REPORT
TO
STOCKHOLDERS
1991

ıscribed				
Common Class A				
Balance, beginning of year	89,622	P896,220	1,217,292	P12,172,920
Subscriptions	75,225	752,250	43,573	435,730
Issuance	(116,435)	(1,164,350)	(1,171,243)	(11,712,430)
Balance, end of year	48,412	484,120	89,622	896,220
Subscriptions receivable		(398,306)		(682,740)
Net		P85,814		P213,480
Common Class B				
Balance, beginning of year	461,676	P4,616,760	3,921,529	P39,215,290
Subscriptions	436,395	4,363,950	303,190	3,031,900
Issuance	(589,252)	(5,892,520)	(3,763,043)	(37,630,430)
Balance, end of year	308,819	3,088,190	461,676	4,616,760
Subscriptions receivable		(2,446,735)		(4,345,461)
Net		P641,455		P271,299
Capital in Excess of Par Value				
Balance, beginning of year		P43,794,883		P42,035,692
Premium on new issuance		49,391		1,759,191
Balance, end of year		P43,844,274		P43,794,883

On July 29, 1991, the Board of Directors approved the stock offering involving the unissued common shares of the Company's authorized capital stock, consisting of 3.9 million Common Class A shares and 10 million Common Class B shares to stockholders of record as of that date.

The Common Class A and Class B shares of stock enjoy the same rights and privileges, except that the Common Class A shares are available only to citizens of the Philippines or corporations, associations or entities, at least 60% of the capital of which is owned by citizens of the Philippines.

10. PROVISION FOR INCOME TAX

There is no provision for income tax principally due to nontaxable share in net earnings of subsidiaries and affiliates.

11. RETIREMENT PLAN

The Company has a funded noncontributory retirement plan covering substantially all its regular employees. Pension cost charged to operations for the years ended June 30, 1991 and 1990 totalled P3,286,660 and P821,665, respectively.

First Philippine Holdings Corporation

The loan from APT (No. 2) was originally owed by a subsidiary to Philippine National Bank until it was transferred to APT. The loan bears interest at 11.75% per annum and is guaranteed by the Company.

9. CAPITAL STOCK

The details of this account are as follows:

	1991	1990
Common stock:		
Class A - ₱10 par value		
Authorized - 35,400,000 shares		
Issued - 31,437,734 shares in 1991; 31,321,299 shares in 1990	₱314,377,340	₱313,212,990
Subscribed - 48,412 shares in 1991; 89,622 shares in 1990 (subscriptions receivable on which amount to ₱398,306 in 1991 and ₱682,740 in 1990)	85,814	213,480
Class B - ₱10 par value		
Authorized - 23,600,000 shares		
Issued - 13,173,974 shares in 1991; 12,584,722 shares in 1990	131,739,740	125,847,220
Subscribed - 308,819 shares in 1991; 461,676 shares in 1990 (subscriptions receivable on which amount to ₱2,446,735 in 1991 and ₱4,342,481 in 1990)	641,455	274,279
	₱446,844,349	₱439,547,969

The changes in the capital stock account follow:

	1991		1990	
	Number of Shares	Amount	Number of Shares	Amount
Issued				
Common Class A				
Balance, beginning of year	31,321,299	₱313,212,990	30,150,056	₱301,500,560
Issuance	116,435	1,164,350	1,171,243	11,712,430
Balance, end of year	31,437,734	₱314,377,340	31,321,299	₱313,212,990

	1991		1990	
	Number of Shares	Amount	Number of Shares	Amount
Common Class B				
Balance, beginning of year	12,584,722	₱125,847,220	8,821,679	₱88,216,790
Issuance	589,252	5,892,520	3,763,043	37,630,430
Balance, end of year	13,173,974	₱131,739,740	12,584,722	₱125,847,220

(Forward)

6. DEFERRED CHARGES AND OTHER ASSETS

This account consists of the following:

	1991	1990
Deferred service fees and others (see Note 2)	P62,033,012	P58,012,613
Deposits and miscellaneous investments - net	4,992,268	4,633,315
Property and equipment not used in operations	1,343,734	2,743,365
Others	105,683	61,697
	P68,477,697	P65,450,990

7. LOANS PAYABLE

Loans payable as at June 30, 1991 and 1990 bear interest rates of 24.0% to 25.3% per annum and 23.0% per annum, respectively.

A bank loan acquired during the year is collateralized by a mortgage of 366,648 shares of stock of FPIC. The covering loan agreement provides, among others, that the Company shall not enter into merger or consolidation, acquire treasury shares, sell a substantial portion of its assets and assign its rights and obligations, without the consent of the creditor.

8. CURRENT PORTION OF LONG-TERM DEBT

This account consists of the following:

	1991	1990
Asset Privatization Trust (APT):		
No. 1	P416,000,000	P416,000,000
No. 2	63,782,192	49,871,421
The National Commercial Bank (NCB)	-	6,362,291
Philippine Veterans Bank (PVB)	-	1,394,971
	P479,782,192	P473,628,683

The loan from APT (No. 1) was originally owed to the Development Bank of the Philippines until it was transferred by the latter to APT. In 1987, the APT approved the Company's proposal to settle the loan under a "direct debt buy-out" (DDBO) scheme wherein APT would accept P116 million within 60 days from date of approval plus 12% interest per annum from June 30, 1986 to the actual payment date in full settlement of the debt. As required, the Company deposited P41.6 million with the APT to secure the repayment arrangements. This deposit is carried as part of Other Current Assets in the balance sheets.

