SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **30 September 2006**

2. Commission identification number **163671** 3. BIR Tax Identification No. **320-000-804-342**

Prime Orion Philippines, Inc.
4. Exact name of issuer as specified in its charter

Metro Manila, Philippines
5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

20/F LKG Tower, 6801 Ayala Avenue, Makati City
7. Address of issuer's principal office Postal Code

(632) 884-1106
8. Issuer's telephone number, including area code

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
(as of 31 October 2006)

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common	**2,366,444,383**
Outstanding Loans	**P3,396,717,742.00**

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

Yes [**/**] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange **Common**

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code 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 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 [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Please see attached.

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The Group recognized net loss of about P209 million for the quarter ended 30 September 2006 compared to a net income of P434 million for the same period last year. Group revenue remained stable compared to last year. The decrease in rentals and real estate sales this year were adequately compensated by the increase in insurance premiums and commission resulting from the opening of new branches by FLT Prime Insurance Corporation ("FPIC").

The Group recorded income in prior years as a result of the condonation of debt; the Group likewise recognized the interest and penalties incurred during the quarter. Equity in net income of associates decreased by 46% due to the increase in production costs and operating expenses.

Lepanto Ceramics, Inc.'s net loss slightly improved compared to last year. Increase in sales was tempered by the increase in the cost of power and fuel.

Pepsi-Cola Products Philippines, Inc.'s net income decreased by 46% during the first quarter ended 30 September 2006 compared to the same period of last year. Though net revenue increased during the period, the revenue generated was not adequate to cover the increase in cost of goods and operating expenses.

Tutuban Properties, Inc. recorded a net loss from operations in the amount of P12.30 million during the quarter as a result of increased expenses.

FPIC recorded a net income of P4.94 million or a 120% increase from the recorded net income of last year as a result of the opening of new branches in strategic areas.

The top 5 key performance indicators are as follows:
(in millions)

Ratios	Formula	30-Sep-06	30-Sep-05	30-Jun-06
Current ratio	Current Assets/Current Liabilities	0.16:1 1,440/8,874	0.17:1 1,315/7,562	0.16:1 1,349/8,623
Debt to equity ratio	Total Liabilities/Stockholders' Equity	(2.13):1 9,903/(4,650)	(2.21):1 9,800/(4,427)	(2.18):1 9,661/(4,441)
Equity to debt ratio	Stockholders' Equity/Total Liabilities	(0.47):1 (4,650)/9,903	(0.45):1 (4,427)/9,800	(0.46):1 (4,441)/9,660
Book value per share	Stockholders' Equity/Total # of shares	(0.001964) (4,650)/2,367,149	(0.001870) (4,427)/2,367,149	(0.001876) (4,441)/2,367,149
Loss per share	Net Loss/Total # of Shares	(0.09) (209)/2,367,149	(0.06) (141)/2,367,149	(0.08) (198)/2,367,149

Financial Condition

Consolidated assets of the Group remained at ₱5.3 billion as of 30 September 2006. Inventories increased by 35% to ₱252 million from ₱186 million as of 30 June 2006. The accounts payable and accrued expenses also increased by 5% to P5.4 billion from P5.2 billion as of 30 June 2006.

Financing Through Loans

During the quarter, the Group paid certain loans and current portion of long term debts amounting to P17 million including interest of P1 million.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRIME ORION PHILIPPINES, INC.
Issuer
By:

