CitisecOnline 2010 Annual Report

Vision

To provide unparalleled service to our customers by empowering them with knowledge, tools and wealth-building programs to help them achieve their financial goals.

Mission

To empower individual investors to take control of their financial lives by delivering the most useful and ethical financial products and services driven by our core competence in technology and market expertise, and guided by our core values of customer focus, innovation, operating discipline and teamwork, thereby maximizing value for our shareholders.

Contents

About CitisecOnline

CitisecOnline (COL) is the leading online stockbroker in the Philippines today. With over 15,000 customers and over Php12 Billion in assets, it has built itself as a formidable institution and a force to reckon with in the stockbrokerage industry.

Since 2008, it has ranked the Number 1 Broker in the Philippine Stock Exchange in terms of the total number of transactions. In 2010, it registered over 17% market share, besting over 130 local and foreign brokers.

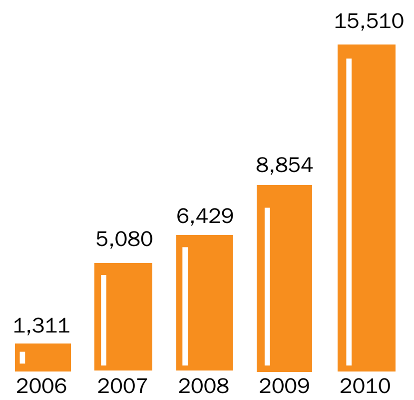
With its customer-focused strategy, it aims to continually enhance its online trading platform and provide value-added services to further improve the online trading experience and empower them to make better-informed investment decisions.

Committed to provide Value, Innovation, Trust and Service, COL is well-positioned to capitalize both on the anticipated development of the capital markets as well as the vast opportunities of increasing the retail investor base in the Philippines.

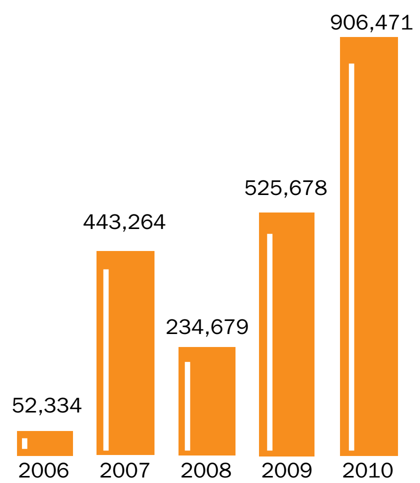
Key Highlights
from the past year

+6%	Php490 Million CONSOLIDATED REVENUES
+103%	Php291.6 Million PHILIPPINE REVENUES
-4%	Php258 Million CONSOLIDATED NET INCOME
+41%	Php133 Million TOTAL EXPENSES
+33%	Php2.5 Billion TOTAL ASSETS
+18%	Php1.1 Billion STOCKHOLDERS' EQUITY

Number of Customers



Number of Transactions



The Purpose of Greater Value

A Message to Shareholders

To My Fellow Shareholders,

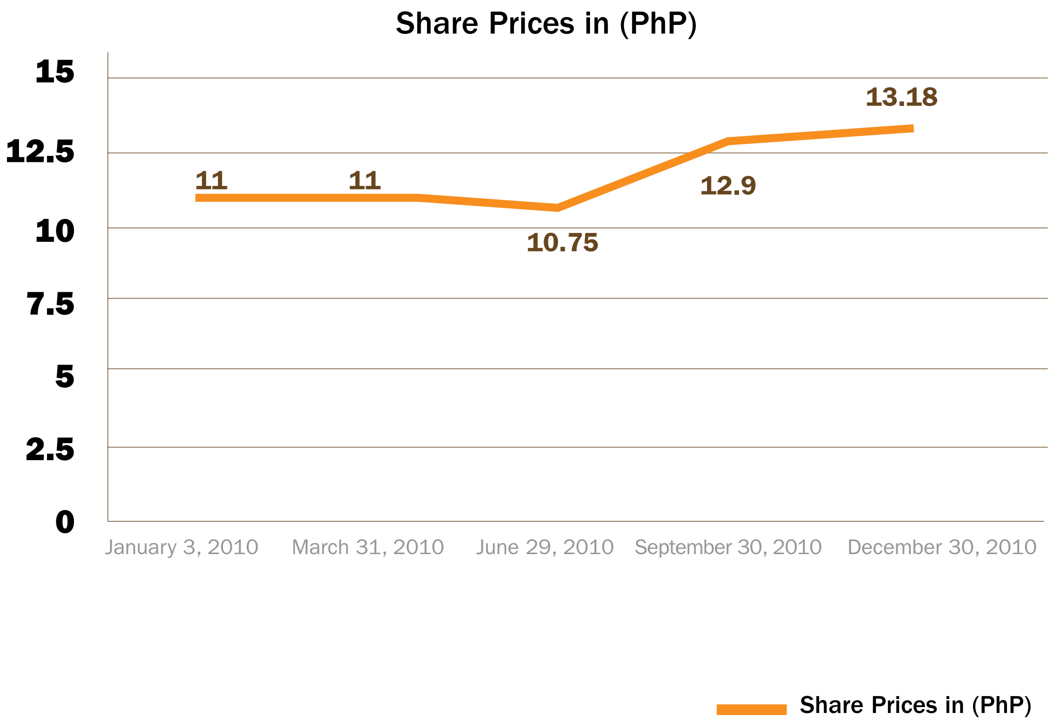
2010 marks the 11th year of CitisecOnline in the Philippine Stockbrokerage industry. The start of another era for CitisecOnline brings about much hope and optimism, and I am looking forward to another decade of valuable opportunities in the stock market. It is and has always been our vision to deliver value; not just in financial and monetary terms but also in the value of a strong sense of financial literacy for all Filipinos by becoming successful self-directed investors in the stock market.

Many years ago, I realized that financial literacy could actually be cultivated and shared with everyone. It took me decades of learning, trials, and plenty of failures to finally equip myself with the knowledge to consistently understand the volatile market cycles. I learned to manage risk and eventually profit from it by adhering to a strong discipline of investing in good companies. I was able to impart that knowledge to my own children without subjecting them through the same strenuous process that I underwent. More significantly, I was able to instill in them a tough investment discipline of investing for the long-term. This process forced me to sift through the key pieces of information I had spent years absorbing into simplified and actionable investment strategies that they could easily understand and execute. And given that I was able to help all my children become successful independent investors, the revelation was immediate – why stop here? It became my firm belief that spreading the knowledge of investing to even the simplest of individuals is possible as long as they are provided the proper guidance and necessary support.

This ambitious vision of making every Filipino successful stock market investors was soon realized because of the powerful and broad-ranging access of the Internet and technological innovations, which you all have come to experience today as the COL trading platform. CitisecOnline not only focuses in providing a powerful online trading service to the Filipino public but also in offering one of the best financial educational programs open to anyone willing to learn. It has been a lengthy and demanding vocation on our part, but it is worth the satisfaction of watching our customers grow into successful and independent investors. Today, with a stronghold of over 15,000 customers and customer assets of over Php12 Billion, COL has become the leading online stockbroker in the Philippines. Our share price is a reflection of the strength and strong growth prospects of our franchise, having started the year at Php11.00 and ending at Php13.18, a 20% increase in shareholder value.

2011 will prove to be more challenging than the past years. Markets have gone up significantly and now companies are looking to grow their businesses by raising capital to support their aggressive expansion plans. We remain bullish despite the challenges; as

IT IS AND HAS ALWAYS BEEN OUR VISION TO DELIVER VALUE - THE VALUE OF A STRONG SENSE OF FINANCIAL LITERACY FOR ALL FILIPINOS BY BECOMING SUCCESSFUL SELF-DIRECTED INVESTORS.



markets have proven time and again, that disciplined investing in good value companies will pay off.

As we look past the numbers and statistics, the original founders of CitisecOnline envisioned our Company to be part of a greater value – one that could permanently leave a positive impact on our society. More than profit, it is our purpose that reminds us to strive even harder everyday to painstakingly build a better, stronger business. There truly is still so much to be done and our commitment is to continue to invest, innovate and expand our business to effectively remain true to our vision and purpose.

As loyal customers and faithful shareholders of CitisecOnline, I would like to extend my wholehearted gratitude to you for your valuable participation in our success. Each and every one of you has played a vital role in strengthening our presence in the industry and as we grow in numbers, it only compounds our capacity to empower and reinforce our advocacy for creating successful investors out of every Filipino is compounded. I salute the inspiring dedication and overwhelming commitment of COL's team of officers and staff, headed by our President, Mr. Dino Bate, who continue to work as a unified force in achieving and exceeding our targets. And finally, I would like to thank our Board of Directors who continue to keep us in check and guide us as we navigate the challenging, yet, rewarding journey ahead.

I look forward to sharing our success in the years to come as we tirelessly aim to deliver great value to all the stakeholders of our Company.

Very truly yours,

EDWARD K. LEE
Chairman & Founder
CitisecOnline.com, Inc.

Gearing Up for a New Decade of Growth

The President's Report

Dear Valued Shareholders,

In 2010, CitisecOnline established itself as a formidable institution in the stockbrokerage industry with a rich and powerful customer and asset base, surpassing its own targets and industry expectations.

For the first time in our Company's history, the Philippine operations accounted for 60% of total revenues; up significantly from an average of only 35% in the past two years. The Philippine performance indicators hit record highs with our client base almost doubling to hit the 15,000 mark while customer assets jumped to Php12 Billion. We delivered significant improvements in our products and services as we continued to stay focused on our customers and being the broker that they can trust and depend on through good and difficult times.

Last year, markets started off weak as investors questioned the sustainability of the global recovery. Domestically, interest rates dropped to record lows, and as a result, investors were looking for better returns on their money. Through these uncertainties, we seized the opportunity to invest in our platform, people, and product to deliver better services to our customers. As the local market improved in the second half of 2010, we saw the PSEi hit record highs and all our efforts began to pay off.

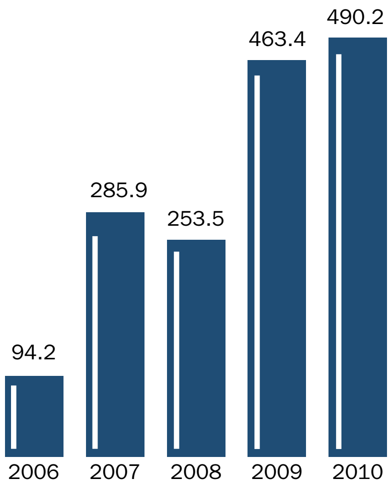
FINANCIAL HIGHLIGHTS

Consolidated revenues was up by 6% Y/Y despite the sharp slowdown in our Hong Kong operations which was affected by the difficult market environment as China continued to tighten its reigns on the economy.

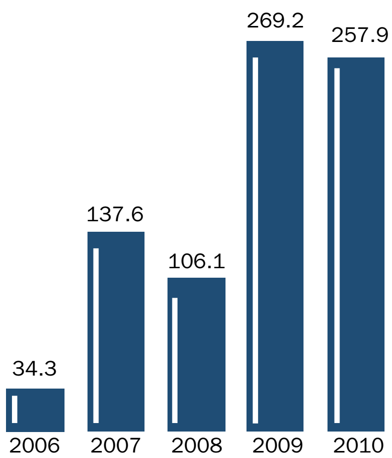
Coming from a record high in 2009, Hong Kong revenues went down by 38% Y/Y due to the weak performance of the Chinese market and the depreciation of the Hong Kong dollar. Although our Hong Kong operations weakened last year, it remained profitable. Our focus in managing our operating costs enabled us to withstand the steep drop in revenues.

On the other hand, growth was led by our Philippine business, where our efforts to expand the franchise in

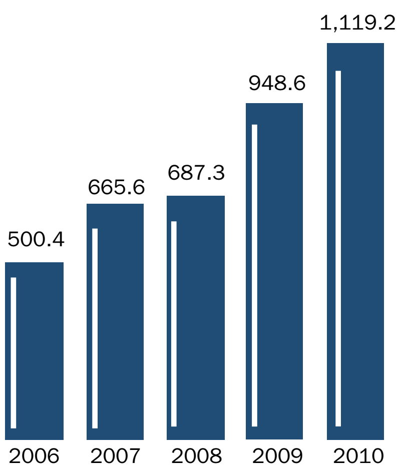
Revenues (in Php MM)



Net Income(in Php MM)



Shareholders' Equity (in Php MM)



the last four years started to pay off. Our customers continued to grow their trust and portfolio with us as evidenced by the increase of 130% to Php12 Billion in customer assets. In addition, Philippine commission revenues grew by 108% Y/Y while interest income went up by 83% Y/Y, leading to a 103% jump in gross revenues.

Overall net income went down 4% Y/Y. The 85% growth of the Philippines' profit margin cushioned the negative operating leverage from our Hong Kong business which was the main reason for the slight decline in our profitability.

Total Expenses was up by 41% Y/Y, largely due to the 17-fold increase in commission expenses which, in turn, was caused by the sharp growth in our Philippine business where we launched the Private Clients Group to better serve our high net worth and institutional clients. Personnel expenses grew by 36% Y/Y. However, we managed to keep our compensation expense to revenue ratio at 40%, which is at the same level as last year.

Total Assets increased by 33% to Php2.5 Billion in 2010 as the number of our Philippine customers and their trading activities grew substantially.

And lastly, our Stockholders' Equity expanded by 18% to Php1.1 Billion. COL's return on equity remained significantly higher at 25% vs. the 6% average return of regional stock brokerages. More significantly, COL remained debt free, making us one of the most solvent brokers in the Philippine Stock Exchange.

We continue to strongly believe in the growth potential of the country's retail investor base. Over the past eleven (11) years, we have substantially invested much of our time and resources in growing our Philippine operations. 2010 marked a special milestone in our history as the realization of our dream started to unfold.

OPERATING HIGHLIGHTS

Average daily turnover grew by 101% Y/Y as against that of the PSE's 20% Y/Y growth. In the last quarter of 2010, COL outranked the local brokers, consistently ranking within the Top 10, amongst the top foreign brokers, in terms of value turnover.

Number of transactions grew by 72% Y/Y versus that of the PSE's 31% Y/Y growth.

We continued to increase our market share based on the number of transactions traded in the Exchange from 13% in 2009 to 17% in 2010. Thanks to our customers, we have consistently registered in the Philippine Stock Exchange as the # 1 online stockbroker over the past three years.

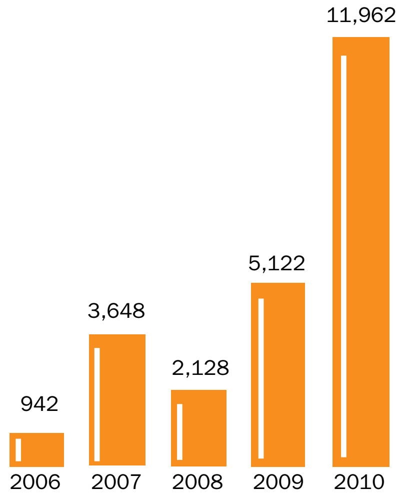
It is interesting to note that even if our customer base almost doubled, our customer equity per account still went up by 33% Y/Y. This increase in the assets per customer can be attributed to a combination of additional deposits and investment to their COL account as well as the increase in the value of their portfolio. This is a solid proof of our customers' growing trust in the performance of COL and in investing online.