Because of the resequestration of the Meralco shares, the aforementioned DDBO has not been implemented (see Note 2). This prompted the Cabinet Committee on Privatization to seek the opinion of the Secretary of Justice on the validity and enforceability of the DDBO agreement. The Secretary of Justice opined that the DDBO is valid and enforceable. Management believes that the APT approval is a perfected contract and as such is enforceable along with its original terms and does not include interest prior to June 30, 1986 and after October 5, 1987. Further, the Company is of the opinion that the lifting of the resequestration will be eventually approved by the Sandiganbayan and the DDBO with the APT will be implemented.

OSCAR M. LOPEZ
Chairman, President and
Chief Executive Officer

To our stockholders

The much awaited lifting of the sequestration on our Meralco shares finally came to pass last September 30, 1991. The Supreme Court issued the order for the lifting of the sequestration and the period for appeal lapsed with no adverse actions filed. As of this writing, we are only waiting for the entry of judgment to make the order final and executory.

The next step is the initial public offering (IPO) of the Meralco shares. We intend to participate in the IPO to a limited extent, enough to allow us to settle our obligations with the Asset Privatization Trust (APT). The underwriters are, however, still finalizing the size and pricing of the IPO.

The settlement of our APT obligations is the last component of the rehabilitation program that your management initiated in 1986. It has taken us more than five years, but the time and effort were certainly worth it. Today we have a company that we can truly be proud of — stable, profitable and growing.

Financial Review

The fiscal year just ended saw the second year of profitable operations after our turnaround. Your company realized a net income of Php45.4 million, up by 62% from last year's Php28.1 million. This was achieved despite the rising costs brought about by all the natural and man-made disasters that you are all familiar with. Again, our subsidiaries made the performance possible. It is noteworthy that both the "old" subsidiaries (those established prior to martial law) and the "new" subsidiaries (those started after the EDSA revolution) contributed to Group earnings.

Among the "old" subsidiaries, First Philippine Industrial Corporation (FPIC) once more led the way with a net income of Php91.6 million, a 56% increase over the fiscal year 1990 net income of Php58.8 million. Philippine Electric Corporation (Philec) generated Php17.8 million. This was lower compared to last year's Php30.2 million income. However, considering that Philec lost its tax incentives in April 1990 (which accounted for around Php20 million of earnings in fiscal year 1990), this is still an improvement in operating performance. Engineering and Construction Corporation of Asia (Ecco-Asia) contributed Php12.0 million of income against a loss of Php3.4 million in the previous year. This was made possible by interest income and gains from the sale of non-earning assets.

The "new" subsidiaries, likewise, improved their overall operating results. The prawn companies consisting of Visayan Aquaculture Corporation (VAC) and Iolong Aquaculture Corporation (IAC) were able to take full advantage of the high prawn prices in late calendar year 1990. Their combined income of Php20.4 million almost quadrupled the previous year's Php5.4 million. This was net of losses from Typhoon Ruping amounting to around Php5.0 million. First Philippine Energy Corporation (FPEC) continued with a modest net income of Php117 thousand versus Php53 thousand in fiscal year 1990. And, finally, Tree Resources and Environmental Enterprises, Incorporated (TREE, formerly Tarlac Reforestation and Environmental Enterprises, Incorporated) made a net income of Php49 thousand (Php124 thousand in fiscal year 1990).

On the whole, our share in subsidiaries' earnings for fiscal year 1991 totalled Php95.8 million, 68% over last year's Php57.1 million. This growth more than offset the increase in expenses from Php35.0 million in fiscal year 1990 to Php53.1 million in fiscal year 1991.

Outlook For Fiscal Year 1992

We look forward to continuing growth in fiscal year 1992, not only because of the lifting of the sequestration on our Meralco shares, but also because our operating base — our subsidiaries and affiliates — has stabilized and is ready for opportunities.

FPIC has completed the expansion of its black line capacity. This is part of a two-year capital expenditure program to handle more volumes with greater efficiency and reliability. Philec is currently preparing a two to three-year upgrading/debottlenecking/expansion program to enhance market coverage and technical capabilities. Ecco-Asia is gearing up for a faster implementation of its Php305 million Alcatel sub-contract.

VAC and TAC expect lower prawn prices and earnings may dip. However, Guimaras Aquaculture Corporation (GAC) was recently established to expand grow-out hectarage for prawns and introduce other products such as lapu-lapu. Tolong Hatchery Corporation should be ready to commercialize in the latter part of the fiscal year to provide high quality frys for VAC, TAC and GAC. Moreover, prawn processing and direct selling have been successfully undertaken to increase value-added.

FPEC expects good prospects in the medium to long term for its instrumentation and controls business as well as for overseas supervised manpower contracts.

TREE has turned over the Bamban Reforestation Project to the Department of Environment and Natural Resources. The project was to have been completed in September 1991. Unfortunately, Mt. Pinatubo badly damaged the area. Before the turnover, TREE managed to salvage and rehabilitate the older trees. Now, the company is being redirected to establish and manage mango orchards and industrial forest and tree plantations.

Beyond Fiscal Year 1992

We have started to build foundations for businesses that will begin to benefit the Group beyond fiscal year 1992. Our trading division — for both industrial and agricultural products — is creating the infrastructures needed to better serve the market, both producers and consumers.

Maxidata Philippines, Incorporated will begin to implement in stages the packaging, assembly and manufacture of diskettes for the domestic and export markets.

First Electro Dynamics Corporation will be manufacturing current transformers, mercury ballasts and insulators to expand our electrical business.

Pilipinas Daewoo Industries Corporation was recently incorporated to engage in the assembly and manufacture of buses and trucks. This is a partnership with Daewoo Corporation of South Korea and Westmont Asia Motors, Incorporated. First Holdings has a 40% equity participation.

First Agricultural Resource Management, Incorporated will be commercializing its asparagus and anthurium projects next calendar year. Both products are geared to the export markets, in pursuit of our strategic intent to generate half of Group earnings from overseas.

