &/or Clara Y. Yan                      | 2,000,000            | 0.1000%                        |

|    |   |                             |                        |
|----|---|-----------------------------|------------------------|
| 12 | Lourdes H. Tinio  | 1,500,000                   | 0.0750%                |
| 13 | Arlene &/or Bethelann &/or Fedelina U. Ravalo &/or<br>Eliodoro Ravalo | 1,300,000                   | 0.0650%                |
| 14 | Iluminado B. Montemayor   | 1,000,000                   | 0.0500%                |
| 15 | Martha R. Horrigan  | 925,000                     | 0.0462%                |
| 16 | AACTC/SFP FAO TRINITY INVESTMENT                                      | 670,000                     | 0.0335%                |
| 17 | Clemente Y. Ong   | 610,000                     | 0.0305%                |
| 18 | Jose Mari M. Miranda &/or Nola Happy O. Miranda                       | 600,000                     | 0.0300%                |
|    | Juan G. Santillan   | 600,000                     | 0.0300%                |
| 19 | Carlos G. Go  | 540,000                     | 0.0270%                |
| 20 | Clarita T. Zarraga  | 520,010                     | 0.0260%                |
|    | <b>TOTAL</b>  | <b><u>1,985,849,129</u></b> | <b><u>99.3209%</u></b> |

Approximate number of shareholders of common shares, including beneficial owners of PDTC-lodged shares: 800

#### **Dividends**

On January 24, 2008 the company declared a ten percent (10%) property dividend with record date 14 February 2008 consisting of approximately P200 million worth of shares of Abacus Global Technovisions, Inc. The Certificate of Filing of Notice of Property Dividend Declaration was issued by the SEC on April 8, 2008. The company did not declare any other dividends during the last three (3) fiscal years.

#### **Recent Sales of Unregistered Securities**

The company conducted a stock rights offering in January 2008, with the following particulars:

- a) Date of sale: January 10-16, 2008 (offer period)  
Securities sold: 39,894,020,033 common shares
- b) Underwriters: none  
Purchasers: existing stockholders only
- c) Total offering price: P398,940,200.33  
Underwriting discounts/commissions: none
- d) Basis of exemption from registration: Section 10.1 e) of the Securities Regulation Code - only stockholders as of record date, to the exclusion of any other parties, were eligible to purchase shares/avail of the stock rights offering

On 28 December 2009 the company issued 654,529,820 new shares pursuant to a Deed of Exchange of Shares of Stock with Blue Stock Development Holdings, Inc. The particulars of the issuance are as follows:

- a) Date of issuance: 28 December 2009  
Securities issued: 654,529,820 common shares
- b) Underwriters: none  
Purchasers: existing stockholder only

- c) Total price of issuance: P654,529,820.00  
Underwriting discounts/commissions: none
- d) Basis of exemption from registration: Section 10.1 e) of the Securities Regulation Code - issuance to existing stockholder only, where no commission or other remuneration is paid or given directly or indirectly in connection with the issuance of shares

## **Item 6. Management's Discussion and Analysis or Plan of Operation**

### **Plan of Operation**

Being a holding company, Abacus will be focusing on two main lines of activity, namely, further strengthening existing operating teams to enhance their capability to bring projects to full fruition and generate revenue streams, and laying the groundwork for liquidating investments that have already appreciated due to increases in real estate prices or in cashflow potential and goodwill of operating subsidiaries.

For 2011, two specific targets have been identified. First, by the end of the second quarter the company expects to start pre-selling units in its Matuco Point project and memorial plots in the Haven of Infinity Memorial Garden project. Second, by the end of the third quarter the company would have sold or signed a joint venture agreement for its gold properties under Abacus Goldmines Exploration and Development Corporation.

The company will be able to provide the cash requirements from its existing cash balances and from the sale of some or all of its shares in Pacific Online Systems Corporation. This will be augmented through the activities of its financial services subsidiaries and through specific project contributions from existing and prospective operating and development partners.

### **Critical Accounting Policies**

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council (FRSC).

#### Basis of Measurement

The Group's consolidated financial statements have been prepared based on historical cost except for certain investment property which have been measured at their appraised values and investments in associates which have been measured using the equity method.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group 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 Company, using consistent accounting policies. The consolidated financial statements present the financial performance and financial position of the Parent Company and its subsidiaries as if they form a single entity. Inter-company transactions and balances between companies within the Group are eliminated in full in preparing the consolidated financial statements.

The subsidiaries are entities over which the Parent Company exercises significant control or over which the Parent Company has the power, either directly or indirectly, to govern the financial and operating

policies generally accompanying shareholdings of more than 50% of the voting rights. The Parent Company obtains and exercises control through voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtained control of its subsidiaries, and continue to be consolidated until the date that such control ceases.

All intra-group balances, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

At acquisition date, the assets and liabilities of the relevant subsidiaries acquired are measured at their fair values. The interest of minority shareholders is stated at the minority's proportional share to the fair values of the assets and liabilities recognized.

The results of operations of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

For a list and brief description of the Parent Company's direct and indirect subsidiaries, please see Note 2 of the consolidated financial statements.

#### Minority Interest

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Parent Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed on any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the Parent Company. Minority interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income as an allocation of the net income for the year between minority interests and the equity shareholders of the Parent Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered in full.

#### Functional and Presentation Currency

The consolidated financial statements are prepared in Philippine peso, which is also the Group's functional currency.

#### Changes in Accounting Policies

The accounting policies adopted in the preparation of the Group's financial statements have been consistently applied in all years presented except as stated below.

#### New amendments effective in 2010

Certain new revisions, amendments and interpretations were made to existing standards that are relevant to the Company and applicable in the preparation of its financial statements, with effectivity beginning on or after January 1, 2010.

The Company has adopted and applied the following Philippine Accounting Standards.

|        |   |
|--------|---|
| PAS 1  | Presentation of Financial Statements                            |
| PAS 7  | Cash Flow Statements  |
| PAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| PAS 10 | Events after the Balance Sheet Date                             |
| PAS 16 | Property, Plant and Equipment                                   |
| PAS 18 | Revenue   |
| PAS 19 | Employee Benefits   |
| PAS 24 | Related Party Disclosures                                       |
| PAS 32 | Financial Instruments: Presentation                             |
| PAS 36 | Impairment of Assets  |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets        |
| PAS 39 | Financial Instruments: Recognition and Measurement              |
| PFRS 7 | Financial Instruments: Disclosure                               |

- *PAS 1 (Amendment), Presentation of Financial Statements (effective from January 1, 2010).*

The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Company applied the amendment in its 2010 financial statements but expects to have no material impact in the company's financial statements.

- *PAS 7 (Amendment), Statement of Cash Flows (effective from January 1, 2010).*

The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Company as cash flow from investing activities.

- *PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors.*

The Standard requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It removes the allowed alternative in the previous version of IAS 8:

- a) to include in profit or loss for the current period the adjustment resulting from changing an accounting policy or the amount of a correction of a prior period error; and
- b) to present unchanged comparative information from financial statements of prior periods.

As a result of the removal of the allowed alternative, comparative information for prior periods is presented as if new accounting policies had always been applied and prior period errors had never occurred.

- *PAS 16 (Amendment), Property, Plant and Equipment (and consequential amendment to PAS 7, "Statement of Cash Flows") (effective from January 1, 2009).*

Entities whose ordinary activities comprise of renting and subsequently selling assets should present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to PAS 7 states that cash flow arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment does not a material impact on the Company's financial statements since it is not primarily engaged in the business of renting its assets. Rental income earned is only incidental and presented as other income.

- *PAS 18 (Amendment), Revenue (effective from January 1, 2010).*

The amendment provides guidance on determining whether an entity is acting as a principal or as an agent.

- *PAS 19 (Amendment), Employee benefits (effective from January 1, 2009).*

The amendments include clarification on the definition of return on plan assets, distinction between short term and long term employee benefits and plan amendments that are considered curtailment. Likewise, PAS 19 has been amended to be consistent with PAS 37, Provisions, Contingent Liabilities and Contingent assets.

- *PAS 24 (Amendment), Related Party Disclosure (effective from January 1, 2011).*

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual financial statements. This amendment have been applied by the Company

- *PAS 32 (Amendment), 'Financial Instruments: Presentation', and PAS 1 (Amendment) 'Presentation of Financial Statements' - 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009).*

The amendment standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions.

- *PAS 36 (Amendment), 'Impairment of Assets' (effective from 1 January 2009).*

Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply PAS 36 (Amended) and provides the required disclosure where applicable for impairment tests.

- *PAS 37 Provisions, Contingent Liabilities and Contingent Assets.*

The Standard prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except those resulting from financial instruments that are carried at fair value; those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent; those arising in insurance entities from contracts with policyholders; or those covered by another Standard.

- *PAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective from 1 January 2009).*

--This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

--The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments management together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio in initial recognition.

--The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting

entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment.

--When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are cost. The company will apply PAS 39 (Amendment) when it becomes relevant.

- *PFRS 7 (Amendment), Financial Instrument: Disclosure (effective from 1 January 2007)*  
The standard requires enhanced disclosures about fair value measurements and liquidity risk. These have been made to address application issues and provide useful information to users.

### Statement of Financial Position

The following are descriptions of specific statement of financial position captions.

#### *Financial instruments*

A *financial instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### *Initial recognition*

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit or loss (FVPL).

#### *Classification of financial instruments*

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) investments, financial assets at FVPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

#### *Determination of fair value*

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques, which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

### *Fair value hierarchy*

The Group categorizes its financial asset and financial liability based on the lowest level input that is significant to the fair value measurement. The fair value hierarchy has the following levels: (a) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Group; (b) Level 2 - inputs that are observable in the marketplace other than those classified as Level 1; and (c) Level 3 - inputs that are unobservable in the marketplace and significant to the valuation.

### FINANCIAL ASSETS

#### *Cash and cash equivalents*

Cash includes cash 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 from dates of acquisition and are subject to an insignificant risk of change in value.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

The Group's trade and other receivables and advances to related parties are included in this category.

### FINANCIAL LIABILITIES

#### *Other financial liabilities*

This classification pertains to financial liabilities that are not held for trading or not designated as FVPL upon inception of the liability. Included in this category are liabilities arising from operations or 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.

The Group's accounts payable and accrued expenses, advances from related parties, deposit for the sale of investment in Abacus Coal Exploration and Development Corporation, advances from joint venture, loans payable and rental deposit payable are classified under this category.

#### *Derecognition of financial instruments*

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when: a) the rights to receive cash flows from the asset have expired; b) 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 c) the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset



When 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

#### *IMPAIRMENT OF FINANCIAL ASSETS*

##### *Assessment of impairment*

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, 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.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

##### *Evidence of impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

##### *Impairment of assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at amortized cost such as receivables carried at amortized cost, the amount of 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) 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 either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statements of comprehensive income.

##### *Impairment of assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably

measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

#### *Reversal of impairment loss*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

#### *Classification of financial instruments between debt and equity*

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as an expense.

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or another financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position 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. This is not generally the case with master netting agreements, when the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### Investments in associates

An associate is an entity over which the Group has significant influence but has no control and which is neither a subsidiary nor a joint venture.

Investment in an associate is accounted for by the equity method of accounting. Under this method, the investment is initially recognized at cost and adjusted thereafter by post acquisition changes in the Group's share in the net assets of the associate and any impairment losses. The Group's share of its associate's post-acquisition profits or losses is recognized in the consolidated statements of comprehensive income. Share in post-acquisition change in the associate's net asset not recognized in the associate's statement of comprehensive income is directly recognized in the Group's equity. Dividends received from the associates are deducted from the carrying amount of the investment.

The Group discontinues applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations to the associate. When the associate subsequently reports net income, the Group will resume

applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.

The reporting date of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### Joint venture transactions

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity, which is subject to joint control, and none of the participating parties has unilateral control over the economic activity.

Assets that the Group controls and liabilities that it incurs in relation to jointly controlled operations are recognized in the Group's consolidated statements of financial position on an accrual basis and classified according to the nature of the item. The Group's share of income that it earns from jointly controlled operations, together with the expenses that it incurs, are included in the Group's consolidated statements of comprehensive income when it is probable that economic benefits associated with the transaction will flow to/from the Group.

#### Business combination and goodwill

Business acquisitions are accounted for using the purchase method of accounting. The cost of acquisition is measured as the fair value of the asset given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill acquired in business combination is initially measured at cost as the excess of cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Negative goodwill, which is the excess of the Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost, is charged directly to income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

#### Investment property

Initially, investment property is measured at cost including transaction costs. The cost of investment property comprises its purchase price and any directly attributable expenditure.

Subsequent expenditures are recognized as an asset when the expenditures improve the condition of the asset beyond its originally assessed standard of performance. All other subsequent expenditure is recognized as an expense when incurred.

Subsequent to initial recognition, investment property is stated at fair value, which reflects the market conditions at the financial reporting date. Any gain or loss resulting from either change in the fair value is immediately recognized in the consolidated statement of comprehensive income in the year in which it arises.

Investment property is derecognized when it has either been disposed or when they are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

#### Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The initial cost of property and equipment is comprised of the purchase price and costs directly attributable to bringing the assets to their intended use.

Subsequent expenditures incurred after the assets have been put into operation are capitalized as additional cost of the assets when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures incurred such as repairs and maintenance are recognized in the consolidated statement of comprehensive income in the period the costs are incurred.

When assets are sold or retired, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the consolidated statement of comprehensive income of such period.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the terms of the lease or estimated useful lives of improvements. The estimated useful lives of the assets and the improvements are as follows:

| <u>Category</u>                | <u>Estimated useful life in years</u> |
|--------------------------------|---------------------------------------|
| Building and improvements      | 5 years                               |
| Machinery and other equipments | 3 to 5 years                          |

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

#### Construction-in-progress

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. CIP is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are transferred to the investment property account or reclassified to a specific category of property and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for service.

#### Deferred exploration costs

Deferred exploration costs are stated at cost less impairment losses, and include deferred exploration costs and other expenses incurred prior to the start of commercial operations, net of incidental income.

Deferred exploration costs are accumulated separately for each area of interest. These include acquisition costs, direct exploration and development costs and an appropriate portion of related overhead expenditures, and exclude general overhead or administrative expenditures not specifically identified with exploration activities.

Deferred exploration costs are carried in the books only if the costs related to an area of interest for which the rights of tenure are current and such are expected to be recouped through successful development and exploration or from sale of the area or exploration and evaluation activities in the area as of financial reporting date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing. Exploration costs, which do not satisfy the above criteria, are recognized in the consolidated statements of comprehensive income.

Revenues earned in connection with the exploration activities in an area of interest prior to the start of commercial operations are offset against the expenditures of such area of interest.

The carrying value of each producing area of interest is reviewed regularly and, to the extent to which this amount exceeds its recoverable amount (based on the higher of the net present value of estimated future net cash flows and current realizable value), an allowance for impairment will be provided in the year in which it is determined.

When further development expenditures are incurred on producing area of interest, such expenditures are capitalized as part of the costs of such area of interest only when substantial economic benefits are thereby established; otherwise, such expenditures are charged to cost of production.

#### Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Group makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset's or its cash generating unit's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### Provisions and contingencies

Provisions are recognized when there is a present legal or constructive obligation 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.

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

#### Equity

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as disclosed in the consolidated statements of comprehensive income.

Shares held by subsidiaries are recognized at cost. These are shares of the parent company that are owned by its subsidiaries.

Treasury shares are recognized at cost.

#### Revenue recognition

Revenue is recognized when the significant risks and rewards of ownership of goods has been transferred to the buyer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### *Interest income*

Interest income is recognized as the interest accrues on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

#### *Share in net earnings and losses of associates*

The proportionate share in net earnings and losses of the associates is recognized as soon as the basis for the share, which is the audited financial statements of the associates for the current year, becomes available.

#### *Dividend income*

Dividend income from investment is recognized when the shareholder's right to receive payment has been established.

#### Leases

##### *Group as lessor*

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

##### *Group as lessee*

Leases where substantially all the risks and benefits of ownership of the asset do not pass on to the lessee are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of comprehensive income on straight-line basis over the lease term.

#### Foreign exchange transactions

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the financial reporting date. Exchange gains and losses arising from the foreign currency denominated transactions and translations are credited or charged to operations. Non-monetary assets

and liabilities are translated at the closing rate if carried at fair value or at historical rate if carried at cost. Any changes in the carrying amount of non-monetary items are reported in profit or loss or in equity to the extent that the gain or loss is directly recognized in equity; otherwise, the exchange difference is recognized in the consolidated statements of comprehensive income.

#### Retirement benefits cost

Republic Act No. (RA) 7641 (New Retirement Law) requires the Group to provide minimum retirement benefits to qualified retiring employees. In compliance with the law, the Company provides for estimated retirement benefits to all of its qualified regular and permanent employees.

#### Income tax

##### *Current income tax*

Current income tax assets and liabilities for the current and the 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 substantively enacted at the financial reporting date.

##### *Deferred income tax*

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

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

#### Earnings per share (EPS)

Basic EPS is calculated by dividing the net income or loss for the period by the weighted average number of shares outstanding during the period, net of shares held by the subsidiaries, after giving retroactive effect to any stock dividend declared during the year.

#### Segment reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

#### Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

#### Events after financial reporting date

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

#### Significant accounting judgments and estimates

The preparation of the consolidated financial statements in conformity with PFRS requires the Group's management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### JUDGMENTS

##### *Leases*

The Group has entered into lease agreements as lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties under operating lease agreements.

The Group has also entered into lease agreements as lessor where substantially all the risks and benefits of ownership of the asset do not pass on to the lessee under operating lease agreements.



### *Functional currency*

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the Group's operations.

### ESTIMATES

#### *Estimation of useful lives of property and equipment*

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

The carrying value of property and equipment, net of accumulated depreciation is presented in Note 9 of the consolidated financial statements.

#### *Estimation of mine rehabilitation and decommissioning costs*

The Group recognizes mine rehabilitation and decommissioning liability as soon as legal liability to it has been established. The provision recognized represents the best estimate of the expenditures required to decommission the related equipment at the end of its useful life. Such cost estimates are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under the "Provision for Mine Rehabilitation and Decommissioning" account.

The Group is liable to provide for mine rehabilitation and decommissioning costs in compliance with the terms of the Mineral Production Sharing Agreement (MPSA). However, according to the agreement, recognition shall commence on the development, utilization and processing of mines, which the licensee is not yet into as of the moment.

#### *Estimation of impairment of non-financial assets*

The Group assesses at each financial reporting date whether there is an indication that the carrying amount of all non-financial assets may be impaired or that previously recognized impairment losses may no longer exist or may have decreased. 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.

#### *Income taxes*

The Group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by

tax authorities. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law.

## **Managements's Discussion and Analysis of Results of Operations and of Financial Condition**

### 2010

The company posted a gross income of P539.5 million, of which P443 million or roughly 82% came from the gain on investment property revaluation of all properties. Other large income items were share in net earnings of POSC (P81.5 million or 15.11%); gain on sale of investment in associate (P4 million or 0.74%) and gain on disposal of investment property (P8.7 million or 1.62%). Gross income decreased by 22.74% and expenses increased by 15.58%, which includes provision for deferred income tax on revaluation of property, the company registered a consolidated net income of P269.82 or 41.97% less than the previous years' figure. The company thus ended the year with a basic earnings per share of ₱0.12097 compared to the previous year's ₱0.26667.

### 2009

The company posted a gross income of P698.8 million, of which P645 million or roughly 92% came from the gain on investment property revaluation in Montemaria properties. Other large income items were share in net earnings of POSC (P49.5 million or 7.08%) and interest (P1.2 million or 0.17%). With gross income decreased by 33.01% and expenses increased by 8.08% including provision for deferred income tax on revaluation of property, the company registered a consolidated net income of P464.96 or 43.75% less than the previous years' figure. The company thus ended the year with a basic earnings per share of ₱0.26667 compared to the previous year's ₱0.55064.