DAISY L. PARKER
Corporate Secretary
Date: 17 November 2006

RONALD P. SUGAPONG
Treasurer, Group Financial Controller
Date: 17 November 2006

[1stquarter2006]c: christie popi 17-Q

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

Interim Consolidated Financial Statements
September and June 30, 2006

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	September 30, 2006	AUDITED June 30, 2006
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱151,639**	₱135,943
Receivables - net (Note 6)	**505,923**	509,725
Inventories - net (Note 7)	**251,790**	185,906
Real estate held for sale and development (Note 8)	**387,803**	388,794
Amounts owed by related parties - net (Note 16)	**5,596**	4,903
Available-for-sale (AFS) investments	**11,453**	12,226
Other current assets – net (Note 9)	**125,766**	111,227
Total Current Assets	**1,439,970**	1,348,724
Noncurrent Assets		
Investments - net (Note 10)	**1,266,870**	1,246,219
Leasehold rights	**64,494**	66,726
Held-to-maturity investments	**60,905**	57,388
Investment properties - net (Note 12)	**1,100,892**	1,131,406
Property, plant and equipment - net (Note 11)		
At cost	**287,664**	320,268
At revalued amounts	**693,850**	699,811
Deferred income tax assets	**112,929**	114,343
Other noncurrent assets - net (Note 13)	**304,375**	312,245
Total Noncurrent Assets	**3,891,979**	3,948,406
TOTAL ASSETS	**₱5,331,949**	₱5,297,130
LIABILITIES AND CAPITAL DEFICIENCY		
Current Liabilities		
Accounts payable and accrued expenses (Note 15)	**₱5,437,709**	₱5,177,396
Loans payable	**1,413,601**	1,423,615
Current portion of long-term debt (Note 14)	**738,378**	738,378
Convertible notes	**1,251,339**	1,251,339
Amounts owed to related parties (Note 16)	**32,695**	32,529
Total Current Liabilities	**8,873,721**	8,623,257
Noncurrent Liabilities		
Deferred income tax liabilities	**306,986**	307,393
Rental deposits and advances	**194,098**	195,444
Subscriptions payable	**528,470**	528,470
Long-term debt - net of current portion (Note 14)	**-**	6,250
Total Noncurrent Liabilities	**1,029,554**	1,037,557
	9,903,276	9,660,814

(Forward)

	September 30, 2006	AUDITED June 30, 2006
Capital Deficiency Attributable to Equity Holders of the Parent		
Capital stock - ₱1 par value		
Authorized - 2,400,000,000 shares		
Issued and subscribed - 2,367,149,383 (net of subscriptions receivable of ₱300,797,402)	**₱2,066,352**	₱2,066,352
Additional paid-in capital	**829,904**	829,904
Revaluation increment in property and equipment	**227,529**	227,529
Revaluation reserve on investment properties at deemed cost	**368,797**	368,797
Unrealized valuation loss on AFS investments	**(321)**	(238)
Deficit	**(8,142,123)**	(7,933,466)
	(4,649,863)	(4,441,122)
Minority interest	**78,536**	77,438
Total Capital Deficiency	**(4,571,327)**	(4,363,684)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	**₱5,331,949**	₱5,297,130

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings (Loss) Per Share Figures)

	Quarter Ended September 30	
	2006	2005
REVENUE		
Merchandise sales - net	**₱161,123**	₱163,244
Rental	**105,876**	111,635
Insurance premiums and commissions	**31,271**	17,913
Real estate sales	–	4,933
	298,270	297,725
COST AND EXPENSES		
Cost of goods sold	**175,253**	183,451
Operating expenses (Note 17)	**108,216**	108,848
Rent and utilities	**61,802**	58,744
Insurance underwriting deductions	**18,190**	9,500
Cost of real estate sold	–	3,812
	363,461	364,357
OTHER INCOME (CHARGES)		
Gain on extinguishment of debt	–	624,021
Equity in net income of associates	**20,650**	37,917
Foreign exchange gains (losses) - net	**(61)**	111
Provision for probable losses	**(74,760)**	(59,518)
Interest and bank charges	**(100,693)**	(104,996)
Others – net	**15,025**	10,108
	(139,839)	507,643
	(503,300)	143,286
INCOME (LOSS) BEFORE INCOME TAX	**(205,030)**	441,012
PROVISION FOR INCOME TAX	**2,495**	6,030
NET INCOME (LOSS)	**(₱207,525)**	₱434,982
ATTRIBUTABLE TO:		
Equity holders of the parent	**(₱208,657)**	₱434,400
Minority interests	**1,132**	582
	(₱207,525)	₱434,982
EARNINGS (LOSS) PER SHARE (Note 18)		
Basic, for income (loss) for the year attributable to ordinary equity holders of the parent	**(₱0.09)**	₱0.18

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE QUARTER ENDED SEPTEMBER 30, 2006 AND 2005
(Amounts in Thousands)