OSCAR M. LOPEZ
Chairman, President and
Chief Executive Officer

1 9 9 0

	Cost	Share in Net Earnings (Losses)*	Share in Revaluation Increment	Carrying Value	Amount of Advances
FPIC	₱8,298,690	₱87,661,488	₱394,072,493	₱490,032,661	₱713,319
PHILEC	145,409,242	27,976,978	-	173,386,220	9,654,923
ECCO	40,799,573	(12,574,159)	116,333	28,341,747	4,717,541
VAC	15,000,000	3,016,449	-	18,016,449	2,021,772
TAC	15,000,000	2,730,559	-	17,730,559	34,380,282
FPEC	7,098,488	(4,835,738)	-	2,262,750	2,698,808
THC	1,500,000	-	-	1,500,000	1,250,000
TREEI	500,000	134,357	-	634,357	3,967,873
FARM	625,000	-	-	625,000	6,788,308
Others - net of subscriptions payable of ₱675,000 and allowance for doubtful advances of ₱179,351,560	18,258,110	(15,157,987)	-	3,100,123	1,166,634
	₱252,489,103	₱88,951,947	₱394,188,826	₱735,629,866	₱67,359,460

* Net of dividends received from FPIC of ₱134.494 million and ₱104.484 million as at June 30, 1991 and 1990, respectively, and amortization of excess of cost of investments over share in the underlying net assets of investees plus share in FPIC's depreciation on appraisal increase charged to operations.

** Incorporated in July 1991.

In 1990, the Company converted its advances totalling ₱30 million into paid-in surplus of ECCO. The total paid-in surplus was used to wipe out ECCO's deficit as of May 31, 1990 of ₱39 million in accordance with the quasi-reorganization approved by the Securities and Exchange Commission on August 13, 1990.

Advances to subsidiaries consist of noninterest-bearing advances for working capital requirements, loans of subsidiaries assumed and paid for by the Company, management fees, rentals and others. Management fees, interest and other income from subsidiaries amounted to about ₱4.4 million in 1991 and ₱4.3 million in 1990.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	1991	1990
Furniture and equipment	₱5,965,701	₱4,868,906
Leasehold improvements	2,050,789	1,609,407
Transportation equipment	552,652	347,653
	8,569,142	6,825,966
Less accumulated depreciation and amortization	4,655,003	3,478,637
	₱3,914,139	₱3,347,329

4. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES

Investments in the following active subsidiaries and affiliates are accounted for under the equity method:

Investee	Percentage of Ownership
First Agricultural Resource Management, Inc. (FARM) - preoperating	100.00
First Philippine Energy Corporation (FPEC)	100.00
First Philippine Lending Corporation	100.00
Guimaras Aquaculture Corporation (GAC) - preoperating	100.00
Tree Resources and Environmental Enterprises, Inc. (TREEI)	100.00
Tolong Aquaculture Corporation (TAC)	100.00
Tolong Hatchery Corporation (THC) - preoperating	100.00
Visayan Aquaculture Corporation (VAC)	100.00
Engineering & Construction Corporation of Asia (ECCO)	99.57
Philippine Electric Corporation (PHILEC)	86.50
First Philippine Industrial Corporation (FPIC)	60.00
Filipinas Daewoo Industries Corporation (FDIC) - preoperating	40.00**
Inactive subsidiaries:	
First Reymashore Environment Enterprises, Inc.	100.00
First Philippine Realty and Development Corporation	100.00
First Philippine Trading Corporation	75.38

The details of the investments valued using the equity method and the related advances are:

1 9 9 1

	Cost	Share in Net Earnings (Losses)*	Share in Revaluation Increment	Carrying Value	Amount of Advances
FPIC	₱8,298,690	₱133,375,465	₱543,276,583	₱684,950,738	₱795,364
PHILEC	145,409,242	35,984,235	-	181,393,477	13,842,575
TAC	15,000,000	22,870,490	-	37,870,490	28,504,554
ECCO	40,799,573	(1,351,663)	116,333	39,564,243	(7,510,556)
VAC	15,000,000	3,307,610	-	18,307,610	780,772
FDIC	-	-	-	-	12,255,780
FPEC	7,098,488	(4,431,401)	-	2,667,087	3,976,659
GAC	3,000,000	-	-	3,000,000	4,555,829
THC	2,750,000	-	-	2,750,000	212,980
TREEI	500,000	183,298	-	683,298	3,626,357
FARM	625,000	-		625,000	10,883,731
Others - net of subscriptions payable of ₱675,000 and allowance for doubtful advances of ₱179,351,560	18,258,110	(14,352,712)	-	3,905,398	4,190,115
	₱256,739,103	₱175,585,322	₱543,392,916	₱975,717,341	₱76,140,132

(Forward)

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
Mandaluyong, Metro Manila

The management of First Philippine Holdings Corporation is responsible for all in[-]mation and representations contained in the financial statements for the years en[ded] June 30, 1991 and 1990. The financial statements have been prepared in conformity [with] generally accepted accounting principles 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 proper[ly] authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

SyCip, Gorres, Velayo and Co., the independent auditors appointed by the stock[-]holders, have examined the financial statements of the Company. In accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in the attached report to the Stockholders and Board of Directors.

OSCAR M. LOPEZ
Chairman, President and
Chief Executive Officer

ELPIDIO L. IBAÑEZ
Executive Vice President
and Treasurer

FIRST PHILIPPINE HOLDINGS CORPORATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 1991 AND 1990

the ownership for the unpaid Meralco shares shall revert back to the Company in the event that MFI should default on two consecutive installment payments. Such defaults occurred with regard to installment payments falling due on September 1, 1985, March 1 and September 1, 1986 and March 1, 1987. On August 24, 1987, the Company called the attention of MFI on its failure to comply with its obligations and advised that the ownership of the unpaid Meralco shares had automatically reverted to the Company without prejudice to its rights to claim for damages and/or rescission in accordance with applicable law.