### 2008

The company posted a gross income of P1,042.4 million, of which P726 million or roughly 70% came from the gain on investment property revaluation in Montemaria properties and P294 million or roughly 28% came from gain on transfer of mining rights. Other large income items were share in net earnings of POSC (P24.4 million or 2.35%) and interest (P2.8 million or 0.27%). With gross income increased by 55.59% and expenses increased by 164.52% including provision for deferred income tax on revaluation of property, the company registered a consolidated net income of P826.5 million or 40.48% higher than the previous years' figure. The company thus ended the year with a basic earnings per share of ₱0.55064 compared to the previous year's ₱0.266 (adjusted for changes in par value).

## **Causes of material changes**

### Balance Sheet Accounts

#### *End-2010 vs End-2009*

Cash and cash equivalents increased 39% due to additional cash dividend received from POSC and cost cutting measures of the company.

Trade and other receivables decreased 90% due to the collection of receivables and liquidation of advances.

Other current and non-current assets increased 19% due to accumulation of expanded value added tax and creditable tax withheld.

Investment in associates increased 8% due to recording of share in net earnings in POSC.

Investment property increased 14% due to the revaluation of properties.

Property and equipment increased 7% due to the acquisition of equipment by Omnicor Industrial Estate Realty Center, Inc., a PRIDE subsidiary, for the Montemaria projects in Batangas City.

Goodwill decreased 13% resulted from the revaluation of Kapuluan Properties, Inc. (KPI) and Vantage Realty Corporation (VRC).

Accounts payable and accrued expenses increased 7% due to the accrual professional fees for audit fees and other liabilities.

Income tax payable decreased 57% due to a corresponding decrease in taxable current income.

Loans payable increased 36% due to payment of loans.

Deferred tax liability increased 12% due to the provision for new revaluation on investment properties.

Rental deposit payable increased 41% due to advanced deposit for rental of equipment.

Shares held by subsidiaries increased 40% because the price of the company's shares in the market increased, and there was additional 2.55 million shares acquired by subsidiaries.

Minority interest increased 15% due to increase in total equity plus adjustment for share of minority in net income.

#### *End-2009 vs End-2008*

Cash and cash equivalents decreased 71% due to additional advances to affiliates for purchase of equipment for mining and real estate projects.

Trade and other receivables decreased 13% due to partial liquidation of advances for financial investments.

Advances to related parties increased 20% mainly because of advances to Abacus Global Technovisions, Inc. (AbaGT) for real estate projects and to Blue Stock Development Holdings, Inc. for financial investments.

Investment in associates increased 5% due to purchase of POSC shares and recording of the minority holdings in AbaGT.

Goodwill increased 37% resulted from the acquisition of Kapuluan Properties, Inc. (KPI) and Vantage Realty Corporation (VRC).

Investment property increased 35% due to the acquisition of properties via acquisition of KPI and VRC.

Property and equipment increased 14x due to the acquisition of equipment by Omnicor Industrial Estate Realty Center, Inc., a PRIDE subsidiary, for the Montemaria projects in Batangas City.

Construction in progress increased 114% due to further development of the properties in Matuco and Pagkilatan, Batangas City.

Other current assets increased 32% due to the accumulation of expanded value added tax and creditable tax withheld.

Advances from related parties was reduced to zero due to elimination of advances from corporations that became subsidiaries and deconsolidation of advances receivable by a corporation that ceased to be a subsidiary.

Advances from heads of agreement doubled due to an additional P15 M received from the prospective purchaser of the company's coal subsidiary.

Income tax payable decreased 15% due to a corresponding decrease in taxable current income.

Loans payable increased 70% due to additional bank loans obtained to provide funding for projects.

Deferred tax liability increased 29% due to the increased provision after acquisition of KPI and VRC properties, as stated above.

Share capital increased 38% due to the shares issuance pursuant to the share swap with Blue Stock Development Holdings, Inc. for the acquisition of KPI and VRC and the latter's subsidiaries.

Shares held by subsidiaries decreased 27% because the price of the company's shares in the market decreased, although there was no decrease in the number of shares held by subsidiaries.

Retained earnings decreased 20% due to derecognition of revaluation gain on a property that was exchanged for shares of a subsidiary at market value in the tax declaration instead of appraised value.

Treasury shares decreased 80% due to assignment in favor of retired officers.

Minority interest increased 42% due to increase in total equity plus adjustment for share of minority in net income.

#### Income Statement Accounts

##### *FY 2010 vs FY 2009*

Share in net earnings of associate increased 60% because the net earnings of POSC almost doubled and significant increase in the net income of the bank subsidiary of PRIDE.

Interest income decreased 91% due to smaller cash in bank balances.

Rental income decreased 17% due to the poor rental collection.

Gain on sale of investment in associates is the gain from the sale of 790,000 POSC shares.

Gain on disposal of investment property was recognized in books of Jap Aggregates Network, Inc. and Quilib Cattle Corporation in exchange of shares of stocks in Munera Real Estate Company, Inc. and Quilib Pasture Estates, Inc., respectively.

Unrealized forex loss refers to the loss imputed to the dollar-denominated loan of Countrywide Transcapital Zone Holdings, Inc.

Compensation and benefits decreased 64% due to retirement officers and staff in March 2009, that is, the figure represents payment to fewer staff.

Taxes and licenses increased 21% because of the updating of real estate tax payments on several properties.

Significant increases in management and directors' fees (51%) because the management and consultancy fees are recognized under professional and other services account in 2009, wherein in 2010 it was recognized in management and directors' fees account.

Utilities expense increased 11% due to power rate increases.

Office supplies and publications decreased 70% due to not printing and publication of 2009 ACRHI and PRIDE annual reports.

Depreciation tripled year-on-year due to recording of depreciation on construction equipment acquired by Omnicor Industrial Estate Realty Center, Inc., a real estate subsidiary, for the Montemaria projects in Batangas City.

Significant decreases were posted in representation (44%), transportation (41%) and repairs and maintenance (18%) due to cost-cutting measures.

Insurance increased 30x because of the motor vehicle insurance paid by Omnicor.

Miscellaneous expenses increased 5% due to donations given to The Madonna Institute for school projects.

Interest expense increased 75% due to renewal of bank loans.

Bank charges decreased 99% because no additional loan was obtained for the current year.

Gain on revaluation decreased 31% due to the impairment of properties for the hypothetical revaluation in Montemaria properties.

Other income increased 84% due to the rental of Omnicor's equipment.

## Key performance indicators (KPIs) of parent company and subsidiaries

|                                 | ABA <sup>1</sup>  | PRIDE       | ABA <sup>1</sup>  | PRIDE       |
|---------------------------------|-------------------|-------------|-------------------|-------------|
|                                 | December 31, 2010 |             | December 31, 2009 |             |
| Gross income                    | 539,499,054       | 1,971,784   | 698,283,732       | 350         |
| Net income                      | 269,822,597       | 2,148,575   | 464,957,035       | (847,994)   |
| Return on assets <sup>2</sup>   | 6.807%            | 0.376%      | 14.252%           | (0.161%)    |
| Current ratio <sup>3</sup>      | 2.4179            | 0.411       | 2.5901            | 0.540       |
| Tangible net worth <sup>4</sup> | 3,032,000,752     | 554,640,491 | 2,710,342,983     | 466,844,154 |

<sup>1</sup>parent and subsidiaries

<sup>2</sup>net income/average total assets

<sup>3</sup>current assets/current liabilities

<sup>4</sup>net worth minus intangible assets

For a discussion and analysis of the above KPIs, see above under the headings “2010” and “2009”.

### Notes:

1) Abacus Goldmines Exploration and Development Corporation and Abacus Coal Exploration and Development Corporation are still in pre-operating stage.

2) Abacus Global Technovisions, Inc. (AbaGT) is no longer included in the consolidation because the holdings of Abacus Consolidated Resources and Holdings, Inc. (ACRHI) in AbaGT were reduced to 9.64% due to the distribution of AbaGT shares as property dividend to ACRHI's stockholders.

## Additional notes regarding the company's operations and financial condition

The company does not have and does not anticipate having within the next twelve (12) months any cash flows or liquidity problems. Neither is the company in default or breach of any note, loan, lease, or other indebtedness or financing arrangement requiring it to make payments, nor does the company have a significant amount of trade payables unpaid within the stated trade terms.

To the best of the company's knowledge there are no events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

The company has no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons created during the reporting period.

The company generates sources of liquidity by pre-termination of short-term cash placements and disposal of fixed assets.

The company has no material commitments for capital expenditures during the reporting period.

Seasonality or cyclicity is not applicable to the parent company, being a holding company with minimal operations. Neither is it applicable to any of the subsidiaries considering the nature of their respective businesses.

There are no material events and uncertainties known to the management that would cause reported financial information not to be necessarily indicative of future operating results or future financial condition.

**Item 7. Financial Statements**

The financial statements and schedules are filed as part of this form (see attached).

**Item 8. Changes in and disagreements with Accountants on Accounting and Financial Disclosure: None**

### PART III - CONTROL AND COMPENSATION INFORMATION

#### Item 9. Directors and Executive Officers of the Issuer

Name, age, position, citizenship and period of service of each director and executive officer

| <u>Name</u>                        | <u>Age</u> | <u>Position</u>        | <u>Citizenship</u> | <u>Period of service</u> |
|------------------------------------|------------|------------------------|--------------------|--------------------------|
| Jose V. Romero, Jr.                | 77         | Chairman               | Filipino           | 2002 to present          |
| Manuel A. De Leon                  | 78         | Director/Vice Chairman | Filipino           | 1989 to present          |
| Leonardo S. Gayao                  | 64         | Director/President     | Filipino           | 1989 to present          |
| Calixto Y. Laureano                | 81         | Director               | Filipino           | 1989 to present          |
| Ricardo C. Leong                   | 75         | Director               | Filipino           | 1989 to present          |
| Martha R. Horrigan                 | 73         | Director               | Filipino           | 1989 to present          |
| Willy N. Ocier                     | 52         | Director               | Filipino           | 2007 to present          |
| William Y Tieng                    | 62         | Director               | Filipino           | 2008 to present          |
| Clarita T. Zarraga*                | 68         | Director               | Filipino           | 1994 to 3-3-11           |
| Cindy B. Cayanana*                 | 32         | Director               | Filipino           | elected 3-3-11           |
| Antonio Victoriano F. Gregorio III | 37         | Director               | Filipino           | elected 7-9-09           |
| Manuel R. Moje                     | 75         | Director               | Filipino           | elected 7-9-09           |
| Arturo V. Magtibay                 | 62         | Director               | Filipino           | elected 7-9-09           |
| Gonzalo G. Puyat II                | 76         | Independent Director   | Filipino           | 2008 to present          |
| Jose A. Syjuco, Jr.                | 62         | Independent Director   | Filipino           | elected 7-8-10           |
| Joaquin E. San Diego               | 48         | Vice Pres./Corp. Sec.  | Filipino           | 2005 to present          |
| Jose L. Carlos, Jr.                | 62         | Treasurer              | Filipino           | appointed 3-16-09        |
| Rico G. De los Reyes               | 38         | Comptroller            | Filipino           | appointed 4-2-09         |

\*Ms. Zarraga resigned effective March 3, 2011. Ms. Cayanana was elected during the regular meeting of the Board of Directors held on March 3, 2011 to take the place of Ms. Zarraga, for the latter's unexpired term of office.

#### Business experience of directors and executive officers during the past five (5) years

**Jose V. Romero**, Chairman of ABACUS, is also Chairman of the Board of Philippine Regional Investment Development Corporation (PRIDE), an investment house. He is a member of the Southeast Asia Advisory Board of Rolls Royce International and Senior Adviser of the Gulfstream Aerospace and Power Corporation (both UK). He previously served as Chairman of the Philippine Coconut Authority and as Ambassador to Italy. He earned his masteral and bachelor's degrees in Economics and History at Cambridge University, UK.

**Manuel A. De Leon**, Vice Chairman of ABACUS, is a director of PRIDE, Asean Publishers, Inc. and Asean Integrated Management, Inc. He also serves as Vice Chairman and Executive Vice President of Pacific Online Systems Corporation. He was a director of the Manila Banking Corporation and served as advertising and marketing executive in J. Walter Thompson, Philippine Refining Company and The Manila Chronicle.

**Leonardo S. Gayao** took over the post of President on March 16, 2009. Atty. Gayao has been a Director of Abacus Consolidated Resources and Holdings, Inc. since 1993. Since 2005 he has also been its Vice President-Legal. He has also been President of Philippine Regional Investment Development Corporation, an investment house, and Chairman of Omnicor Industrial Estate and Realty Center, Inc. since 1995. He



sits in the Board of various corporations engaged in real estate activities, leasing of gaming equipment, banking and mining. He has been continuously engaged in management, law practice and deal making for the past 30 years. He obtained his Bachelor of Laws degree from the San Beda College.

**Calixto Y. Laureano** is Managing Director of Flexo Manufacturing Corporation, an industry leader in the packaging industry. He is also a director of Apollo Development Corporation, Leveflex Corporation and Scanatronics Repro Corporation, among others. He is a chemical engineer and businessman.

**Ricardo C. Leong** is a director of Flexo Manufacturing Corporation and Sinophil Corporation and a member of the Advisory Board of Equitable PCI Bank. He obtained his Bachelor of Science Degree in Mathematics from Fordham University, New York.

**Martha R. Horrigan** is a director of Professional Pension Plans, Inc. and Professional Academic Plans, Inc. She is an actuary and has been involved in a variety of businesses including mining, real estate, restaurants and pre-need plans.

**Willy N. Ocier** is the Chairman and President of Pacific Online Systems Corporation. He also serves as Co-Vice Chairman of Belle Corporation and Highlands Prime, Inc.; as Chairman of Tagaytay Midlands Golf, Inc., APC Group, Inc., and Sinophil Corporation; as Vice Chairman of Tagaytay Highlands International Golf Club, Inc.; and as a Director of iVantage Corporation. He was also previously affiliated with Eastern Securities Development Corporation, being its past President and Chief Operations Officer.

**William Y. Tieng's** business experience spans a period of more than 30 years, in companies engaged in the importation and distribution of internationally known brands of consumer goods, cable television, real estate and securities trading. Currently he is the Chairman of the Board of Federated Distributors, Inc., Solar Entertainment Corporation, Solar Resources, Inc. and KLG International Inc. He is also Vice Chairman of the Media Committee of the Federation of Filipino-Chinese Chamber of Commerce and Industry. Mr. Tieng has a degree in Business Administration from the De La Salle University.

**Clarita T. Zarraga** was the President of ABACUS until March 15, 2009 and served as director until March 3, 2011. She is also a director of PRIDE and Blue Stock Development Holdings, Inc., Rural Bank of Batangas, Inc., Batangan Plaza, Inc., Montemayor Aggregates and Mining Corporation and Alpha Asia Hotels and Resorts, Inc. She is a Certified Public Accountant and licensed real estate broker.

**Cindy B. Cayanan** was elected director on March 3, 2011. She has a wide experience in accounting, audit, due diligence, risk assessment and regulatory compliance work for companies under the supervision of the Securities and Exchange Commission, the Board of Investments, the Philippine Economic Zone Authority and the Bangko Sentral ng Pilipinas. She is a Certified Public Accountant and is currently pursuing law studies.

**Antonio Victoriano F. Gregorio III** is director, corporate secretary and assistant corporate information officer of Lodestar Investment Holdings, Inc. He graduated, Second Honors, with a Juris Doctor Degree from the Ateneo de Manila University in 1998 and passed the bar examinations in 1999. He also has a Bachelor of Science Major in Management Engineering and a Bachelor of Arts Major in Economics-Honors, both from the Ateneo de Manila University, Honorable Mention and Cum Laude, respectively. He was valedictorian of his high school class in Ateneo. Atty. Gregorio is a partner of Gregorio Law Offices and sits as director and officer of various private and public companies, including AGP Industrial Corporation, Active Earnings, Inc., among other companies.

**Manuel R. Moje** is a director of Click Communications, Inc. and Philippine Regional Investment

Development Corporation. He obtained his Bachelor of Business Administration degree from the Philippine College of Commerce in 1956 and his Bachelor of Laws degree from the University of the Philippines in 1963.

**Arturo V. Magtibay** is President of Omnicor Industrial Estate and Realty Center, Inc. and Abacus Global Technovisions, Inc. He was the Provincial Engineer of Batangas from 1996 to 2007. He is also Assistant Professor III and Chairman of the College of Engineering of the University of Batangas. He finished Bachelor of Science in Civil Engineering at the Mapua Institute of Technology.

**Gonzalo G. Puyat II** is a well-known businessman, politician and sports advocate. He was President of the International Amateur Basketball Federation (FIBA) from 1976 to 1984. From 1984-1986 he served as Representative to the Batasang Pambansa.

**Joaquin E. San Diego**, Vice President and Corporate Secretary of ABACUS, is a Senior Partner of Añover Añover & San Diego Law Offices. His legal practice is focused on the fields of corporate law, securities, taxation and investments. He has wide experience in the registration of corporations, registration and listing of securities of companies for public offering, and licensing of specialized corporations, including banks and mutual funds. He was formerly Special Counsel for Legislative Affairs of the Chamber of Mines of the Philippines and served as Chief Legal Counsel of the Federation of Regional Development Councils, a national organization composed of provincial governors, mayors and regional heads of Philippine Government departments. From 1995 to 1998 he served as member of the Board of Trustees of the University of Asia and the Pacific in Pasig City. He finished BS Chemical Engineering and Bachelor of Laws at the University of the Philippines.

**Jose L. Carlos, Jr.** was a member of the Management Committee and Vice President of Globe Telecom, Inc. from 1998 to 2001. Previously he was a Information Technology General Manager of PT Indofod Sukses Makmur and Chief Information Officer of Salim Food and Consumer Products Division of the Salim Group in Indonesia. Mr. Carlos has expertise in finance, information technology and experimental science. He holds a PhD in Chemistry from Cornell University, New York.

**Rico G. De los Reyes** served in the accounting staff of Alpha Asia Hotels and Resorts, Inc., until he was tapped to join the accounting staff of Philippine Regional Investment Development Corporation in 2004. In 2008, upon the resignation of Mr. Nelson P. Santos as Comptroller of Abacus Consolidated Resources and Holdings, Inc. (ACRHI), Mr. De los Reyes was tapped by then Treasurer, Mr. Iluminado B. Montemayor to assist in the Treasury and Accounting Department of ABACUS. Mr. De los Reyes graduated with a degree of BS Commerce, major in accounting from the University of Batangas.

#### **Other directorships held in reporting companies**

Ricardo C. Leong is also a director of Sinophil Corporation. Willy N. Ocier is Chairman of Pacific Online Systems Corporation, APC Group, Inc., and Sinophil Corporation, Co-Vice Chairman of Belle Corporation and Highlands Prime, Inc., and Director of iVantage Corporation. Manuel A. De Leon and Leonardo S. Gayao are also Directors of Pacific Online Systems Corporation. Antonio Victoriano F. Gregorio III is also a director of Lodestar Investment Holdings Corporation and AGP Industrial Corporation.

#### **Significant Employees**

Other than the above named officers the company has no other significant employees.

#### **Family Relationships**

There are no family relationships among the company's directors and officers.

### **Involvement in Certain Legal Proceedings**

To the best of the company's knowledge the above named directors and officers have not been involved in any legal proceedings during the last five (5) years that could be material to their ability or integrity.