	Capital St	Additional Paid in Capital	Share in Revaluation Increment in Property and Equipment of a Subsidiary and an Associate	Share in Revaluation Reserve on Investment Properties at Deemed Cost of a Subsidiary	Unrealized Valuation Loss on AF Investmen	Deficit	Minori Intere	Total
Balances at June 30, 2005, as restated	₱2,066,	₱829,904	₱225,418	₱411,761	(₱29	(₱7,792,791)	₱81,2	(₱4,178,413)
Provision for fluctuation in value of investments		–	–	–		–		13
Net income for the year, as restated		–	–	–	-	434,400	5	434,982
Balances at September 30, 2005, as restated	₱2,066,	₱829,904	₱225,418	₱411,761	(₱28	(₱7,358,391)	₱81,8	(₱3,743,418)
Balances at June 30, 2006	₱2,066,	₱829,904	₱227,52	₱368,797	(₱23	(₱7,933,466)	₱77,4	(₱4,363,684)
Provision for fluctuation in value of investments		–	–	–	(8	–	(	(117)
Net loss for the year		–	-	–	-	(208,657)	1,1	(207,525)
Balances at September 30, 2006	₱2,066,	₱829,904	₱227,52	₱368,797	(₱32	(₱8,142,123)	₱78,5	(₱4,571,326)

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Quarter Ended September 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax and minority interest	**(₱205,030)**	₱441,012
Adjustments for:		
Interest expense	**101,221**	106,287
Depreciation and amortization	**75,004**	86,527
Provisions for:		
Probable losses	**74,760**	59,518
Doubtful accounts	**3**	1,203
Unrealized foreign exchange losses (gains)	**25**	(111)
Interest income	**(527)**	(1,291)
Equity in net income of associates	**(20,650)**	(37,917)
Gain on extinguishment of debt	–	(624,021)
Operating income before changes in working capital	**24,806**	31,207
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	**(18,223)**	12,070
Inventories	**(65,884)**	(40,956)
Real estate held for sale and development	**991**	3,027
Other current assets	**(13,850)**	6,124
Increase (decrease) in:		
Accounts payable and accrued expenses	**82,546**	(21,171)
Rental deposits and advances	**(1,346)**	5,030
Net cash generated from (used in) operations	**9,039**	(4,669)
Interest received	**527**	1,291
Interest paid	**(1,140)**	(4,009)
Net cash used in operating activities	**8,426**	(7,386)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in:		
Dividends received from associates	**22,024**	22,223
Investments in shares of stock	**(3,553)**	(4,125)
Acquisitions of property, plant and equipment	**(3,693)**	(5,767)
Other noncurrent assets	**9,285**	(2,651)
Net cash from investing activities	**24,062**	9,680

(Forward)

	Quarter Ended September 30	
	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in amounts owed to related parties	**(₱528)**	(₱1,615)
Payments of:		
Loans	**(10,014)**	(764)
Long-term debt	**(6,250)**	(6,250)
Net cash used in financing activities	**(16,792)**	(8,629)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**15,696**	(6,335)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**135,943**	224,121
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱151,639**	₱217,786

See accompanying Notes to Consolidated Financial Statements.

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information and Status of Operations**

Prime Orion Philippines, Inc. (the Parent Company) is domiciled and incorporated in the Republic of the Philippines. The Company's registered office address is 20th Floor, LKG Tower, 6801 Ayala Avenue, Makati City. The Parent Company's primary purpose is to acquire by purchase, exchange, assign, donate or otherwise, and to hold, own and use, for investment or otherwise and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in and with, and otherwise operate, enjoy and dispose of any and all properties of every kind and description and wherever situated, as and to the extent permitted by law, including but not limited to, buildings, tenements, warehouses, factories, edifices and structures and other improvements, and bonds, debentures, promissory notes, shares of capital stock, or other securities and obligations, created, negotiated or issued by any corporation, association, or other entity, domestic or foreign.

Prime Orion Philippines, Inc. and Subsidiaries, collectively referred to as "the Group", have principal business interests in real estate, financial services and manufacturing.

2. **Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for certain property and equipment that are carried at revalued amounts. The consolidated financial statements are presented in Philippine pesos, which is the Group's functional and presentation currency. The amounts are in thousands pesos unless otherwise stated.

The consolidated financial statements are presented in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS).