On July 20, 1988, a Deed of Reconveyance was executed whereby MFI transferred back to the Company the ownership of the unpaid Meralco shares totalling 8,229,136 shares (before stock dividends declared on June 15, 1987) or 13,900,431 shares after stock dividends.

The actual transfer of the Meralco shares to the name of the Company, however, has not been effected due to the resequestration of the said shares by the Presidential Commission on Good Government. The Cabinet Committee on Privatization requested for the opinion of the Secretary of Justice on the validity of the reconveyance.

On November 4, 1988, the Secretary of Justice upheld the legality of the reconveyance of the Meralco shares to the Company by MFI.

The Company made arrangements with a syndicate of banks to undertake the sale of some Meralco shares to the public over a certain period. Under these arrangements, the syndicate would provide the Company the bridge financing for a direct buy-out of its debt (principal and interest) from the Asset Privatization Trust (APT). Thereafter, the syndicate will undertake the sale of the Meralco shares. For this arrangement, the Company has provided for fees and expenses of ₱54,866,558 in 1991 and ₱54,635,556 in 1990 which are included and shown as part of deferred charges and other assets (see Note 6). The Company intends to match these deferred expenses against the income that it expects from the sale of the Meralco shares. The arrangement was approved by the stockholders on July 15, 1988 (see Note 8 for further discussion on the status and additional information on the direct debt buy-out).

On December 2, 1988, the stockholders approved the voluntary sharing with the government of 30% of any profit from the sale of Meralco shares.

On December 23, 1988, a Letter of Intent was signed with a draft of "Memorandum of Agreement" (MOA) by APT, the Company, MFI, Bank of the Philippine Islands (BPI), BPI Securities Corp. and Morgan Guaranty Trust Co. of New York. The Company filed a petition with the Sandiganbayan to lift the sequestration. The petition was denied pending trial on the merits of the case. The Company submitted a petition to the Supreme Court to compel the Sandiganbayan to lift the sequestration. The decision of the Supreme Court is being awaited.

Meanwhile, the Company issued a new mandate to BPI and PCI Capital Corporation to act as underwriters for the initial public offering of its Meralco shares. J. P. Morgan was retained as financial adviser.

The Meralco shares are carried in the June 30, 1991 and 1990 balance sheets at ₱458,492,976 representing the outstanding receivables from MFI on August 24, 1987, the date the Company notified MFI of the default. Based on the audited financial statements as at December 31, 1990, the book value of the Meralco common shares is ₱190 per share.

3. RECEIVABLES FROM MERALCO FOUNDATION, INC. (MFI)

This account represents mainly noninterest-bearing cash advances and charges to MFI in connection with the Meralco shares transaction referred to in Note 2.

FIRST PHILIPPINE HOLDINGS CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Parent Company Only)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

The Company carries its investments in shares of stock at cost plus (minus) its equity in net earnings (losses) and revaluation increment in property since dates of acquisition. Equity in net earnings is being adjusted for the straight-line amortization over a 10-year period, of the difference between the Company's cost of investments and its proportionate share in the underlying net assets at dates of acquisition. Significant unrealized intercompany profits (losses) are eliminated to the extent of the Company's proportionate share thereof. An allowance is set up for any substantial and presumably permanent decline in the carrying values of the investments.

The Company's equity in subsidiary's appraisal increase charged to operations by way of depreciation is reclassified at the end of the year from share in revaluation increment in property and equipment to retained earnings (deficit) account.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and amortization, except those not used in operations (classified under other assets) which are carried at the lower of cost or net realizable value. Depreciation and amortization are computed based on the straight-line method over the estimated useful life of five years, or over the term of the lease in the case of leasehold improvements, whichever is shorter.

Foreign Exchange Transactions

Exchange gains or losses arising from the settlement or restatement of foreign currency liability at exchange rate different from that at which liability was recorded are credited or charged to current operations.

Pension Plan

The Company funds accrued pension cost on its noncontributory pension plan covering substantially all its employees. Past service cost is amortized over 10 years.

Earnings Per Common Share

Earnings per common share is determined by dividing net income by the weighted average number of shares of stock outstanding during the year.

2. INVESTMENT IN SHARES OF STOCK OF MANILA ELECTRIC COMPANY (MERALCO)

In 1977, the Company and Meralco Foundation, Inc. (MFI) entered into a Share Purchase Agreement involving the sale of the Company-owned Meralco shares to MFI on an installment basis up to September 1991 (payable in 23 semi-annual installments of P30,359,657 with interest at 10% per annum and additional 14% penalty charges for past due principal and interest). Under the agreement,

SGV

SGV & CO.
SYCIP, GORRES, VELAYO & CO.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 7658 DOMESTIC AIRPORT POST OFFICE
1300 METRO MANILA, PHILIPPINES

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Stockholders and Board of Directors
First Philippine Holdings Corporation

We have examined the consolidated balance sheets of First Philippine Holdings Corporation and Subsidiaries as at June 30, 1991 and 1990, and the related consolidated statements of income and deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of First Philippine Industrial Corporation, Philippine Electric Corporation and other subsidiaries which statements reflect total assets of 70% and 65% as at June 30, 1991 and 1990, respectively, and revenues of 90% and 85% for the years then ended, respectively, of the related consolidated totals. Those statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those subsidiaries, is based solely on the reports of the other auditors.

As discussed in Notes 3 and 11 to the consolidated financial statements, the ownership and ultimate realizability of the Company's investment in shares of stock of Manila Electric Company, the implementation of the "direct debt buy-out" with the Asset Privatization Trust, and the realizability of the deferred charges relating primarily to the service fees paid to the syndicate of banks are still uncertain pending the approval of the Sandiganbayan.