### **Item 10. Executive Compensation**

#### **Compensation of executive officers**

| <b>Name and Principal Position</b>  | <b>Year</b>    | <b>Salary<br/>(PhP)</b> | <b>Other Annual<br/>Compensation<br/>(PhP)</b> | <b>Aggregate<br/>Compensation<br/>(PhP)</b> |
|---|----------------|-------------------------|--|---|
| Leonardo S. Gayao, President<br>Joaquin E. San Diego, VP &<br>Corp. Sec<br>Rico G. De los Reyes,<br>Comptroller | 2009           |                         |  |   |
| All officers as a group unnamed   |                | 1,214,450               | 247,058  | 1,461,508                                   |
|   |                |                         |  |   |
| Leonardo S. Gayao, President<br>Joaquin E. San Diego, VP &<br>Corp. Sec<br>Rico G. De los Reyes,<br>Comptroller | 2010           |                         |  |   |
| All officers as a group unnamed   |                | 1,532,700               | 571,468  | 2,104,168                                   |
|   |                |                         |  |   |
| Leonardo S. Gayao, President<br>Joaquin E. San Diego, VP &<br>Corp. Sec<br>Rico G. De los Reyes,<br>Comptroller | 2011<br>(est.) |                         |  |   |
| All officers as a group unnamed   |                | 1,600,000               | 450,000  | 2,050,000                                   |

#### **Compensation of directors**

Directors receive per diems of fifteen thousand pesos (₱15,000) for every Board meeting attended.

#### **Employment contracts, termination of employment or change-in-control arrangements**

Each director elected at the annual stockholders' meeting has a term of office of one (1) year and serves until his/her successor is elected and qualified. A director elected to fill in a vacancy arising in the Board shall only serve the unexpired portion of the term of his/her predecessor in office. Each executive officer has an employment contract with the company for an indefinite period.

The company has no termination of employment or change-in-control arrangements with its executive officers apart from those specified by labor and retirement laws.

## Warrants and options outstanding

There are no outstanding warrants or options held by the company's directors and/or executive officers.

## Item 11. Security Ownership of Certain Record and Beneficial Owners and Management

### Security Ownership of Certain Record and Beneficial Owners as of 31 December 2010

The following persons are known to the company to be directly or indirectly the record or beneficial owner of more than 5% of any class of the company's voting securities as of 31 December 2010:

| <u>Title of Class</u> | <u>Name and Address of record/beneficial owner</u>  | <u>Relationship with record owner</u> | <u>Citizenship</u> | <u>No. of shares Held</u> | <u>Percentage</u> |
|-----------------------|---|---------------------------------------|--------------------|---------------------------|-------------------|
| 1) Common             | PCD Nominee Corporation*<br>G/F, Makati Stock Exch. Bldg.<br>6767 Ayala Ave., Makati City | Same as record owner                  | Filipino           | 1,534,006,523             | 76.7228%          |
| 1) Common             | Blue Stock Dev't Holdings, Inc.**<br>28 N. Domingo St.<br>New Manila, Quezon City         | Same as record owner                  | Filipino           | 263,000,000               | 13.1538%          |

\*PCD Nominee Corp. is the central depository or lodging house of all securities brokers where scripless certificates are lodged. None of the broker or stockholder owns 5% or more shares of the company.

\*\*The directors and stockholders of Blue Stock Development Farms, Inc. are as follows:

| <u>NAME</u>                             | <u>Citizenship</u> | <u>No. of shares Held</u> | <u>Percentage</u> |
|---|--------------------|---------------------------|-------------------|
| 1. Agri-Industrial Research Group, Inc. | Filipino           | 83,333,125                | 33.33%            |
| 2. Agri-Industrial Work Stations, Inc.  | Filipino           | 83,333,125                | 33.33%            |
| 3. Agri-Industrial Concepts, Inc.       | Filipino           | 83,333,125                | 33.33%            |
| 4. Manuel A. De Leon                    | Filipino           | 125                       |                   |
| 5. Ma. Isabel B. Bejasa                 | Filipino           | 125                       |                   |
| 6. Leonardo S. Gayao                    | Filipino           | 125                       |                   |
| 7. Joaquin E. San Diego                 | Filipino           | 125                       |                   |
| 8. Jose V. Romero Jr.                   | Filipino           | 125                       |                   |

Leonardo S. Gayao exercises the right to vote the entire shareholdings in ABACUS of Blue Stock Development Holdings, Inc.

### Security Ownership of Management

The Company's Directors ("D") and officers ("O") own the following number of voting shares:

| <u>Title of Class</u> | <u>Name of Beneficial Owner</u> | <u>Amount and Nature of Beneficial Ownership*</u> | <u>Citizenship</u> | <u>Percentage</u> |
|-----------------------|---------------------------------|---|--------------------|-------------------|
| Common                | Ricardo Leong (D)               | 7,190,739   | Filipino           | 0.36%             |
| Common                | Calixto Y. Laureano (D)         | 3,595,370   | Filipino           | 0.18%             |
| Common                | Jose V. Romero Jr. (D/O)        | 2,360,010   | Filipino           | 0.12%             |
| Common                | Martha R. Horrigan (D)          | 925,000   | Filipino           | 0.05%             |
| Common                | Clarita T. Zarraga (D)          | 520,010   | Filipino           | 0.03%             |
| Common                | Leonardo S. Gayao (D/O)         | 10  | Filipino           | <0.01%            |
| Common                | Manuel A. De Leon (D/O))        | 10  | Filipino           | <0.01%            |
| Common                | Willy N. Ocier (D)              | 10  | Filipino           | <0.01%            |
| Common                | William Y. Tieng                | 10  | Filipino           | <0.01%            |

|                                   |                                    |             |          |        |
|-----------------------------------|------------------------------------|-------------|----------|--------|
| Common                            | Guido Alfredo A. Delgado(D)        | 10          | Filipino | <0.01% |
| Common                            | Gonzalo G. Puyat II (D)            | 10          | Filipino | <0.01% |
| Common                            | Jose L. Carlos Jr.(D/O)            | 10          | Filipino | <0.01% |
| Common                            | Antonio Victoriano GregoriolIII(D) | 10          | Filipino | <0.01% |
| Common                            | Manuel R. Moje (D)                 | 10          | Filipino | <0.01% |
| Common                            | Arturo V. Magtibay (D)             | 10          | Filipino | <0.01% |
| Common                            | Cindy B. Cayanan                   | 10          | Filipino | <0.01% |
| NA                                | Joaquin E. San Diego (O)           | 0           | Filipino | 0.00%  |
| NA                                | Rico G. De los Reyes (O)           | 0           | Filipino | 0.00%  |
| Directors and officers as a group |                                    | 14,411,239* |          | 0.74%  |

\*All shares are directly held.

As of December 31, 2010, the aggregate number of shares owned by the company's directors and Chief Executive Officers as a group is 14,411,239 shares, or approximately 0.74% of the Company's outstanding capital stock. The above-named directors and officers have no indirect beneficial ownership, except Leonardo S. Gayao, who votes all the shareholdings of Blue Stock Development Holdings, Inc., owner of 13.1538% of ABACUS.

#### **Voting Trust Holders of 5% or More**

The Company is not aware of any person holding more than 5% of any class of the company's securities under a voting trust or similar agreement as of 31 December 2010.

#### **Changes in Control**

There were no arrangements resulting in a change in control of the company during the reporting period.

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

The company and its subsidiaries, in their regular conduct of business, engage in transactions with each other, particularly in the form of cash advances for the operational needs of subsidiaries. Inter-company advances also occur in the form of advances for purchases of real properties. These advances are either later on converted into equity or repaid.

There are no receivables among the directors, officers, employees and other related parties and principal stockholders amounting to more than ₱100,000 or 1% of total assets.

## **PART IV - CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

The company's governance rules are embodied in its articles of incorporation, its corporate by-laws, and its Manual of Corporate Governance (the "Manual"). The Manual specifies the role of the Board and of the other governing bodies of the company and provides for compliance procedures. The Company fully complies with the provisions of the Manual. There were no deviations from the Manual during the reporting period.

The Board has constituted three principal governance committees: the Nomination Committee, the Compensation and Remuneration Committee, and the Audit Committee. There were no changes in the company's governance structures and practices during the reporting period.

The Corporate Secretary, in his role as Compliance Officer, coordinates with the Chairman and other members of the Board in monitoring and ensuring the compliance of the Board, officers and employees with the Manual.

The Company participated in the recent Corporate Governance Survey conducted by the Securities and Exchange Commission, the Philippine Stock Exchange and the Institute for Corporate Directors.

Disclosures submitted to the SEC and PSE, including corporate governance reports, can be accessed at the company's website, [www.abacusconsolidated.com](http://www.abacusconsolidated.com).

The company adopted a Revised Corporate Governance Manual in April 2010 and submitted a copy thereof to the SEC. In the revised manual the company incorporated the pertinent changes in the SEC's Revised Code of Corporate Governance (SEC Memorandum Circular 6-2009).

## PART V - EXHIBITS AND SCHEDULES

### Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits - see attached

(b) Reports on SEC Form 17-C

| <u>Date</u>      | <u>Items Reported</u>  |
|------------------|--|
| 04 January 2010  | Informing the Securities that Abacus Consolidated Resources & Holdings, Inc. (ACRHI) has just executed a Deed of Exchange of Shares of Stock with Blue Stock Development Holdings, Inc. (BSDHI), major stockholder of ACRHI, for the acquisition of Vantage Realty Corporation (VRC) and Kapuluan Properties, Inc. (KPI). VRC and KPI and their subsidiaries are the owners of real properties in various locations in the province of Batangas  |
| 27 April 2010    | Execution of Amended Deed of Exchange of Shares of Stock with Blue Stock Development Holdings, Inc.  |
| 15 June 2010     | Advance copy of the Chairman's Message and the President's Report, which will be delivered during our company's annual stockholders' meeting on July 08, 2010 at the Club Filipino in San Juan City.   |
| 08 July 2010     | Results of annual stockholders' meeting  |
| 28 July 2010     | Submission of unsolicited proposal for joint venture with Metropolitan Waterworks and Sewerage System (MWSS) an Unsolicited Proposal for Joint Venture in accordance with the provisions of Executive Order No. 423, Series of 2005 for the Laiban Dam project; tapped Sinohydro Corporation Limited of China (SINOHYDRO) as its partner for the project, a company registered in the People's Republic of China.  |
| 30 July 2010     | Appointment of William Y. Tieng as Managing Director of Abacus Consolidated Resources & Holdings, Inc. (ACRHI) effective August 2, 2010.   |
| 26 October 2010  | Results of Board of Directors' meeting   |
| 01 November 2010 | Execution of Revised Heads of Agreement with Lodestar Investment Holdings Corporation concerning our company's interests in Abacus Coal Exploration and Development Corporation.   |
| 21 December 2010 | Reported that the company expects to register a consolidated 2010 full year net income of approximately P500 million, of which P40 million will consist of current income principally from share in net earnings and dividend income from Pacific Online Systems Corporation (POSC) and gain on sale of POSC shares, and P460 million from gain on revaluation of real properties, net of deferred tax. The said consolidated net income will translate to a basic earnings per share of P0.23, a slight increase from last year's P0.21 per share; authority to execute a Second Amended of Deed of Exchange with Blue Stock Development Holdings, Inc. (BSDHI) for the issuance of 654,529,820 new shares in favor of BSDHI for the acquisition by |

Abacus Consolidated Resources and Holdings, Inc. (ACRHI) of two of BSDHI's fully owned subsidiaries, Kapuluan Properties, Inc. (KPI) and Vantage Realty Corporation (VRC). The said issuance had already been authorized by ACRHI's Board and stockholders by virtue of resolutions dated 2 April 2009 and 9 July 2009, respectively and further ratified by the stockholders on 8 July 2010.

23 December 2010

Execution of Second Amended Deed of Exchange of Shares of Stock with Blue Stock Development Holdings, Inc.

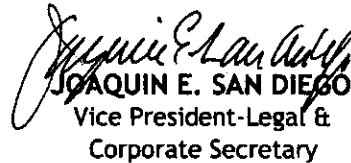


## SIGNATURES


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Quezon City on \_\_\_\_\_, 2011.

By:

  
**LEONARDO S. GAYAO**  
President

  
**JOAQUIN E. SAN DIEGO**  
Vice President-Legal &  
Corporate Secretary

  
**JOSE L. CARLOS**  
Treasurer

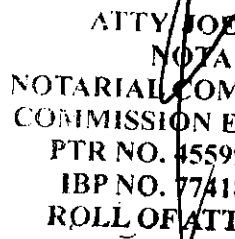
  
**RICO G. DE LOS REYES**  
Comptroller

**MAY 02 2011**

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of \_\_\_\_\_ 2011, affiants exhibiting to me their Competent Identification Documents, as follows:

| NAMES                | COMPETENT IDENTIFICATION           | VALID UNTIL       |
|----------------------|------------------------------------|-------------------|
| LEONARDO S. GAYAO    | Passport No. XX0449982             | January 30, 2013  |
| JOAQUIN E. SAN DIEGO | Passport No. UU0751818             | February 21, 2012 |
| JOSE L. CARLOS, JR.  | Passport No. XX4279851             | August 11, 2014   |
| RICO G. DE LOS REYES | Driver's License No. N01-05-273964 | July 10, 2013     |

Doc. No. 026;  
Page No. 4;  
Book No. 17-0;  
Series of 2011.

  
**ATTY. JOEL G. GORDOLA**  
NOTARY PUBLIC  
NOTARIAL COMMISSION NO. NP-052  
COMMISSION EXPIRATION DATE 31, 2011  
PTR NO. 4559910; 1/03/2011; Q.C.  
IBP NO. 774185; 1/12/2010; Q.C.  
ROLL OF ATTORNEY NO. 25103

## INDEX TO EXHIBITS

REPORT OF INDEPENDENT AUDITORS (ON CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES)

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AGING OF ACCOUNTS RECEIVABLE

SUPPLEMENTARY SCHEDULES

- C NON - CURRENT MARKETABLE EQUITY SECURITIES AND OTHER LONG-TERM INVESTMENT IN STOCKS, AND OTHER INVESTMENT
- D ADVANCES TO UNCONSOLIDATED SUBSIDIRIES AND AFFILIATES
- E PROPERTY AND EQUIPMENT
- F ACCUMULATED DEPRECIATION
- G INDEBTEDNESS AFFILIATES
- H LONG TERM DEBT
- I CAPITAL STOCK

# COVER SHEET

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S.E.C. Registration Number

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| A | N | D |   | H | O | L | D | I | N | G | S | , | I | N | C | . |   |   |  |   |   |   |   |   |   |   |   |   |  |
| A | N | D |   | S | U | B | S | I | D | I | A | R | I | E | S |   |   |   |  |   |   |   |   |   |   |   |   |   |  |

( Company's Full Name )

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

|                            |
|----------------------------|
| ATTY. JOAQUIN E. SAN DIEGO |
|----------------------------|

Contact Person

|                    |
|--------------------|
| 725-7875; 724-5055 |
|--------------------|

Company Telephone Number

|   |   |
|---|---|
| 1 | 2 |
|---|---|

Month

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Month

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| 2nd Thurs. |
|------------|

Day

Annual Meeting

## (PC) LISTED SECURITIES

Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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**Consolidated Resources & Holdings, Inc.**

No. 28 N. Domingo St., near corner Gilmore St., New Manila, Quezon City

Tel. Nos. 726-79-06, 725-78-75, 724-50-55; Fax No. 724-3290

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

The management of **Abacus Consolidated Resources & Holdings, Inc.** is responsible for all information and representations contained in the financial statements for the year (s) ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material 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 financial statements before such statements are approved and submitted to the stockholders of the company.

**Valdes Abad & Associates**, the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.



**JOSE V. ROMERO, JR.**  
Chairman of the Board



**LEONARDO S. GAYAO**  
President



**JOSE L. CARLOS, JR.**  
Treasurer

SUBSCRIBED AND SWORN to before me this APR 26 2011.  
2011. Affiant exhibited to me their identification documents, as follows:

| NAMES               | IDENTIFICATION DOCUMENT | PARTICULARS          |
|---------------------|-------------------------|----------------------|
| JOSE V. ROMERO, JR. | Passport No. UU0605266  | Valid Until 02.02.12 |
| LEONARDO S. GAYAO   | Passport No. XX0449982  | Valid Until 01.30.13 |
| JOSE L. CARLOS, JR. | Passport No. XX4279851  | Valid Until 08.11.14 |

Doc. No. 027  
Page No. 11  
Book No. 16.0  
Series of 2011.

ATTY. JOEL G. GORDOLA  
NOTARY PUBLIC  
NOTARIAL COMMISSION NO. NP-052  
COMMISSION EXPIRES DEC 31, 2011  
PTR NO. 4559910; 1/03/2011; Q.C.  
IBP NO. 774185; 1/12/2010; Q.C.  
ROLL OF ATTORNEY NO. 25007

# Valdes Abad & Associates

(Formerly: Carlos J. Valdes & Associates)

certified public accountants

CJV Building 108 Aguirre  
Street, Legaspi Village,  
Makati City,  
Philippines

Branches:

Cebu and Davao

Phone: (632) 892-5931 to 35

(632) 750-7563

Fax: (632) 819-1468

E-mail:

valdes.abad.associates@gmail.com

BOA/PRC Reg. No. 0314

SEC Accreditation No. 0024-FR-1



PARTNERING FOR SUCCESS

## INDEPENDENT AUDITOR'S REPORT

### The Board of Directors

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC. AND SUBSIDIARIES**

No. 28 N. Domingo St.