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Group as follows:

	Effective Percentage of Ownership	
	September 30	June 30
Orion Land Inc. (OLI) and Subsidiaries:		
OLI	**100.00**	100.00
Tutuban Properties, Inc. (TPI)	**100.00**	100.00
22BAN Marketing, Inc.	**100.00**	100.00
TPI Holdings Corporation	**100.00**	–
Orion Property Development, Inc. (OPDI)	**100.00**	100.00
Luck Hock Venture Holdings, Inc.	**60.00**	60.00
Orion I Holdings Philippines, Inc. (OIHPI) and Subsidiaries:		
OIHPI	**100.00**	100.00
Lepanto Ceramics, Inc. (LCI)	**100.00**	100.00
Orion Brands International, Inc. (OBII) and Subsidiary:		
OBII	**100.00**	100.00
Orion Beverage, Inc.	**100.00**	100.00
OYL Holdings, Inc.	**60.00**	60.00

(Forward)

	Effective Percentage of Ownership	
	September 30	June 30
ZHI Holdings, Inc. (ZHIHI)	**100.00**	100.00
Zeus Holdings, Inc.	**98.53**	98.53
DHG Capital Holdings, Inc. (DCHI) and Subsidiaries:		
DCHI	**100.00**	100.00
HLG Philippines, Inc.	**100.00**	100.00
Orion Solutions, Inc. (OSI)	**96.00**	96.00
OE Holdings, Inc. and Subsidiaries:		
OE Holdings, Inc.	**100.00**	100.00
OE Enterprises Holdings, Inc. (OEEHI)	**100.00**	100.00
Orion Maxis Inc. (OMI)	**100.00**	100.00
FLT Prime Insurance Corporation (FPIC)	**70.00**	70.00

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany transactions and balances between and among the Parent Company and its subsidiaries, including intercompany profits and unrealized profits, have been eliminated in the consolidation.

Minority interests represent interests in certain subsidiaries not held by the Group. The equity and net income attributable to minority interests are shown separately in the consolidated balance sheets and consolidated statements of income, respectively.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

3. Significant Accounting Judgments and Estimates

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

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

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Operating lease commitments - Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Operating lease commitments - Group as lessee
The Group has entered into a lease agreement for the corporate office space. The Group has determined that it does not obtain all the significant risks and rewards of ownership of the assets under operating lease.

Estimated allowance for doubtful accounts
The Group maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables and advances. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts.

The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

Estimated useful lives of property, plant and equipment and investment properties
The estimated useful lives used as bases for depreciating the Group's property, plant and equipment and investment properties were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Group's assets.

The Group estimated the useful lives of its property, plant and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned above. A reduction in the estimated useful lives of property, plant and equipment and investment properties would increase depreciation expense and decrease property, plant and equipment and investment properties.

Asset impairment
Internal and external sources of information are reviewed at each balance sheet date to identify indications that the assets may be impaired or an impairment loss previously recognized no longer exists or may be decreased:

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount.

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

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends; and
- deterioration in the financial health of the investee for investments in stocks, industry and sector performance, changes in technology, and operational and financing cash flows.

Present value of retirement obligation
The present value of the obligation depends on certain factors that are determined on an actuarial basis using a number of assumptions. These include, among others, discount rates, expected returns on plan assets and salary rate increase. Any changes in these assumptions will impact the carrying amount of retirement obligations. The assumed discount rates were determined using yields of long-term Philippine government bonds with terms consistent with the expected future working lifetime of the employees.

Contingencies
The Parent Company and certain subsidiaries are currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside legal counsel handling the defense in these matters and is based upon an analysis of potential results. It is possible, however, that future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings.

4. Summary of Significant Accounting Policies

The Group applied the accounting policies set forth below to all periods presented.

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

Financial Assets and Liabilities
Financial assets and financial liabilities are recognized initially at cost, which is the fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss (FVPL).

The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, is done using settlement date accounting.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to capital deficiency, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are further classified into the following categories: financial asset at FVPL, loans and receivables, held-to-maturity (HTM) investments, and available-for-sale (AFS) financial assets. The Group determines the classification at initial recognition and re-evaluates this designation at every reporting date.

Financial asset at FVPL. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by management at fair value through profit or loss. Derivatives are also categorized as held at fair value through profit or loss, except those derivatives designated and considered as effective hedging instruments. Assets classified under this category are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are accounted for in the consolidated statements of income.

HTM investments. Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount and minus any reduction for impairment or uncollectibility. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the consolidated statements of income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the consolidated balance sheets. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within twelve months of the balance sheet date. Otherwise, these are classified as noncurrent assets. Gains and losses are recognized in the consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

AFS financial assets. AFS financial assets are those nonderivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized in the "Unrealized valuation gains (losses) on AFS investments" account in the consolidated statements of changes in capital deficiency until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in capital deficiency is included in the consolidated statements of income.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Derecognition of Financial Assets and Liabilities

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

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

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

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

Assets carried at cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

Revenue Recognition

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

Revenue from sale of merchandise is recognized upon passage of title which coincides with the delivery of the goods.