In our opinion, based upon our examinations and the reports of other auditors referred to in the first paragraph, and subject to the effects on the consolidated financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the consolidated financial statements referred to above present fairly the financial position of First Philippine Holdings Corporation and Subsidiaries as at June 30, 1991 and 1990, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the consolidation of the subsidiaries of First Philippine Holdings Corporation as discussed in Note 2 to the Consolidated Financial Statements.

Sycip, Gorres, Velayo & Co.

September 3, 1991
Makati, Metro Manila

FIRST PHILIPPINE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30	
	1991	1990
A S S E T S		
CURRENT ASSETS		
Cash	₱54,654,400	₱40,264,294
Short-term cash investments	132,672,258	81,310,015
Investment in shares of stock of Manila Electric Company (Notes 3 and 11)	458,492,976	458,492,976
Receivables from Meralco Foundation, Inc. (Note 4)	11,630,873	11,630,873
Accounts receivable - net (Notes 5 and 11)	397,568,410	140,474,878
Inventories - net (Notes 6 and 11)	138,461,794	105,961,192
Other current assets (Note 11)	51,882,779	53,722,602
Total Current Assets	1,045,363,490	891,856,830
ADVANCES TO UNCONSOLIDATED AFFILIATES (Note 7)	10,574,453	-
PROPERTY, PLANT AND EQUIPMENT - Net (Notes 8, 9 and 11)	1,117,949,453	845,364,798
OTHER ASSETS (Note 9)	223,075,330	217,691,220
	₱2,396,962,726	₱1,954,912,848
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable (Note 10)	₱40,000,000	₱30,000,000
Accounts payable and accrued expenses	315,817,703	237,571,633
Income tax payable	14,348,017	13,779,393
Current portion of long-term debt (Note 11)	505,962,496	502,447,426
Total Current Liabilities	876,128,216	783,798,452
LONG-TERM DEBT - Net of Current Portion (Note 11)	31,384,610	36,943,105
MINORITY INTEREST	476,037,869	343,530,910
STOCKHOLDERS' EQUITY		
Capital stock (Notes 10 and 12)	446,844,349	439,547,969
Capital in excess of par value (Note 12)	43,844,274	43,794,883
Revaluation increment in property	543,392,916	394,188,816
Deficit	(20,669,508)	(86,891,287)
	1,013,412,031	790,640,381
	₱2,396,962,726	₱1,954,912,848

See accompanying Notes to Consolidated Financial Statements.

FIRST PHILIPPINE HOLDINGS CORPORATION
STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Parent Company Only)

	Years Ended June 30	
	1991	1990
WORKING CAPITAL WAS PROVIDED FROM		
Net income	₱45,395,411	₱28,084,914
Items not affecting working capital:		
Share in net earnings of subsidiaries and affiliates - net	(95,807,007)	(57,120,794)
Depreciation and amortization	1,176,366	703,756
Total used in operations	(49,235,230)	(28,332,124)
Cash dividends from a subsidiary	30,000,000	27,000,000
Proceeds from subscription and issuance of common stock	7,345,771	44,427,663
	(11,889,459)	43,095,539
WORKING CAPITAL WAS USED FOR		
Increase in:		
Investments in and advances to subsidiaries and affiliates	13,030,672	31,435,059
Property and equipment and deferred charges and other assets	4,769,883	21,945,226
Payment and current portion of long-term debt	-	49,840,688
	17,800,555	103,220,973
DECREASE IN WORKING CAPITAL	₱29,690,014	₱60,125,434
WORKING CAPITAL DECREASED (INCREASED) BY		
Cash	₱12,229,072	₱17,732,678
Receivables from Meralco Foundation, Inc.	-	(359,949)
Other current assets - net	(1,452,565)	(775,531)
Loans payable	10,000,000	(15,000,000)
Accounts payable and accrued expenses	2,759,998	10,597,444
Current portion of long-term debt	6,153,509	47,950,792
DECREASE IN WORKING CAPITAL	₱29,690,014	₱60,125,434

See accompanying Notes to Financial Statements.

FIRST PHILIPPINE HOLDINGS CORPORATION
STATEMENTS OF INCOME AND DEFICIT
(Parent Company Only)

	Years Ended June 30	
	1991	1990
REVENUES (Note 4)		
Share in net earnings of subsidiaries and affiliates - net	P95,807,001	P57,120,794
Management fees, interest and other income	7,773,804	7,029,050
	103,580,805	64,149,844
EXPENSES		
General and administrative	31,033,221	20,338,258
Financial charges and others	21,151,076	15,726,672
	58,185,297	36,064,930
NET INCOME (Note 10)	45,395,411	28,081,914
RECLASSIFICATION OF THE SHARE IN A SUBSIDIARY'S DEPRECIATION ON APPRAISAL INCREASE CHARGED TO OPERATIONS	20,826,368	16,965,171
DEFICIT AT BEGINNING OF YEAR	86,891,287	131,941,372
DEFICIT AT END OF YEAR	P20,669,508	P86,891,287
Earnings Per Common Share	P1.029	P0.80

See accompanying Notes to Financial Statements.