New Manila, Quezon City

### Report on the Financial Statements

We have audited the accompanying financial statements of **ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC. AND SUBSIDIARIES** which comprise the balance sheet as at December 31, 2010, and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements of ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC. AND SUBSIDIARIES as of December 31, 2009 were audited by another auditor whose report dated April 30, 2010 expressed an unqualified opinion on those statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC. AND SUBSIDIARIES** as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

## **Report on Other Regulatory Requirements**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information shown on Schedules C, D, E, F, G, H and I is presented for the purpose of complying with the Securities Regulation Code 68.1 and SEC Memorandum Circular No.11, series of 2008 and are not part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**VALDES, ABAD & ASSOCIATES**

**For the firm:**

  
**FELICIDAD A. ABAD**

Partner

CPA Certificate No.0025184

TIN 123 – 048 – 248

PTR No. 2673575 – 1/10/2011

PRC – BOA Reg. No. 0314

SEC Accreditation No. 0138 – AR – 2

Makati City, Philippines

March 3, 2011

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
and SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(With comparative figures for December 31, 2009)

(in Philippine Peso)

| ASSETS                                | Notes | December 31,<br>2010 | 2009                 |
|---------------------------------------|-------|----------------------|----------------------|
| <b>Current Assets</b>                 |       |                      |                      |
| Cash and cash equivalents             | 4,26  | 19,569,342           | 14,031,107           |
| Trade and other receivables           | 5,26  | 1,184,416            | 12,217,593           |
| Advances to related parties           | 12,26 | 129,597,624          | 131,300,482          |
| Other assets                          |       | 951,522              | 846,054              |
| Total current assets                  |       | 151,302,904          | 158,395,236          |
| <b>Non-current Assets</b>             |       |                      |                      |
| Investment in associates              | 6     | 630,828,714          | 583,924,487          |
| Investment properties                 | 8     | 2,642,778,381        | 2,318,803,340        |
| Property and equipment, net           | 9     | 18,257,472           | 17,131,605           |
| Construction-in-progress              | 10    | 25,967,279           | 25,058,401           |
| Deferred exploration costs            | 11    | 301,566,020          | 301,566,020          |
| Other non-current assets              |       | 476,748              | 448,322              |
| Goodwill                              | 7     | 348,831,159          | 401,941,532          |
| Total non-current assets              |       | 3,968,705,773        | 3,648,873,705        |
| <b>TOTAL ASSETS</b>                   |       | <b>4,120,008,677</b> | <b>3,807,268,941</b> |
| <b>LIABILITIES AND EQUITY</b>         |       |                      |                      |
| <b>Liabilities</b>                    |       |                      |                      |
| Accounts payable and accrued expenses | 13,26 | 23,069,458           | 21,640,496           |
| Advances from heads of agreement      | 20,26 | 30,000,000           | 30,000,000           |
| Advances from joint venture           | 23,26 | 9,500,000            | 9,500,000            |
| Income tax payable                    |       | 6,085                | 14,174               |
| Loans payable                         | 14,26 | 44,685,720           | 70,089,787           |
| Deferred tax liability                | 8,18  | 631,744,791          | 563,619,257          |
| Rental deposit payable                | 16    | 170,712              | 120,712              |
| <b>Total Liabilities</b>              |       | <b>739,176,766</b>   | <b>694,984,426</b>   |
| <b>Equity</b>                         |       |                      |                      |
| Share capital                         | 15    | 2,655,095,834        | 2,655,095,834        |
| Subscription receivable               |       | (296,082,544)        | (296,082,544)        |
| Shares held by subsidiaries           |       | (160,851,242)        | (114,920,708)        |
|                                       |       | <b>2,198,162,048</b> | <b>2,244,092,582</b> |
| Retained earnings                     |       | 1,057,877,071        | 751,459,338          |
|                                       |       | <b>3,256,039,119</b> | <b>2,995,551,921</b> |
| Treasury shares                       | 15    | (1,150,790)          | (1,150,790)          |
| Minority Interest                     |       | 125,943,582          | 117,883,384          |
| <b>Total Equity</b>                   |       | <b>3,380,831,911</b> | <b>3,112,284,515</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>   |       | <b>4,120,008,677</b> | <b>3,807,268,941</b> |
| <b>Book value per share</b>           |       | <b>1.27</b>          | <b>1.17</b>          |

See Notes to Financial Statements



**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.**  
**and SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

*(With comparative figures for December 31, 2009 and 2008)*

*(in Philippine Peso)*

| For the Year Ended December 31,                |      | 2010               | 2009               | 2008                 |
|--|------|--------------------|--------------------|----------------------|
| <b>Income</b>                                  |      |                    |                    |                      |
| Share in net earnings of associates            | 6    | 82,015,198         | 51,389,136         | 24,447,102           |
| Gain on transfer of mining rights              |      | 8,740,040          | -                  | 294,452,488          |
| Gain on sale of investment in associates       | 6    | 4,018,921          | 29,011             | -                    |
| Rental income                                  | 8,21 | 514,998            | 622,609            | 235,847              |
| Interest income                                |      | 109,565            | 1,160,142          | 2,803,814            |
| Unrealized foreign exchange gain (loss)        |      | 129,282            | (490,488)          | (6,266,555)          |
|  |      | <u>95,528,003</u>  | <u>52,710,410</u>  | <u>315,672,696</u>   |
| <b>Expenses</b>                                |      |                    |                    |                      |
| Taxes and licenses                             | 16   | 7,033,355          | 5,832,023          | 10,389,526           |
| Compensation and benefits                      | 16   | 5,839,416          | 16,447,200         | 4,890,974            |
| Professional and other services                |      | 5,173,410          | 5,176,979          | 6,140,467            |
| Management and directors' fees                 | 16   | 3,300,000          | 2,182,353          | 7,598,611            |
| Depreciation                                   | 9    | 1,893,644          | 411,325            | 428,737              |
| Transportation                                 |      | 1,004,304          | 1,691,397          | 327,935              |
| Representation                                 |      | 863,616            | 1,549,919          | 1,200,099            |
| Utilities                                      |      | 665,697            | 599,169            | 1,615,493            |
| Office supplies and publications               |      | 337,919            | 1,129,398          | 557,771              |
| Rent   | 21   | 258,156            | 258,156            | 130,978              |
| Repairs and maintenance                        | 8    | 175,472            | 213,616            | 306,125              |
| Insurance                                      |      | 101,211            | 3,172              | 34,226               |
| Miscellaneous                                  |      | 1,695,145          | 1,616,963          | 1,322,683            |
|  |      | <u>28,341,343</u>  | <u>37,111,670</u>  | <u>34,943,625</u>    |
| <b>Income (Loss) from Operations</b>           |      | <u>67,186,660</u>  | <u>15,598,740</u>  | <u>280,729,071</u>   |
| <b>Other Income (Loss)</b>                     |      |                    |                    |                      |
| Gain on revaluation, net                       | 8    | 443,258,608        | 645,109,143        | 726,078,600          |
| Trading gain (loss)                            |      | (139,805)          | -                  | 57,997               |
| Other income                                   |      | 852,248            | 464,179            | 605,616              |
|  |      | <u>443,971,051</u> | <u>645,573,322</u> | <u>726,742,213</u>   |
| <b>Finance Costs</b>                           |      |                    |                    |                      |
| Interest expense                               | 14   | 8,623,467          | 4,918,647          | 1,151,025            |
| Bank charges                                   |      | 20,929             | 1,673,179          | 73,704               |
|  |      | <u>8,644,396</u>   | <u>6,591,826</u>   | <u>1,224,729</u>     |
| <b>Income before Tax</b>                       |      | <u>502,513,315</u> | <u>654,580,236</u> | <u>1,006,246,555</u> |
| <b>Provision for (benefit from) Income Tax</b> |      |                    |                    |                      |
| Current  | 18   | 23,229             | 33,989             | 34,727               |
| Deferred                                       | 18   | 232,667,489        | 189,589,212        | 179,671,595          |
|  |      | <u>232,690,718</u> | <u>189,623,201</u> | <u>179,706,322</u>   |
| <b>Net Income</b>                              |      | <u>269,822,597</u> | <u>464,957,035</u> | <u>826,540,233</u>   |
| Attributable to:                               |      |                    |                    |                      |
| Equity holders of the Parent Company           |      | 263,608,505        | 437,806,708        | 826,334,098          |
| Minority interest                              |      | 6,214,093          | 27,150,328         | 206,135              |
|  |      | <u>269,822,597</u> | <u>464,957,035</u> | <u>826,540,233</u>   |
| <b>Basic Earnings per Share</b>                | 19   | 0.12097            | 0.26667            | 0.55064              |

*See notes to Financial Statements*

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.**  
**and SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*(With comparative figures for December 31, 2009 and 2008)*

*(in Philippine Peso)*

|   | Attributable to the Equity Holders of the Parent Company |                                |                                 |                        |                                   |                      | Total                |
|---|--|--------------------------------|---------------------------------|------------------------|-----------------------------------|----------------------|----------------------|
|   | Share<br>Capital<br>(Note 15)                            | Shares Held<br>by Subsidiaries | Treasury<br>Shares<br>(Note 15) | Revaluation<br>Surplus | Retained<br>Earnings<br>(Deficit) | Minority<br>Interest |                      |
| Balances at January 1, 2008             | 1,601,625,814  | (136,269,491)                  | (5,865,000)                     | 3,818,501              | 151,859,603                       | 241,806,645          | 1,856,976,071        |
| Additional subscription                 | 102,857,656  | -                              | -                               | -                      | -                                 | -                    | 102,857,656          |
| Additional subscription by subsidiaries | -  | (20,449,415)                   | -                               | -                      | -                                 | -                    | (20,449,415)         |
| Property dividends paid                 | -  | -                              | -                               | -                      | (187,257,100)                     | -                    | (187,257,100)        |
| Effect of change in ownership structure | -  | -                              | -                               | (3,818,501)            | 70,755,325                        | (158,843,477)        | (91,906,654)         |
| Net income for the year                 |  |                                |                                 |                        | 826,334,098                       | 206,135              | 826,540,233          |
| Balances at December 31, 2008           | 1,704,483,470  | -                              | (156,718,906)                   | (5,865,000)            | 861,691,926                       | 83,169,303           | 2,486,760,792        |
| Additional subscription by subsidiaries | 654,529,820  | -                              | -                               | -                      | -                                 | -                    | 654,529,820          |
| Shares disposed by subsidiaries         | -  | 41,798,198                     | -                               | -                      | -                                 | -                    | 41,798,198           |
| Derecognition of revaluation gain       | -  | -                              | -                               | -                      | (463,651,400)                     | -                    | (463,651,400)        |
| Effect of change in ownership structure | -  | -                              | -                               | -                      | (84,387,895)                      | 7,563,754            | (76,824,142)         |
| Re-issuance of treasury shares          | -  | -                              | 4,714,210                       | -                      | -                                 | -                    | 4,714,210            |
| Net income for the year                 | -  | -                              | -                               | -                      | 437,806,708                       | 27,150,329           | 464,957,036          |
| Balances at December 31, 2009           | 2,359,013,290  | (114,920,708)                  | (1,150,790)                     | -                      | 751,459,338                       | 117,883,385          | 3,112,284,515        |
| Additional subscription by subsidiaries |  |                                |                                 |                        |                                   |                      |                      |
| Shares acquired by subsidiaries         |  | (45,930,534)                   |                                 |                        |                                   |                      | (45,930,534)         |
| Derecognition of revaluation gain       |  |                                |                                 |                        |                                   |                      | -                    |
| Effect of change in ownership structure |  |                                |                                 |                        | (3,562,159)                       | 1,846,105            | (1,716,054)          |
| Re-issuance of treasury shares          |  |                                |                                 |                        |                                   |                      | -                    |
| Prior period adjustment                 |  |                                |                                 |                        | 46,371,387                        |                      | 46,371,387           |
| Net income for the year                 |  |                                |                                 |                        | 263,608,505                       | 6,214,093            | 269,822,597          |
| Balances at December 31, 2010           | <b>2,359,013,290</b>                                     | <b>(160,851,242)</b>           | <b>(1,150,790)</b>              | <b>-</b>               | <b>1,057,877,071</b>              | <b>125,943,582</b>   | <b>3,380,831,911</b> |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.**  
and SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(With comparative figures for December 31, 2009 and 2008)  
(in Philippine Peso)

|   | Notes  | 2010          | 2009          | 2008          |
|---|--------|---------------|---------------|---------------|
| <b>Cash Flows from Operating Activities</b>           |        |               |               |               |
| Income before tax                                     |        | 502,575,311   | 654,580,237   | 1,006,246,555 |
| Adjustments for:                                      |        |               |               |               |
| Prior period adjustment                               |        | 46,371,387    | -             | -             |
| Gain on revaluation of investment property            | 8      | (443,258,608) | (645,109,143) | (726,078,600) |
| Share in net earnings of an associate                 |        | (82,077,193)  | (51,389,136)  | (24,447,102)  |
| Finance cost  |        | 8,623,467     | 4,918,647     | 1,151,025     |
| Depreciation  | 9      | 1,893,644     | 411,325       | 428,737       |
| Gain on disposal of investment in an associate        |        | (4,018,921)   | (29,011)      | -             |
| Gain on transfer of mining rights                     |        | (8,740,040)   | -             | (294,452,488) |
| Interest income                                       |        | (109,565)     | (1,160,142)   | (2,803,814)   |
| Unrealized foreign exchange gain (loss)               |        | (129,282)     | (490,488)     | (6,266,555)   |
| Operating loss before working capital changes         |        | 21,130,199    | (38,267,711)  | (46,222,242)  |
| Decrease (increase) in:                               |        |               |               |               |
| Trade and other receivables                           |        | 11,033,177    | 1,743,167     | (7,537,222)   |
| Advances to related parties                           |        | 1,702,858     | (21,501,847)  | (53,370,878)  |
| Other assets  |        | 342,855       | (272,189)     | 2,571,480     |
| Increase (decrease) in:                               |        |               |               |               |
| Accounts payable and accrued expenses                 |        | 1,428,963     | (440,216)     | 4,113,871     |
| Advances from heads of agreement                      |        | -             | 15,000,000    | 15,000,000    |
| Advances from joint venture                           |        | -             | -             | 9,500,000     |
| Rental deposit payable                                |        | 50,000        | -             | -             |
| Cash provided by (used in) operations                 |        | 35,688,052    | (43,738,796)  | (75,944,991)  |
| Interest received                                     |        | 109,565       | 1,160,142     | 2,803,814     |
| Interest paid   |        | (8,623,467)   | (4,918,647)   | (1,151,025)   |
| Income tax paid                                       |        | (31,318)      | (36,485)      | (439,507)     |
| Net cash provided by (used in) operating activities   |        | 27,142,833    | (47,533,786)  | (74,731,709)  |
| <b>Cash Flows from Investing Activities</b>           |        |               |               |               |
| Construction-in-progress                              | 10     | (908,879)     | (13,343,899)  | (11,714,502)  |
| Disposal (acquisition) of shares held by subsidiaries |        | (45,930,534)  | 41,798,198    | (20,449,415)  |
| Proceeds from disposal of an associate                |        | 39,129,891    | -             | -             |
| Proceeds from disposal of investment property         |        | 128,023,607   | -             | -             |
| Acquisition of property and equipment                 | 9      | (3,019,510)   | (16,427,200)  | (274,972)     |
| Acquisition of other non-current assets               |        | (476,749)     | -             | -             |
| Disbursements on goodwill                             |        | 53,110,373    | -             | -             |
| Deferred tax liability                                | 8, 18  | (164,541,955) | -             | -             |
| Receipt of deposit for future stock subscription      |        | -             | -             | -             |
| Net cash provided by (used in) investing activities   |        | 5,386,243     | 12,027,099    | (32,438,889)  |
| <b>Cash Flows from Financing Activities</b>           |        |               |               |               |
| Changes in advances from related parties              |        | -             | 87,294        | 11,361,844    |
| Proceeds from loan                                    |        | -             | 67,400,000    | -             |
| Payment of loan                                       | 14, 26 | (25,404,068)  | (38,652,613)  | -             |
| Change in ownership structure                         |        | (1,716,055)   | -             | -             |
| Net cash provided by (used in) financing activities   |        | (27,120,123)  | 28,834,681    | 11,361,844    |
| Effect of Changes in Foreign Exchange Rates           |        | 129,282       | 490,488       | 6,266,555     |
| Net Increase (Decrease) in Cash and Cash Equivalents  |        | 5,538,235     | (6,181,518)   | (89,542,199)  |
| Effect of Change in Ownership Structure               |        |               | (27,797,029)  | 42,578,346    |
| Cash and Cash Equivalents, January 1                  |        | 14,031,107    | 48,009,654    | 94,973,507    |
| Cash and Cash Equivalents, December 31                |        | 19,569,342    | 14,031,107    | 48,009,654    |

See notes to Financial Statements

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
and SUBSIDIARIES**

**NOTES TO FINANCIAL STATEMENTS**

***December 31, 2010***

*(With comparative figures for December 31, 2009 and 2008)*

|                                       |
|---------------------------------------|
| <b>NOTE 1 – CORPORATE INFORMATION</b> |
|---------------------------------------|

**Abacus Consolidated Resources and Holdings, Inc.** (the parent company), is a publicly listed corporation registered with the Philippine Securities and Exchange Commission (SEC) on May 5, 1981. Its primary purpose is to purchase, subscribe for, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or dispose of real and/or personal properties of every kind and description, including shares of stocks, voting trust certificates for shares of capital stocks and other securities, contracts, or obligations of any corporation or association, domestic or foreign, and to pay therefore, in whole or in part, in cash or in property or by exchanging stocks or bonds of other corporation. Its secondary purpose is to engage in the exploration and exploitation of ore and other mineral resources in the Philippines.

Its registered address is located at No. 28 N. Domingo Street, New Manila, Quezon City.

The parent company's shares are traded in the Philippine Stock Exchange (PSE). It owns majority stockholdings in five subsidiaries that are in the business of exploration, investment and real estate.

The details of the parent company's ownership in its direct subsidiaries are as follows:

| Name of Subsidiaries   | Principal Activities | Controlling Interest (%) |       |
|--|----------------------|--------------------------|-------|
|  |                      | 2010                     | 2009  |
| Philippine Regional Investment Development Corporation (PRIDE)     | Investment House     | 97.48                    | 96.40 |
| Kapuluan Properties, Inc. (KPI)                                    | Real Estate          | 100                      | 100   |
| Vantage Realty Corporation (VRC)                                   | Real Estate          | 100                      | 100   |
| Abacus Coal Exploration and Development Corporation (AbaCoal)      | Coal Exploration     | 100                      | 100   |
| Abacus Goldmines Exploration and Development Corporation (AbaGold) | Gold Exploration     | 100                      | 100   |

The parent company's financial statements were approved and authorized for issue by the Board of Directors (BOD) on March 3, 2011.

## **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

The accompanying financial statements have been prepared in accordance with the historical cost convention method as modified by the revaluation of certain investments in securities and investment properties being held by the company.

### **2.1 Statement of Compliance**

The financial statements of the Company have been prepared in accordance with PFRS. PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

- (a) PFRSs – corresponding to International Financial Reporting Standards;
- (b) Philippine Accounting Standards (PASs) – corresponding to International Accounting Standards; and
- (c) Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly, the Standing Interpretations Committee of the IASB which are adopted by the FRSC.

#### *Basis of measurement*

The Group's consolidated financial statements have been prepared based on historical cost except for certain investment property which have been measured at their appraised values and investments in associates which have been measured using the equity method.

#### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2010 and 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Group, using consistent accounting policies. The consolidated financial statements present the financial performance and financial position of the Group and its subsidiaries as if they form a single entity. Inter-company transactions and balances between companies within the Group are eliminated in full in preparing the consolidated financial statements.

The subsidiaries are entities over which the parent company exercises significant control or over which the parent company has the power, either directly or indirectly, to govern the financial and operating policies generally accompanying shareholdings of more than 50% of the voting rights. The parent company obtains and exercises control through voting rights.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the parent company obtained control of its subsidiaries, and continue to be consolidated until the date that such control ceases.

All intra-group balances, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intra-company transactions that are recognized in assets are eliminated in full.

At acquisition date, the assets and liabilities of the relevant subsidiaries acquired are measured at their fair values. The interest of minority shareholders is stated at the minority's proportional share to the fair values of the assets and liabilities recognized.