Lease is recognized as income over the terms of the lease of mall spaces.

Revenue from sale of Tutuban Center units for sale is recognized on the accrual basis when the collectibility of sales price is reasonably assured. The development cost of the sold areas is determined on the basis of actual development costs incurred.

Revenue from sale of real estate is recognized on an accrual basis in accordance with the terms and conditions of the sales contract.

Premiums from insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired periods of the policies at balance sheet dates is accounted for as Reserve for unearned premiums included in the "Accounts payable and accrued expenses" account in the consolidated balance sheets. The related insurance premiums ceded that pertain to the unexpired periods at balance sheet dates are accounted for as Deferred Reinsurance Premiums shown as part of "Other assets" in the consolidated balance sheets. The net changes in these accounts between balance sheet dates are charged or credited to income for the year.

Inventories
Inventories are valued at the lower of cost or net realizable value (NRV).

Costs incurred in bringing each product to its present location are accounted for as follows:

- Raw materials and supplies - purchase cost on a moving-average method;
- Finished goods and work in progress - direct materials, labor, and proportion of manufacturing overhead based on normal operating capacity.

The NRV is the selling price in the ordinary course of business, less costs of marketing and distribution.

Real Estate Held for Sale and Development
Real estate held for sale and development is carried at the lower of cost and NRV. NRV is the selling price in the ordinary course of business less the costs of completion, marketing and distribution. Cost includes acquisition cost of the land plus development and improvement cost. Borrowing costs incurred on loans obtained to finance the improvements and developments of real estate held for sale and development are capitalized while development is in progress.

Investments in Shares of Stock
Investments in shares of stock in which the Group has an effective interest of 20% or where it has, at least, ability to exercise significant influence over the investee's operating and financial policies are accounted for under the equity method of accounting. Under the equity method, the investments are carried in the consolidated balance sheet at cost adjusted for the equity in net income or losses and changes in the investee's equity account since the date of acquisition. Dividends received are treated as a reduction in the carrying value of the investments. Unrealized intercompany profits or losses are eliminated to the extent of the Group's proportionate share thereof. The effective percentages of ownership in investments in associates on September 30 and June 30, 2006 are as follows:

	Effective Percentage of Ownership
Cyber Bay Corporation (Cyber Bay) and Subsidiary:	
Cyber Bay	22.87
Central Bay Reclamation and Development Corporation (Central Bay)	22.87
Pepsi-Cola Products Philippines, Inc. (PCPPI) and Subsidiary:	
PCPPI	22.16
Nadeco Realty Corporation (Nadeco)	22.16
BIB Aurora Insurance Brokers, Inc.	20.00

Leasehold Rights
Leasehold rights are stated at cost and are amortized on a straight line basis over the remaining term of the lease from the start of commercial operations.

Investment Properties
The Group's investment properties include properties utilized in its mall operations, held for rentals or for capital appreciation.

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

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income in the period of retirement or disposal.

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

Investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses. Leasehold improvements (including buildings and structures) on the leased land, is carried at deemed cost, less any impairment in value, if any.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value, except for land and building, together with their improvements, which are stated at appraised values as determined by an independent firm of appraisers. The excess of appraised value over the acquisition costs of the properties is shown as “Revaluation increment in property and equipment” under the capital deficiency section of the consolidated balance sheets and in the consolidated statements of changes in capital deficiency.

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

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

Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Land improvements	30
Buildings and improvements	30
Leasehold improvements	2
Machinery and equipment	5-10
Transportation equipment	5
Furniture, fixtures and equipment	3-5

Leasehold improvements are amortized on a straight-line basis over the term of the lease or estimated useful life of the property and improvement, whichever is shorter.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed and adjusted if appropriate, at each financial year end.

The Group transfers directly to "Deficit" the realized portion of the revaluation increment in property and equipment. Accordingly, an amount corresponding to the difference between the depreciation based on the revalued carrying amount of the properties and depreciation based on the properties' original cost is transferred annually from "Revaluation Increment in Property and Equipment" to "Deficit". The amount transferred is net of the related deferred income tax liability.