FIRST PHILIPPINE HOLDINGS CORPORATION AND SUB[illegible]RIES
CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

	Years Ended June 30	
	1991	1990
INCOME		
Sale of merchandise	P380,996,088	P[illegible]
Revenue from contracts and services	356,461,587	[illegible]
Interest and others	59,545,114	65,02[illegible]
	797,002,789	[illegible]
EXPENSES		
Operating	282,381,373	214,0[illegible]
Cost of merchandise sold	252,439,181	200,017,[illegible]
Cost of contracts and services	69,605,631	102,381,[illegible]
Interest and others	41,941,401	35,296,[illegible]
	646,367,589	551,778,[illegible]
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	150,635,200	98,113,5[illegible]
PROVISION FOR INCOME TAX	66,106,340	42,450,0[illegible]
INCOME BEFORE MINORITY INTEREST	84,528,860	55,663,[illegible]
MINORITY INTEREST	39,133,449	27,578,5[illegible]
NET INCOME	45,395,411	28,081,91[illegible]
DEFICIT AT BEGINNING OF YEAR	86,891,287	131,941,37[illegible]
Transfer of revaluation increment in property	20,826,369	16,965,17[illegible]
DEFICIT AT END OF YEAR	P20,669,508	P86,891,287
Earnings Per Common Share	P1.029	P0.709

See accompanying Notes to Consolidated Financial Statements.

FIRST PHILIPPINE HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years Ended June 30	
	1991	1990
WORKING CAPITAL WAS PROVIDED FROM		
Net income	₱45,195,911	₱28,081,914
Items not affecting working capital:		
Depreciation and amortization	59,664,564	50,899,776
Gain on sale of property, plant and equipment	(9,171,827)	(6,837,696)
Total from operations	95,688,648	72,144,994
Increase in minority interest	19,121,536	10,797,932
Proceeds from:		
Availment of long-term debt	20,000,000	–
Sale of property, plant and equipment	16,579,234	19,384,677
Subscription and issuance of common stock	7,345,774	44,427,663
	158,734,689	146,755,266
WORKING CAPITAL WAS USED FOR		
Additions to property, plant and equipment	56,040,735	27,348,506
Payment and current maturities of long-term debt	25,558,495	58,044,115
Advances to unconsolidated affiliates	10,574,453	(128,239)
Increase in other assets	5,384,110	59,205,030
	97,557,793	144,861,712
INCREASE IN WORKING CAPITAL	₱61,176,896	₱1,893,554

WORKING CAPITAL INCREASED (DECREASED) BY		
Cash	₱14,390,106	(₱3,703,223)
Short-term cash investments	51,362,243	(20,740,249)
Receivables from Meralco Foundation, Inc.	-	359,940
Accounts receivable - net	57,093,532	43,824,245
Inventories - net	32,500,602	(6,198,525)
Other current assets	(1,859,823)	456,473
Loans payable	(10,000,000)	15,000,000
Accounts payable and accrued expenses	(78,246,070)	16,490,455
Income tax payable	(568,624)	(8,810,918)
Current portion of long-term debt	(3,515,070)	(31,784,623)
INCREASE IN WORKING CAPITAL	₱61,176,896	₱1,893,554

See accompanying Notes to Consolidated Financial Statements.

FIRST PHILIPPINE HOLDINGS CORPORATION
BALANCE SHEETS
(Parent Company Only)

	June 30	
	1991	1990
A S S E T S		
CURRENT ASSETS		
Cash, including short-term cash investments of ₱5,478,484 in 1991 and ₱16,076,210 in 1990	₱8,513,422	₱20,742,494
Investment in shares of stock of Manila Electric Company (Notes 2 and 8)	458,492,976	458,492,976
Receivables from Meralco Foundation, Inc. (Note 3)	11,630,873	11,630,873
Other current assets - net of allowance for doubtful accounts of ₱7,920,254 (Note 8)	45,374,555	43,921,990
Total Current Assets	524,011,826	534,788,333
INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND AFFILIATES - Net (Notes 4 and 7)		
Investments	975,717,341	735,629,866
Advances	76,140,132	67,359,460
	1,051,857,473	802,989,326
PROPERTY AND EQUIPMENT - Net (Note 5)	3,914,139	3,347,329
DEFERRED CHARGES AND OTHER ASSETS (Notes 2 and 6)	68,477,697	65,450,990
	₱1,648,261,135	₱1,406,575,978
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Loans payable (Note 7)	₱40,000,000	₱30,000,000
Accounts payable and accrued expenses	115,066,912	112,306,914
Current portion of long-term debt (Notes 2 and 8)	479,782,192	473,628,683
Total Current Liabilities	634,849,104	615,935,597
STOCKHOLDERS' EQUITY		
Capital stock (Notes 7 and 9)	446,844,349	439,547,969
Capital in excess of par value (Note 9)	43,844,274	43,794,883
Share in subsidiaries' revaluation increment in property and equipment (Note 4)	543,392,916	394,188,816
Deficit	(20,669,508)	(86,891,287)
	1,013,412,031	790,640,381
	₱1,648,261,135	₱1,406,575,978

See accompanying Notes to Financial Statements.

SGV & CO.
SYCIP, GORRES, VELAYO & CO.
CERTIFIED PUBLIC ACCOUNTANTS

THE SGV GROUP

WITH BRANCHES IN KEY CITIES OF THE PHILIPPINES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Stockholders and Board of Directors
First Philippine Holdings Corporation

We have examined the balance sheets (parent company only) of First Philippine Holdings Corporation as at June 30, 1991 and 1990, and the related statements of income and deficit and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of First Philippine Industrial Corporation, Philippine Electric Corporation and other subsidiaries the investments in which are accounted for using the equity method. The carrying values of those investments amounted to P933 million and P704 million as at June 30, 1991 and 1990, respectively, and the equity in net earnings of the investees amounted to P84 million and P60 million for the years then ended, respectively. The financial statements of those investees were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for those investees, is based solely upon the report of the other auditors.

As discussed in Notes 2 and 8 to the financial statements, the ownership and ultimate realizability of the Company's investment in shares of stock of Manila Electric Company, the implementation of the "direct debt buy-out" with the Asset Privatization Trust, and the realizability of the deferred charges relating primarily to the service fees paid to the syndicate of banks are still uncertain pending the approval of the Sandiganbayan.