The results of operations of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

The parent company's direct and indirect subsidiaries are as follows:

| Name of Subsidiaries  | Principal Activities   | Effective Percentage of Controlling Interest |        |
|---|------------------------|--|--------|
|   |                        | 2010   | 2009   |
| <i>Subsidiaries of Abacus Consolidated Resources and Holdings, Inc.</i> |                        |  |        |
| PRIDE   | Investment house       | 97.48  | 96.40  |
| KPI   | Real estate            | 100.00                                       | 100.00 |
| VRC   | Real estate            | 100.00                                       | 100.00 |
| AbaCoal   | Coal exploration       | 100.00                                       | 100.00 |
| AbaGold   | Gold exploration       | 100.00                                       | 100.00 |
| <i>Subsidiaries of PRIDE:</i>   |                        |  |        |
| Tagapo Realty Company, Inc. (TRC)                                       | Real Estate            | 96.40  | 96.40  |
| Omicor Industrial Estate (Omicor)                                       | Real Estate            | 96.40  | 96.40  |
| Countrywide Transcapital Development Holdings, Inc. (CTDHI)             | Holdings               | 60.10  | 60.10  |
| Philippine International Infrastructure Fund, Inc. (PIIFI)              | Investment Company     | 100.00                                       | 100.00 |
| Total Mall Philippines, Inc.  | Wholesaler/ retailer   | 96.40  | 96.40  |
| <i>Subsidiaries of TRC:</i>   |                        |  |        |
| Ala-eh Knit, Inc.   | Real Estate            | 96.40  | 96.40  |
| Assurance Realty Corporation  | Real Estate            | 96.40  | 96.40  |
| Countrywide Leverage Holdings Corporation                               | Holdings               | 96.40  | 96.40  |
| In-town Wholesale Marketing, Inc.                                       | Wholesaler / retailer  | 96.40  | 96.40  |
| System Organization, Inc.   | Real Estate            | 96.40  | 96.40  |
| <i>Subsidiaries of Omnicor:</i>   |                        |  |        |
| Montemayor Aggregates and Mining Corporation (MAMCor)                   | Mining and Exploration | 96.40  | 96.40  |
| Adroit Realty Corporation   | Real estate            | 96.40  | 96.40  |
| Allegiance Realty Corporation   | Real estate            | 96.40  | 96.40  |
| Asean Publishers, Inc.  | Publisher              | 96.40  | 96.40  |
| Export Affiliates for Service and Trade, Inc.                           | Importer / exporter    | 96.40  | 96.40  |
| Fair Field Realty Estate Company, Inc.                                  | Real estate            | 96.40  | 96.40  |
| Geyser, Incorporated  | Real estate            | -  | -      |
| Logic Realty Corporation  | Real estate            | 96.40  | 96.40  |
| Sanctuary Transcendental Havens, Inc.                                   | Non-stock corporation  | 100.00                                       | 100.00 |
| Three Fold Realty Corporation   | Real estate            | 96.40  | 96.40  |

|   |  |        |        |
|---|--|--------|--------|
| Aerosonic Land, Inc.  | Real estate  | 100.00 | 100.00 |
| International Pilgrimage Shrine at Montemaria, Inc.           | Non-stock corporation  | 100.00 | 100.00 |
| <i>Subsidiaries of MAMCor:</i>                                |  |        |        |
| Asean Traders and Exporters, Inc.                             | Importer / exporter  | 96.40  | 96.40  |
| Batangas Stock Development Holdings, Inc. (BSDHI)             | Real estate  | 96.40  | 96.40  |
| Channel Minerals and Exploration and Development Corporation  | Mining and Exploration   | 96.40  | 96.40  |
| <i>Subsidiaries of BSDHI:</i>                                 |  |        |        |
| Banalo Mining Corporation                                     | Mining   | 100.00 | 100.00 |
| Calatagan Aquafarms, Inc.                                     | Aqua and fishery   | 100.00 | 100.00 |
| Him Management and Associates, Inc.                           | Trading  | 100.00 | 100.00 |
| <i>Subsidiaries of KPI:</i>                                   |  |        |        |
| Aerotropic Land, Inc.   | Real Estate  | 99.99  | 99.99  |
| Barit Resort & International Tour Corporation                 | Real Estate  | 99.99  | 99.99  |
| Batangas Beef Business, Inc.                                  | Manufacturing  | 99.99  | 99.99  |
| Batangas Cement Park, Inc.                                    | Warehousing of Cement, Aggregates, Limestones or their Derivatives | 99.99  | 99.99  |
| Candor Realty Corporation (CRC)                               | Real Estate  | 99.99  | 99.99  |
| Epulare Properties, Inc.                                      | Real Estate  | 99.96  | 99.96  |
| Focus Real Estate Corporation                                 | Real Estate  | 99.99  | 99.99  |
| GMTM Management Company, Inc.                                 | Management Parent Company  | 99.99  | 99.99  |
| Hedge Tropical Farmlands, Inc.                                | Real Estate  | 99.96  | 99.96  |
| Hewdon Land, Inc.   | Real Estate  | 99.96  | 99.96  |
| Hillside Orchards & Parks, Inc.                               | Agriculture  | 99.99  | 99.99  |
| JAP Aggregates Network, Inc.                                  | Cement Production  | 99.99  | 99.99  |
| Pasture View Real Properties, Inc.                            | Real Estate  | 99.99  | 99.99  |
| Quilib Cattle Corporation (QCC)                               | Real Estate  | 99.99  | 99.99  |
| Quilib Pasture Estates, Inc.                                  | Real Estate  | 99.96  | 99.96  |
| Quilib Quality Farms, Inc. (QQFI)                             | Agriculture  | 99.99  | 99.99  |
| San Isidro Catholic Memorial Park and Development Corporation | Real Estate  | 99.99  | 99.99  |
| Vinterra Realty Corporation                                   | Real Estate  | 99.96  | 99.96  |
| <i>Subsidiaries of VRC:</i>                                   |  |        |        |
| Omnilines Maritime Network, Inc.                              | Maritime Commerce  | 99.99  | 99.99  |
| Hedge Inter Market Technologist, Inc.                         | Games Technology   | 99.99  | 99.99  |
| D r M Development Corp.                                       | Trading  | 99.99  | 99.99  |
| Friendship Management Corporation                             | Management of Real Property  | 99.99  | 99.99  |
| Haves Insurance Management and Liability Agency, Inc. (Haves) | Insurance Agency   | 99.99  | 99.99  |
| All Lemery Assets Enterprises Holdings, Inc.                  | Real Estate  | 99.99  | 99.99  |
| Far Pacific Manufacturing Corp.                               | Manufacturing  | 99.99  | 99.99  |

|                                  |              |       |       |
|----------------------------------|--------------|-------|-------|
| Munera Real Estate Company, Inc. | Real Estate  | 99.99 | 99.99 |
| Certain Corporation              | Construction | 99.99 | 99.99 |
| Manivest Development Corp.       | Real Estate  | 99.99 | 99.99 |

A brief summary of the direct subsidiaries' nature of business and operations are as follows:

#### **PRIDE**

PRIDE is a domestic corporation which was registered with the SEC on September 26, 1979 as Manila Equities Corporation. It served as a stock brokerage firm for the first four years until the SEC granted PRIDE on March 2, 1983 a license to operate as an investment house. The license was confirmed by the then Central Bank of the Philippines, which is now known as Bangko Sentral ng Pilipinas. On July 26, 1995, it changed its name to Philippine Regional Investment Development Corporation. Presently, it has no quasi-banking license.

PRIDE is an institution by and through which comprehensive financial products and service lines shall be offered and provided to clients, either through its own operations or through affiliations, conformably with the provisions of existing laws. Its registered address is located at No. 28 N. Domingo Street, New Manila, Quezon City.

PRIDE was acquired by the Parent Company on January 18, 2006 from BSDHI in exchange for the Parent Company's share capital.

In 2009, PRIDE issued additional 1,500,000 shares amounting to P150 million. The Parent Company exercised its pre-emptive rights and subscribed to all the additional shares by partial payment, through offsetting of its advances to PRIDE which amounted to P64,352,238. The remaining balance of P85,647,762 was recorded as subscription payable.

PRIDE also declared its P50 million worth of shares as stock dividends to its shareholders in October 2009 out of which the Parent Company received 481,978 additional shares.

#### **KPI**

KPI is a domestic corporation is registered with the SEC on April 8, 1996. Its primary purpose is to engage in the purchase, subdivision, sale, leasing and holding for capital appreciation real estates together with their appurtenances.

KPI was acquired by the Parent Company from BSDHI in December 2009 through a share-for-share swap. BSDHI assigned the entire outstanding share capital of KPI in favor of the Parent Company in exchange for its new shares amounting to P359,660,803.

Its registered address is located at 2F SEDDCO I Building, Rada St., Legaspi Village, Makati City.

#### **VRC**

VRC is a domestic corporation registered with the SEC on October 10, 1996. Its primary purpose is to engage in the purchase, subdivision, sale, leasing and holding for capital appreciation real estates together with their appurtenances.

VRC was acquired by the Parent Company from BSDHI in December 2009 through a share-for-share swap. BSDHI assigned the entire outstanding share capital of VRC in favor of the Parent Company in exchange for its new shares amounting to P294,869,017.

Its registered address is located at 2F SEDDCO I Building, Rada St., Legaspi Village, Makati City.



### **AbaCoal**

AbaCoal is a domestic corporation registered with the SEC on November 9, 2007. Its primary purpose is to engage in the exploration, exploitation, operation, production and development of coal and its derivative products in the Philippines.

Its registered office address is located at No. 28 N. Domingo Street, New Manila, Quezon City.

In 2008, the Parent Company transferred its Coal Operating Contract (COC) with the Department of Energy to AbaCoal in exchange for shares amounting to P3,047,512.

The Parent Company also entered into a Heads of Agreement with Lodestar Investment Holdings Corporation (Lodestar) and Music Semiconductors Corporation (Music) to transfer its outstanding shares in AbaCoal including its interest in a coal property located in Tandag, Surigao del Sur.

This Agreement was amended in 2009 whereby Music assigned its right to acquire 55% participation and equity interest in AbaCoal to Lodestar. See related discussion in Note 20.

On November 3, 2010, the Heads of Agreement was revised as discussed in Note 20.

### **AbaGold**

AbaGold is a domestic corporation registered with the SEC on April 28, 2008. Its primary purpose is to engage in the exploration, exploitation, operation, production and development of gold and its derivative products in the Philippines. Its registered office address is located at No. 28 N. Domingo Street, New Manila, Quezon City.

### ***Accounting for business combination***

PFRS 3 provides that if the initial accounting for business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of business combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows:

- 1) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date;
- 2) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted;
- 3) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

### *Minority interest*

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the parent company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed on any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect to those interests, that meet the definition of a financial liability. Minority interests are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of the parent company. Minority interests in the results of the Group are presented on the face of the consolidated statements of comprehensive income as an allocation of the net income for the year between minority interests and the equity shareholders of the parent company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered in full.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

### **2.2 Functional and presentation currency**

The consolidated financial statements are prepared in Philippine peso, which is also the Group's functional currency.

### **2.4 New standards, amendments and interpretations to existing standards**

The accounting policies adopted in the preparation of the Company's financial statements have been consistently applied to all years presented, unless otherwise stated.

#### **New Amendments Effective in 2010**

Certain new revisions, amendments and interpretations were made to existing standards that are relevant to the Company and applicable in the preparation of its financial statements, with effectivity beginning on or after January 1, 2010.

The Company has adopted and applied the following Philippine Accounting Standards.

|        |   |
|--------|---|
| PAS 1  | Presentation of Financial Statements                            |
| PAS 7  | Cash Flow Statements  |
| PAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| PAS 10 | Events after the Balance Sheet Date                             |
| PAS 16 | Property, Plant and Equipment                                   |
| PAS 18 | Revenue   |
| PAS 19 | Employee Benefits   |
| PAS 24 | Related Party Disclosures                                       |
| PAS 32 | Financial Instruments: Presentation                             |
| PAS 36 | Impairment of Assets  |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets        |
| PAS 39 | Financial Instruments: Recognition and Measurement              |
| PFRS 7 | Financial Instruments: Disclosure                               |

- *PAS 1 (Amendment), Presentation of Financial Statements (effective from January 1, 2010).*

The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Company applied the amendment in its 2010 financial statements but expects to have no material impact in the company's financial statements.

- *PAS 7 (Amendment), Statement of Cash Flows (effective from January 1, 2010).*

The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the financial statements since only recognized assets are classified by the Company as cash flow from investing activities.

- *PAS 8 (Amendment), Accounting Policies, Changes in Accounting Estimates and Errors.*

The Standard requires retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It removes the allowed alternative in the previous version of IAS 8:

- a) to include in profit or loss for the current period the adjustment resulting from changing an accounting policy or the amount of a correction of a prior period error; and
- b) to present unchanged comparative information from financial statements of prior periods.

As a result of the removal of the allowed alternative, comparative information for prior periods is presented as if new accounting policies had always been applied and prior period errors had never occurred.

- *PAS 16 (Amendment), Property, Plant and Equipment (and consequential amendment to PAS 7, "Statement of Cash Flows") (effective from January 1, 2009).*

Entities whose ordinary activities comprise of renting and subsequently selling assets should present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to PAS 7 states that cash flow arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment does not have a material impact on the Company's financial statements since it is not primarily engaged in the business of renting its assets. Rental income earned is only incidental and presented as other income.

- *PAS 18 (Amendment), Revenue (effective from January 1, 2010).*

The amendment provides guidance on determining whether an entity is acting as a principal or as an agent.

- *PAS 19 (Amendment), Employee benefits (effective from January 1, 2009).*

The amendments include clarification on the definition of return on plan assets, distinction between short term and long term employee benefits and plan amendments that are considered curtailment. Likewise, PAS 19 has been amended to be consistent with PAS 37, Provisions, Contingent Liabilities and Contingent assets.

- *PAS 24 (Amendment), Related Party Disclosure (effective from January 1, 2011).*

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual financial statements. This amendment have been applied by the Company

- *PAS 32 (Amendment), 'Financial Instruments: Presentation', and PAS 1 (Amendment) 'Presentation of Financial Statements' – 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective from 1 January 2009).*

The amendment standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions.

- *PAS 36 (Amendment), 'Impairment of Assets' (effective from 1 January 2009).*

Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply PAS 36 (Amended) and provides the required disclosure where applicable for impairment tests.

- *PAS 37 Provisions, Contingent Liabilities and Contingent Assets.*

The Standard prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except those resulting from financial instruments that are carried at fair value; those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent; those arising in insurance entities from contracts with policyholders; or those covered by another Standard.

- *PAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' (effective from 1 January 2009).*

--This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

--The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments management together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio in initial recognition.

--The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment.

--When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are cost. The company will apply PAS 39 (Amendment) when it becomes relevant.

- *PFRS 7 (Amendment), Financial Instrument: Disclosure (effective from 1 January 2007)*

The standard requires enhanced disclosures about fair value measurements and liquidity risk. These have been made to address application issues and provide useful information to users.

## **Statement of Financial Position**

The following are descriptions of specific statement of financial position captions. Refer to the related Notes to the Financial Statements for additional information.

### **2.5 Financial instruments**

A *financial instrument* is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### ***Initial recognition***

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done at trade date, which is the date on which the Group commits to purchase or sell the asset.

Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit or loss (FVPL).

#### ***Classification of financial instruments***

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) investments, financial assets at FVPL, and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

#### ***Determination of fair value***

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and ask price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques, which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

#### ***Fair value hierarchy***

The Group categorizes its financial asset and financial liability based on the lowest level input that is significant to the fair value measurement. The fair value hierarchy has the following levels: (a) Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities accessible by the Group; (b) Level 2 – inputs that are observable in the marketplace other than those classified as Level 1; and (c) Level 3 – inputs that are unobservable in the marketplace and significant to the valuation.

## **Financial assets**

### *Cash and cash equivalents*

Cash includes cash 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 from dates of acquisition and are subject to an insignificant risk of change in value.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

The Group's trade and other receivables and advances to related parties are included in this category (see Notes 5 and 12).

## **Financial liabilities**

### *Other financial liabilities*

This classification pertains to financial liabilities that are not held for trading or not designated as FVPL upon inception of the liability. Included in this category are liabilities arising from operations or 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.

The Group's accounts payable and accrued expenses, advances from related parties, deposit for the sale of investment in AbaCoal, advances from joint venture, loans payable and rental deposit payable are classified under this category (see Note 12, 13, 14, 21 and 23).

### *Derecognition of financial instruments*

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets is derecognized when: a) the rights to receive cash flows from the asset have expired; b) 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 c) the Group has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When 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.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

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

#### *Assessment of impairment*

The Group assesses at each financial reporting date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, 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.

The determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

#### *Evidence of impairment*

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

#### *Impairment of assets carried at amortized cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at amortized cost such as receivables carried at amortized cost, the amount of 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) 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 either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statements of comprehensive income.

#### *Impairment of assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an asset carried at cost such as an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

### *Reversal of impairment loss*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

### *Classification of financial instruments between debt and equity*

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as an expense.

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or another financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position 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. This is not generally the case with master netting agreements, when the related assets and liabilities are presented gross in the consolidated statements of financial position.

## **2.3 Investments in associates**

An associate is an entity over which the Group has significant influence but has no control and which is neither a subsidiary nor a joint venture.

Investment in an associate is accounted for by the equity method of accounting. Under this method, the investment is initially recognized at cost and adjusted thereafter by post acquisition changes in the Group's share in the net assets of the associate and any impairment losses. The Group's share of its associate's post-acquisition profits or losses is recognized in the consolidated statements of comprehensive income. Share in post-acquisition change in the associate's net asset not recognized in the associate's statement of comprehensive income is directly recognized in the Group's equity. Dividends received from the associates are deducted from the carrying amount of the investment.

The Group discontinues applying the equity method when their investments in associates are reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations to the associate. When the associate subsequently reports net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the period the equity method was suspended.



The reporting date of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

## **2.4 Joint venture transactions**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity, which is subject to joint control, and none of the participating parties has unilateral control over the economic activity.

Assets that the Group controls and liabilities that it incurs in relation to jointly controlled operations are recognized in the Group's consolidated statements of financial position on an accrual basis and classified according to the nature of the item. The Group's share of income that it earns from jointly controlled operations, together with the expenses that it incurs, are included in the Group's consolidated statements of comprehensive income when it is probable that economic benefits associated with the transaction will flow to/from the Group.

## **2.5 Business combination and goodwill**

Business acquisitions are accounted for using the purchase method of accounting. The cost of acquisition is measured as the fair value of the asset given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill acquired in business combination is initially measured at cost as the excess of cost of a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Negative goodwill, which is the excess of the Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost, is charged directly to income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

## **2.6 Investment property**

Initially, investment property is measured at cost including transaction costs. The cost of investment property comprises its purchase price and any directly attributable expenditure.

Subsequent expenditures are recognized as an asset when the expenditures improve the condition of the asset beyond its originally assessed standard of performance. All other subsequent expenditure is recognized as an expense when incurred.

Subsequent to initial recognition, investment property is stated at fair value, which reflects the market conditions at the financial reporting date. Any gain or loss resulting from either change in the fair value is immediately recognized in the consolidated statement of comprehensive income in the year in which it arises.

Investment property is derecognized when it has either been disposed or when they are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain

or loss on the retirement or disposal of an investment property is recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

## **2.7 Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The initial cost of property and equipment is comprised of the purchase price and costs directly attributable to bringing the assets to their intended use.

Subsequent expenditures incurred after the assets have been put into operation are capitalized as additional cost of the assets when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures incurred such as repairs and maintenance are recognized in the consolidated statement of comprehensive income in the period the costs are incurred.

When assets are sold or retired, their cost, accumulated depreciation and amortization and accumulated impairment losses are eliminated from the accounts and any resulting gain or loss is included in the consolidated statement of comprehensive income of such period.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the terms of the lease or estimated useful lives of improvements. The estimated useful lives of the assets and the improvements are as follows:

| <b>Category</b>                | <b>Estimated useful life in years</b> |
|--------------------------------|---------------------------------------|
| Building and improvements      | 5 years                               |
| Machinery and other equipments | 3 to 5 years                          |

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

## **2.8 Construction-in-progress**

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. CIP is not depreciated until such time as the relevant assets are completed and put into operational use. Assets under construction are transferred to the investment property account or reclassified to a specific category of property and equipment when the construction and other related activities necessary to prepare the properties for their intended use are completed and the properties are available for service.

## **2.9 Deferred exploration costs**

Deferred exploration costs are stated at cost less impairment losses, and include deferred exploration costs and other expenses incurred prior to the start of commercial operations, net of incidental income.

Deferred exploration costs are accumulated separately for each area of interest. These include acquisition costs, direct exploration and development costs and an appropriate portion of related overhead expenditures, and exclude general overhead or administrative expenditures not specifically identified with exploration activities.

Deferred exploration costs are carried in the books only if the costs related to an area of interest for which the rights of tenure are current and such are expected to be recouped through successful development and exploration or from sale of the area or exploration and evaluation activities in the area as of financial reporting date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active operations in, or relating to, the area are continuing. Exploration costs, which do not satisfy the above criteria, are recognized in the consolidated statements of comprehensive income.

Revenues earned in connection with the exploration activities in an area of interest prior to the start of commercial operations are offset against the expenditures of such area of interest.

The carrying value of each producing area of interest is reviewed regularly and, to the extent to which this amount exceeds its recoverable amount (based on the higher of the net present value of estimated future net cash flows and current realizable value), an allowance for impairment will be provided in the year in which it is determined.

When further development expenditures are incurred on producing area of interest, such expenditures are capitalized as part of the costs of such area of interest only when substantial economic benefits are thereby established; otherwise, such expenditures are charged to cost of production.