2010 MILESTONES

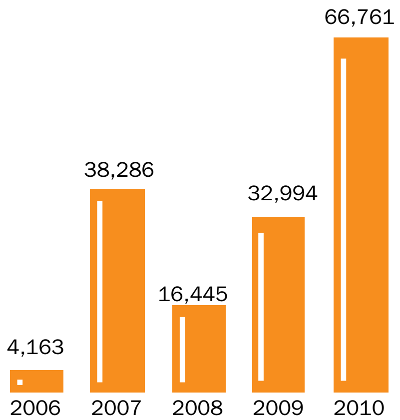
Despite the challenges and changes in the global and local markets, COL continued to stay on course with its customer-focused strategy as we took a closer look into the needs and varying investment profiles of our customers. Spurred by the result of our detailed customer analysis, we beefed up our product and service offerings, improved our internal processes and technological innovations, expanded our communication channels to better serve our customers and strengthened our alliances with various institutions.

In 2010, COL further **deepened its product and service offerings** by establishing the Private Clients Group or the PCG. The PCG, is composed of a team of seasoned

Total Customer Equity (in Php MM)



Total Value Turnover (in Php MM)



Number of Transactions

Trades (in Thousands)	2009	2010	Y/Y Growth
PSE	4,086	5,334	31%
COL	526	907	72%

Market Share in PSE

	2009	2010
PSE	13%	17%

investment professionals whose goal is to focus on addressing the needs of high net worth individuals and institutions and to provide personalized investment advice on their stock market investments.

We also increased our company coverage, released special Research reports and hosted a briefing on growth companies, where over a thousand of our customers attended to listen to top executives from different companies present the plans and the outlook of their companies for 2010 and beyond.

We also focused on **technological innovation** by upgrading our online tools with the advent of the new PSE trading system; we were the first and only online stockbroker to launch a real-time, customizable, all-in-one trading application called the COL Pro. The COL Pro allows our premier customers to have faster access to market information, quicker order entry and full control of their trading screen that will definitely enhance their trading experience and decisions.

Taking our cue from the Philippines' web development strategy, we also upgraded the Hong Kong online trading service and transformed it into a web-based platform to deliver a similar best-in-class experience to that of the Philippines. We can now handle more clients for Hong Kong trading without burdening our system.

We strive to **improve our service levels**. The transition to the new PSE trading system had its own challenges for majority of the trading participants in the industry. To address this, we dedicated a significant amount of resources to normalizing the COL platform and successfully managing the transition to the new system. Furthermore, we continued to implement the necessary measures to minimize, and where possible, eliminate downtime to provide uninterrupted trading for all our customers. The COL system is now geared up to meet the new functionalities of the PSE system on a turnkey basis. In 2010, we **expanded our reach via online and digital media;** COL now has a YouTube Channel, which hosts all our web-based seminars and videos so that the investing public can now have access to our educational materials to learn online at their own pace, anytime of the day.

We continued to **strengthen our relationship** with the media, as we remained regular resource speakers for the likes of ANC, GNN and other business programs. To further expand our reach, we also established a Corporate Accounts group tasked to provide free seminars for corporations who wish to improve the financial wellness of their employees. In 2010, we held seminars in over 20 government institutions, private corporations and universities such as Accenture, Asian Development Bank, Bangko Sentral ng Pilipinas, Bureau of Jail Management and Penology, De La Salle University, Entrepreneur School of Asia, National Economic and Development Authority and Procter & Gamble.

Finally, we continued to work closely with the Philippine Stock Exchange in their efforts to promote market education and awareness.

GEARING UP FOR OUR PURPOSE

The next decade ahead will be no less challenging than the last. Regardless of the market cycles, we believe that for the long-term investor who want superior return on their investment, stocks will continue to be the asset class of choice. Given this, we recognize that it is only by delivering the best service to our customers and continually innovating in the ways we serve them that we can maintain our leadership position in the industry.

In 2011 and beyond, we have the ambitious task of creating a High-Tech, High-Touch environment where we aim to cultivate personal relationships with our customers within the COL platform as we leverage on the use of technology and innovation. We will develop stronger relationships with our customers by applying the best possible technology while institutionalizing the best personalized customer care throughout the entire organization.

To achieve our goal for the coming years, we will keep our **FOCUS.**

F stands for First our Customer. Our ultimate goal is to build lasting relationships with our customers and increase the performance of their stock investments. We aim to achieve this by growing our team of investment advisors, expanding our customer reach through the establishment of business centers, and developing products and services that suit and match the different needs and profiles of our customers.

O stands for Operating discipline. We will invest in the necessary infrastructure to support the growth of our operations within the discipline of maximizing productivity and cost efficiencies. We will streamline and automate our processes to provide even more convenient and easier ways to transact.

C stands for Constant Innovation, which has been one of our key business pillars through the years. In 2011, we will be launching several new services and internet capabilities to provide our customers convenient and easy ways of investing in the stock market.

U stands for keeping a Unified Vision beyond ourselves. Together with the Philippine Stock Exchange, we will continue to contribute to the development of the stock market to build the capital markets and increase the retail investor base in the Philippines.

And finally, **S stands for building a Service Culture within the organization**. Over the years, we will continue to invest in our people by inculcating in them a service culture as well as consistently promoting operational excellence and productivity in their jobs.

OUR PROMISE

The next decade presents very exciting prospects as we aggressively build our franchise and strengthen our relationships with our customers.

COL will always be committed in making successful investors out of every Filipino and will continue to aim to be the **preferred source of financial services, a trusted provider of guidance and investment ideas and a strong organization committed to delivering great value to its customers.**

Our business is now stronger than ever. If we can continue to deliver our promise to our customers, then we will be able to deliver our commitment to you, our shareholders. **And that for me — is the best possible investment you can make in the stock market today and for the long-term.**

In closing, we would not have been able to achieve such a feat if it were not for the excellent performance of the COL team of officers and staff, guided by the wisdom and clarity in vision of our Board of Directors, and ultimately the patronage and loyalty of our 15,510 COL customers.

Thank you for your trust and faith in our Company and we look forward to your continued support as we gear up for a brand new decade of exponential growth for CitisecOnline.

Very truly yours,

CONRADO F. BATE
President & CEO
CitisecOnline.com, Inc.

(+) **EDWIN A. MENDIOLA**

(AUGUST 9, 1949 – JULY 29, 2010)

Executive Vice President and Chief Financial Officer

CitisecOnline.com, Inc.

When my most admired and trusted friend, Edwin, passed away last year, the wave of silent grief and exceptional sadness swept everywhere. At home, my parents and family, who had long fallen in love with the Mendiola family, were heartbroken by the sudden loss. The office was at a standstill as our colleagues, fellow managers and employees mourned deeply together and the outpouring of sympathy and condolence from our common friends stretched as far out as different countries from around the world. Such was the significant impact of Edwin in the lives of so many people.

Such is the powerful influence of a good man. It is not often that I come across someone who commanded such respect and admiration, but only that can describe my perception of Edwin in the 28 years that I had known him. From the early days when we worked and lived with our families in Canada, to the day when we both decided to move back home to the Philippines and build a business, he had always been a loyal partner and an essential cornerstone to the success of CitisecOnline. At one time when I struggled with a difficult career decision, he even readily agreed to a business proposal that was to his disadvantage. He did not question my intentions and he trusted my judgment. He was selfless and committed to the best interest of our Company, which is what made him invaluable, and there was much about leadership and empowerment that I gained under his advisement.

But beyond his dedication to his work, I also placed him in the highest regard for his individual character. He was God-fearing and his actions mirrored his faith. He and his equally exceptional wife, Joy, raised a wonderful family with two brilliant children, Iris and Gino, both of whom have already made their mark of success led by the footsteps of their father. He was a wealthy man by measure of his love and generosity to his community and I am truly proud not only to have worked with him, but also to have had the pleasure of his company and friendship.

There is still a deep heaviness in my heart when I remember Edwin. And yes, at times I also question why he was taken away from us when this world could have definitely used more individuals like him. But I can only accept that I was honored enough to at least have stood in his presence that reflected wisdom, integrity, strong values and kindness.

He will be greatly missed by everyone. But more importantly, he will always be remembered.

EDWARD K. LEE
Chairman & Founder, CitisecOnline.com, Inc.

CHIEF FINANCIAL OFFICER'S Message

The strong performance of the Philippine stock market acted as a catalyst allowing Citiseconline to reap the benefits of our efforts to educate Filipinos on how to create wealth by investing in the stock market. In 2010, the PSEi increased by another 38% after rising by 59% in 2009. Average daily value turnover also increased significantly to Php4.9 Billion from Php4.1 Billion the previous year. Improvement in investor confidence brought about by the election of President Aquino coupled with low interest rates, strong economic growth numbers and corporate earnings were responsible for the Philippine market's strong performance.

CitisecOnline became a formidable force in the industry as more investors chose to capitalize on the strong performance of the stock market using our online platform. This was evidenced by the dramatic increase in the number of accounts from 8,854 to 15,510, and the 120% jump in the size of client portfolios to Php12.6 Billion. Customers also increasingly availed of our margin trading facility or COLX2 as they maximized the power of leverage to enhance returns and take advantage of short-term opportunities. The said factors allowed our Company to register a 103% increase in revenues from Philippine operations. Not surprisingly, we still maintained our ranking as the #1 online stockbroker in terms of number of transactions for the third consecutive year. In 2010, we cornered 17% of total trades in the Philippine Stock Exchange, up from 13% in 2009.

Operating expenses increased by a significant 62% as a reflection of the growth in our Philippine business. This was largely driven by the 72% rise in our personnel and commission expenses, which are our two biggest expense items. Nevertheless, this should not be a cause for concern since the share of personnel and commission expenses to total revenues actually fell from 39.9% in 2009 to 33.8% in 2010. Moreover, a large part of personnel and commission expenses are variable in nature, and are highly dependent on the Company's earnings performance.

Given the strong growth in our revenues and the slower increase in our operating expenses, pre-tax profits of CitisecOnline's Philippine operations soared by 186% to Php135 Million.

The stellar performance of our Philippine operations could not have come at a more opportune time as it was able to offset the weak performance of our Hong Kong operations. Operating profit from our Hong Kong segment fell by 41.3% to Php166 Million as commission revenues dropped by 37.8% to Php197.8 Million due to the weak performance of the Chinese market and the depreciation of the Hong Kong dollar. Consequently, despite the drop of Hong Kong, CitisecOnline's consolidated net income still remained flat at Php258 Million.

Notwithstanding the weak performance of Hong Kong, there is much to be proud about. Our return on equity of 24.9% remained significantly higher than the 5.5% average of regional stock brokerages. Moreover, although Hong Kong operations weakened last year, it remained profitable, since our focus on managing costs enabled us to withstand the steep drop in revenues. Going forward, Hong Kong will remain an important business segment, helping us diversify our sources of earnings.

Also worth mentioning is CitisecOnline's stronger balance sheet position. As of end 2010, we have total assets of Php2.5 Billion and total stockholders' equity of Php1.1 Billion. Coupled with our position as the only listed online stockbroker in the Philippines, the said factors will help us attract new investors and maintain the trust of our existing customers.

We are very excited for the future given our much stronger position to capitalize on the enormous growth potential of the retail investor base in the Philippines. On behalf of your CitisecOnline family, we would like to thank you for your support and we look forward to more fruitful years to come.

Very truly yours,

CATHERINE L. ONG
Chief Financial Officer
CitisecOnline.com, Inc.

Private Clients and Institutional Group

CitisecOnline is committed in making successful investors out of every Filipino and will continue to aim to be the preferred source of financial services, a trusted provider of guidance and market insight and a strong organization committed to delivering great value to its customers.

In 2010, COL's Private Clients Group (PCG) was established with a team of independent and seasoned investment professionals to focus on the unique investment requirements of high net worth individuals and institutional investors.

The PCG is co-headed by George Wong and John Gatmaytan, who have over 25 years experience and expertise in the equity brokerage business.

The PCG offers a premium broking service* geared towards the performance-oriented investor, who would like to seek higher returns in the equity markets using a more active and disciplined approach to investing.

In 2010, the PCG launched its Advisory Services as its initial service offering to its Private Clients.

INVESTMENT ADVISORY SERVICES

The Advisory Services is first of many services made available to the Private Clients. Each client is assigned an Investment Advisor who can answer queries, provide investment advice, and execute orders on the client's behalf. All members of the PCG team are Certified Securities Representatives duly licensed by the Securities and Exchange Commission.

Clients are also given direct access to their online accounts and enjoy all the benefits of the COL platform – real-time quotes and market information, research analysis and reports, real-time account information and the ability to trade directly.

INVESTMENT PHILOSOPHY

The PCG takes a disciplined and active investment approach to managing the clients' investments through proper asset allocation, prudent risk management and critical stock selection. The PCG aims to provide the best investment ideas with the goal of providing superior investment performance over the long-term.

Our investment philosophy is based on the belief that investors should commit to a certain amount of funds and a longer investment horizon to maximize their gains in the stock market. Once the customer has set aside the funds with a longer-term view on allocating the funds for equity investment, he is able to allow gains and profits to compound and grow over time. We believe in active investing with a maximum portfolio of less than ten (10) stocks. With the ideal portfolio of a smaller number stocks, the client gets a powerful combination of diversification and concentration to produce tangible gains in the stock market over a period of time.

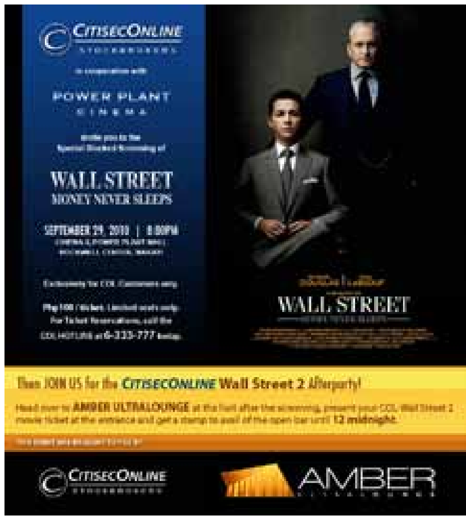
Central to being part of the PCG is the market intelligence and corporate analysis that will be made available to its clients. The team works the extra mile to sift through global and local reports and analysis, visit companies, attend briefings and presentations. They also work closely, yet independently, with COL's research and technical analysts, to ultimately provide up to date and leading edge market recommendations.

Overall, the Private Clients Group, through its Advisory Services, is committed to provide the best investment ideas for superior investment performance of the Private Clients' stock portfolio. The PCG serves only the best interest of the Private Clients – to make winning investments and outperform the markets.

With the institutional experience and background of the investment professionals of the PCG and the management team of COL, the PCG aims to bring institutional standards of investment discipline that has been the cornerstone of the success of many large, professional investors over the past decades.

**minimum asset balances and rates apply*

Year in Highlights



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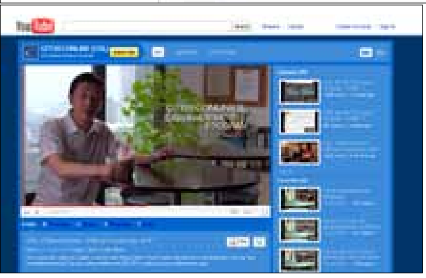

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1. COL's first Blocked Screening of Wall Street 2: Money Never Sleeps exclusively for CitisecOnline customers. (September 29, 2010)
2. Chairman & Founder, Mr. Edward Lee, addresses the audience during the COL Customer Appreciation Dinner (December 1, 2010)
3. The Sales & Marketing team.
4. Some of our loyal and top clients enjoying the company and conversation during the appreciation night.
5. COL Chief Technical Analyst, Mr. Juanis Barredo, provides a brief market overview for our guests.
6. COL customers sharing investment insights over dinner.
7. A demo presentation at the official launch of the new COL Pro platform.
8. The list of distinguished invited speakers at the 2010 COL October Market Briefing: Riding the Bull With Growth Companies. (October 27, 2010)
9. COL Traders at the 2010 PSE Bull Run officially sponsored by CitisecOnline. (January 17, 2010)
10. The official invitation to the biggest COL market briefing that brought together more than 1,300 COL customers in Resorts World Manila.
11. Chairman, Mr. Edward Lee, gives an inspiring introduction to the corporate briefing.
12. The crowd of COL customers at the Newport Performing Arts Theater.
13. Each speaker was interviewed with questions provided by the audience.
14. ICTSI Vice President & Treasurer, Mr. Rafael Jose Consing, Jr. delivers an in-depth presentation.
15. Director & President of Alliance Global Group, Mr. Kingson Sian, shares his thoughts with host of the evening, Ms. April Lee-Tan.
16. COL customers register for admittance to the marketing briefing.
17. Our Customer Relations Officers welcomed each customer to the event.
18. Head of Research, Ms. April Lee-Tan, provides a brief fundamental outlook for our guests.
19. The official Facebook page of CitisecOnline is launched.
20. The official YouTube channel of CitisecOnline is launched, compiled with market outlook videos and site navigation tutorials.