In our opinion, based upon our examinations and the reports of other auditors referred to in the first paragraph, and subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainties referred to in the preceding paragraph been known, the financial statements referred to above present fairly the financial position of First Philippine Holdings Corporation as at June 30, 1991 and 1990, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sycip, Gorres, Velayo & Co.

September 3, 1991
Makati, Metro Manila

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries where the Parent Company has effective control. All significant intercompany transactions are eliminated. The difference between the Parent Company's cost of investment and its proportionate share in the net assets of subsidiaries (see Note 9) is being amortized over 10 years.

The subsidiaries include:

	Percent of Ownership
First Agricultural Resource Management, Inc. (FARM) - preoperating	100
First Philippine Energy Corporation (FPEC)	100
First Philippine Trading Corporation	100
Guimaras Aquaculture Corporation - preoperating	100
Tree Resources and Environmental Enterprises, Inc.	100
Tolong Aquaculture Corporation	100
Tolong Hatchery Corporation	100
Visayan Aquaculture Corporation	100
Engineering & Construction Corporation of Asia (ECCO)	99.57
Philippine Electric Corporation (PHILEC)	66.50
First Philippine Industrial Corporation (FPIC)	60
Inactive subsidiaries:	
First Philippine Realty and Development Corporation	100
First Philippine Trading Corporation	75

The financial statements of the subsidiaries, except FARM, FPEC and ECCO, were examined by independent auditors other than the Parent Company's independent auditors.

Revenue Recognition

Income from sale of merchandise and from pipeline services is recognized upon billing which, in the case of merchandise sold, coincides with the time of shipment. Adjustments of billings for pipeline services over and above the base charges are recorded at the time of settlement with shippers.

Income from construction contracts is recognized based on percentage of completion method.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the moving average method.

Property, Plant and Equipment

Property, plant and equipment are carried at cost (except for the accounts of ECCO, PHILEC and FPIC). Certain property, plant and equipment of these subsidiaries are carried at appraised values determined by an independent firm of appraisers. The net appraisal increment resulting from the revaluation is shown as "Revaluation increment in property" under the stockholders' equity in the balance sheets. The net appraisal increment charged to operations through depreciation is reclassified at the end of the year to retained earnings (deficit).

Minor repairs and maintenance costs are expensed when incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, both the cost and appraisal increment and their related accumulated depreciation are removed from the accounts; any resulting gain or loss is reflected in income for the period.

Depreciation and amortization are computed based on the straight-line method over the estimated useful lives of the properties or over the term of the lease in the case of leasehold improvements, whichever is shorter.

Deferred Charges and Preoperating Expenses

All expenses incurred by subsidiaries prior to the start of commercial operations are being deferred and amortized over five years from the start of the subsidiaries' commercial operations.

Expenditures that are expected to benefit future periods are also deferred and amortized over five years.

Foreign Exchange Transactions

Foreign currency denominated transactions are recorded at the rate of exchange prevailing at the time of the transactions. Outstanding foreign currency denominated assets and liabilities are restated at year-end rates. Exchange gains or losses resulting from rate fluctuation upon actual settlement and from restatement at year-end are credited/charged to current operations.

Pension Plan

The Parent Company and some of its subsidiaries fund accrued pension cost on their noncontributory pension plan covering substantially all their employees.

Earnings Per Common Share

Earnings per common share is determined by dividing net income by the weighted average number of shares of stock outstanding during the year.

FIRST PHILIPPINE HOLDINGS CORPORATION
(PARENT COMPANY ONLY)

FINANCIAL STATEMENTS
JUNE 30, 1991 AND 1990

9. OTHER ASSETS

Other assets consist of the following:

	1991	1990
Deferred service fees and others	P62,033,012	P58,012,613
Excess of cost of investment over net book value of underlying assets	59,645,902	67,375,958
Depreciation fund	44,901,446	29,018,623
Deferred charges and preoperating expenses	20,475,130	12,303,701
Contingency fund	10,000,000	18,759,630
Miscellaneous receivable and others	26,843,638	32,255,665
	P223,075,130	P217,691,220

The depreciation fund represents funds earmarked by FPIC to finance the overhauling of pumps and engines and repairs of pipelines for the next three years.

The contingency fund represents funds set aside to bridge the gap between the actual incurrence of expenditures as a result of pipeline calamities and the receipt of the proceeds from insurance companies.

10. LOANS PAYABLE

Loans payable as at June 30, 1991 and 1990 bear interest rates of 24.0% to 25.45% per annum and 21.05% per annum, respectively. A bank loan acquired during the year is collateralized by a mortgage of 106,665 shares of stock of FPIC. The covering loan agreement provides, among others, that the Parent Company shall not enter into merger or consolidation, acquire treasury shares, sell a substantial portion of its assets and assign its rights and obligations, without the consent of the creditor.

11. LONG-TERM DEBT

Long-term debt consists of the following:

	1991	1990
Parent Company		
Asset Privatization Trust (APT):		
No. 1	P416,000,000	P416,000,000
No. 2	63,782,193	49,871,421
The National Commercial Bank (NCB)	-	6,362,291
Philippine Veterans Bank (PVB)	-	1,394,973
	479,782,192	473,628,685
(Forward)		
PHILEC		
Bonded creditors	P24,203,153	P36,449,884
Non-bonded creditors	2,412,163	3,450,743
Others	12,378,169	23,081,893
	38,993,485	62,982,520
FPIC		
Philippine National Bank (PNB)	18,571,429	1,938,806
ECCO		
Pacific Banking Corporation	-	840,522
	537,347,106	539,390,531
Less current portion	505,962,496	502,447,426
	P31,384,610	P36,943,105

The loan from APT (No. 1) was originally owed to the Development Bank of the Philippines until it was transferred by the latter to APT. In 1987, the APT approved the Parent Company's proposal to settle the loan under a "direct debt buy out" (DDBO) scheme wherein APT would accept P416 million within 60 days from date of approval plus 12% interest per annum from June 30, 1986 to the actual payment date in full settlement of the debt. As required, the Parent Company deposited P41.6 million with the APT to secure the repayment arrangements. This deposit is carried as part of Other Current Assets in the consolidated balance sheets.