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

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the Group makes a formal estimate of the asset's recoverable amount.

The recoverable amount is the higher of an asset's or its cash generating unit's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash flows independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

## **2.11 Provisions and contingencies**

Provisions are recognized when there is a present legal or constructive obligation 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.

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

## **2.12 Equity**

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as disclosed in the consolidated statements of comprehensive income.

Shares held by subsidiaries are recognized at cost. These are shares of the parent company that are owned by its subsidiaries.

Treasury shares are recognized at cost.

## **2.13 Revenue recognition**

Revenue is recognized when the significant risks and rewards of ownership of goods has been transferred to the buyer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### ***Interest income***

Interest income is recognized as the interest accrues on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount.

### ***Share in net earnings and losses of associates***

The proportionate share in net earnings and losses of the associates is recognized as soon as the basis for the share, which is the audited financial statements of the associates for the current year, becomes available.

### ***Dividend income***

Dividend income from investment is recognized when the shareholder's right to receive payment has been established.

## **2.14 Leases**

### ***Group as lessor***

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

### ***Group as lessee***

Leases where substantially all the risks and benefits of ownership of the asset do not pass on to the lessee are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of comprehensive income on straight-line basis over the lease term.

## **2.15 Foreign exchange transactions**

Transactions denominated in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the financial reporting date. Exchange gains and losses arising from the foreign currency denominated transactions and translations are credited or charged to operations. Non-monetary assets and liabilities are translated at the closing rate if carried at fair value or at historical rate if carried at cost. Any changes in the carrying amount of non-monetary

items are reported in profit or loss or in equity to the extent that the gain or loss is directly recognized in equity; otherwise, the exchange difference is recognized in the consolidated statements of comprehensive income.

## **2.16 Retirement benefits cost**

Republic Act No. (RA) 7641 (New Retirement Law) requires the Group to provide minimum retirement benefits to qualified retiring employees. In compliance with the law, the Company provides for estimated retirement benefits to all of its qualified regular and permanent employees.

## **2.17 Income tax**

### ***Current income tax***

Current income tax assets and liabilities for the current and the 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 substantively enacted at the financial reporting date.

### ***Deferred income tax***

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

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

## **2.18 Earnings per share (EPS)**

Basic EPS is calculated by dividing the net income or loss for the period by the weighted average number of shares outstanding during the period, net of shares held by the subsidiaries, after giving retroactive effect to any stock dividend declared during the year.

## **2.19 Segment reporting**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

## **2.20 Related parties**

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Individuals, associates or companies that directly or indirectly control or are controlled by or under common control are considered related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

## **2.21 Events after financial reporting date**

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

|  |
|--|
| <b>NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES</b> |
|--|

The preparation of the consolidated financial statements in conformity with PFRS requires the Group's management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

## **3.1 Judgments**

### ***Leases***

The Group has entered into lease agreements as lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties under operating lease agreements.

The Group has also entered into lease agreements as lessor where substantially all the risks and benefits of ownership of the asset do not pass on to the lessee under operating lease agreements.

### ***Functional currency***

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the Group's operations.

### **3.2 Estimates**

#### ***Estimation of useful lives of property and equipment***

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The carrying value of property and equipment, net of accumulated depreciation is presented in (see Note 9).

#### ***Estimation of mine rehabilitation and decommissioning costs***

The Group recognizes mine rehabilitation and decommissioning liability as soon as legal liability to it has been established. The provision recognized represents the best estimate of the expenditures required to decommission the related equipment at the end of its useful life. Such cost estimates are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under the "Provision for Mine Rehabilitation and Decommissioning" account.

The Group is liable to provide for mine rehabilitation and decommissioning costs in compliance with the terms of the Mineral Production Sharing Agreement (MPSA). However, according to the agreement, recognition shall commence on the development, utilization and processing of mines, which the licensee is not yet into as of the moment.

#### ***Estimation of impairment of non-financial assets***

The Group assesses at each financial reporting date whether there is an indication that the carrying amount of all non-financial assets may be impaired or that previously recognized impairment losses may no longer exist or may have decreased. 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.

#### ***Income taxes***

The Group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when, despite the Group's belief that its tax return positions are supportable, the Group believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Group believes that its accruals for

tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law.

#### **NOTE 4 – CASH AND CASH EQUIVALENTS**

The details of the account are as follows:

|               | 2010                | 2009                |
|---------------|---------------------|---------------------|
| Cash in banks | ₱ 19,539,842        | ₱ 13,690,516        |
| Cash on hand  | 29,500              | 340,591             |
| <b>Total</b>  | <b>₱ 19,569,342</b> | <b>₱ 14,031,107</b> |

Cash in banks includes current and savings accounts which generally earn interest at the prevailing bank deposit rates.

The details of the foreign-currency denominated deposits are presented below:

|              | 2010       | 2009       |
|--------------|------------|------------|
| Cash in bank | US\$ 3,445 | US\$ 3,437 |

The peso equivalent of the U.S. dollar is presented below.

|              | 2010      | 2009      |
|--------------|-----------|-----------|
| Cash in bank | ₱ 151,019 | ₱ 158,789 |

#### **NOTE 5 – TRADE AND OTHER RECEIVABLES**

The details of the account are as follows:

|                                    | 2010               | 2009                |
|------------------------------------|--------------------|---------------------|
| Trade                              | ₱ 577,605          | ₱ 876,758           |
| Advances to officers and employees | 233,229            | 471,520             |
| Others                             | 373,605            | 10,869,315          |
|                                    | <b>₱ 1,184,416</b> | <b>₱ 12,217,593</b> |

Other receivables pertain mainly to funds advanced to third parties for the purchase of shares of stock of the Parent Company for their account.

The face value of the receivables approximates its fair value. Further, no allowance for bad debts was recognized after careful evaluation by the Group's management.



## NOTE 6 – INVESTMENTS IN ASSOCIATES

This pertains to the investments in Pacific Online Systems Corporation (POSC) and Abacus Global Technovisions, Inc. (AbaGT) and Pride Star Development Bank, Inc. (PSDBI), which are accounted for using the cost method. The details of the parent company's ownership in its associates are as follows:

| Principal Activities |         | Percentage of Ownership |          |        |          |
|----------------------|---------|-------------------------|----------|--------|----------|
|                      |         | 2010                    |          | 2009   |          |
|                      |         | Direct                  | Indirect | Direct | Indirect |
| POSC                 | Gaming  | -                       | 18.83%   | 18.97% | 0.03%    |
| AbaGT                | Holding | 9.64%                   | 3.59%    | 9.64%  | 3.59%    |
| PSDBI                | Banking | -                       | 40.00%   | -      | 40.00%   |

POSC is registered with the SEC and is engaged in the development, design and management of online computer systems, terminals and software for the gaming industry. POSC's shares are traded in the PSE. Its registered office address is located at the 22nd Floor, West Tower, Philippine Stock Exchange Centre, Ortigas Center, Pasig City.

The fair value of POSC's shares as of December 31, 2010 and 2009 are ₱16.04 and ₱ 16.25 per share, respectively.

AbaGT is registered with the SEC on June 21, 1993 and is a majority-owned subsidiary of BSDHI. In July 2009, AbaGT amended its primary purpose, to purchase, subscribe for, or otherwise acquire, own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or dispose of real and/or personal properties of every kind and description, including shares of stock, voting trust certificates for shares of capital stock and other securities, contracts, or obligations of any obligations corporation or association, domestic or foreign, and to pay therefore, in whole or in part, in cash or in property or by exchanging stocks, bonds of other corporation and in general, to do every act and thing covered by the denomination "holding company" without engaging as stockbroker, dealer in securities or investment company. Its registered business address is located at 28 N. Domingo St. New Manila, Quezon City.

AbaGT has 100% shareholdings in two subsidiaries: Simlong Realty Corporation (SRC) and Better Resources, Inc. (BRI).

In January 2008, the parent company's investment in AbaGT amounting to P199,470,100 was declared by the BOD as property dividends to shareholders of record as of March 11, 2008. This reduced its ownership in AbaGT from 66.67% to 9.64%. Thus, the investment had been accounted for as investment in associate starting 2008.

On December 22, 2009, the Board resolved to amend AbaGT's primary purpose (Article Two of the Articles of Incorporation) from holding company to owning, developing, operating and managing hotels, condotels and other establishments that provide lodging, food, refreshments and allied services to tourists, travelers and other transients and to include real estate as one of its secondary purpose.

It was also resolved, subject to the approval of the stockholders and the SEC, to approve the merger with Alpha Hotel and Batangan Plaza, Inc. (BPI) with AbaGT as the surviving entity. The merger was approved by the SEC on May 27, 2010. AbaGT is also currently in the process of listing its shares in the PSE.

PSDBI is a corporation organized and domiciled in the Philippines and has started operations on August 29, 1956. On January 21, 2006, the term of existence of the corporation was extended for another fifty (50) years from and after the date of expiry on March 2, 2006.

PSDBI is registered with SEC and Bangko Sentral ng Pilipinas primarily to engage in accumulating deposits and extending rural credits to small farmers and tenants and deserving rural industries or enterprises.

In 2008, PRIDE's investment in PSDBI's shares was diluted to 40% due to lesser amount of subscription in PSDB's additional authorized share capital of ₱ 90,000,000 from ₱ 10,000,000 to ₱ 100,000,000 or from 100,000 shares to 1,000,000 shares at ₱ 10 par value per share.

In 2009, PSDBI was converted from a rural bank into a private development bank to upgrade its purpose of giving further services in the countryside and economic development in the province of Batangas.

The movements in investments in associates are as follows:

|                                     | 2010          | 2009          |
|-------------------------------------|---------------|---------------|
| Acquisition cost:                   |               |               |
| Balance, January 1                  | ₱ 537,994,990 | ₱ 539,919,570 |
| Acquisitions during the year        | -             | -             |
| Disposals during the year           | (7,799,438)   | (1,924,580)   |
| Balance, December 31                | 530,195,552   | 537,994,990   |
| Accumulated equity in net earnings: |               |               |
| Balance, January 1                  | 45,929,497    | 12,752,784    |
| Equity in net earnings, net         | 82,015,198    | 51,389,136    |
| Dividends received                  | (27,311,534)  | (18,212,423)  |
| Balance, December 31                | 100,633,162   | 45,929,497    |
|                                     | ₱ 630,828,714 | ₱ 583,924,487 |

In 2009, the parent company assigned 222,000 POSC shares, with a total cost of ₱ 1,924,580, to a third party for ₱ 1,953,591 resulting to a gain of ₱ 29,011. During the year, 568,000 shares were disposed resulting to a gain of ₱ 4,018,921.

The summary of the Group's share in net earnings and losses in POSC, PSDBI and AbaGT are as follows:

|                              | 2010         | 2009         |
|------------------------------|--------------|--------------|
| Share in net earnings - POSC | ₱ 81,543,308 | ₱ 50,051,474 |
| Share in net earnings - PSDB | 1,156,202    | 1,904,032    |
| Share in net losses - AbaGT  | (684,312)    | (566,370)    |
|                              | ₱ 82,015,198 | ₱ 51,389,136 |

**NOTE 7 – GOODWILL**

The details of the account as of December 31 are as follows:

|                    | 2010          | 2009          |
|--------------------|---------------|---------------|
| Balance, January 1 | ₱ 401,941,532 | ₱ 252,559,554 |
| Acquisition of KPI | (10,026,875)  | 71,398,932    |
| Acquisition of VRC | (43,083,498)  | 77,983,046    |
|                    | ₱ 348,831,159 | ₱ 401,941,532 |

**NOTE 8 – INVESTMENT PROPERTIES**

The details of the account as of December 31 are as follows:

|  | 2010            | 2009            |
|--|-----------------|-----------------|
| Balance, January 1   | ₱ 2,318,803,340 | ₱ 1,719,570,370 |
| Net gains from fair value adjustments                            | 443,258,608     | 645,109,143     |
| Additions from business acquisition of KPI and VRC               | -               | 656,190,320     |
| Adjustments to fair value  | (119,283,567)   | (662,359,143)   |
| Fair value of investment property of deconsolidated subsidiaries | -               | (39,707,350)    |
| Balance, December 31   | ₱ 2,642,778,381 | ₱ 2,318,803,340 |

The total cost and fair value of investment property as of December 31 are as follows:

|   | 2010            | 2009            |
|---|-----------------|-----------------|
| Investment property, at cost                      | ₱ 428,109,634   | ₱ 406,818,835   |
| Accumulated net gains from fair value adjustments | 2,214,668,747   | 1,911,984,505   |
| Investment property, at fair value                | ₱ 2,642,778,381 | ₱ 2,318,803,340 |

The fair values of the investment property were determined by independent, certified professional firms of appraisers and were arrived at based on sales and listings of comparable properties registered within the immediate vicinity of the properties.

Corresponding deferred tax liability of ₱ 631,744,791 and ₱ 563,619,257 as of December 31, 2010 and 2009, respectively, had been recognized on the revaluation increment on investment property.

In 2009, the acquisition of KPI and VRC caused an increase in the total amount of properties of the Group by ₱ 656,190,320. The gain on fair value adjustments amounting to ₱ 645,109,143 came from the properties which were transferred from Omnicor and BSDFI to their respective newly-incorporated subsidiaries.

The extent to which the fair value of the investment property is based on the valuation by an independent appraiser is ₱ 2,637,958,381 and ₱ 2,313,983,340 as of December 31, 2010 and 2009, respectively.

Rental income from lease of investment property recognized in the consolidated statements of comprehensive income amounted to ₱ 514,998, ₱ 622,609 and ₱ 235,847 for the years ended December 31, 2010, 2009 and 2008, respectively. Expenses incurred on this property amounted to ₱ 175,472, ₱ 213,616 and ₱ 306,125, respectively.

#### **NOTE 9 – PROPERTY AND EQUIPMENT**

The details of property and equipment are as follows:

|                          | <b>December 31, 2010</b> |                                  |                                      |                     |
|--------------------------|--------------------------|----------------------------------|--------------------------------------|---------------------|
|                          | <b>Land</b>              | <b>Building and Improvements</b> | <b>Machinery and other Equipment</b> | <b>Total</b>        |
| <b>Cost</b>              |                          |                                  |                                      |                     |
| January 1                | ₱ 293,541                | ₱ 7,228,000                      | ₱ 19,196,247                         | ₱ 26,717,788        |
| Additions                | -                        | -                                | 2,764,390                            | 2,764,390           |
| Disposals                | -                        | -                                | -                                    | -                   |
| December 31              | 293,541                  | 7,228,000                        | 21,960,637                           | 29,482,178          |
| <b>Depreciation</b>      |                          |                                  |                                      |                     |
| January 1                | -                        | 6,983,669                        | 2,609,514                            | 9,593,183           |
| Provisions               | -                        | 201,265                          | 1,430,258                            | 1,631,523           |
| Disposals                | -                        | -                                | -                                    | -                   |
| December 31              | -                        | 7,184,934                        | 4,039,772                            | 11,224,706          |
| <b>Net Book Value</b>    |                          |                                  |                                      |                     |
| <b>December 31, 2010</b> | <b>₱ 293,541</b>         | <b>₱ 43,066</b>                  | <b>₱ 17,920,865</b>                  | <b>₱ 18,257,472</b> |

|                       | December 31, 2009 |                           |                               |              |
|-----------------------|-------------------|---------------------------|-------------------------------|--------------|
|                       | Land              | Building and Improvements | Machinery and other Equipment | Total        |
| <b>Cost</b>           |                   |                           |                               |              |
| January 1             | ₱ 293,541         | ₱ 7,228,000               | ₱ 2,870,031                   | ₱ 10,391,572 |
| Additions             | -                 | -                         | 16,427,200                    | 16,427,200   |
| Disposals             | -                 | -                         | (100,984)                     | (100,984)    |
| December 31           | 293,541           | 7,228,000                 | 19,196,247                    | 26,717,788   |
| <b>Depreciation</b>   |                   |                           |                               |              |
| January 1             | -                 | 6,976,926                 | 2,283,095                     | 9,260,021    |
| Provisions            | -                 | 6,743                     | 404,582                       | 411,325      |
| Disposals             | -                 | -                         | (78,163)                      | (78,163)     |
| December 31           | -                 | 6,983,669                 | 2,609,514                     | 9,593,183    |
| <b>Net Book Value</b> |                   |                           |                               |              |
| December 31, 2009     | ₱ 293,541         | ₱ 51,329                  | ₱ 16,786,735                  | ₱ 17,131,605 |

The Management assesses the condition of the Group's property and equipment annually. At December 31, 2010, management has not recognized any condition of impairment and based on its assessment, has not recognized any impairment loss.

#### **NOTE 10 – CONSTRUCTION-IN-PROGRESS**

This account pertains to the cost of the on-going construction of the Group's Cloisters project located in Batangas which was initially projected to be completed in 2010. However, the project was not completed as scheduled due to the collapse of the Bridge of Promise and delays in the processing of building permits. Accordingly, the project is now estimated to be completed by the end of June 2011.

Total accumulated costs of construction, which is composed of direct labor, materials and overhead, as of December 31, 2010 and 2009 amounted to ₱ 25,967,279 and ₱ 25,058,401, respectively.

#### **NOTE 11 – DEFERRED EXPLORATION COSTS**

This account represents the Group's accumulated intangible costs related to its Coal Operating Contract (COC) and gold mining claims in Surigao del Sur and Agusan del Sur, respectively (see Note 20).

The recovery of deferred exploration costs is dependent upon the success of future exploration and development activities and events, the outcome of which cannot be presently determined. In September 2008, the parent company transferred its COC to AbaCoal in exchange for AbaCoal's 304,751,200 new shares at its par value of ₱ 0.01 per share equivalent to ₱ 3,047,512.

In 2008, the parent company also entered into a Heads of Agreement with Lodestar Investment Holdings Corporation (Lodestar) and MUSX Corporation (MUSX – formerly Music Semiconductors Corporation) to transfer its outstanding shares in AbaCoal including its interest in a coal property located in Tandag, Surigao del Sur (see Note 20).

The restatement of the financial statement of AbaCoal, a subsidiary of the company, reflected an increase in its share capital amounting to ₱ 294,452,488, pertaining to the mining rights not recognized in its 2008 financial statements.

As of December 31, 2010 and 2009, the accumulated costs incurred for the COC and gold mining claims amounted to ₱ 301,566,020 and ₱ 301,566,020, respectively.

#### **NOTE 12 – RELATED PARTY TRANSACTIONS**

Related party transactions consist of non-interest bearing advances to and from related parties for working capital requirements. These advances are due and collectible/payable upon demand.

On December 29, 2009, BSDHI and HIMGI executed a deed of pledge to secure their indebtedness to the parent company amounting to ₱ 131,300,482. Through the deed of pledge, BSDHI assigned the following securities in favor of the parent company: 3,990,000 ATN Holdings, Inc. (ATN) shares, 17,290,000 ATN “B” shares, 1,330,000 Lodestar shares, and 33,340,000 MUSX shares; HIMGI assigned the following securities in favor of the parent company: 667,000 Lodestar shares and 16,660,000 MUSX shares. The total fair value of these shares based on quoted market prices as of December 31, 2010 is ₱ 171,668,900 and ₱ 239,462,500 2009.