Fully depreciated assets are retained in the accounts until these are no longer in use.

<u>Impairment of Nonfinancial Assets</u>
The Group assesses at each reporting date whether there is an indication that an asset may be impaired when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. Where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their estimated recoverable amounts. 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. Impairment losses of continuing operations are recognized in the consolidated statements of income in those expense categories consistent with the function of the impaired asset.

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

Claim Costs
The liabilities for unpaid claim costs (including incurred but not reported losses) and claim adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves is continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense for the period in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvage recoverables and deducted from the liability for unpaid claims. The unpaid claim costs are accounted as Claims Payable under "Accounts payable and accrued expenses" account in the consolidated balance sheets.

Interest-bearing Loans and Borrowings
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Borrowing Costs
Borrowing costs are generally recognized as expense in the year in which these costs are incurred, except those borrowing costs that are directly attributable to the acquisition, development, improvement and construction of property, plant and equipment and real estate held for sale which are capitalized as part of the cost of such property, plant and equipment and real estate held for sale.

The capitalization of borrowing costs: (a) commences when the expenditures and borrowing costs for the assets are being incurred and activities necessary to prepare the property, plant and equipment for their intended use or sale are in progress; (b) is suspended during extended periods when active development and construction of the property, plant and equipment is interrupted; and, (c) ceases when substantially all the activities necessary to prepare the property, plant and equipment for their intended use or sale are complete.

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

<u>Retirement Cost</u>
The Group has a defined benefit pension plan that is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for each individual plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

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

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

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

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

Foreign Currency Transactions

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

Income (Loss) Per Share

Earnings (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of issued and outstanding shares of common stock during the period. The weighted average number of common shares outstanding during the period and for all periods presented are adjusted for events, other than the conversion of potential common shares, that have changed the number of common shares outstanding, without a corresponding change in resources. Diluted earnings (loss) per share is computed by dividing net income (loss) adjusted for interest on convertible notes assumed to be converted by the weighted average number of common shares outstanding during the period after going effect to assumed conversion of all dilutive potential common shares and retroactive effect of any stock dividends declared.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These 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 are disclosed when an inflow of economic benefit is probable.

Events After the Balance Sheet Date

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

5. Cash and Cash Equivalents

	September 30	June 30
Cash on hand and in banks	**₱36,522**	₱18,941
Short-term investments	**115,117**	117,002
	₱151,639	₱135,943

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates.

6. Receivables

	September 30	June 30
Trade debtors	**₱320,346**	₱344,801
Insurance receivables	**203,379**	178,866
Manila Electric Company (Meralco) refund	**8,022**	8,022
Others	**292,857**	304,204
	824,604	835,893
Less allowance for doubtful accounts	**318,681**	326,168
	₱505,923	₱509,725

7. Inventories

	September 30	June 30
At NRV:		
Finished goods	**₱174,401**	₱131,051
Work-in-process	**14,836**	11,489
Raw materials	**26,461**	19,383
Factory supplies and spare parts	**18,748**	21,277
At cost:		
Materials in-transit	**17,344**	2,706
	₱251,790	₱185,906

8. Real Estate Held for Sale and Development

A portion of real estate held for sale by the Parent Company and OPDI with a total area of 386,377 square meters (sqm.) and carrying value of about ₱114.30 million as of September 30, 2006 was mortgaged to a local bank to partially secure the debt of the Parent Company.

9. Other Current Assets

	September 30	June 30
Creditable withholding taxes - net of allowance for probable losses amounting to ₱6,498 and ₱6,284 in September 30 and June 30, 2006, respectively	**₱101,003**	₱87,344
Input value added tax (VAT) - net of allowance for probable losses amounting to ₱1,177 and ₱1,410 in September 30 and June 30, 2006, respectively	**22,561**	20,640
Prepayments	**2,202**	3,243
	₱125,766	₱111,227

10. Investments

	September 30	June 30
	(In Thousands)	
Investments in associates at equity:		
Acquisition cost:		
Balance at beginning of year	**₱2,369,102**	₱2,416,335
Investments written off	-	(47,233)
Balance at end of year	**2,369,102**	2,369,102
Accumulated equity in net losses of associates:		
Balance at beginning of year	**(327,531)**	(434,547)
Reversal	–	2,825
Equity in net income of associates	**20,650**	192,486
Dividends received	-	(88,295)
Balance at end of year	**(306,881)**	(327,531)
	2,062,221	2,041,571
Share in revaluation increment in properties and equipment of an associate:		
Balance at beginning of year	**14,631**	12,731
Increase in revaluation increment	–	238
Effect of change in tax rate	-	1,662
Balance at end of year	**14,631**	14,631
	2,076,852	2,056,202
Allowance for probable losses on investments	**(809,983)**	(809,983)
	₱1,266,870	₱1,246,219