Corporate Social Responsibility

CitisecOnline believes that the most effective way to promote its mission of bringing financial literacy to Filipinos is through the powerful combination of education and technology. In 2011, COL was able to exponentially expand its reach of promoting the benefits of stock market investing through digital online media channels by translating its COL Investor Seminars to online videos in its own Youtube Channel.

Since it launched its COL Investor Seminar Series in 2006, COL has reached over 30,000 Filipinos through its seminars ranging from the basics of stock market investing to specialized topics on investment strategies, fundamental and technical analysis. In 2011, COL focused on targeting groups of people, corporations and formal institutions who long to improve their knowledge of investments in order to increase their financial literacy and promote stocks as the asset class of choice in the market today.

Through COL's Corporate Accounts Group, COL worked with like-minded individuals and formal organizations in promoting stock market investing to companies, schools and universities, government and non-government institutions and associations such as:

1. Accenture
2. Bangko Sentral ng Pilipinas
3. Cemex

4. Fluor
5. Procter & Gamble
6. Association of CPA's in Commerce & Industry
7. Jones Lang La Salle Leechiu
8. Rags2Riches (NGO)
9. Seafarers Entrustment Association (NGO)
10. Bureau of Jail Management and Penology
11. Mitsumi Cebu
12. San Sebastian College
13. Metro Pacific Investments Corporation
14. Asian Development Bank
15. De La Salle University - Manila
16. Association of Pharmaceutical Financial Executives
17. Seaoil
18. Entrepreneur School of Asia
19. Papercon
20. National Economic and Development Authority
21. Various Chartered Financial Analysts Institute events

As part of expanding its Corporate Social Responsibility programs, COL worked closely with the Quezon City Government and the Library Renewal Partnership to launch a computer training facility in the Novaliches Public Library. COL donated the computers to equip the Computer Community Center of the Novaliches Public Library where any of the 300,000 residents can learn how to use the basic computer programs for free. The Computer Center services 30,000 residents monthly and there are weekly graduates of the basic computer training programs conducted by the Public Library. COL is committed to sustain its support for computer literacy programs of the Quezon City Government in equipping its public libraries across its local municipalities and barangays.

ALEXANDER C. YU

Vice Chairman

Alexander C. Yu, 55, Filipino, is the Vice Chairman of COL since 1999 and the Vice Chairman and Treasurer of Citisecurities, Inc. since 1986. He is also a Director of CitisecOnline.com Hong Kong, Ltd. since 2001.

CONRADO F. BATE

Director/President and
Chief Executive Officer

Conrado F. Bate, 48, Filipino, is currently COL's President and CEO and its Nominee to the Philippine Stock Exchange. He has extensive experience in the Philippine stock brokerage and fund management industry with prior positions as Vice President of JP Morgan Securities Philippines from 2000-2002. Mr. Bate was a member of the Board of Directors of the PSE (2005–2006) and served as its Chairman of the Investor Education Committee and Member of the Legislative Committee. He also serves as a member of the Board of Directors of ATR Asset Management formerly The Mutual Fund Management Company of the Philippines from 2005 up to present and Corston-Smith Asset Management in Malaysia from 2009 up to present.

EDWARD K. LEE

Founder and Chairman

Edward K. Lee, 56, Filipino, is concurrently the Chairman of the Board of CitisecOnline and CitisecOnline.com Hong Kong, Ltd. as well as Citisecurities, Inc. In addition, he is the Chairman and Chief Executive Officer of the CWC Group of Companies which include CWC Development, Inc., Barrington Carpets, Inc., Citimex, Inc., and CWC International, Inc. for 30 years now. Mr. Lee previously served as a Governor of the Philippine Stock Exchange and was the Chairman of the Computerization Committee of the Manila Stock Exchange. He went on to become a member of the Board of Directors of A. Soriano Corporation serving for two terms. Mr. Lee was also a Finalist to the 2007 Entrepreneur of the Year Philippines by Ernst & Young.

KHOO BOO BOON

Director/Independent Director of the Company

Khoo Boo Boon, 52, Malaysian, has extensive experience in international trading, advertising, market research and corporate management. He is currently the President and Chief Executive Officer of GTF Worldwide Philippines, Inc. He is also a shareholder and sits on the Board of Directors of GEKA Property Holdings, Inc.

MANUEL ESTACION

Director/Independent Director of the Company

Manuel S. Estacion, 65, Filipino, is presently engaged by The Hong Kong and Shanghai Banking Corporation (HSBC) as the Bank Representative in the remaining labor-related cases pending in court. He previously served HSBC in various capacities and was Vice President- Human Resources from 1996 to 1999 after which he acted as a Consultant to HSBC prior to his present engagement. Mr. Estacion also served as a Director and Vice President of the Rotary Club of Ortigas Center for the Rotary Year 2007-2008.

HERNAN G. LIM

Director

Hernan G. Lim, 58, Filipino, is currently the President of Hoc Po Feeds Corporation and the Executive Vice President of Philstar Marketing & Development Corporation and HGL Development Corporation for more than 5 years now. He is also a Director of Citimex Inc., Citisecurities, Inc., CWC Development, Inc., Barrington Carpets, Inc. and CWC Industries, Inc. for more than ten years.

Board of Directors

CAESAR A. GUERZON

Senior Vice President/Corporate Secretary and Head of Legal Department and Human Resources and Administration Department

Caesar A. Guerzon, 60, Filipino, was a Director of COL from 1999 to 2006. He is the Corporate Secretary of Citisecurities, Inc. since 1986 and the CWC Group of Companies since 1984. He is concurrently a Director of CitisecOnline.com, Hong Kong, Ltd. and the Chairman of the Rural Bank of Sta. Maria, Ilocos Sur, Inc.

CATHERINE L. ONG

Director/Senior Vice President/Chief Financial Officer and Treasurer

Catherine L. Ong, 58, is the President of Citisecurities, Inc. and Executive Vice President and Treasurer of CWC Group of Companies for more than ten years now.

PAULWELL HAN

Director

Paulwell Han, 51, Chinese, was elected as the new director on November 11, 2010 to replace Mr. Edwin A. Mendiola who passed away on July 29, 2010. Mr. Han is a graduate of Business Finance at San Francisco State University, USA. He is currently the Director and General Manager of different corporations located in Hong Kong namely: Dai Heng Pharmaceutical Co., Ltd., Yee Ting Tong Company Limited, Tecworld Investment Co., Ltd., Silver Jubilee Co., Ltd., Sunning Restaurant and Etta Trading Company Limited.

WELLINGTON C. YU
Director

Wellington C. Yu, 67, Filipino, was the Senior Vice President of Tropical Rent-A-Car in Hawaii from 1986 to 1990 and President of Suntrips, Inc. of San Jose, California. He was also conferred the title of Dean Emeritus in the College of Business and Economics in De La Salle University.

HIROTSUGO KOBAYASHI
Director/Independent Director of the Company

Hirotsugo Kobayashi, 49, Japanese, is currently the President and Chief Executive Officer of IWPI. He has been with Intelligent Wave, Inc. (Japan) since 1984 and was the primary designer of the Transaction Server Platform and the Windows NT-based network transaction base system previously utilized by the Manila Stock Exchange.

RAYMOND C. YU
Director

Raymond C. Yu, 56, Filipino, is currently the President of Winner Industrial Corporation and a Director of more than 15 years of the following corporations: Citisecurities, Inc., CWC Development, Inc., Barrington Carpets, Inc., Citimex, Inc., and CWC International, Inc.

Board of Directors

CONRADO F. BATE

Director/President and
Chief Executive Officer

APRIL LYNN C. LEE-TAN, CFA

Vice President and
Head of Research Department

April Lynn C. Lee-Tan, 35, Filipino, has been with CitisecOnline's research team since 1999. She is a Certified Securities Representative and a Chartered Financial Analyst (CFA) holder. She has been elected and currently serves as the President of the Certified Financial Analysts Association of the Philippines.

JUAN G. BARREDO

Vice President and Head of Customer
Service and Sales Department

Juan "Juanis" G. Barredo, 43, Filipino, Vice President and Head of Customer Service and Sales Department of COL, manages the day-to-day operations of the Business Center, Customer Service and Customer Relations Groups and support personnel. He spearheads the COL Investor Seminar Series, the flagship investor education program of the Company.

CATHERINE L. ONG

Director/Senior Vice President/Chief Financial Officer and Treasurer

CAESAR A. GUERZON

Senior Vice President/Corporate Secretary and Head of Legal Department and Human Resources and Administration Department

Management Team

LORENA E. VELARDE

Vice President
and Head of Accounting Department

Lorena C. Espino-Velarde, 40, Filipino is the Vice President and Head of Accounting of COL since the year 2001 and up to the present. She is also the Compliance Officer of Citisecurities, Inc.

GERALD T. CHUA

General Manager,
CitisecOnline.com Hong Kong, Ltd.

Gerald Chua, 34, Filipino, is currently the General Manager of CitisecOnline.com Hong Kong, Ltd. In 2001, he was part of the team who set up the COL Hong Kong office and until today manages its day-to-day operations.

NIKOS J. BAUTISTA

Vice President
and Chief Technology Officer

Nikos J. Bautista, 41, Filipino, is the Chief Technology Officer of COL. He is also a consultant for the New Trading System Project of the Philipipine Stock Exchange and for the various projects of the PDEx.

Management Team

Corporate Governance

CitisecOnline.com, Inc. adheres to the principles and best practices of good corporate governance. It believes that corporate governance is a necessary component of what constitutes sound strategic business management. It is expected that all its directors and employees act with honesty, integrity, transparency, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. COL believes that corporate governance is a reflection of its culture, policies, and relationship with its customers, employees and shareholders, and commitment to these values.

The Company's Manual on Corporate Governance institutionalizes the principles of good corporate governance and serves as a guide in the attainment of the Company's goals. The Manual also defines the responsibilities of the Board of Directors and all the committees.

BOARD OF DIRECTORS

The direction and control of COL's business affairs as well as the preservation of its assets are in the hands of its Board of Directors.

It shall be the Board's responsibility to foster the long-term success of the Company and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Company, its shareholders and other shareholders.

The Board's specific responsibilities include installing a process of selection to ensure a mix of competent directors and officers; ensuring the Company's compliance with relevant laws, regulations and codes of best business practices; identifying and monitoring with due diligence key risk areas and key performance indicators; and developing and implementing an investor relations program or shareholder communications policy for the Company.

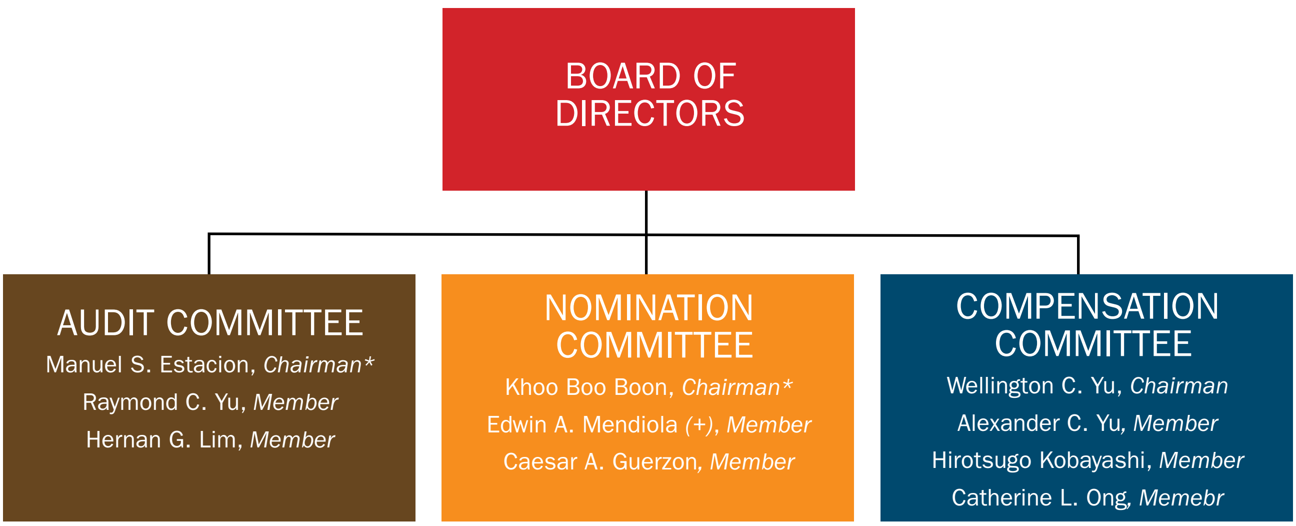
BOARD COMPOSITION

COL's Board consists of eleven (11) directors, three (3) of whom are independent directors. All eleven (11) directors are registered owners of at least one (1) share of the capital stock of the Company. Each director has a term of one (1) year and serves until his/her successor is elected and qualified.

The following is an overview of the membership and responsibilities of the nomination, audit, and compensation committees of the Board of Directors.

NOMINATION COMMITTEE

The Nomination Committee's key objective is to review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It may provide assessment on the Board's effectiveness in directing the process of renewing and replacing Board



**Independent Director*

(+) Deceased, July 2010

members. It is composed of at least three (3) members, one (1) of whom is an independent director.

AUDIT COMMITTEE

The Audit Committee is composed of at least three (3) members, one (1) of whom is an independent director. Its functions include:

- Checking all financial reports against their compliance with both the internal financial management handbook and pertinent accounting standards, including regulatory requirements.
- Performing oversight financial management functions.
- Pre-approving audit plans, scope and frequency.
- Performing direct interface functions with the internal and external auditors.

COMPENSATION COMMITTEE

The Compensation Committee is responsible for establishing formal and transparent procedures for the development of a policy on executive remuneration or determination of remuneration of directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates. It is composed of at least three (3) members, one (1) of whom is an independent director.

SHAREHOLDER RELATIONS

Corporate information is regularly released by COL to its stockholders including changes in its corporate profile, corporate governance disclosures, financial reports, stock market updates, and other related news in compliance with and strict adherence to the highest standards of transparency and disclosure.

COL faithfully complies with the financial reporting and disclosure requirements of the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE). Likewise, the Company's quarterly financial results are promptly disclosed to the SEC and the PSE.

The principal manner of communication with our shareholders is via the annual report and through the Annual Stockholders' Meeting of COL attended by all of the Company's directors. It is also a time when all shareholders present are given the opportunity to address questions to the Chairman, the Board members as well as the Chairpersons of the Audit, Compensation and Nomination Committees.

The Company holds the annual stockholders' meetings at a pre-determined venue scheduled on any day in March of each year. Special stockholders' meetings can be called at any time by the President, or by order of the Board of Directors at its own instance, or at the written request of the stockholders representing a majority of the outstanding capital stock.

Notice of any regular or special meeting of the stockholders is sent by mail or personal delivery at least two (2) weeks prior to the scheduled date of the meeting. In all regular or special meeting, quorum shall, unless otherwise provided by law, constitute the presence either in person or by proxy of stockholders representing a majority of the outstanding capital stock of the Company.