The details of advances to related parties are as follows:

|   | <b>Nature of Relationship</b> | <b>2010</b>          | <b>2009</b>          |
|---|-------------------------------|----------------------|----------------------|
| Abacus Global Technovisions, Inc. (AbaGT)       | Associate                     | ₱ 37,677,260         | ₱ 56,800,255         |
| Blue Stock Development Holdings, Inc. (BSDHI)   | Parent                        | 73,459,176           | 52,518,814           |
| Hedge Integrated Management Group, Inc. (HIMGI) | Under common directorship     | 13,140,260           | 13,139,060           |
| Geyser, Inc. (Geyser)                           | Under common directorship     | 4,9880,928           | 4,980,928            |
| Click Communication, Inc. (Click)               | Under common directorship     | -                    | 3,861,425            |
|   |                               | <b>₱ 129,257,624</b> | <b>₱ 131,300,482</b> |

The summary of the parent company’s transactions with related parties in the normal course of business is as follows:

- a) Net offsetting made to advances to subsidiaries amounted to ₱2,042,858 in 2010 and in 2009, there was a net grant of ₱21,501,847.
- b) Directors’ fees, compensation and other benefits are composed of the following:

|                          | <b>2010</b>        | <b>2009</b>         |
|--------------------------|--------------------|---------------------|
| Short-term benefits      | ₱ 5,382,898        | ₱ 6,952,613         |
| Post-employment benefits | -                  | 12,078,321          |
|                          | <b>₱ 5,382,898</b> | <b>₱ 19,030,934</b> |

**NOTE 13 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

This account consists of the following:

|          | 2010         | 2009         |
|----------|--------------|--------------|
| Trade    | ₱ 13,260,224 | ₱ 11,354,815 |
| Accruals | 7,779,378    | 7,660,607    |
| Others   | 2,029,858    | 2,625,074    |
|          | ₱ 23,069,458 | ₱ 21,640,496 |

Trade payables, accruals and other liabilities are payable within one year after the financial reporting date.

Other payables pertain to the parent company's liability to a contractor for the improvement of infrastructures within the coal concession area particularly in Sitio Mimi, Tago, Surigao del Sur.

The parent company considers the carrying amounts of accrued expenses and other payables recognized in the statements of financial position to be the reasonable approximation of their fair values.

**NOTE 14 – LOANS PAYABLE**

The details of the account are as follows:

|                     | 2010         | 2009         |
|---------------------|--------------|--------------|
| Omnikor loan        | ₱ 42,133,333 | ₱ 47,400,000 |
| CTDHI loan          | 2,552,387    | 2,689,787    |
| Parent company loan | -            | 20,000,000   |
|                     | ₱ 44,685,720 | ₱ 70,089,787 |

*Omnikor Loan*

In October 2009, a loan from the Philippine Veterans Bank was jointly obtained by Omnikor and ACRHI amounting to ₱ 47.4 million for working capital purposes with an annual interest rate of 12.63% which will mature in October 2014. The amount of the loan is wholly recorded under Omnikor's books.

The loan is secured by two parcels of land owned by Omnikor with a total book value of ₱ 163,060,800 and a deed of assignment on the proceeds to be generated from the saleable units on the Cloisters Project.

Interest expense incurred for this loan for the year ended December 31, 2010 and 2009 amounted to ₱ 8,623,467 and ₱ 5,792,356, respectively.

#### ACRHI Loan

This represents the loan availed from the Bank of Commerce on April 8, 2009 amounting to ₱ 20 million maturing on April 2, 2010 and bearing interest rate of 15% per annum, which is subject to change every month depending on the prevailing bank rates.

The loan is secured by various parcels of land with a total book value of ₱ 41,063,462 owned by Omnicor and Haves, which are indirect subsidiaries of the parent company.

In April 2009, subsequent to the financial reporting date, the ACRHI extended the term of the loan until April 2011 still bearing an interest rate of 15% per annum.

Interest expense incurred for this loan for the year ended December 31, 2010 and 2009 amounted to ₱ 2,531,111 and ₱ 2,016,667, respectively.

#### CTDHI Loan

In July 2004, CTDHI obtained a 5% convertible loan (the 'loan') with a principal amount of US\$870,000 from Agrodynamics Farms (Texas), Inc. (AFI), a company incorporated under the laws of the State of Texas, United States of America (US), which matured on July 2006. The loan is convertible up to July 2006 (or on the occurrence of an initial public offering, whichever comes earlier) into the common stock of CTDHI with a par value of P1. Other significant terms of the loan are as follows:

- a) all payments of principal and interest in respect of the loan shall be made in US dollars;
- b) CTDHI may prepay in whole or in part the principal amount;
- c) any of the following may constitute default:
  - i.) failure of CTDHI to pay the principal, interest or other amount as stated in the loan or any other loans CTDHI made;
  - ii.) failure of CTDHI to perform or observe any other term of the loan; and
  - iii.) any order or judgment against CTDHI decreeing its dissolution or split-up.
- d) at any time after the conversion date and from time to time thereafter prior to the payment of the loan in full, AFI may convert the outstanding principal amount of the loan into such number of common shares equivalent to the amount designated by AFI and converted into Philippine peso at the US Dollar to Philippine peso exchange rate then in effect. Common shares are pegged at P1 par value; and
- e) as soon as possible after the conversion has been effected, the CTDHI shall deliver to AFI a certificate or certificates representing the number of common shares issuable by reason of such name or names and such denominations as AFI has specified.

After July 2006, the option of AFI to convert this debt into shares of CTDHI has already elapsed. During the year, CTDHI paid P137,400 of the principal amount to AFI.

As of December 31, 2010 and 2009, the Philippine peso value of the loan amounted to ₱ 2,552,387 and P2,689,787, respectively.



## NOTE 15 – EQUITY

Share Capital consists of the following:

|  | 2010                   |          | 2009          |
|--|------------------------|----------|---------------|
| Class A Shares (including Class B Shares declassified in 2008) |                        |          |               |
| Authorized, @ ₱ 1.00 par value per share                       |                        |          |               |
| <i>Number of Shares</i>  | <b>3,000,000,000</b>   |          | 3,000,000,000 |
| <i>Amount:</i>   | <b>₱ 3,000,000,000</b> | <b>₱</b> | 3,000,000,000 |
| Issued:  |                        |          |               |
| <i>Number of Shares</i>  |                        |          |               |
| January 1  | <b>2,655,095,834</b>   |          | 2,000,566,014 |
| Additions  | -                      |          | -             |
| Subscription for the year                                      | -                      |          | 654,529,820   |
|  | <b>2,655,095,834</b>   |          | 2,655,095,834 |
| Subscription receivable  | <b>(296,082,544)</b>   |          | (296,082,544) |
|  | <b>2,359,013,290</b>   |          | 2,359,013,290 |
| <i>Amount:</i>   |                        |          |               |
| January 1  | <b>₱ 2,655,095,834</b> | <b>₱</b> | 2,000,566,014 |
| Additions  | -                      |          | -             |
| Subscription for the year                                      | -                      |          | 654,529,820   |
|  | <b>2,655,095,834</b>   |          | 2,655,095,834 |
| Subscription receivable  | <b>(296,082,544)</b>   |          | (296,082,544) |
|  | <b>₱ 2,359,013,290</b> | <b>₱</b> | 2,359,013,290 |
| Treasury shares at cost  |                        |          |               |
| January 1  | <b>₱ 1,150,790</b>     | <b>₱</b> | 5,865,000     |
| Re-issuance  | -                      |          | (4,714,219)   |
| December 31  | <b>₱ 1,150,790</b>     | <b>₱</b> | 1,150,790     |

The subscribed shares in 2009 amounting to ₱ 654,529,820 were issued to BSDHI in exchange for its investment in KPI and VRC when they were acquired via a share-for-share swap in December 2009. The company received KPI and VRC shares amounting to ₱ 359,660,803 and ₱ 294,869,017, respectively.

The parent company's outstanding treasury shares amounted to ₱ 1,150,790. Treasury shares amounting to ₱ 4,714,219 were re-issued to the officers of the parent company who retired in March 2009 as part of their retirement benefits. The amount of treasury shares restricts the parent company from declaring an equivalent amount from the unappropriated retained earnings as dividends.

## NOTE 16 – EXPENSES

The compensation and benefits includes the salaries and wages of employees of the Group as well as their 13th month pay and monthly contributions to SSS, PhilHealth and Pag-ibig Fund.

Taxes and licenses is composed of business taxes paid for permits, licenses and property taxes incurred in the normal course of the Group's business operations. The increase of the amount paid in 2010 compared to that in 2009 is due to the documentary stamps paid by the parent company.

Management and directors' fees pertain to remuneration paid to the directors of the Group when board meetings are held.

**NOTE 17 – RETIREMENT BENEFIT COST**

The Group is required by Republic Act (R.A.) 7641, Retirement Law, to pay retirement benefits for all employees who have reached the retirement age of 60 and have rendered a minimum continued service of five years. Under R.A. 7641, the retirement pay is equivalent to at least half of the final monthly salary of the employee for every year of service.

Under PAS 19, “Employee Benefits”, the cost of defined retirement benefits, including those mandated under R.A. 7641, should be determined using an accrued benefit actuarial valuation method or a projected unit credit actuarial valuation method.

Management believes that the effect on the financial statements of the difference between the retirement benefit cost recognized by the Group and the retirement benefit cost that could be determined using the projected unit credit actuarial valuation method is not significant.

**NOTE 18 – INCOME TAXES**

The components of the parent company’s provision for (benefit from) income tax for the years ended December 31, 2010, 2009 and 2008 are as follows:

|          | 2010          | 2009          | 2008          |
|----------|---------------|---------------|---------------|
| Current  | ₱ 23,229      | ₱ 33,989      | ₱ 34,727      |
| Deferred | 232,667,489   | 189,589,212   | 179,671,595   |
|          | ₱ 232,690,718 | ₱ 189,623,201 | ₱ 179,706,322 |

The deferred tax liabilities in the consolidated statements of financial position consist of the following:

|  | 2010          | 2009          | 2008          |
|--|---------------|---------------|---------------|
| Revaluation increment in investment property | ₱ 631,615,509 | ₱ 563,619,257 | ₱ 436,448,626 |
| Unrealized foreign exchange gain             | 129,282       | -             | 4,349         |
|  | ₱ 631,744,791 | ₱ 563,619,257 | ₱ 436,452,975 |

**NOTE 19 – BASIC EARNINGS (LOSS) PER SHARE**

The following table presents information necessary to calculate basic earnings (loss) per share:

|  | 2010          | 2009          | 2008          |
|--|---------------|---------------|---------------|
| Net income attributable to equity holders of the parent company      | ₱ 263,608,505 | ₱ 437,806,708 | ₱ 826,334,098 |
| Weighted average number of common shares outstanding during the year | 2,179,159,510 | 1,641,777,571 | 1,500,690,776 |
|  | ₱ 0.12097     | ₱ 0.26667     | ₱ 0.55064     |

The diluted earnings per share for the years ended December 31, 2010 and 2009 have not been calculated since no diluting events existed during those years.

**NOTE 20 – COMMITMENTS AND CONTINGENCIES**

The parent company, in the course of its exploration activities in its COC in Tandag, Surigao del Sur (see Note 11) and its mining contract with Phsamed Exploration and Development Corporation (PHSAMED) (see Note 22), is bound to comply with the necessary minimum requirements set by law and the contracts mentioned.

In 2008, the parent company entered into a Heads of Agreement (the Agreement) with Music and Lodestar to transfer its outstanding shares in AbaCoal including its interest in a coal property located in Tandag, Surigao del Sur.

This Agreement was amended in 2009 whereby Music assigned its right to acquire 55% participation and equity interest in AbaCoal to Lodestar. The purchase price was in the form of exchange of shares whereby P225 million worth of shares of AbaCoal at par value were swapped with 25 million shares of Lodestar valued at P9 per share or a total value of P225 million. As a consequence of this exchange of shares, Lodestar gained control of 75% of the over-all outstanding share capital of AbaCoal. Lodestar was also granted an option to acquire the remaining P75 million worth of shares of Abacoal.

However, as of report date, the transfer of ownership of the shares between the two parties has not yet been completed.

In 2009, the parent company received advances from Lodestar amounting to P15 million in addition to the P15 million received in 2008.

On November 3, 2010, the Heads of Agreement was revised as follows:

**1. Merger and Acquisition**

Lodestar shall acquire the Coal Property and all the other assets and liabilities of AbaCoal by and through a merger of Lodestar and AbaCoal, with Lodestar as the surviving corporation. By virtue of said merger, Lodestar shall issue two hundred fifty million (250,000,000) new common shares at a par value of ten centavos (₱ 0.10) and an agreed issue value of ninety centavos (₱ 0.90) to the parent company. The parent company undertakes to list the said 250,000,000 new common shares

with the Philippine Stock Exchange (PSE) at the soonest possible time. These terms and conditions shall be incorporated in a Merger Agreement and Plan of Merger which the parties hereby agree to execute at the proper time.

## 2. Participation in Operating Revenues

As an indispensable component of this agreement, Lodestar shall make staggered cash payments to the parent company which shall be deemed as constituting a participation in operating revenues from the Coal Property in the total amount of seventy five million pesos (₱ 75,000,000), in accordance with the following schedule:

| Date or Period of Payment  | Amount                                   |
|--|--|
| <ul style="list-style-type: none"> <li>September 24, 2008, June 1, 2009 and June 8 2009 – Advance Deposit on First Party's Participation.</li> </ul> | Thirty Million Pesos (₱ 30,000,000)      |
| Amounts to be paid upon and to be taken from the sale of the first production of Coal Products from the Coal property                                |  |
| <ul style="list-style-type: none"> <li>▪ Upon consummation of said first (1st) sale of Coal Products</li> </ul>                                      | Twenty Million Pesos (₱ 20,000,000)      |
| <ul style="list-style-type: none"> <li>▪ Thirty (30) days from consummation of said 1<sup>st</sup> sale of Coal Products</li> </ul>                  | Twenty Five Million Pesos (₱ 25,000,000) |

Lodestar shall be entitled to a grace period of ten (10) days from the dates the payments fall due.

### NOTE 21 – LEASES

The Group has also entered into an operating lease agreement with Doña Nicasia Realty for a term of one year with an escalation rate of 10% per year. In 2009, the Company renewed its lease agreement for another year.

The Group's future minimum lease payments under the above non-cancelable lease agreement is ₱ 186,975 for 2010 and ₱ 186,975 for 2009.

Lease rental expense for the years ended December 31, 2010, 2009 and 2008 amounted to P258,156, P258,156 and P130,978, respectively.

The Group has lease agreements that are renewable upon mutual agreement with its lessees as follows:

| Lessee                                | Lease Period                        |
|---------------------------------------|-------------------------------------|
| Globe Telecom, Inc.                   | October 10, 2006 – October 9, 2011  |
| Metro Lipa Water District             | January 1, 2009 – December 31, 2009 |
| Blue Stock Development Holdings, Inc. | December 2008 – December 2010       |

In 2009, the parent company entered into a sub-lease agreement with BSDHI for occupying a portion of the area leased from Doña Nicasia Realty (see note above).

Rental income earned for the years ended December 31, 2010, 2009 and 2008 amounted to P514,998, P622,609 and P235,847, respectively.

The future minimum lease receipts are as follows:

| Period                                      | Amount    |
|---|-----------|
| Less than one year                          | ₱ 400,853 |
| More than one year but less than five years | 154,281   |

#### **NOTE 22 – MINES OPERATING AGREEMENT (MOA)**

On November 2005, the parent company entered into a MOA with Phsamed Mining Corporation (PHSAMED), a Davao City-based joint venture company formed by Philsaga Mining Corporation, a Filipino mining venture, and Medusa Mining Limited of Australia. The MOA covers an estimated total tenement area of 8,100 hectares or 121 mining rights and governed by the parent company's Exploration Permit Application # 000028-XIII.

On January 26, 2009, the parent company and PHSAMED mutually terminated the MOA.

#### **NOTE 23 – JOINT VENTURE AGREEMENT (JVA)**

PRIDE represented Omnicor and its subsidiaries (the Owners) in a JVA with Solar Resources, Inc. (Solar), executed on February 18, 2007 involving properties of the Owners amounting to P42,163,200. The pertinent terms of the JVA are as follows:

- Solar undertakes to develop the property into a residential/commercial subdivision;
- Solar shall, as soon as practicable, start the construction and development work in the project after all the necessary permits and clearances to commence development works shall have been completely secured;
- Solar shall develop the project by way of phases and commits to complete all construction and development works on each phase within three (3) years or longer from the commencement thereof but the period maybe shortened or lengthened depending on the sales performance of the project;
- Expenses in securing the approval from the Department of Agrarian Reform of the land conversion of the properties to residential/commercial use, or its exemption from conversion shall be shared by Solar and the Owners on a 65%-35% ratio;
- As and by way of return on the respective contributions of the parties, the net saleable area in the residential/commercial subdivision shall be divided between Solar and the Owners on a 65%-35% ratio; and
- As part of the JVA, PRIDE shall acknowledge the receipt of P10 million from Solar as cash advance from the joint venture. This cash advance shall be paid by PRIDE to the joint venture thru successive deductions from any and all collections received from the sale of the Owners' 35% lot share in the project. Advances received as of December 31, 2010 and 2009 amounted to P9,500,000.

As of report date, the project is still under development and no revenue is recognized yet.

## **NOTE 24 – CAPITAL MANAGEMENT**

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios to support its business and maximize shareholder value.

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

The Group monitors capital on the basis of the debt-to-equity ratio which is calculated as total debt divided by total equity. Total debt is equivalent to accounts payable and accrued expenses, loans payable, rental deposit payable, bills payable, income tax payable, advances from related parties and deferred tax liability. The Group reports its total equity as the capital it manages. This comprises all components of equity including share capital, retained earnings and minority interest. The Group's equity amounts to P3,359,016,940 and P2,817,832,029 as of December 31, 2010 and 2009, respectively.

There are no changes in the Group's approach to capital management during the year.

The Group is not subject to statutory capital requirement except for PRIDE and PIIFI which are subject to minimum capital requirements. PRIDE is in compliance with the statutory minimum capital requirement of P300 million set by the Investment House Law. PIIFI also meets the minimum capital requirement of P50 million set by the Investment Company Act.

## **NOTE 25 – SEGMENT INFORMATION**

### ***Business Segments***

For management purposes, the Group is organized into four main business segments – holding, real estate, financial services and hotel. These are also the basis of the Group in reporting its primary segment information.

The holding segment is primary engaged in purchasing, owning, holding, transferring, or disposing of real properties of every kind and description, including shares of stocks and other securities, contracts or obligations of any corporation or association and contributed 25% and 7% of the Group's consolidated net income for the years ended December 31, 2010 and 2009, respectively.

The real estate segment includes purchases of land for appreciation which contributed 21% and 59% of the Group's consolidated net income for the years ended December 31, 2010 and 2009, respectively.

The financial services segment is involved in the accumulation of deposits and extension of rural credits to small farmers and tenants and to deserving rural industries or enterprises. This segment only existed in 2007 when PSDBI is still a subsidiary of PRIDE. It was deconsolidated in 2008 when the ownership of PRIDE in PSDBI was diluted to 40%.

The hotel segment is basically engaged to own, lease, operate, manage and administer hotels/hometels, apartment hotels, restaurants and all facilities, accommodations adjunct and accessories appurtenants to general hostelry business. This segment was also deconsolidated in 2008 when ownership of the parent company in AbagT was reduced to 9.64%.

Other segments include the mining and exploration, investment and other small divisions of the Group which contributed 54% and 34% of the Group's consolidated net income for the years ended December 31, 2010 and 2009, respectively. These are monitored by the Group's Management as well.

***Segment Assets and Liabilities***

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivable and property and equipment, net of allowances and provisions and investment property. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

***Inter-segment transactions***

Segment revenues, expenses and performance include revenue and expenses between business segments. Such revenues and expenses are eliminated in consolidation.