Because of the resequestration of the Meralco shares, the aforementioned DDBO has not been implemented (see Note 3). This prompted the Cabinet Committee on Privatization to seek the opinion of the Secretary of Justice on the validity and enforceability of the DDBO agreement. The Secretary of Justice opined that the DDBO is valid and enforceable. Management believes that the APT approval is a perfected contract and as such is enforceable along with its original terms and does not include interest prior to June 30, 1986 and after October 5, 1987. Further, the Parent Company is of the opinion that the lifting of the resequestration will be eventually approved by the Sandiganbayan and the DDBO with the APT will be implemented.

The loan from APT (No. 2) was originally owed by a subsidiary to Philippine National Bank until it was transferred to APT. The loan bears interest at 14.75% per annum and is guaranteed by the Parent Company.

The loans from bonded creditors which include foreign currency obligations of US$530,278 and US$881,796 in 1991 and 1990, respectively, are payable in sixteen (16) quarterly installments commencing in March 1989. Interest is computed at 12% per annum for peso denominated loans; and London Interbank Offered Rate (Libor) plus 2%, net of taxes, per annum for foreign currency denominated loans. The loans are secured by first mortgage bonds issued under the First Mortgage Trust Indenture on PHILEC's property, plant and equipment.

The loans from non-bonded creditors which are substantially peso loans represent the restructured portion of the liabilities from other non-bonded creditors and bear interest of 12% per annum. These loans are secured by chattel mortgages on PHILEC's inventories, stand-by letters of credit and/or deeds of assignment of certain trade receivables.

On December 23, 1988, a Letter of Intent was signed with a draft of Memorandum of Agreement (MOA) by APT, the Parent Company, MFI, Bank of the Philippine Islands (BPI), BPI Securities Corp. and Morgan Guaranty Trust Co. of New York. The Parent Company filed a petition with the Sandiganbayan to lift the sequestration. The petition was denied pending trial on the merits of the case. The Parent Company submitted a petition to the Supreme Court to compel the Sandiganbayan to lift the sequestration. The decision of the Supreme Court is being awaited.

Meanwhile, the Parent Company issued a new mandate to BPI and PCI Capital Corporation to act as underwriters for the initial public offering of its Meralco shares. J.P. Morgan was retained as financial adviser.

The Meralco shares are carried in the June 30, 1991 and 1990 balance sheets at ₱458,492,976 representing the outstanding receivables from MFI on August 24, 1987, the date the Parent Company notified MFI of the default. Based on the audited financial statements as at December 31, 1990, the book value of the Meralco common shares is about ₱190 per share.

4. RECEIVABLES FROM MERALCO FOUNDATION, INC. (MFI)

This account represents mainly noninterest-bearing cash advances and charges to MFI in connection with the Meralco shares transaction referred to in Note 3.

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	1991	1990
Trade	₱164,507,692	₱145,073,428
Others	65,988,407	31,537,586
	230,496,099	176,611,014
Less allowance for doubtful accounts	32,927,689	36,136,136
	₱197,568,410	₱140,474,878

6. INVENTORIES

Inventories consist of the following:

	1991	1990
Finished goods	₱12,382,588	₱11,114,808
Work in process	30,500,316	21,723,095
Raw materials	52,850,656	46,290,974

(Forward)

	1991		1990	
	Number of Shares	Amount	Number of Shares	Amount
Common Class B				
Balance, beginning of year	12,584,722	₱125,847,220	8,821,679	₱88,216,790
Issuance	589,252	5,892,520	3,763,043	37,630,430
Balance, end of year	13,173,974	₱131,739,740	12,584,722	₱125,847,220
Subscribed				
Common Class A				
Balance, beginning of year	89,622	₱896,220	1,217,292	₱12,172,920
Subscriptions	75,225	752,250	43,573	435,730
Issuance	(116,435)	(1,164,350)	(1,171,243)	(11,712,430)
Balance, end of year	48,412	484,120	89,622	896,220
Subscriptions receivable		(398,306)		(682,740)
Net		₱85,814		₱213,480
Common Class B				
Balance, beginning of year	461,676	₱4,616,760	3,921,529	₱39,215,290
Subscriptions	436,395	4,363,950	303,190	3,031,900
Issuance	(589,252)	(5,892,520)	(3,763,043)	(37,630,430)
Balance, end of year	308,819	3,088,190	461,676	4,616,760
Subscriptions receivable		(2,446,735)		(4,342,481)
Net		₱641,455		₱274,279
Capital in Excess of Par Value				
Balance, beginning of year		₱43,794,883		₱42,035,689
Premium on new issuance		49,391		1,759,194
Balance, end of year		₱43,844,274		₱43,794,883

On July 29, 1991, the Parent Company's Board of Directors approved the stock offering involving the unissued common shares of the Parent Company's authorized capital stock, consisting of 3.9 million Common Class A shares and 10 million Common Class B shares to stockholders of record as of that date.

The Common Class A and Class B shares of stock enjoy the same rights and privileges, except that the Common Class A shares are available only to citizens of the Philippines or corporations, associations or entities, at least 60% of the capital of which is owned by citizens of the Philippines.

RETIREMENT PLANS

The Parent Company and some of its subsidiaries maintain qualified noncontributory retirement plans covering substantially all their regular employees. Pension cost charged to operations for the years ended June 30, 1991 and 1990 totalled ₱11,503,363 and ₱9,294,347, respectively.