Statement of Management's Responsibility for the Financial Statements

The management of CitisecOnline.com, Inc. (the Parent Company) is responsible for all information and representations contained in the financial statements as of and for the years ended December 31, 2010 and 2009. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines 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 Parent Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operations 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 Parent Company.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the Parent Company in accordance with generally accepted auditing standards in the Philippines 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.

Edward K. Lee
Chairman of the Board

Conrado F. Bate
President and Chief Executive Officer

Catherine L. Ong
Chief Financial Officer

Independent Auditors' Report

The Stockholders and the Board of Directors
CitisecOnline.com, Inc.

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CitisecOnline.com, Inc. and Subsidiary as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Alvin M. Pinpin
Partner
CPA Certificate No. 94303
SEC Accreditation No. 0781-A
Tax Identification No. 198-819-157
PTR No. 2641554, January 3, 2011, Makati City

February 25, 2011

Consolidated Statements of Financial Position

	December 31					
	2010			2009		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
ASSETS						
Cash and cash equivalents (Notes 4, 21 and 22)	**₱652,454,563**			₱905,963,791		
Cash in a segregated account (Notes 4, 21 and 22)	**143,755,312**			295,776,710		
Financial assets at fair value through profit or loss (FVPL) (Notes 5, 21 and 22)	**779,800**	**₱779,800**		2,467,216	₱2,467,216	
Receivables (Notes 6, 21 and 22)	**1,428,220,974**	**4,111,767,365**		418,126,678	1,434,443,813	
Held-to-maturity investment (Notes 7, 21 and 22)	**102,456,071**			103,589,642		
Property and equipment (Note 8)	**26,674,510**			28,098,717		
Exchange trading rights (Note 9)	**22,989,686**			24,067,268		
Deferred tax assets - net (Note 17)	**79,806,548**			66,288,428		
Other assets (Note 10)	**8,354,096**			8,787,512		
TOTAL ASSETS	**₱2,465,491,560**			₱1,853,165,962		
Securities in Philippine Depository and Trust Corporation and Hong Kong Securities Clearing Company, Limited			**₱12,474,285,648**			₱5,170,583,740
LIABILITIES AND EQUITY						
Liabilities						
Payable to clearing house and other brokers (Note 22)	**₱32,551,799**			₱–		
Payable to customers (Notes 11 and 22)	**1,239,346,027**	**₱8,361,738,483**		845,308,807	₱3,733,672,711	
Accounts payable and accrued expenses (Notes 12 and 22)	**62,028,315**			34,084,716		
Income tax payable	**9,190,638**			19,138,521		
Retirement obligation (Note 16)	**3,134,824**			5,986,544		
Total Liabilities	**1,346,251,603**			904,518,588		

(Forward)

Consolidated Statements of Financial Position

	December 31					
	2010			2009		
		Security Valuation			Security Valuation	
	Money Balance	**Long**	**Short**	Money Balance	Long	Short
Equity (Notes 13 and 16)						
Capital stock	**₱442,650,000**			₱433,000,000		
Capital in excess of par value	**35,539,024**			34,759,024		
Cost of share-based payment	**71,073,568**			64,822,146		
Accumulated translation adjustment	**(26,873,680)**			(9,858,282)		
Retained earnings:						
Appropriated	**26,881,330**			13,733,597		
Unappropriated	**569,969,715**			412,190,889		
Total Equity	**1,119,239,957**			948,647,374		
TOTAL LIABILITIES AND EQUITY	**₱2,465,491,560**	**₱12,474,285,648**	**₱12,474,285,648**	₱1,853,165,962	₱5,170,583,740	₱5,170,583,740

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

	Years Ended December 31		
	2010	2009	2008
INCOME			
Commissions	**₱371,348,657**	₱401,487,503	₱193,373,193
Interest (Notes 4, 6, 7 and 14)	**105,980,093**	57,958,949	47,328,088
Gain on financial assets at FVPL (Note 5)	**7,717,255**	2,404,116	–
Foreign exchange gains - net	**765,431**	321,722	8,597,725
Others (Note 5)	**4,413,181**	1,254,642	4,179,836
	490,224,617	463,426,932	253,478,842
EXPENSES			
Personnel costs (Note 15)	**76,128,454**	55,964,739	45,708,232
Commission and referral fees (Note 18)	**22,555,289**	1,325,871	4,814,737
Professional fees (Note 18)	**20,211,730**	20,591,261	10,418,773
Provision for impairment losses (Notes 6 and 10)	**11,907,240**	5,867,714	8,200,000
Computer services (Note 12)	**11,487,698**	9,542,237	7,345,120
Depreciation (Note 8)	**9,142,634**	11,468,435	9,073,424
Membership fees and dues	**8,682,852**	5,400,734	3,689,999
Rentals (Note 19)	**5,347,721**	4,616,672	4,356,977
Advertising and marketing	**3,423,586**	4,311,636	4,044,300
Power, light and water	**2,486,321**	1,747,150	2,055,093
Stock option expense (Note 16)	**2,275,000**	1,846,000	2,730,000
Taxes and licenses	**1,840,027**	1,230,565	1,609,628
Communications	**1,656,835**	1,552,057	1,645,505
Office supplies	**1,609,568**	839,437	861,952
Security and messengerial services	**1,457,227**	1,168,980	1,184,992
Condominium dues	**921,958**	738,203	765,504
Transportation and travel	**848,154**	248,326	345,059
Insurance and bonds	**838,187**	716,142	646,733
Trainings, seminars and meetings	**756,780**	655,745	906,519
Repairs and maintenance	**528,281**	543,320	456,389
Loss on financial assets at FVPL (Note 5)	**–**	–	9,047,824
Others	**3,780,218**	2,516,021	2,684,005
	187,885,760	132,891,245	122,590,765
INCOME BEFORE INCOME TAX	**302,338,857**	330,535,687	130,888,077
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)			
Current	**45,921,682**	61,491,267	25,618,311
Deferred	**(1,469,384)**	(164,220)	(812,242)
	44,452,298	61,327,047	24,806,069
NET INCOME	**₱257,886,559**	₱269,208,640	₱106,082,008
Earnings Per Share (Note 24)			
Basic	**₱0.59**	₱0.62	₱0.25
Diluted	**₱0.55**	₱0.57	₱0.22

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2010	2009	2008
NET INCOME	**₱257,886,559**	₱269,208,640	₱106,082,008
OTHER COMPREHENSIVE INCOME (LOSS)			
Translation adjustments - net of tax effect of ₱7,292,313 in 2010; ₱3,180,347 in 2009 and ₱12,312,979 in 2008	**(17,015,398)**	(7,420,809)	22,369,516
TOTAL COMPREHENSIVE INCOME	**₱240,871,161**	₱261,787,831	₱128,451,524

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008

	Capital Stock	Capital In Excess of Par Value	Cost of Share-Based Payment	Accumulated Translation Adjustment	Retained Earnings		Total
					Appropriated	Unappropriated	
Balances at January 1, 2008	₱430,000,000	₱33,719,024	₱55,088,262	(₱24,806,989)	₱2,814,791	₱168,798,047	₱665,613,135
Issuance of shares upon exercise of stock options (Note 16)	3,000,000	1,040,000	–	–	–	–	4,040,000
Cost of share-based payment (Note 16)	–	–	(33,161,824)	–	–	–	(33,161,824)
Declaration of cash dividend (Note 13)	–	–	–	–	–	(77,679,000)	(77,679,000)
Net income	–	–	–	–	–	106,082,008	106,082,008
Other comprehensive income	–	–	–	22,369,516	–	–	22,369,516
Total comprehensive income for the year	–	–	–	22,369,516	–	106,082,008	128,451,524
Appropriation of retained earnings (Note 13)	–	–	–	–	5,834,934	(5,834,934)	–
Balances at December 31, 2008	433,000,000	34,759,024	21,926,438	(2,437,473)	8,649,725	191,366,121	687,263,835
Cost of share-based payment (Note 16)	–	–	42,895,708	–	–	–	42,895,708
Declaration of cash dividend (Note 13)	–	–	–	–	–	(43,300,000)	(43,300,000)
Net income	–	–	–	–	–	269,208,640	269,208,640
Other comprehensive loss	–	–	–	(7,420,809)	–	–	(7,420,809)
Total comprehensive income (loss) for the year	–	–	–	(7,420,809)	–	269,208,640	261,787,831
Appropriation of retained earnings (Note 13)	–	–	–	–	5,083,872	(5,083,872)	–
Balances at December 31, 2009	433,000,000	34,759,024	64,822,146	(9,858,282)	13,733,597	412,190,889	948,647,374
Issuance of shares upon exercise of stock options (Note 16)	9,650,000	780,000	–	–	–	–	10,430,000
Cost of share-based payment (Note 16)	–	–	6,251,422	–	–	–	6,251,422
Declaration of cash dividend (Note 13)	–	–	–	–	–	(86,960,000)	(86,960,000)
Net income	–	–	–	–	–	257,886,559	257,886,559
Other comprehensive loss	–	–	–	(17,015,398)	–	–	(17,015,398)
Total comprehensive income (loss) for the year	–	–	–	(17,015,398)	–	257,886,559	240,871,161
Appropriation of retained earnings (Note 13)	–	–	–	–	13,147,733	(13,147,733)	–
Balances at December 31, 2010	₱442,650,000	₱35,539,024	₱71,073,568	(₱26,873,680)	₱26,881,330	₱569,969,715	₱1,119,239,957

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱302,338,857**	₱330,535,687	₱130,888,077
Adjustments for:			
Provision for impairment losses	**11,907,240**	5,867,714	8,200,000
Depreciation (Note 8)	**9,142,634**	11,468,435	9,073,424
Retirement expense (Note 16)	**2,336,561**	2,175,177	2,931,616
Stock option expense (Note 16)	**2,275,000**	1,846,000	2,730,000
Unrealized loss (gain) on sale of financial assets at FVPL	**520,316**	(633,013)	(287,231)
Interest income (Note 14)	**(105,980,093)**	(57,958,949)	(47,328,088)
Dividend income	**(378)**	(20,720)	(2,621)
Reversal of provision for impairment losses	–	–	(459,268)
Loss from disposal of property and equipment	–	–	17,085
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Cash in a segregated account	**152,021,398**	(78,460,119)	(56,120,995)
Financial assets at FVPL	**1,085,099**	(1,802,148)	296,158
Receivables	**(1,060,640,478)**	(253,517,529)	385,617,430
Other assets	**(9,405,936)**	(6,329,878)	(9,376,042)
Increase (decrease) in:			
Payable to clearing house and other brokers	**32,551,799**	(57,646,806)	59,094,438
Payable to customers	**411,890,076**	337,577,375	(368,714,536)
Accounts payable and accrued expenses	**33,924,304**	24,747,614	(10,874,564)
Net cash flows from (used in) operations	**(216,033,601)**	257,848,840	105,684,883
Interest received	**107,229,245**	58,141,904	46,733,659
Dividends received	**378**	20,720	2,621
Income taxes paid	**(54,143,965)**	(46,600,119)	(37,408,087)
Net cash flows from (used in) operating activities	**(162,947,943)**	269,411,345	115,013,076
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment (Note 8)	**(8,063,004)**	(11,618,392)	(2,952,787)
Contribution to retirement fund (Note 16)	**(5,188,281)**	(1,527,705)	(1,280,285)
Proceeds from maturity of held-to-maturity (HTM) investment	–	–	130,000,000
Acquisition of HTM investment	–	–	(104,723,214)
Proceeds from disposal of property and equipment	–	–	37,725
Net cash flows from (used in) investing activities	**(13,251,285)**	(13,146,097)	21,081,439
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends declared and paid	**(86,960,000)**	(43,300,000)	(77,679,000)
Proceeds from issuance of shares (Note 13)	**9,650,000**	–	3,000,000
Net cash flows used in financing activities	**(77,310,000)**	(43,300,000)	(74,679,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(253,509,228)**	212,965,248	61,415,515
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**905,963,791**	692,998,543	631,583,028
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱652,454,563**	₱905,963,791	₱692,998,543

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

CitisecOnline.com, Inc. (CitisecOnline, Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on August 16, 1999, primarily to engage in the business of broker of securities and to provide stockbrokerage services through innovative internet technology. CitisecOnline.com Hong Kong Limited (COLHK, Subsidiary), a wholly-owned foreign subsidiary, was domiciled and incorporated in Hong Kong, primarily to act as stockbroker and invest in securities. In the normal course of business, the Parent Company and COLHK (the Group) are also engaged in providing financial advice, in the gathering and distribution of financial and investment information and statistics and in acting as financial, commercial or business representative. The registered address of the Parent Company is Unit 2401-B East Tower, PSE Centre, Exchange Road, Ortigas Center, Pasig City, Philippines. The registered address of COLHK is Room 803, Luk Yu Building, 24-26 Stanley Street, Hong Kong.

On July 12, 2006, the Parent Company completed its initial public offering (IPO) of 110,000,000 common shares (25.58% of the total outstanding common stock) through the Philippine Stock Exchange (PSE).

On August 15, 2006, the Board of Directors (BOD) of the Parent Company has approved the acquisition of the Trading Right of Mark Securities Corporation for the purpose of making the Parent Company a PSE Trading Participant. On December 13, 2006, the BOD of the PSE approved the application of CitisecOnline as a Corporate Trading Participant in the PSE through the transfer of the Trading Right registered in the name of Mark Securities Corporation and the designation of Mr. Conrado F. Bate as its Nominee Trading Participant.

On October 20, 2008, the Parent Company made an initial contribution to the Clearing and Trade Guaranty Fund (CTGF) of the Securities Clearing Corporation of the Philippines (SCCP) as a prerequisite to its accreditation as a clearing member of SCCP. On August 20, 2009, the Parent Company made a top-up contribution six months after it started operating its own seat in the PSE on February 16, 2009.

The accompanying consolidated 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, were authorized for issue by the BOD on February 25, 2011.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Principles**

Basis of Preparation
The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), which have been measured at fair value. The Group's consolidated financial statements are presented in Philippine peso, which is the presentation currency under Philippine Financial Reporting Standards (PFRS). Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and COLHK have been determined to be Philippine peso and Hong Kong dollar, respectively. All values are rounded to the nearest peso except as otherwise indicated.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with the PFRS, except for the use of closing prices for the valuation of equity securities as required by the Securities Regulation Code (SRC). PFRS requires the use of current bid prices for valuation of equity securities held.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and COLHK, a 100% owned and controlled foreign subsidiary, after eliminating significant intercompany balances and transactions.

The Subsidiary is consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) that became effective during the year. Except as otherwise indicated, adoption of the new and amended PFRS and interpretations from IFRIC has no significant impact on the Group's consolidated financial statements.

PFRS 2, *Share-based Payments (Amendment) - Group Cash-settled Share-based Payment Transactions*
The amendment to PFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions.

PFRS 3 (Revised), *Business Combinations*, and PAS 27 (Amended), *Consolidated and Separate Financial Statements*
PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010. The change in accounting policy was applied prospectively and had no material impact on the Group's consolidated financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement (Amendment) - Eligible Hedged Items*
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

Philippine Interpretation IFRIC 17, *Distributions to Non-Cash Assets to Owners*
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

Improvements to PFRS Effective 2010
An omnibus of amendments to PFRS deals primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any significant impact on the financial position or performance of the Group.

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

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

- PFRS 8, *Operating Segments*
    - Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

- PAS 7, *Statement of Cash Flows*
    - States that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

- PAS 36, *Impairment of Assets*
    - Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

Other amendments resulting from improvements of PFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- PAS 1, *Presentation of Financial Statements*
- PAS 17, *Leases*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*

<u>New Accounting Standards, Interpretations and Amendments Effective Subsequent to 2010</u>
The Group will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its consolidated financial statements.