Details of investments in associates at equity are as follows:

	September 30	June 30
PCPPI	**₱654,314**	₱633,664
Cyber Bay	**528,470**	528,470
Others	**84,085**	84,085
	₱1,266,870	₱1,246,219

11. Property, Plant and Equipment

	Leasehold Improvements	Machinery and Equipment	Transportation Equipment	Furniture, Fixtures and Equipment	Total
	(In Thousands)				
At cost:					
At beginning of year	21,016	2,041,609	31,470	87,539	**2,181,635**
Additions		1,290	999	1,404	**3,693**
Disposals	–	–	–	–	–
At end of year	21,016	2,042,899	32,469	88,944	**2,185,328**

(Forward)

Accumulated depreciation and amortization:					
At beginning of year	18,331	1,747,201	27,560	68,276	**1,861,367**
Depreciation and amortization	87	34,457	281	1,472	**36,297**
Disposals	–	–		–	–
At end of year	18,417	1,781,659	27,840	69,748	**1,897,664**
Net book value, 9/30/2006	₱2,599	₱261,241	₱4,629	₱19,196	**₱287,664**
Net book value, 6/30/2006	₱2,686	₱294,408	₱3,911	₱19,263	**₱320,268**

	Land and Improvements	Buildings and Improvements	**Total**
		(In Thousands)	
At revalued amounts:			
At beginning of year	₱307,580	₱536,558	**₱844,138**
Additions	–	-	**-**
At end of year	307,580	536,558	**844,138**
Accumulated depreciation and amortization:			
At beginning of year	₱9,388	134,939	**144,327**
Depreciation and amortization	320	5,641	**5,961**
At end of year	9,708	140,580	**150,288**
Net book value, 9/30/2006	₱297,872	₱395,978	**₱693,850**
Net book value, 6/30/2006	₱298,192	₱401,619	**₱699,811**

12. Investment Properties

	Building	Land and land Improvements	Machinery and Equipment	**September 30**	June30
Cost:					
Beginning balance	₱2,087,081	₱62,069	₱17,378	**₱2,166,528**	₱2,166,859
Additions	–	–	–	–	-
Disposals		–	–	–	(331)
Ending balance	2,087,081	62,069	17,378	**2,166,528**	2,166,528
Accumulated depreciation:					
Beginning balance	1,021,913	–	13,209	**1,035,122**	913,828
Depreciation	30,515	–	–	**30,515**	121,419
Disposals	–	–	–	–	(125)
Ending balance	1,052,427	–	13,209	**1,065,637**	1,035,122
Net book value	₱1,034,654	₱62,069	₱4,169	**₱1,100,892**	₱1,131,406

13. **Other Noncurrent Assets**

	September 30	June 30
Fixed income deposits	**₱181,436**	₱182,866
Deferred reinsurance premiums	**30,793**	32,169
Meralco refund	**23,138**	24,556
Others	**69,009**	72,654
	₱304,375	₱312,245

14. **Long-term Debt**

This account consists of term loans and syndicated loans from local banks for certain projects of the Group:

	September 30	June 30
	(In Thousands)	
Granito and Ceramic Tile Expansion Projects of LCI	**₱713,378**	₱713,378
Tutuban development project of TPI	**25,000**	31,250
	738,378	744,628
Less current portion	**738,378**	738,378
	₱-	₱6,250

15. **Accounts Payable and Accrued Expenses**

	September 30	June 30
Trade payables	**₱312,053**	₱269,596
Nontrade payables	**227,555**	229,889
Claims payable	**163,030**	131,858
Reserve for unearned premiums	**69,235**	67,258
Accrued retirement	**39,644**	39,111
Due to reinsurers and ceding companies	**32,037**	29,951
Accrued interest and others	**4,594,157**	4,409,733
	₱5,437,709	₱5,177,396

16. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The Parent Company and subsidiaries in their normal course of business, have entered into transactions with related parties principally consisting of noninterest-bearing advances with no fixed repayment terms.