# **Business Segments**

|  | Holding              |               |               | Real Estate   |               |               | Others        |               |               | Eliminations    |                 |                 | Consolidated  |               |               |
|--|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|
|  | 2010                 | 2009          | 2008          | 2010          | 2009          | 2008          | 2010          | 2009          | 2008          | 2010            | 2009            | 2008            | 2010          | 2009          | 2008          |
| <b>External Revenue</b>                    | <b>88,073,352</b>    | 49,446,437    | 18,673,136    | 423,248,815   | 221,838       | 1,315,510     | 351,795,979   | 3,042,485     | 1,231,563     | (313,891,720)   | -               | -               | 549,226,426   | 52,710,760    | 21,220,209    |
| <b>Results</b>                             |                      |               |               |               |               |               |               |               |               |                 |                 |                 |               |               |               |
| Segment results                            | 66,835,944           | (19,106,807)  | (23,847,774)  | 191,209,840   | (11,187,308)  | (7,131,288)   | 239,884,775   | (11,623,927)  | (7,752,573)   | (30,188,769)    | -               | -               | 467,741,790   | (41,918,042)  | (38,731,635)  |
| Gain on revaluation of investment property | 19,464,160           | -             | -             | 397,809,480   | 403,130,607   | 538,878,600   | 347,563,889   | 241,978,536   | 187,200,000   | -               | -               | -               | 764,837,529   | 645,109,143   | 726,078,600   |
| Share in net earnings (loss) of associates | 143,307              | 49,467,647    | 24,355,622    | 1,238,748     | (24,453)      | (67,895)      | 292,412       | 1,945,942     | 159,375       | 46,431,825      | -               | -               | 48,106,292    | 51,389,136    | 24,447,102    |
| Provision for (benefit from) income tax    | 11,066,623           | 3,771         | (326,403)     | 124,748,191   | 117,025,870   | 145,980,005   | 104,646,074   | 72,593,561    | 34,052,720    | (4,762,089)     | -               | -               | 235,698,799   | 189,623,202   | 179,706,322   |
| <b>Net Income (Loss)</b>                   | <b>60,062,519</b>    | 30,357,069    | 834,251       | 68,212,696    | 274,892,976   | 385,699,412   | 130,066,416   | 159,706,990   | 145,554,082   | 11,480,967      | -               | -               | 269,822,598   | 464,957,035   | 532,087,745   |
| <b>Assets</b>                              |                      |               |               |               |               |               |               |               |               |                 |                 |                 |               |               |               |
| Operating assets                           | 120,431,276          | 521,176,138   | 348,592,949   | 20,449,816    | 1,666,294,293 | 1,029,878,704 | 1,201,698     | 862,537,392   | 790,745,359   | (102,120,039)   | (253,710,712)   | (115,157,089)   | 39,962,751    | 2,796,297,111 | 2,054,059,923 |
| Advances to related parties                | 32,051,819           | 308,518,723   | 211,371,794   | 175,483,972   | 268,115,982   | 201,869,004   | 63,549,383    | 32,973,734    | 40,338,753    | (141,487,550)   | (478,307,957)   | (343,780,916)   | 129,597,623   | 131,300,482   | 109,798,635   |
| Deferred tax assets                        | -                    | -             | -             | -             | -             | -             | -             | -             | -             | -               | -               | -               | -             | -             | -             |
| Investments in associates                  | 554,864,178          | 2,319,230,552 | 1,638,093,056 | 1,939,500     | 171,367,262   | 77,409,105    | -             | 405,348,714   | 403,396,184   | 74,025,036      | (2,312,022,041) | (1,566,225,991) | 630,828,714   | 583,924,487   | 552,672,354   |
| Other assets                               | 2,792,195,261        | 30,442        | 30,442        | 1,775,610,296 | 963,991       | 647,414       | 1,464,252,237 | 299,943       | 299,499       | (2,712,438,207) | -               | -               | 3,319,619,588 | 1,294,376     | 977,355       |
| <b>Total Assets</b>                        | <b>3,499,542,534</b> | 3,148,955,855 | 2,198,088,241 | 1,973,483,584 | 2,106,741,528 | 1,309,804,227 | 1,529,003,318 | 1,301,159,783 | 1,234,779,795 | (2,882,020,760) | (3,044,040,710) | (2,025,163,996) | 4,120,008,676 | 3,512,816,456 | 2,717,508,267 |
| <b>Liabilities</b>                         |                      |               |               |               |               |               |               |               |               |                 |                 |                 |               |               |               |
| Operating liabilities                      | 15,124,919           | 126,085,593   | 25,634,111    | 3,761,035     | 5,642,832     | 4,003,591     | 1,849,551     | 15,186,600    | 23,743,120    | 2,504,665       | (85,653,815)    | (6,679,398)     | 23,240,170    | 61,261,210    | 46,701,424    |
| Advances from related parties              | 32,051,819           | 36,319,464    | 37,252,312    | 180,264,802   | 297,582,298   | 164,041,189   | 94,762,980    | 32,621,298    | 118,009,960   | (307,079,601)   | (366,523,060)   | (318,616,969)   | (0)           | -             | 686,492       |
| Loans payable                              | 2,552,387            | 22,689,787    | 41,342,400    | 42,133,333    | 47,400,000    | -             | -             | -             | -             | -               | -               | -               | 44,685,720    | 70,089,787    | 41,342,400    |
| Income tax payable                         | 802                  | 8,119         | 4,866         | -             | 6,054         | 10,644        | -             | -             | 1,160         | 5,283           | -               | -               | 6,085         | 14,173        | 16,670        |
| Deferred tax liability                     | 44,623,982           | 2,013,707     | 2,018,055     | 309,201,836   | 495,458,920   | 255,937,235   | 279,189,151   | 71,193,568    | 178,497,685   | (1,270,179)     | (3,033,231)     | -               | 631,744,791   | 565,632,964   | 436,452,975   |
| Other liabilities                          | 39,500,000           | -             | -             | 30,379,914    | -             | -             | -             | -             | -             | (30,379,914)    | -               | -               | 39,500,000    | -             | -             |
| <b>Total Liabilities</b>                   | <b>133,853,909</b>   | 187,116,670   | 106,251,744   | 565,740,921   | 846,090,104   | 423,992,659   | 375,801,683   | 119,001,466   | 320,251,925   | (336,219,746)   | (455,210,106)   | (325,296,367)   | 739,176,766   | 696,998,134   | 525,199,961   |
| Depreciation                               | 174,197              | 242,589       | 298,397       | 1,445,810     | 15,639        | -             | 273,636       | 153,097       | 130,340       | -               | -               | -               | 1,893,644     | 411,325       | 428,737       |



## NOTE 26– FINANCIAL INSTRUMENTS

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

|   | 2010           |               | 2009           |               |
|---|----------------|---------------|----------------|---------------|
|   | Carrying Value | Fair Value    | Carrying Value | Fair Value    |
| <b>Financial Assets</b>                       |                |               |                |               |
| Cash and cash equivalents                     | ₱ 19,569,342   | ₱ 19,569,342  | ₱ 14,031,107   | ₱ 14,031,107  |
| Trade and other receivables                   | 1,184,416      | 1,184,416     | 12,217,593     | 12,217,593    |
| Advances to related parties                   | 129,597,624    | 129,597,624   | 131,300,482    | 131,300,482   |
|   | ₱ 150,351,381  | ₱ 150,351,381 | ₱ 157,549,182  | ₱ 157,549,182 |
| <b>Financial Liabilities</b>                  |                |               |                |               |
| Accounts payable and accrued expenses         | ₱ 23,069,458   | ₱ 23,069,458  | ₱ 21,640,496   | ₱ 21,640,496  |
| Deposit for the sale of investment in AbaCoal | 30,000,000     | 30,000,000    | 30,000,000     | 30,000,000    |
| Advances from joint venture                   | 9,500,000      | 9,500,000     | 9,500,000      | 9,500,000     |
| Loans payable                                 | 44,685,720     | 44,685,720    | 70,089,787     | 70,089,787    |
| Rental deposit payable                        | 170,712        | 170,712       | 120,712        | 120,712       |
|   | ₱ 107,425,890  | ₱ 107,425,890 | ₱ 131,350,995  | ₱ 131,350,995 |

### *Fair Value of Financial Instruments*

The carrying amounts of the cash and cash equivalents, trade and other receivables, advances to related parties, advances from a related party, advances from heads of agreement, loan payable and accrued expenses and other payables approximate their fair values due to the relatively short-term maturity of these financial instruments.

## NOTE 27 – BUSINESS COMBINATION

In December 2009, the BOD approved the share-for-share swap acquisition by the parent company of the 100% outstanding capital stock and advances of BSDHI's two subsidiaries, namely, KPI and VRC in exchange for the parent company's 654,529,820 shares at P1 par value or a total of P654,529,820.

The fair value of the identifiable assets and liabilities of the two subsidiaries acquired at the date of acquisition and the corresponding carrying amounts before the acquisition were:

|                                       | Fair Value / Carrying Value<br>Realized on Acquisition |
|---------------------------------------|--|
| Assets                                |  |
| Cash                                  | ₱ 339,424  |
| Prepaid expenses                      | 43,108   |
| Investment property                   | 654,529,820  |
| Total Assets                          | 654,912,352  |
| Liabilities                           |  |
| Accounts payable and accrued expenses | 5,512,851  |
| Advances from related parties         | 163,063,888  |
| Deferred tax liability                | 144,200,696  |
| Total Liabilities                     | 312,777,435  |
|                                       | ₱ 342,134,918  |

The acquisition resulted to the recognition of goodwill of P149,381,978.

#### **NOTE 28 – FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES**

The Group is exposed to variety of financial risks, which result from its operating, financing and investing activities. The Group's principal financial instruments comprise of cash and cash equivalents, loans receivable, deposit liabilities, loans and bills payable and advances to and from related parties. The main purpose of these financial instruments is to earn income and raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and accounts payable and accrued expenses, which arise directly from operations.

The Group's financial risk management policies and guidelines cover credit risk, interest rate risk, liquidity risk and market risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's financial position and results of operations. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

##### ***Credit Risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group is exposed to credit risk through its trade and other receivables, loans receivable and advances to related parties. The Group, from time to time, grants advances to related parties. However, it monitors the balances of advances and collects them promptly.

The details of the Group's maximum exposure to credit risk as of December 31, 2010 and 2009 are as follows:

|                             | 2010          | 2009          |
|-----------------------------|---------------|---------------|
| Trade and other receivables | ₱ 1,184,416   | ₱ 12,217,593  |
| Advances to related parties | 129,257,624   | 131,300,482   |
|                             | ₱ 130,442,040 | ₱ 143,518,075 |

The details of the Group's aging analysis of financial assets as of December 31, 2010 and 2009 are as follows:

| December 31,<br>2010           | Total       | Neither past<br>due nor<br>impaired | ≤ 30<br>days | 31 – 90<br>days | 91 – 180<br>days | 181 –<br>360<br>days | 1 – 3<br>years | < 3 years<br>but not<br>impaired | Impaired |
|--------------------------------|-------------|-------------------------------------|--------------|-----------------|------------------|----------------------|----------------|----------------------------------|----------|
| Advances to<br>related parties | 129,257,624 | 129,257,624                         | -            | -               | -                | -                    | -              | -                                | -        |
| Trade and other<br>receivables | 1,184,416   | 233,229                             | -            | -               | 577,605          | 373,582              | -              | -                                | -        |
|                                | 130,442,040 | 129,490,853                         | -            | -               | 577,605          | 373,582              | -              | -                                | -        |

| December 31,<br>2009           | Total       | Neither past<br>due nor<br>impaired | ≤ 30<br>days | 31 – 90<br>days | 91 – 180<br>days | 181 –<br>360<br>days | 1 – 3<br>years | < 3 years<br>but not<br>impaired | Impaired |
|--------------------------------|-------------|-------------------------------------|--------------|-----------------|------------------|----------------------|----------------|----------------------------------|----------|
| Advances to<br>related parties | 131,300,482 | 131,300,482                         | -            | -               | -                | -                    | -              | -                                | -        |
| Trade and other<br>receivables | 12,217,593  | 10,449,280                          | 145,351      | -               | 1,226,667        | 96,295               | 300,000        | -                                | -        |
|                                | 143,518,075 | 141,749,762                         | 145,351      | -               | 1,226,667        | 96,295               | 300,000        | -                                | -        |

### ***Liquidity Risk***

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group is mainly exposed to liquidity risk through its maturing liabilities. The Group has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately met.

The maturity analysis of the Group's financial liabilities as of December 31, 2010 and 2009 are as follows:

| <b>December 31, 2010</b>                      | Total         | On demand    | Less than 3 months | 3 – 12 months | 1 – 5 years  |
|---|---------------|--------------|--------------------|---------------|--------------|
| Accounts payable and accrued expenses         | ₱ 23,069,458  | ₱ 7,779,378  | ₱ -                | ₱ 13,505,060  | ₱ -          |
| Deposit for the sale of investment in AbaCoal | 30,000,000    | -            | -                  | 30,000,000    | -            |
| Advances from joint Venture                   | 9,500,000     | -            | -                  | -             | 9,500,00     |
| Loans payable                                 | 44,685,720    | -            | -                  | -             | -            |
|   | ₱ 107,255,176 | ₱ 7,779,378  | ₱ -                | ₱ 43,505,060  | ₱ 9,500,00   |
| <b>December 31, 2009</b>                      | Total         | On demand    | Less than 3 months | 3 – 12 months | 1 – 5 years  |
| Accounts payable and accrued expenses         | ₱ 21,640,496  | ₱ 7,660,607  | ₱ -                | ₱ 12,208,432  | ₱ 1,771,457  |
| Deposit for the sale of investment in AbaCoal | 30,000,000    | -            | -                  | 30,000,000    | -            |
| Advances from joint Venture                   | 9,500,000     | -            | -                  | -             | 9,500,00     |
| Loans payable                                 | 70,089,787    | 2,689,787    | -                  | 67,400,000    | -            |
|   | ₱ 131,230,283 | ₱ 10,350,394 | ₱ -                | ₱ 109,608,432 | ₱ 11,271,457 |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE C - NON-CURRENT MARKETABLE EQUITY SECURITIES  
OTHER LONG-TERM INVESTMENT IN STOCK, AND OTHER INVESTMENT  
For the Year Ended December 31, 2010**

| Name and Designation of Debtor     | BEGINNING BALANCE                                    |                    | ADDITIONS   |          | DEDUCTIONS                           |                  | ENDING BALANCE                                       |                    | Dividends Received from investment Not Accounted for by the Equity Method |
|------------------------------------|--|--------------------|---|----------|--------------------------------------|------------------|--|--------------------|---|
|                                    | No. of Shares or Principal Amount of Bonds and Notes | Amount in Pesos    | Equity in earnings (Losses) of Investees for the Period | Other    | Distribution of Earnings by Investee | Other            | No. of Shares of principal Amount of Bonds and Notes | Amount in Pesos    |   |
| Pride Star Development bank, Inc.  | 399,500  | 20,633,049         | 1,156,202   | -        | -                                    | -                | 399,500  | 21,789,250         | -   |
| Abacus Global Technovisions, Inc.  | 44,977,450   | 42,836,457         | (684,312)   | -        | -                                    | -                | 44,977,450   | 42,152,145         | -   |
| Pacific Online Systems Corporation | 36,073,522   | 520,454,982        | 81,543,308  | -        | 27,311,534                           | 7,799,437        | 35,505,522   | 566,887,319        | -   |
| <b>Total</b>                       | <b>81,450,472</b>                                    | <b>583,924,488</b> | <b>82,015,198</b>                                       | <b>-</b> | <b>27,311,534</b>                    | <b>7,799,437</b> | <b>80,882,472</b>                                    | <b>630,828,714</b> | <b>-</b>  |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE D - ADVANCES TO UNCONSOLIDATED  
SUBSIDIARIES AND AFFILIATES**

**For the Year Ended December 31, 2010**

| <b>Name of Affiliates</b>                  | <b>Beginning Balance</b> | <b>Ending Balance</b> |
|--|--------------------------|-----------------------|
| Abacus Global Technovisions, Inc.          | P 56,800,255             | P 37,677,260          |
| Blue Stock Development Holdings, Inc.      | 52,518,814               | 73,799,176            |
| Hedge International Management Group, Inc. | 13,139,060               | 13,140,260            |
| Geyser, Inc.                               | 4,980,928                | 4,980,928             |
| Click Communications, Inc.                 | 3,861,425                | -                     |
| <b>TOTAL</b>                               | <b>P 131,300,482</b>     | <b>P 129,597,624</b>  |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE E - PROPERTY AND EQUIPMENT**

**For the Year Ended December 31, 2010**

| Classification                 | Beginning Balance   | Additions at cost  | Retirement/ Disposals | Other changes - Additions<br>(deductions) | Ending Balance      |
|--------------------------------|---------------------|--------------------|-----------------------|---|---------------------|
| Land                           | ₱ 293,541           | ₱ -                | ₱ -                   | ₱ -                                       | ₱ 293,541           |
| Buildings and improvements     | 7,228,000           | -                  | -                     | -   | 7,228,000           |
| Machinery and other equipments | 19,196,247          | 2,764,390          | -                     | -   | 21,960,637          |
| <b>Total</b>                   | <b>₱ 26,717,788</b> | <b>₱ 2,764,390</b> | <b>₱ -</b>            | <b>₱ -</b>                                | <b>₱ 29,482,178</b> |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE F - ACCUMULATED DEPRECIATION**

**For the Year Ended December 31, 2010**

| Classification                 | Beginning Balance  | Provisions         | Retirement/ Disposals | Other changes - Additions<br>(deductions) | Ending Balance      |
|--------------------------------|--------------------|--------------------|-----------------------|---|---------------------|
| Land                           | ₱ -                | ₱ -                | ₱ -                   | ₱ -                                       | ₱ -                 |
| Buildings and improvements     | 6,983,669          | 201,265            |                       |   | 7,184,934           |
| Machinery and other equipments | 2,609,514          | 1,430,258          |                       |   | 4,039,772           |
| <b>Total</b>                   | <b>₱ 9,593,183</b> | <b>₱ 1,631,523</b> | <b>₱ -</b>            | <b>₱ -</b>                                | <b>₱ 11,224,706</b> |



**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE G - INDEBTEDNESS TO AFFILIATES  
For the Year Ended December 31, 2010**

| <u>Name of Affiliates</u>             | <u>Beginning Balance</u>                                   | <u>Ending Balance</u>                                      |
|---------------------------------------|--|--|
| Mojica Realty Corporation             | -  | -  |
| Blue Stock Development Holdings, Inc. | -  | -  |
| Candor Realty Corporation             | -  | -  |
| Quilib Quality Farms, Inc.            | -  | -  |
|                                       | <u>                    </u>                                | <u>                    </u>                                |
| <b>Total</b>                          | <u>                    </u><br><u>                    </u> | <u>                    </u><br><u>                    </u> |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE H - LONG TERM DEBT  
For the Year Ended December 31, 2010**

| Name of Issuer and Type of Obligation | Amount Authorized by Indenture | Amount Shown as Current | Amount Shown as Long Term | Remarks  |
|---------------------------------------|--------------------------------|-------------------------|---------------------------|----------|
| Philippine Veterans Bank              | 42,133,333                     |                         | 42,133,333                |          |
| Agrodynamic Farms (Texas), Inc.       | 2,552,387                      | 2,552,387               |                           |          |
| <b>Total</b>                          | <b>44,685,720</b>              | <b>2,552,387</b>        | <b>42,133,333</b>         | <b>-</b> |

**ABACUS CONSOLIDATED RESOURCES AND HOLDINGS, INC.  
AND SUBSIDIARIES**

**SCHEDULE I - CAPITAL STOCK  
For the Year Ended December 31, 2010**

| Title of Issue | Number of Shares<br>Authorized | Number of Shares Issued<br>and Outstanding | for Options, Warrants,<br>Conversions and Other<br>Rights | Number of Shares Held By |                                      |               |
|----------------|--------------------------------|--|---|--------------------------|--------------------------------------|---------------|
|                |                                |  |   | Affiliates               | Directors, Officers<br>and Employees | Others        |
| Common shares  | 3,000,000,000                  | 2,359,013,290                              | -   | 178,702,990              | 14,411,239                           | 2,165,899,061 |