Effective in 2011

PAS 24 (Amended), *Related Party Disclosures*
The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities or for the entire standard.

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

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

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

Effective in 2012

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

PAS 12, *Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets*
The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves

rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Effective in 2013

PFRS 9, *Financial Instruments: Classification and Measurement*
PFRS 9, as issued in 2010, reflects the first phase of the project on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, hedge accounting and derecognition will be addressed. The completion of this project is expected in early 2011.

Improvements to PFRS Subsequent to 2010
Improvements to PFRS is an omnibus of amendments to PFRS. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011. The amendments listed below are considered to have a reasonable possible impact on the Group:

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

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Summary of Significant Accounting Policies

Foreign Currency Translation
Transactions in foreign currencies are initially recorded in the prevailing functional currency exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the closing functional currency rate of exchange at the reporting date. All differences are taken to the consolidated statement of income.

The financial statements of the foreign consolidated subsidiary are translated at closing exchange rates with respect to the consolidated statement of financial position, and at the average exchange rates for the year with respect to the consolidated statement of income. Resulting translation differences are included in equity (under accumulated translation adjustment). Upon disposal of the foreign subsidiary, accumulated exchange differences are recognized in the consolidated statement of income as a component of the gain or loss on disposal.

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 from dates of acquisition and that are subject to an insignificant risk of changes in value.

Cash in a Segregated Account
Cash in a segregated account represents clients' monies maintained by COLHK with a licensed bank arising from its normal course of business.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of Recognition
Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date.

Initial Recognition of Financial Instruments
All financial assets, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for securities valued at FVPL, the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. The Group's financial assets are of the nature of financial assets at FVPL, HTM investments, and loans and receivables. As of December 31, 2010 and 2009, the Group has no AFS investments.

Also under PAS 39, all financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. Financial liabilities are classified as FVPL or other financial liabilities. The Group's financial liabilities are of the nature of other financial liabilities.

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

Financial Assets and Financial Liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes, financial assets and financial liabilities designated upon by management at initial recognition as at FVPL, and derivative instruments (including bifurcated embedded derivatives). Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term.

Financial assets or financial liabilities are designated as at FVPL on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'Gain/loss on financial assets at FVPL' in the consolidated statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2010 and 2009, the Group has no financial liabilities that have been designated as at FVPL.

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;

- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and

- The hybrid or combined instrument is not recognized at FVPL.

Separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of these derivatives are recognized immediately in the consolidated statement of income.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of December 31, 2010 and 2009, the Group has no bifurcated embedded derivatives.

HTM Investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR.

The amortization is included in 'Interest income' in the consolidated statement of income. Gains and losses are recognized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of income.

Loans and Receivables
These are non-derivative financial assets with fixed or determinable payments and fixed maturities 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.

This accounting policy mainly relates to the consolidated statement of financial position captions 'Cash and cash equivalents', 'Cash in a segregated account', and 'Receivables', which arise primarily from service revenues and other types of receivables.

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the EIR method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income. The losses arising from impairment are recognized in 'Provision for impairment losses' in the consolidated statement of income.

Other Financial Liabilities
Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effects of restatement of foreign currency-denominated liabilities are recognized in 'Foreign exchange gains (losses)' account in the consolidated statement of income.

This accounting policy applies primarily to the consolidated statement of financial position captions 'Payable to clearing house and other brokers', 'Payable to customers', 'Accounts payable and accrued expenses' and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Fair Value
The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market close prices at the close of business on the reporting date.

For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include comparison to similar investments for which market observable prices exist and discounted cash flow analysis or other valuation models.

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

Receivable from and Payable to Customers, Clearing House and Other Brokers
Receivable from customers, which include margin accounts, and payables to clearing house and other brokers arise from securities purchased (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Payable to customers and receivable from clearing house and other brokers arise from securities sold (in a regular way transaction) that have been contracted for but not yet delivered on the reporting date. Refer to the accounting policy for 'Loans and Receivables' and 'Other Financial Liabilities' for recognition and measurement.

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

- The rights to receive cash flows from the asset have expired;

- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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. 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.

When the Group continues to recognize an asset to the extent of its continuing involvement, the entity also recognizes an associated liability. Despite the other measurement requirements in PFRS, the transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the entity has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is:

a. the amortized cost of the rights and obligations retained by the entity, if the transferred asset is measured at amortized cost; or
b. equal to the fair value of the rights and obligations retained by the entity when measured on a stand-alone basis, if the transferred asset is measured at fair value.

The Group shall continue to recognize any income arising on the transferred asset to the extent of its continuing involvement and shall recognize any expense incurred on the associated liability.

Financial Liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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 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 statement of income.

Impairment of Financial Assets
The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost
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 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 EIR (i.e., the EIR 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 statement of income.

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 statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to receivables, a provision for impairment losses is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Offsetting
Financial assets and liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Exchange Trading Rights
Exchange trading rights are carried at cost less any allowance for impairment losses. Exchange trading rights are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. The exchange trading rights are deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The Group does not intend to sell the exchange trading rights in the near future.

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Parent Company by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations.

Input VAT is stated at its estimated net realizable values.

Property and Equipment
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment if the recognition criteria are met.

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

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

Depreciation is computed on the straight-line basis over the following estimated useful lives of the assets:

Category	Number of Years
Online trading equipment and facilities	3-10
Office furniture, fixtures and equipment	3-5

Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements of five (5) years or the term of the lease, whichever is shorter.

The carrying values of property 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 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 statement of income in the year the asset is derecognized. The asset's residual values, if any, useful lives and methods are reviewed and adjusted if appropriate, at each financial year end.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that its property and equipment, exchange trading rights and other noncurrent assets may be impaired. If any such indication exists or when the 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 the asset's value in use or its fair value less cost to sell. The fair value less cost to sell is the amount obtainable from the sale of an asset at an arm's length transaction while value in use is the present value of estimate future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount in the year in which it arises.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation) had no impairment loss been recognized for the asset in prior years.

Leases

Determination of Whether an Arrangement Contains a Lease

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

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as a Lessee

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

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 made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Capital Stock and Capital in Excess of Par Value

The Group has issued capital stock that are classified as equity. Incremental costs directly attributable to the issue of new capital stock are shown in equity as a deduction, net of any related tax benefit, from the proceeds.

Where the Group purchases the Group's capital stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the Group's stockholders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Group's stockholders. Amount of contribution in excess of par value is accounted for as a capital in excess of par value. Capital in excess of par value also arises from additional capital contribution from the stockholders.

Retained Earnings

Retained earnings are accumulated profits realized out of normal and continuous operations of the business after deducting therefrom distributions to stockholders and transfers to capital or other accounts. Cash and stock dividends are recognized as a liability and deducted from equity when they are approved by the Group's BOD and stockholders, respectively. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Revenue Recognition

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

Commissions

Commissions are recognized as income upon confirmation of trade deals. These are computed based on a flat rate for every trade transaction.

Interest Income

Interest income is recognized as it accrues taking into account the effective yield of the asset.

Dividend Income

Dividend income is recognized when the right to receive payment is established, which is the date of declaration.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when the related revenue is earned or when the service is incurred. The majority of expenses incurred by the Group such as personnel costs, professional fees, and computer services, are overhead in nature and are recognized with regularity as the Group continues its operations.

Share-Based Payment Transactions
Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, vesting conditions, including performance conditions, other than market conditions (conditions linked to share prices), shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions are taken into account in estimating the number of equity instruments that will vest. The fair value is determined using an appropriate pricing model, further details of which are given in Note 16 to the consolidated financial statements.

The cost of equity-settled transactions is recognized in the consolidated statement of income, together with a corresponding increase in equity, over the period in which service conditions are fulfilled, ending on the date on which relevant employees become fully entitled to the award (vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards, based on the best available estimate of number of equity instruments in the opinion of the management of the Group, will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has applied PFRS 2, only to equity-settled awards granted after November 7, 2002 that had not vested on or before January 1, 2005. Prior to January 1, 2005, the Group did not recognize any expense for share options granted but disclosed required information for such options (see Note 16).

Retirement Cost
The Parent Company has a noncontributory defined benefit retirement plan.

The retirement cost of the Parent Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit retirement obligation at the reporting date less the fair value of any plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit retirement obligation is calculated annually, as necessary, by an independent actuary using the projected unit credit method. The present value of the defined benefit retirement obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded ten percent (10.00%) of the higher of the defined benefit retirement obligation and the fair value of plan assets, if any, at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past-service costs, if any, are recognized immediately in income, unless the changes to the retirement plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The defined benefit asset or liability comprises the present value of the defined benefit retirement obligation less past service costs not yet recognized and less the fair value of any plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognized and the present value of any economic benefits available in the form of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The retirement plan of COLHK is defined contribution. Under defined contribution, the entity's legal and constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by an entity to a post-employment benefit plan, together with investment returns arising from the contributions. Consequently, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be sufficient to meet expected benefits) fall on the employee.

The standard requires an entity to recognize short-term employee benefits when an employee has rendered service in exchange of those benefits.

<u>Earnings Per Share (EPS)</u>
Basic EPS is computed by dividing earnings applicable to common stock by the weighted average number of common shares outstanding, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the year, and adjusted for the effect of dilutive options. Outstanding stock options will have a dilutive effect under the treasury stock method only when the average market price of the underlying common share during the period exceeds the exercise price of the option. Where the effect of the exercise of all outstanding options has anti-dilutive effect, basic and diluted EPS are stated at the same amount.

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 reporting date.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized on temporary differences that arise 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 income nor the taxable income or loss.

With respect to investments in foreign subsidiaries, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current income tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the consolidated statement of income.

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

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 disclosed when an inflow of economic benefits is probable.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the geographical location of its operations, with each segment representing a unit that offers stockbrokerage services and serves different markets. Financial information on geographical segments is presented in Note 25. The Group operates in one business segment, being stockbrokerage services; therefore, business segment information is no longer presented.

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

3. Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates 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.

Determining Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Group, the functional currencies of the Parent Company and COLHK have been determined to be Philippine peso and Hong Kong dollar, respectively. The Philippine peso and the Hong Kong dollar are the currencies of the primary economic environments in which the Parent Company and COLHK, respectively, operate. They are the currencies that mainly influence the revenue and expenses of each of the respective entities of the Group.

Operating Lease Commitments - Group as Lessee
The Group has entered into commercial property leases on its facility and administrative office locations. The Group has determined that these are operating leases since they do not retain all the significant risks and rewards of ownership of these properties.

Classifying HTM Investments
The Group follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole amount as AFS investments. The investments would therefore be measured at fair value, not amortized cost. If the class of HTM investment is tainted, its fair value would change with a corresponding entry in the fair value reserve in equity. As of December 31, 2010 and 2009, the Group has HTM investment amounting to ₱102,456,071 and ₱103,589,642, respectively (see Note 7).

Deferred Tax Assets
The Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilized. The Group has net deferred tax assets amounting to ₱79,806,548 and ₱66,288,428 as of December 31, 2010 and 2009, respectively (see Note 17).

Estimating Contingencies
The Group evaluates legal and administrative proceedings to which it is involved based on analysis of potential results. Management and its legal counsels do not believe that any current proceedings will have material adverse effects on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these proceedings (see Note 23).

Determining Useful Lives and Impairment of the Exchange Trading Rights
Exchange trading rights are carried at cost less any allowance for impairment loss. Exchange trading rights are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. The exchange trading rights are deemed to have indefinite useful lives as there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

The management's impairment test for the Parent Company's exchange trading right is based on the available market value while COLHK's exchange trading right is based on value in use calculation that uses a discounted cash flow model. The cash flows are derived from the budget for the next five years. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used. The key assumptions used to determine the recoverable amount for the cash generating unit are further explained in Note 9. The Group does not intend to sell the exchange trading rights in the near future. As of December 31, 2010 and 2009, the carrying values of exchange trading rights amounted to ₱22,989,686 and ₱24,067,268, respectively (see Note 9).

Estimating Useful Lives of Property and Equipment
The Group estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in the Group's estimates brought about by changes in the factors mentioned. Depreciation expense amounted to ₱9,142,634, ₱11,468,435 and ₱9,073,424 in 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, the net book values of property and equipment amounted to ₱26,674,510 and ₱28,098,717, respectively (see Note 8).

Estimating Impairment of Property and Equipment
The Group assesses impairment on property and equipment 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 changes in the manner of use of the acquired assets or the strategy for overall business; and

- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

Based on management's assessment, there are no indications of impairment on the Group's property and equipment as of December 31, 2010 and 2009.

No impairment loss was recognized in 2010, 2009 and 2008 for property and equipment. The net book values of property and equipment amounted to ₱26,674,510 and ₱28,098,717 as of December 31, 2010 and 2009, respectively (see Note 8).

Share-based Payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payments requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payments are disclosed in Note 16. As of December 31, 2010 and 2009, cost of share-based payment amounted to ₱71,073,568 and ₱64,822,146, respectively.

Retirement Obligation
The cost of defined benefit retirement plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting dates. As of December 31, 2010 and 2009, the retirement obligation of the Parent Company amounted to ₱3,134,824 and ₱5,986,544, respectively (see Note 16).

Estimating Impairment of Receivables and HTM Investment
The Group reviews its receivables and HTM investment at each reporting date to assess whether provision for impairment losses should be recorded in the consolidated statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. The Group individually assesses receivables when the value of the collateral falls below the management-set level. When no payment is received within a specified timeframe, the outstanding balance is deemed impaired. Collective assessment is based on the age of the financial assets and historical expected losses adjusted for current conditions.

As of December 31, 2010 and 2009, the allowance for impairment losses on receivables amounted to ₱12,709,415 and ₱802,175, respectively. The carrying value of receivables as of December 31, 2010 and 2009 amounted to ₱1,428,220,974 and ₱418,126,678, respectively (see Note 6).

The carrying value of HTM investment amounted to ₱102,456,071 and ₱103,589,642 as of December 31, 2010 and 2009 (see Note 7). There is no allowance for impairment of HTM investment as of December 31, 2010 and 2009.

4. Cash on Hand and in Banks

Cash and Cash Equivalents

	2010	2009
Cash on hand and in banks	**₱384,825,918**	₱383,374,367
Short-term cash investments	**267,628,645**	522,589,424
	₱652,454,563	₱905,963,791

In compliance with SRC Rule 49.2 covering customer protection and custody of securities, the Parent Company maintains special reserve bank accounts for the exclusive benefit of its customers amounting to ₱327,053,167 and ₱492,472,104 as of December 31, 2010 and 2009, respectively. The Parent Company's reserve requirement is determined based on the SEC's prescribed computations. As of December 31, 2010 and 2009, the Parent Company's reserve accounts are adequate to cover its reserve requirements.

Cash in banks earn interest at the respective bank deposit rates. Short-term cash investments are made for varying periods of up to three (3) months depending on the Group's immediate cash requirements, and earn interest at 1.50% to 4.25% per annum in 2010, 3.70% to 5.80% per annum in 2009 and 4.50% to 7.00% per annum in 2008. Interest income of the Group amounted to ₱17,318,452, ₱17,968,876 and ₱17,688,851 in 2010, 2009, and 2008, respectively (see Note 14). The Parent Company has United States (US) dollar-denominated cash in banks as of December 31, 2010 and 2009 (see Note 21).

Cash in a Segregated Account

COLHK maintains segregated account with a licensed bank to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash in a segregated account in the consolidated statements of financial position and recognized a corresponding payable to customers on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations. As of December 31, 2010 and 2009, cash in a segregated account amounted to ₱143,755,312 and ₱295,776,710, respectively.