Account balances with related parties other than intra-group balances, which are eliminated in consolidation, are as follows:

	September 30	June 30
Amounts owed by an associate:		
Cyber Bay and Subsidiary	**₱80,859**	₱80,346
Amounts owed by related parties:		
Hume Holdings, Inc.	**16,872**	16,872
Hume Philippines, Inc.	**12,759**	12,759
Guotrade Philippines, Inc.	**2,698**	2,753
Guoman Philippines, Inc.	**2,728**	2,728
Hong Way Holdings, Inc.	**1,527**	1,510
Others	**2,374**	2,156
	119,817	119,124
Less allowance for doubtful accounts	**114,221**	114,221
	₱5,596	₱4,903

	September 30	June 30
	(In Thousands)	
Amounts owed to related parties:		
OYL Overseas, Ltd.	**₱2,673**	₱2,673
Others	**30,022**	29,856
	₱32,695	₱32,529

17. **Operating Expenses**

	Quarter Ended September 30	
	2006	2005
Depreciation and amortization	**₱39,942**	₱49,782
Personnel expenses		
Salaries and wages	**26,497**	24,495
Other employee benefits	**5,069**	3,404
Taxes and licenses	**12,729**	13,246
Marketing expenses	**8,869**	5,882
Professional and legal fees	**4,714**	2,720
Communication and transportation	**2,711**	2,367
Supplies and repairs	**2,884**	1,490
Insurance	**1,050**	682
Representation	**351**	314
Provision for doubtful accounts	**900**	2,653
Miscellaneous	**2,500**	1,813
	₱108,216	₱108,848

18. Earnings (Loss) Share

The following table presents information necessary to calculate loss per share:

	Quarter Ended September 30	
	2006	2005
a. Net income (loss)	**(₱208,657)**	₱434,400
b. Weighted average number of shares	**2,367,149**	2,367,149
Earnings (loss) per share (a/b)	**(₱0.09)**	₱0.18

19. Segment Information

Business Segments

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

The industry segments where the Company and its subsidiaries and associates operate are as follows:

- Financial services - insurance and related brokerage
- Real estate - property development
- Manufacturing and distribution - manufacture and distribution of beverage and ceramic tiles

Financial information about the operations of these business segments is summarized as follows:

	Holding Company	**Real Estate and Property Development**	**Financial Services**	**Manufacturing and Distribution**	**Total**
			(In Thousands)		
Quarter Ended September 30, 2006					
Revenue	₱625	₱105,785	₱39,509	₱152,352	₱298,270
Net income (loss)	(132,632)	(8,672)	2,299	(69,651)	(208,657)
Depreciation and amortization	143	33,589	765	40,507	75,004
Equity in net income	–	–	–	20,650	20,650
As of September 30, 2006					
Total assets	612,018	2,240,899	593,577	1,885,455	5,331,949
Capital expenditures	110	675	1,622	1,286	3,693
Investment in associates	528,470	82,117	1,968	654,314	1,266,870
Total liabilities	6,018,997	725,138	785,555	2,373,586	9,903,276

Quarter Ended					
September 30, 2005	₱4,773	₱116,568	₱17,913	₱158,471	₱297,725
Revenue					
Net income (loss)	489,947	2,615	(186)	(57,976)	434,400
Depreciation and amortization	309	33,063	175	52,980	86,527
Equity in net income of associates	-	-	-	37,917	37,917
As of June 30, 2006					
Total assets	610,041	2,269,779	552,814	1,864,496	5,297,130
Capital expenditures	269	7,337	5,871	20,388	33,865
Investment in associates	528,470	82,117	1,968	633,664	1,246,219
Total liabilities	5,888,077	732,461	754,918	2,285,358	9,660,814

Geographical Segments

The Group does not have geographical segment

PRIME ORION PHILIPPINES, INC. AND SUBSIDIARIES
AGING OF ACCOUNTS RECEIVABLE
AS OF SEPTEMBER 30, 2006

Current	191,635
1 to 30 days	28,073
31 to 60 days	11,166
61 to 90 days	5,040
Over 90 days	84,433
Total receivable-trade	**320,346**
Advances to officer and employees	5,529
Insurance receivable	203,379
Others	295,350
Total non-trade receivable	**504,258**
Total receivable	**824,604**
Allowance for doubtful accounts	(318,681)
	505,923