5. Financial Assets at FVPL

Financial assets at FVPL pertain to investments in shares of stocks of companies listed in the PSE and major U.S. Stock Exchanges. Gain (loss) recognized from fair value changes of these financial instruments amounted to ₱7,717,255, ₱2,404,116 and (₱9,047,824) in 2010, 2009 and 2008, respectively. Dividend income amounted to ₱378, ₱20,720 and ₱2,621 in 2010, 2009 and 2008, respectively.

6. **Receivables**

	2010	2009
Customers	**₱1,114,084,041**	₱312,639,157
Clearing house	**305,500,961**	99,816,303
Other brokers	**4,909,619**	3,051,034
Accrued interest	**1,680,435**	2,929,587
Amounts owed by a related party (see Note 18)	**–**	1,994
Others	**14,755,333**	490,778
	1,440,930,389	418,928,853
Less allowance for impairment losses	**12,709,415**	802,175
	₱1,428,220,974	₱418,126,678

The Parent Company has a credit line facility (involving margin accounts) for qualified customers with the outstanding balance subject to an interest rate ranging from 1.00% to 1.50% per month. Total credit line offered by the Parent Company amounted to ₱3,102,065,000 and ₱1,258,770,000 as of December 31, 2010 and 2009, respectively. Interest income from customers amounted to ₱82,774,097, ₱34,141,951 and ₱20,643,398 in 2010, 2009 and 2008, respectively (see Note 14).

Other receivables as of December 31, 2010 include the amount of ₱8,960,245 representing additional corporate income tax paid under protest by the Parent Company for the taxable year 2009. For the first, second and third quarters of the taxable year 2009, the Parent Company used the itemized method of deduction in determining its income tax payable for the same period. In its final adjusted income tax return, it opted to use the 40% optional standard deduction (OSD) to determine the final income tax payable for 2009, pursuant to Republic Act (RA) No. 9504 effective July 7, 2008, as implemented by Revenue Regulations No. (RR) 16-08 dated November 26, 2008 (see Note 17). However on March 14, 2010, RR No. 2-2010 became effective and amended Section 7 of RR No. 16-08 which now requires taxpayers to signify the election to claim either the OSD or itemized deduction during the filing of the first quarter income tax return which must be consistently applied for all succeeding quarterly returns and in the final income tax return for the taxable year. Likewise, Revenue Memorandum Circular No. 16-2010 was issued on February 26, 2010 giving retroactive application to RR No. 2-2010.

The additional income tax paid under protest is for the sole purpose of avoiding any interest or penalty which may be subsequently imposed in erroneously applying RR No. 2-2010 and RMC No. 16-2010 retroactively in violation of Section 246 of the 1997 Tax Code, as amended. Payment of the additional income tax does not constitute an admission of any deficiency tax liability for the taxable year 2009 nor shall the same be construed as a waiver of the right to apply for and secure a refund of the tax erroneously paid for the period. Pending the outcome of the payment under protest, a 100% allowance for impairment loss was set up.

The Group's receivable from customers, arising from the credit line facility, and its security valuation follows:

	2010		2009	
	Money Balance	**Security Valuation**	Money Balance	Security Valuation
Cash and fully secured accounts:				
More than 250%	**₱705,634,047**	**₱3,421,549,419**	₱171,457,480	₱1,209,309,153
Between 200% and 250%	**218,784,229**	**505,599,160**	77,216,791	166,916,993
Between 150% and 200%	**54,021,731**	**102,098,358**	2,899,877	5,623,208
Between 100% to 150%	**4,714,382**	**5,272,000**	51,122,085	52,594,459
Less than 100%	**130,927,166**	**77,248,428**	–	–
Unsecured accounts	**2,486**	**–**	9,942,924	–
	1,114,084,041	**4,111,767,365**	312,639,157	1,434,443,813
Less allowance for impairment losses	**3,749,170**	**–**	802,175	–
	₱1,110,334,871	**₱4,111,767,365**	₱311,836,982	₱1,434,443,813

Receivable from customers have no specific credit terms but customers are required to maintain the value of their collateral within a specific level. Once the value of the collateral falls down this level, customers may either deposit additional collateral or sell stocks to cover their account balance. The receivable balances become demandable upon failure of the customer to duly comply with these requirements. As of December 31, 2010 and 2009, ₱983,154,389 and ₱303,696,233, respectively, of the total receivable are fully covered by collateral.

Receivable from clearing house and amounts owed by a related party as of December 31, 2010 and 2009 were fully collected subsequently in January 2011 and 2010, respectively.

Movements in the allowance for impairment losses on receivables are as follows:

	2010			2009		
	Customers	**Others**	**Total**	Customers	Others	Total
Balances at beginning of year	**₱802,175**	**₱–**	**₱802,175**	₱458,661	₱–	₱458,661
Provisions for the year	**2,946,995**	**8,960,245**	**11,907,240**	343,574	–	343,574
Balances at end of year	**₱3,749,170**	**₱8,960,245**	**₱12,709,415**	₱802,175	₱–	₱802,175

7. Held-to-Maturity Investment

As of December 31, 2010 and 2009, HTM investment consists of investment in a 5-year Fixed Rate Treasury Note, with face value of ₱100,000,000, purchased on October 3, 2008 at a premium of ₱5,006,606 and with coupon rate of 8.75% per annum. This will mature on March 3, 2013. Interest income earned from this investment amounted to ₱5,866,429, ₱5,846,984 and ₱8,497,437 in 2010, 2009 and 2008, respectively (see Note 14).

As of December 31, 2010 and 2009, the amortized cost of HTM investment amounted to ₱102,456,071 and ₱103,589,642, respectively.

8. Property and Equipment

2010

	Online Trading Equipment and Facilities	**Office Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost:				
At beginning of year	**₱40,605,520**	**₱14,658,511**	**₱15,010,653**	**₱70,274,684**
Additions	**4,906,070**	**1,792,960**	**1,363,974**	**8,063,004**
Translation adjustments	**(350,445)**	**(472,946)**	**(48,348)**	**(871,739)**
At end of year	**45,161,145**	**15,978,525**	**16,326,279**	**77,465,949**
Accumulated depreciation:				
At beginning of year	**23,206,257**	**10,777,066**	**8,192,644**	**42,175,967**
Depreciation for the year	**4,887,212**	**1,612,957**	**2,642,465**	**9,142,634**
Translation adjustments	**(16,968)**	**(461,847)**	**(48,347)**	**(527,162)**
At end of year	**28,076,501**	**11,928,176**	**10,786,762**	**50,791,439**
Net book values	**₱17,084,644**	**₱4,050,349**	**₱5,539,517**	**₱26,674,510**

2009

	Online Trading Equipment and Facilities	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost:				
At beginning of year	₱29,441,149	₱14,409,820	₱15,032,136	₱58,883,105
Additions	11,169,086	449,306	–	11,618,392
Translation adjustments	(4,715)	(200,615)	(21,483)	(226,813)
At end of year	40,605,520	14,658,511	15,010,653	70,274,684
Accumulated depreciation:				
At beginning of year	16,618,249	9,408,600	4,899,477	30,926,326
Depreciation for the year	6,596,658	1,557,127	3,314,650	11,468,435
Translation adjustments	(8,650)	(188,661)	(21,483)	(218,794)
At end of year	23,206,257	10,777,066	8,192,644	42,175,967
Net book values	₱17,399,263	₱3,881,445	₱6,818,009	₱28,098,717

9. Exchange Trading Rights

Philippine Operations

On August 15, 2006, the Parent Company purchased the Trading Right of Mark Securities Corporation amounting to ₱5,000,000. As discussed in Note 1, on December 13, 2006, the BOD of the PSE, in its regular meeting, approved the application of the Parent Company as a PSE Corporate Trading Participant. As of December 31, 2010 and 2009, the market value of said exchange trading right amounted to ₱7,500,000 and ₱10,625,000, respectively.

Hong Kong Operations

COLHK's exchange trading right is carried at its cost of HK$3,190,000. The carrying value of the exchange trading right is reviewed annually to ensure that this does not exceed the recoverable amount, whether or not an indicator of impairment is present. The said exchange trading right is nontransferable and cannot be sold to any third party independent of the total assets and liabilities of COLHK. As of December 31, 2010 and 2009, the carrying value of COLHK exchange trading right in Philippine peso amounted to ₱17,989,686 and ₱19,067,268, respectively.

The recoverable amount of exchange trading rights of COLHK has been determined based on a value in use calculation. That calculation uses cash from projections based on a financial budget approved by management covering a five-year period, and a discount rate ranging from 8.38% to 11.50%. Management believes that any reasonably possible change in the key assumptions on which the exchange trading rights' recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Movements in exchange trading rights follow:

	2010	2009
At beginning of year	**₱24,067,268**	₱24,546,087
Translation adjustment	**(1,077,582)**	(478,819)
At end of year	**₱22,989,686**	₱24,067,268

10. **Other Assets**

	2010	2009
Deposit to CTGF	**₱13,724,200**	₱13,724,200
Rental and other deposits (see Note 19)	**5,047,760**	4,675,631
Prepayments	**1,449,050**	2,615,088
Input VAT	**1,857,286**	1,496,793
	22,078,296	22,511,712
Less allowance for impairment losses	**13,724,200**	13,724,200
	₱8,354,096	₱8,787,512

As mentioned in Note 1, as a prerequisite to its accreditation as a clearing member of SCCP, the Parent Company made an initial contribution of ₱8,200,000 on October 20, 2008 to the CTGF of the SCCP. The CTGF is a risk management tool of SCCP, whose primary purpose is to protect the settlement system from any default by a clearing member. The amount of contribution was computed based on the previous six months trading data and a calculation for the ideal fund level using the Value at Risk (VAR) Model. The said amount was recalculated after six (6) months based on the effective rate of eleven per cent (11.00%) applied to the actual netted trade value of the clearing member. On August 20, 2009, the Parent Company made an additional contribution amounting to ₱5,524,200 to top-up the deficiency in the initial contribution.

In addition to the collection of the initial contribution and as part of the build-up plan for the CTGF, SCCP collects a monthly contribution at the rate of 1/500 of 1.00% of the clearing member's gross trade value less block sales and cross transactions of the same flag.

Under SCCP Rule 5.2, the cash contributions made by the clearing members to the CTGF are nonrefundable. However, in consideration of the 100% increase in the CTGF contributions which took effect on August 1, 2007, the BOD of SCCP has approved the full refund of contributions to the CTGF upon cessation of the business of the clearing member and upon termination of its membership with SCCP. Such amendment has been submitted for the further approval of the SEC. Pending the approval of the SEC, the rule on nonrefundability still applies. In view of this, the Parent Company made a provision for impairment losses amounting to ₱5,524,200 and ₱8,200,000 in 2009 and 2008, respectively.

11. **Payable to Customers**

	2010		2009	
	Money Balance	**Security Valuation-Long**	Money Balance	Security Valuation-Long
With money balances	**₱1,239,346,027**	**₱8,059,410,037**	₱845,308,807	₱3,677,268,253
No money balances	**–**	**302,328,446**	–	56,404,458
	₱1,239,346,027	**₱8,361,738,483**	₱845,308,807	₱3,733,672,711

Payable to customers with money balances amounting to ₱128,508,340 and ₱315,897,257 as of December 31, 2010 and 2009, respectively, were payable to COLHK's clients in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. These balances are payable on demand (see Note 4).

12. **Accounts Payable and Accrued Expenses**

	2010	2009
Accrued expenses and other current liabilities (see Note 18)	**₱41,285,616**	₱25,515,401
Withholding taxes payable	**10,566,763**	4,627,555
Trading fees	**6,235,537**	2,726,810
Output VAT payable	**3,771,223**	1,084,471
Others	**169,176**	130,479
	₱62,028,315	₱34,084,716

Accrued expenses and other current liabilities mainly include accruals for employees' performance bonus, professional fees, advertising expense, computer services and other operating expenses.

Computer services expense mainly include internet connection fees, internet leased line charges and payments to PSE and Hong Kong Securities and Futures Commission (SFC) for terminal fee.

13. **Equity**

Capital Stock

The details and movements of the Parent Company's capital stock (number of shares and amounts in thousands) follow:

	2010		2009		2008	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock - ₱1 per share Authorized	**1,000,000**	**₱1,000,000**	1,000,000	₱1,000,000	1,000,000	₱1,000,000
Issued and Outstanding						
Balances at beginning of year	**433,000**	**433,000**	433,000	433,000	430,000	430,000
Issuance of common shares upon exercise of stock options (Note 16)	**9,650**	**9,650**	–	–	3,000	3,000
Balances at end of year	**442,650**	**₱442,650**	433,000	₱433,000	433,000	₱433,000

As of December 31, 2010 and 2009, the Parent Company has 35 and 33 stockholders, respectively.

Retained Earnings
In compliance with SRC Rule 49.1 B Reserve Fund, the Parent Company is required to annually appropriate ten percent (10.00%) of its audited net income and transfer the same to appropriated retained earnings account. On December 11, 2006, the BOD approved the annual appropriation commencing on the year 2006. Based on the audited net income of the Parent Company in 2007 amounting to ₱58,349,346, the appropriation for 2008 amounted to ₱5,834,934. In 2009, an appropriation of ₱5,083,872 was made based on the 2008 audited net income of the Parent Company of ₱50,838,719. In 2010, an appropriation of ₱13,147,733 was made based on the 2009 audited net income of the Parent Company of ₱131,477,331. Total unappropriated retained earnings amounted to ₱569,969,715 and ₱412,190,889 as of December 31, 2010 and 2009, respectively.

During the BOD meeting on April 26, 2007, the BOD of the Parent Company approved a policy of declaring an annual regular cash dividends of twenty percent (20.00%) of its net earnings which, for the years 2008 and 2007, are equivalent to ₱0.025 per share held or ₱10,788,750 (431,550,000 shares multiplied by ₱0.025 cash dividend per share) and ₱0.01 per share held or ₱4,300,000 (430,000,000 shares multiplied by ₱0.01 cash dividend per share), respectively. The regular dividends have record dates of April 1, 2008 and May 11, 2007, respectively.

Additionally, a special cash dividend was declared by the BOD of the Parent Company on March 14, 2008 and April 26, 2007 amounting to ₱0.155 per share held or ₱66,890,250 (431,550,000 shares multiplied by ₱0.155 cash dividend per share) for stockholders as of record date of April 1, 2008 and ₱0.005 per share held or ₱2,150,000 (430,000,000 shares multiplied by ₱0.005 cash dividend per share) to stockholders as of record date of May 11, 2007, respectively.

On December 11, 2008, the Hong Kong SFC approved the increase in the authorized capital stock of COLHK from 20,000,000 shares to 50,000,000 shares at HK$1 par value. On February 19, 2009, the COLHK's BOD declared a scrip dividend corresponding to 23,000,005 shares at HK$1 par value to its existing stockholders as of December 31, 2008.

On March 13, 2009, the BOD declared a regular and a special cash dividend amounting to ₱0.02 per share held or ₱8,660,000 (433,000,000 shares multiplied by ₱0.02 cash dividend per share) and ₱0.08 per share held or ₱34,640,000 (433,000,000 shares multiplied by ₱0.08 cash dividend per share), respectively, to stockholders as of record date of March 27, 2009. These dividends were paid on April 27, 2009.

On December 31, 2009, the Hong Kong SFC approved the increase in the authorized capital stock of COLHK from 50,000,000 shares to 150,000,000 shares at HK$1 par value. On March 1, 2010, the COLHK's BOD declared a scrip dividend corresponding to 21,999,995 shares at HK$1 par value to its existing stockholders as of December 31, 2009.

On March 30, 2010, the BOD declared a regular and special dividend amounting to ₱0.05 per share held or ₱21,740,000 (474,800,000 shares multiplied by ₱0.05 cash dividend per share) and ₱0.15 per share held or ₱65,220,000 (434,800,000 shares multiplied by ₱0.15 cash dividend per share), respectively, to stockholders as of record date of April 16, 2010. These dividends were paid on May 12, 2010.

On February 3, 2011, COLHK's BOD has proposed to pay a final dividend of HK$13,000,000 (65,000,000 shares multiplied by HK$0.20 scrip dividend per share) to stockholders as of record date of February 3, 2011.

14. **Interest Income**

	2010	2009	2008
Customers (Note 6)	**₱82,774,097**	₱34,141,951	₱20,643,398
Banks - net of final tax (Note 4)	**17,318,452**	17,968,876	17,688,851
HTM investment - net of final tax (Note 7)	**5,866,429**	5,846,984	8,497,437
Others	**21,115**	1,138	498,402
	₱105,980,093	₱57,958,949	₱47,328,088

15. **Personnel Costs**

	2010	2009	2008
Salaries and wages	**₱68,995,418**	₱49,412,202	₱39,503,765
Retirement costs (see Note 16)	**2,591,691**	2,442,011	3,185,953
Other benefits	**4,541,345**	4,110,526	3,018,514
	₱76,128,454	₱55,964,739	₱45,708,232

16. **Employee Benefits**

Stock Options
On July 12, 2000 and July 3, 2006, the Group granted stock options (SOP) in favor of directors, senior managers and officers of the Group as well as other qualified individuals determined by a committee constituted by the BOD to administer the SOP. As of December 31, 2006, a total of 46,000,000 stock options were granted. The agreement provides for an exercise price of ₱1.00 per share. These options will be settled in equity once exercised. All options are exercisable one and a half (1½) years from July 12, 2006, the effective date of listing of the Parent Company's shares at the PSE, and will terminate ten (10) years from the said date. There was no new SOP granted in 2010 and 2009.

There have been no cancellations or modifications to the plan in 2010, 2009 or 2008.

The following table illustrates the number of and movements in stock options:

	2010	2009	2008
Outstanding at beginning of year	**43,000,000**	43,000,000	46,000,000
Exercised during the year	**(9,650,000)**	–	(3,000,000)
Outstanding at end of year	**33,350,000**	43,000,000	43,000,000

**27,250,000 of the total stock options have not been recognized in accordance with PFRS 2 Share-Based Payment as these options were granted on or before November 7, 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with PFRS 2.*

The options have a contractual term of ten (10) years. The weighted average remaining contractual life of options outstanding is 5.5 years, 6.5 years, and 7.5 years as of December 31, 2010, 2009 and 2008, respectively.

The fair value of each option is estimated on the date of grant using the Black-Scholes Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted on July 12, 2000 and July 3, 2006 amounted to ₱0.89 per share and ₱1.04 per share, respectively.

The assumptions used to determine the fair value of the 27,250,000 stock options granted on July 12, 2000 were (1) share price of ₱1.07 obtained through the use of the Discounted Cash Flow model since the stock was not quoted at the time; (2) exercise price of ₱1.00; (3) expected volatility of 44.00%; (4) option life of ten (10) years; and (5) risk-free interest rate of 15.61%.

The assumptions used to determine the fair value of the 18,750,000 stock options granted on July 3, 2006 were (1) share price of ₱1.36 as the latest valuation of stock price at the time of the initial public offering; (2) exercise price of ₱1.00; (3) expected volatility of 24.00%; (4) option life of 10 years; and (5) risk-free interest rate of 11.04%.

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. Since the stock is not quoted at the time of grant date, the Group used the historical volatility of the nearest market comparable available.

Risk-free interest rate is the equivalent 10-year zero coupon rate at the time of grant date.

Movements in the cost of share-based payment included in equity are as follows:

	2010	2009	2008
Balances at beginning of year	**₱64,822,146**	₱21,926,438	₱55,088,262
Deferred tax asset (liability) on intrinsic value of outstanding options	**4,756,422**	41,049,708	(34,851,824)
Stock option expense	**2,275,000**	1,846,000	2,730,000
Cost of share-based payment recognized as capital in excess of par value	**(780,000)**	–	(1,040,000)
Movements during the year	**6,251,422**	42,895,708	(33,161,824)
Balances at end of year	**₱71,073,568**	₱64,822,146	₱21,926,438

Retirement Benefits

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its regular employees. The benefits are based on a certain percentage of the final monthly basic salary for every year of credited service of the employees. The defined retirement benefit obligation is determined using the projected unit credit method. There was no plan termination, curtailment or settlement for the years ended December 31, 2010, 2009 and 2008.

The following tables summarize the components of the Parent Company's net retirement costs recognized in the consolidated statements of income and the amounts recognized in the consolidated statements of financial position:

Retirement costs:

	2010	2009	2008
Current service cost	**₱1,630,445**	₱1,527,705	₱2,320,908
Expected return on plan assets	**(425,078)**	(299,841)	(205,097)
Interest cost on benefit obligation	**1,131,194**	952,464	733,881
Net actuarial loss (gain) recognized	**–**	(5,151)	81,924
	₱2,336,561	₱2,175,177	₱2,931,616

Movements in the retirement obligation recognized in the consolidated statements of financial position:

	2010	2009
Retirement obligation at beginning of year	**₱5,986,544**	₱5,339,072
Retirement benefit costs during the year	**2,336,561**	2,175,177
Actual contributions to the fund during the year	**(5,188,281)**	(1,527,705)
Retirement obligation at end of year	**₱3,134,824**	₱5,986,544

Retirement obligation:

	2010	2009
Defined benefit obligation	**₱14,368,751**	₱12,568,812
Present value of plan assets	**(6,538,937)**	(6,072,538)
Unrecognized actuarial loss	**(4,694,990)**	(509,730)
	₱3,134,824	₱5,986,544

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

	2010	2009
Opening defined benefit obligation	**₱12,568,812**	₱8,658,762
Current service cost	**1,630,445**	1,527,705
Interest cost	**1,131,194**	952,464
Actuarial gain on obligation	**4,113,250**	1,429,881
Benefits paid	**(5,074,950)**	–
Closing defined benefit obligation	**₱14,368,751**	₱12,568,812

Changes in the fair value of plan assets:

	2010	2009
Balances at beginning of year	**₱6,072,538**	₱4,283,447
Return on plan assets	**425,078**	299,841
Contributions	**5,188,281**	1,527,705
Benefits paid	**(5,074,950)**	–
Actuarial loss	**(72,010)**	(38,455)
Balances at end of year	**₱6,538,937**	₱6,072,538

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

	2010	2009
Short-term cash investments	**100.00%**	99.94%
Cash in bank	**–**	0.06%
	100.00%	100.00%

The principal assumptions used in determining retirement obligations for the Parent Company's plan is shown below:

	2010	2009	2008
Discount rate	**8.00%**	9.00%	11.00%
Expected rate of return on plan assets	**7.00%**	7.00%	7.00%
Future salary increases	**7.00%**	7.00%	7.00%

The overall expected rate of return on plan assets is determined based on the market prices prevailing on the date, applicable to the period over which the obligation is to be settled.

Amounts for the current and previous four (4) years are as follows:

	2010	2009	2008	2007	2006
PV of defined retirement benefit obligation	**₱14,368,751**	₱12,568,812	₱8,658,762	₱9,173,518	₱7,009,122
Fair value of plan assets	**(6,538,937)**	(6,072,538)	(4,283,447)	(2,929,959)	–
Unfunded status	**₱7,829,814**	₱6,496,274	₱4,375,315	₱6,243,559	₱7,009,122
Experience adjustments on plan liabilities	**₱2,501,782**	(₱465,365)	(₱897,195)	(₱274,458)	₱264,072
Change in assumptions	**1,611,469**	1,895,246	(2,672,350)	–	1,799,438
Actual return on plan assets	**353,068**	261,386	73,202	61,577	–

COLHK makes monthly contribution to a fund under the mandatory provident fund schemes ordinance enacted by the Hong Kong Government. The plan is defined contribution. Under the plan, COLHK should contribute five percent (5.00%) of the monthly relevant income of all its qualified employees. The contribution recognized as expense amounted to ₱255,130, ₱266,834 and ₱254,337 in 2010, 2009 and 2008, respectively.

17. Income Taxes

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

The components of the Group's net deferred tax assets follow:

	2010	2009
Cost of share-based payment	**₱63,117,568**	₱58,361,147
Accumulated translation adjustment	**11,517,292**	4,224,977
Stock option expense	**2,386,800**	1,938,300
Accrued retirement costs	**1,629,993**	1,967,885
Allowance for impairment losses	**1,124,751**	240,653
Unrealized gain (loss) in the valuation of FVPL	**34,388**	(188,229)
Unrealized foreign exchange gains	**(4,244)**	(256,305)
	₱79,806,548	₱66,288,428

Realization of the future tax benefits related to the net deferred tax assets is dependent on many factors, including the Group's ability to generate taxable income, within the carryover period.

The Parent Company has temporary differences arising from allowance for impairment on exchange trading rights amounting to ₱13,724,200 as of December 31, 2010 and 2009, for which no deferred tax asset was recognized since management believes that it is probable that these temporary differences will not be realized in the future.

A reconciliation of provision for income tax computed at the statutory income tax rates to provision for income tax shown in the consolidated statements of income follows:

	2010	2009	2008
Income tax at statutory tax rates	**₱90,701,657**	₱99,160,706	₱45,810,827
Additions to (reductions in) income tax resulting from:			
Income tax expense of COLHK	**16,075,675**	25,596,154	11,795,350
Nondeductible expenses	**3,077,313**	–	–
Exercise of stock option	**(30,626,700)**	–	(6,105,750)
Income of COLHK subject to income tax	**(27,820,070)**	(48,998,241)	(24,341,044)
Interest income subjected to final tax	**(6,955,464)**	(7,145,758)	(6,693,352)
Change in unrecognized deferred tax assets	**–**	–	2,460,000
Effect of change in tax rate	**–**	–	999,681
Others	**(113)**	(7,285,814)	880,357
Provision for income tax	**₱44,452,298**	₱61,327,047	₱24,806,069

On July 7, 2008, RA No. 9504 of the Philippines, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40.00% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. In 2010 and 2009, the Parent Company has availed of the itemized deductions method and OSD methods in claiming its deductions, respectively.

18. Related Party Disclosures

The summary of significant transactions and account balances with related parties are as follows:

a. Prior to operating its own seat in the PSE, the Parent Company was coursing the online securities trading transactions of its customers through Citisecurities, Inc. (CSI), a related party through common stockholders. Total commission charged to operations amounted to ₱20,300, ₱448,560, and ₱4,373,892 in 2010, 2009 and 2008, respectively. As of December 31, 2010 and 2009, the Parent Company has a payable balance amounting to ₱38,098 and a receivable balance amounting to ₱1,994, respectively, to and from CSI, respectively.

b. Lancashire Management Services Limited (Lancashire), a company incorporated in Hong Kong and a related party of COLHK through a common director, provides COLHK accounting services. Total management fee charged to operations amounted to ₱3,720,645, ₱5,800,231 and ₱2,995,155 in 2010, 2009 and 2008, respectively. COLHK has a payable balance to Lancashire amounting to nil and ₱1,049,894 as of December 31, 2010 and 2009, respectively (see Note 12).

c. iGet.com, Limited (iGet), a company incorporated in British Virgin Islands and a related party through common stockholders, provides COLHK financial advisory services including but not limited to research on local and overseas securities. Total financial fee charged to operations amounted to ₱6,970,763 and ₱7,376,302 in 2010 and 2009, respectively. COLHK has a payable balance to iGet amounting to nil and ₱3,073,459 as of December 31, 2010 and 2009, respectively (see Note 12).

d. Compensation of key management personnel of the Group follows:

	2010	2009	2008
Short-term employee benefits	**₱41,919,082**	₱29,236,542	₱21,778,891
Pension benefits	**1,429,925**	1,889,999	2,046,961
Cost of share-based payment	**2,275,000**	1,846,000	1,846,000
	₱45,624,007	₱32,972,541	₱25,671,852

The consolidated statements of financial position include the following amounts resulting from the above transactions with related companies and stockholders:

Related Parties		Payable to related party	Receivable from related party	Commission and referral expense	Professional fees
CSI	**2010**	**₱38,098**	**₱–**	**₱20,300**	**₱–**
	2009	–	1,994	448,560	–
	2008	–	70,871,595	4,373,892	–
Lancashire	**2010**	**–**	**–**	**–**	**3,720,645**
	2009	1,049,894	–	–	5,800,231
	2008	–	–	–	2,995,155
iGet	**2010**	**–**	**–**	**–**	**6,970,763**
	2009	3,073,459	–	–	7,376,302
	2008	–	–	–	–
Total	**2010**	**₱38,098**	**₱–**	**₱20,300**	**₱10,691,408**
Total	2009	₱4,123,353	₱1,994	₱448,560	₱13,176,533
Total	2008	₱–	₱70,871,595	₱4,373,892	₱2,995,155

19. **Leases**

The Group leases its office premises under separate operating lease agreements expiring on various dates and whose lease terms are negotiated every 1-3 years. Rental costs charged to operations amounted to ₱5,347,721, ₱4,616,672 and ₱4,356,977 in 2010, 2009 and 2008, respectively.

The future minimum lease payments are as follows:

	2010	2009
Within one (1) year	**₱6,958,542**	₱3,774,205
After one (1) year but not more than five (5) years	**9,206,808**	–
	₱16,165,350	₱3,774,205

20. **Capital Management**

The primary objective of the Group's capital management is to ensure that the Group maintains healthy capital ratios in order to support its business, pay existing obligations and maximize shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2010, 2009 and 2008.

The Amended Implementing Rules and Regulations of the SRC effective February 28, 2004 include, among others, revisions in the terms and conditions for registration and subsequent renewal of license applicable to both exchange trading participants and non-exchange broker dealers as follows: (a) to allow a net capital of ₱2.5 million or 2.50% of aggregate indebtedness, whichever is higher, for broker dealers dealing only in proprietary shares and not holding securities, (b) to allow the SEC to set a different net capital requirement for those authorized to use the Risk-Based Capital Adequacy (RBCA) model, and (c) to require unimpaired paid-up capital of ₱100.0 million for broker dealers, which are either first time registrants or those acquiring existing broker dealer firms and will participate in a registered clearing agency;
₱10.0 million plus a surety bond for existing broker dealers not engaged in market making transactions; and ₱2.5 million for broker dealers dealing only in proprietary shares and not holding securities.

The SEC approved Memorandum Circular No. 16 dated November 11, 2004 which provides the guidelines on the adoption in the Philippines of the RBCA Framework for all registered brokers dealers in accordance with SRC. These guidelines cover the following risks: (a) position or market risk, (b) credit risks such as counterparty, settlement, large exposure, and margin financing risks, and (c) operational risk.

The Parent Company being a registered broker in securities is subject to the stringent rules of the SEC and other regulatory agencies with respect to the maintenance of specific levels of RBCA ratios. RBCA is a ratio that compares the broker or dealer's total measured risk to its liquid capital. As a rule, the Parent Company must maintain an RBCA ratio of at least 110% and a net liquid capital (NLC) of at least ₱5.0 million or five percent (5%) of its aggregate indebtedness, whichever is higher. Also, the Aggregated Indebtedness (AI) of every stockbroker should not exceed two thousand percent (2,000%) of its NLC. In the event that the minimum RBCA ratio of 110% or the minimum NLC is breached, the Parent Company shall immediately cease doing business as a broker and shall notify the PSE and SEC. As of December 31, 2010 and 2009, the Parent Company is compliant with the foregoing requirements.

The Parent Company's capital pertains to equity per books adjusted for deferred tax assets and assets not readily convertible into cash.

The RBCA ratio of the Parent Company as of December 31, 2010 and 2009 are as follows:

	2010	2009
Equity eligible for net liquid capital	**₱724,115,625**	₱619,391,342
Less: Ineligible Assets	**188,076,569**	195,289,603
NLC	**₱536,039,056**	₱424,101,739
Position risk	**₱4,278,927**	₱4,519,270
Operational risk	**40,011,909**	26,603,726
Total Risk Capital Requirement	**₱44,290,836**	₱31,122,996

(Forward)

	2010	2009
AI	**₱1,182,677,032**	₱557,752,017
5% of AI	**₱59,133,852**	₱27,887,601
Required NLC	**59,133,852**	27,887,601
Net Risk-Based Capital Excess	**476,905,204**	396,214,138
Ratio of AI to NLC	**221%**	132%
RBCA ratio	**1,210%**	1,363%

The following are the definition of terms used in the above computation:

1. Ineligible assets
   These pertain to fixed assets and assets which cannot be readily converted into cash.

2. Operational risk requirement
   The amount required to cover a level of operational risk which is the exposure associated with commencing and remaining in business arising separately from exposures covered by other risk requirements. It is the risk of loss resulting from inadequate or failed internal processes, people and systems which include, among others, risks of fraud, operational or settlement failure and shortage of liquid resources, or from external events.

3. Position risk requirement
   The amount necessary to accommodate a given level of position risk which is a risk a broker dealer is exposed to and arising from securities held by it as a principal or in its proprietary or dealer account.

4. Aggregate indebtedness
   Total money liabilities of a broker dealer arising in connection with any transaction whatsoever, and includes, among other things, money borrowed, money payable against securities loaned and securities failed to receive, the market value of securities borrowed to the extent to which no equivalent value is paid or credited (other than the market value of margin securities borrowed from customers and margin securities borrowed from non-customers), customers' and non-customers' free credit balances, and credit balances in customers' and non-customers' account having short positions in securities subject to the exclusions provided in the said SEC Memorandum.

In addition, SRC Rule 49.1 (B), Reserve Fund of such circular, requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to Appropriated Retained Earnings. Minimum appropriation shall be 30%, 20% and 10% of profit after tax for brokers/dealers with unimpaired paid up capital of ₱10 million to ₱30 million, between ₱30 million to ₱50 million and more than ₱50 million, respectively.

The Parent Company's regulated operations have complied with all externally-imposed capital requirement as of December 31, 2010 and 2009.

COLHK monitors capital using liquid capital as provided for under Hong Kong's Securities and Futures Ordinance (Cap. 571) and Securities and Futures (Financial Resources) Rules (Cap. 571N). COLHK's policy is to keep liquid capital at the higher of the floor requirement of HK$3,000,000 and computed variable required capital. As of December 31, 2010 and 2009, COLHK is compliant with the said requirement.

21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, cash in a segregated account, financial assets at FVPL, receivables, payable to clearing house and other brokers, payable to customers, and accounts payable and accrued expenses, which arise from operations. The Group also has HTM investment which is acquired for purposes of investing idle funds.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk, and equity price risk. The BOD reviews and agrees on the policies for managing each of these risks. A summary of which follows:

<u>Credit risk</u>
Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the stock brokerage business as potential losses may arise due to the failure of its customers and counterparties to fulfill their trading obligations on settlement dates or the possibility that the value of collateral held to secure obligations becoming inadequate due to adverse market conditions.

The business model of the Group minimizes its exposure to credit risk. The Group's customers, except those granted by a credit line facility by the Parent Company, are required to deposit funds to their accounts and their purchases are limited to their cash deposit. In order to manage the potential credit risk associated with the Parent Company's margin lending activities, the Group has established policies and procedures in evaluating and approving applications for margin financing as well as the review of credit performance and limits. In addition, the Parent Company requires its margin customers a Two Peso (₱2) security cover for every One Peso (₱1) exposure. The security cover can either be in cash or a combination of cash and marginable stocks identified by the Parent Company using a set of criteria.

Cash in banks and short-term cash investments are deposited to reputable banks duly approved by the BOD.

As of December 31, 2010 and 2009, ₱1,114,081,552 and ₱302,696,233 of total receivable from customers is secured by collateral comprising of cash and equity securities of listed companies with total market value of ₱4,111,767,365 and ₱1,434,443,813, respectively. Transactions through the stock exchange are covered by the guarantee fund contributed by member brokers and maintained by the clearing house.

There are no past due accounts as of December 31, 2010 and 2009.

The Group's loans and receivables, which are neither past due nor impaired, are classified as high grade.

As of December 31, 2010 and 2009, the Group's financial assets at FVPL are classified as high grade since the counter party has no history of default or late payment of interest.

The Group's exposure to credit risk arising from default of the counterparty has a maximum exposure equal to the carrying amount of the particular instrument plus any irrevocable loan commitment or credit facility (see Note 6).

The table below shows the maximum exposure to credit risk for the component of the consolidated statement of financial position:

	2010	2009
Cash and cash equivalents (see Note 4)	**₱652,433,141**	₱905,940,744
Cash in a segregated account (see Note 4)	**143,755,312**	295,776,710
Financial assets at FVPL (see Note 5)	**779,800**	2,467,216
Receivables (see Note 6)	**1,428,220,974**	418,126,678
HTM investment (see Note 7)	**102,456,071**	103,589,642
	2,327,645,298	1,725,900,990
Unutilized margin trading facility	**2,158,432,304**	1,007,231,148
Total credit risk exposure	**₱4,486,077,602**	₱2,733,132,138

There are no significant concentrations of credit risk within the Group.

Liquidity Risk

Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments or that a market for derivatives may not exist in some circumstances.

The Group manages its liquidity profile to meet the following objectives: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; and c) to be able to access funding when needed at the least possible cost.

As of December 31, 2010 and 2009, all of the Group's financial liabilities are contractually payable on demand.

Correspondingly, the financial assets that can be used by the Group to manage its liquidity risk as of December 31, 2010 and 2009 consist of cash and cash equivalents, receivables and financial assets at FVPL.

Market Risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes. The Group's market risk originates from its holdings of equity instruments and foreign currency-denominated financial instruments.

Interest Rate Risk

The Group's interest rate risk originates primarily from its holdings of HTM investment, which is for a fixed rate and term (see Note 7). The Group's policy is to manage its interest income using fixed rate investments or a mix of fixed and variable rate investments. As of December 31, 2010 and 2009, the Group's investment is at a fixed rate of interest, thus, changes in market interest rates have no impact on the Group's profit and loss and equity.

Foreign Currency Risk

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is engaged.

The Group's exposure to foreign currency exchange risk arises from its US dollar-denominated cash amounting to US$171,070 and US$38,319 as of December 31, 2010 and 2009, respectively.

Based on the historical movement of the US$ and the Philippine peso, management believes that the estimated reasonably possible change in the next twelve months, against the US$, would be an increase of ₱0.63 and ₱0.43 and a decrease of ₱0.57 and ₱0.67 as of December 31, 2010 and 2009, respectively.

The sensitivity to a reasonably possible change in the US$ exchange rate, with all other variables held constant, of the Parent Company's income before tax as of December 31, 2010 and 2009 are as follows:

- An increase of ₱107,774 and ₱16,477, respectively, in the pre-tax income if the Philippine peso weakens; and

- A decrease of ₱97,510 and ₱25,674, respectively, in the pre-tax income if the Philippine peso strengthens.

There is no other impact on the Parent Company's equity other than those already affecting the consolidated statement of income.

Equity Price Risk
Equity price risk is the risk to earnings or capital arising from changes in stock exchange indices relating to its quoted equity securities. The Group's exposure to equity price risk relates primarily to its financial assets at FVPL which pertains to investments in shares of stocks of companies listed in the PSE and major U.S. Stock Exchanges.

The Group's policy is to maintain the risk to an acceptable level. Movement in share price is monitored regularly to determine the impact on its financial position.

Since the carrying amount of financial assets subject to equity price risk is immaterial relative to the consolidated financial statements, management believes that disclosure of equity price risk sensitivity analysis for 2010 and 2009 is not significant.

22. **Financial Instruments**

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

Financial Instruments Whose Carrying Amount Approximate Fair Value
The carrying amounts of cash and cash equivalents, cash in a segregated account, receivables, payable to clearing house and other brokers, payable to customers and accounts payable and accrued expenses, which are all subject to normal trade credit terms and are short-term in nature, approximate their fair values.

Financial Assets at FVPL
The Group's financial assets at FVPL are carried at their fair values as of December 31, 2010 and 2009. Fair value of financial assets at FVPL is based on quoted prices of stock investments published by the PSE and major U.S. Stock Exchanges.

HTM Investment
The fair value of the fixed rate interest-bearing HTM investment is based upon quoted market price.

Categories of Financial Instruments
The carrying values and fair values of the Group's financial assets and liabilities per category are as follows:

	Carrying Amount		Fair Value	
	2010	2009	**2010**	2009
Financial Assets				
Loans and receivables:				
Cash and cash equivalents	**₱652,433,141**	₱905,940,744	**₱652,433,141**	₱905,940,744
Cash in a segregated account	**143,755,312**	295,776,710	**143,755,312**	295,776,710
Receivables	**1,428,220,974**	418,126,678	**1,428,220,974**	418,126,678
	2,224,409,427	1,619,844,132	**2,224,409,427**	1,619,844,132
Financial assets at FVPL	**779,800**	2,467,216	**779,800**	2,467,216
HTM investment	**102,456,071**	103,589,642	**125,857,471**	133,524,787
	₱2,327,645,298	₱1,725,900,990	**₱2,351,046,698**	₱1,755,836,135
Financial Liabilities				
Other financial liabilities:				
Payable to clearing house and other brokers	**₱32,551,799**	₱–	**₱32,551,799**	₱–
Payable to customers	**1,239,346,027**	845,308,807	**1,239,346,027**	845,308,807
Accounts payable and accrued expenses	**47,690,239**	28,372,690	**47,690,239**	28,372,690
	₱1,319,588,065	₱873,681,497	**₱1,319,588,065**	₱873,681,497

Fair Value Hierarchy
The Parent Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: techniques which involve inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: techniques which use inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2010 and 2009, the fair value of the financial assets at FVPL is the quoted market price at the close of the business (Level 1).

During the year ended December 31, 2010, there were no transfers among levels 1, 2 and 3 of fair value measurements.

23. Contingency

As of December 31, 2010 and 2009, there is a pending case filed against the Parent Company and CSI for trademark infringement by Citigroup, Inc. and Citibank N.A., who have asked the court for an amount of ₱8,000,000 for actual damages, ₱5,000,000 for exemplary damages and ₱3,975,000 for attorney's fees. The Parent Company holds the position that the parties are engaged in different lines of business, i.e. Citigroup is in the banking and credit card business while defendants are stockbrokers. Hearing of the case is still ongoing with the Regional Trial Court but a compromise agreement is soon to be signed by the parties.

24. Earnings Per Share (EPS) Computation

	2010	2009	2008
Net income	**₱257,886,559**	₱269,208,640	₱106,082,008
Weighted average number of shares for basic earnings per share	**437,825,000**	433,000,000	432,170,833
Dilutive shares arising from stock options	**33,350,000**	43,000,000	43,000,000
Adjusted weighted average number of shares of common shares for diluted earnings per share	**471,175,000**	476,000,000	475,170,833
Basic earnings per share	**₱0.59**	₱0.62	₱0.25
Diluted earnings per share	**₱0.55**	₱0.57	₱0.22

25. Segment Information

The following tables present certain information regarding the Group's geographical segments:

2010

	Philippines	**Hong Kong**	**Elimination**	**Total**
Revenue from external customers:				
Commission	**₱173,510,163**	**₱197,838,494**	**₱–**	**₱371,348,657**
Interest	**105,958,978**	**21,115**	**–**	**105,980,093**
Gain on financial assets at FVPL	**7,055,241**	**662,014**	**–**	**7,717,255**
Others	**5,118,367**	**60,245**	**–**	**5,178,612**
Inter-segment revenue	**73,675,902**	**–**	**(73,675,902)**	**–**
Segment revenue	**365,318,651**	**198,581,868**	**(73,675,902)**	**490,224,617**
Operating expenses	**(147,830,135)**	**(104,954,911)**	**74,041,920**	**(178,743,126)**
Depreciation	**(7,883,225)**	**(1,259,409)**	**–**	**(9,142,634)**
Income before income tax	**209,605,291**	**92,367,548**	**366,018**	**302,338,857**
Provision for income tax	**(28,376,624)**	**(16,075,674)**	**–**	**(44,452,298)**
Net income	**₱181,228,667**	**₱76,291,874**	**₱336,018**	**₱257,886,559**
Segment assets	**1,975,650,015**	**641,657,368**	**(151,815,823)**	**2,465,491,560**
Segment liabilities	**1,183,245,133**	**180,132,099**	**(17,125,629)**	**1,346,251,603**
Capital expenditures:				
Tangible fixed assets	**7,823,241**	**239,763**	**–**	**8,063,004**
Cash flows arising from:				
Operating activities	**(147,531,343)**	**(15,416,600)**	**–**	**(162,947,943)**
Investing activities	**(13,011,522)**	**(239,763)**	**–**	**(13,251,285)**
Financing activities	**(77,310,000)**	**–**	**–**	**(77,310,000)**

2009

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	₱83,480,176	₱318,007,327	₱–	₱401,487,503
Interest	57,957,811	1,138	–	57,958,949
Gain on financial assets at FVPL	587,772	1,816,344	–	2,404,116
Others	1,476,863	99,501	–	1,576,364
Inter-segment revenue	119,702,862	–	(119,702,862)	–
Segment revenue	263,205,484	319,924,310	(119,702,862)	463,426,932
Operating expenses	(84,809,951)	(156,489,094)	119,876,235	(121,422,810)
Depreciation	(11,187,310)	(281,125)	–	(11,468,435)
Income before income tax	167,208,223	163,154,091	173,373	330,535,687
Provision for income tax	(35,730,892)	(25,596,155)	–	(61,327,047)
Net income	₱131,477,331	₱137,557,936	₱173,373	₱269,208,640

(Forward)

	Philippines	Hong Kong	Elimination	Total
Segment assets	₱1,243,378,059	₱774,783,106	(₱164,995,203)	₱1,853,165,962
Segment liabilities	561,923,268	372,842,535	(30,247,215)	904,518,588
Capital expenditures:				
Tangible fixed assets	5,225,647	6,392,745	–	11,618,392
Cash flows arising from:				
Operating activities	171,811,420	97,599,925	–	269,411,345
Investing activities	(6,753,352)	(6,392,745)	–	(13,146,097)
Financing activities	(43,300,000)	–	–	(43,300,000)

2008

	Philippines	Hong Kong	Elimination	Total
Revenue from external customers:				
Commission	₱41,839,979	₱151,533,214	₱–	₱193,373,193
Interest	50,481,966	510,554	(3,664,432)	47,328,088
Foreign exchange gains - net	8,787,732	(190,007)	–	8,597,725
Others	4,101,295	78,541	–	4,179,836
Inter-segment revenue	53,407,345	–	(53,407,345)	–
Segment revenue	158,618,317	151,932,302	(57,071,777)	253,478,842
Operating expenses	(86,150,242)	(81,931,674)	54,564,575	(113,517,341)
Depreciation	(8,618,641)	(454,783)	–	(9,073,424)
Income before income tax	63,849,434	69,545,845	(2,507,202)	130,888,077
Provision for income tax	(13,010,715)	(11,795,354)	–	(24,806,069)
Net income	₱50,838,719	₱57,750,491	(₱2,507,202)	₱106,082,008
Segment assets	₱909,026,706	₱509,980,248	(₱135,552,160)	₱1,283,454,794
Segment liabilities	358,644,952	237,546,007	–	596,190,959
Capital expenditures:				
Tangible fixed assets	2,773,285	179,502	–	2,952,787
Cash flows arising from:				
Operating activities	21,545,281	93,467,795	–	115,013,076
Investing activities	21,260,941	(179,502)	–	21,081,439
Financing activities	(74,679,000)	–	–	(74,679,000)

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