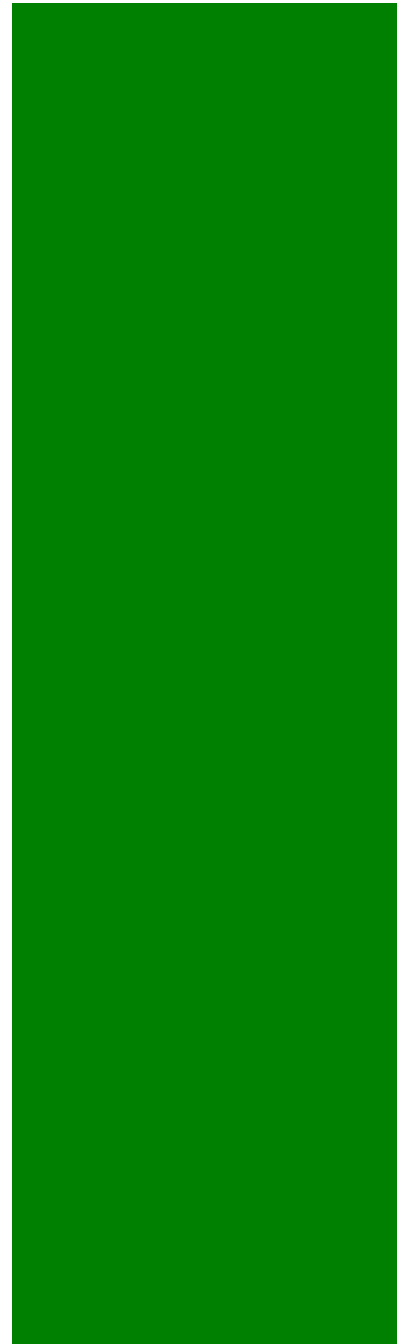
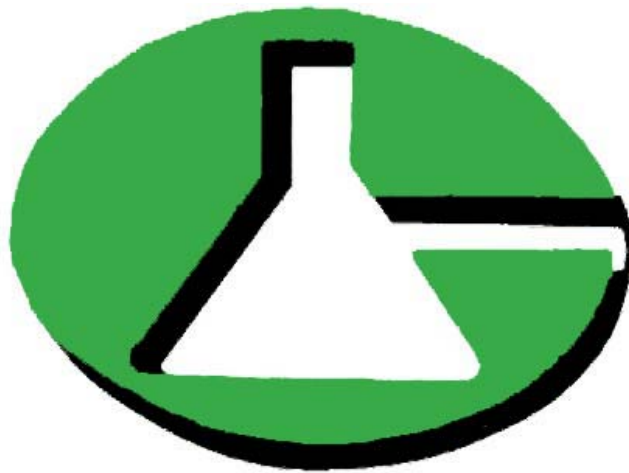


CAWC Inc.



Annual Report
2009



Table Of Content

❖ 2009 Report on Operations	1
❖ 2010 Business Outlook	2
Audited Financial Report	
❖ Statement of Management's Responsibility	3
For Financial Statements	
❖ Independent Auditors' Report	4
➢ Balance Sheets	
➢ Statements of Income	
➢ Statement of Changes in Stockholders' Equity	
➢ Statements of Cash Flows	
➢ Notes to Financial Statements	
❖ Board of Directors and Officers	5
❖ CIP Management Support Services Group	6
❖ Corporate Directory	7

CAWC, INC.

2009 Annual Report on Operation

CAWC's STPP plant was shut down in 2008 and has ceased to operate since then. Although revival of the plant was contemplated, the decision to close was made final due to various reasons. First, the price of imported STPP, mainly from neighboring Asian countries, remains to be far lower than what CAWC can produce STPP for. This is mainly due to incentives given by these countries to their exporters. Second, the prices of raw materials available, including Phosphorus (P4), Phosphoric Acid Technical grade and merchant grade phosphoric acid (MGPA) remain to be prohibitive. Third, demand for STPP continues to drop as users find alternative chemicals to STPP.

As a result, in 2009, only the Phosphoric Acid Food Grade (PAFG) plant which is a small portion of CAWC's business remains operational. The main and foremost customer of the PAFG plant is a major soft drink company. CAWC also supplies PAFG to various other clients.

In 2009, CAWC registered net sales revenues of PhP 72.8 million versus the PhP 133.2 million net sales performance in 2008. This represents a reduction of about Php 60.4 or 45.3 % compared to that of 2008.

The Company also pursued its restructuring plan with the Company's creditor banks in order to operate its Phosphoric Acid Food Grade plant more cost efficiently.

In the Meeting of the Board of Directors in February 2009, the Board approved the plan for the final disposition of the STPP plant. The approval was based on the recognition and acceptance that the STPP manufacturing facility of CAWC will no longer be able to produce STPP competitively against the STPP imported mainly from China. However, as stated earlier, the Company will continue to produce the PAFG.

Sales and Marketing Highlights

Phosphoric Acid Food Grade

The sales volume of Phosphoric Acid Food Grade (PAFG) in 2009 was 20% higher than 2008. This was a result of increased sales to various companies including a multinational soft drink concentrate producing plant, industrial chemical manufacturers and a major milk producing company.

CAWC won the PAFG supply requirement for a major soft drink concentrate company over other international suppliers. The bidding process was conducted by its U.S. headquarters last December 2008. The supply agreement was awarded to CAWC in January 2009 and delivery of the product commenced in February 2009.

CAWC also has aggressively offered its PAFG to milk companies for its *clean-in-place* requirements. A large milk producer has substituted its imported PAFG with CAWC's PAFG after CAWC passed its stringent testing procedures.

Operational Highlights

The Company continues to run its food grade phosphoric acid processing facility to comply with the requirements of its various PAFG customers.

The STPP equipment has been maintained in spite of its being non-operational. This has kept the plant in good condition for its future sale.

Typhoon *Ondoy* that wreaked havoc in Metro Manila in 2009 did not spare the CAWC facilities. The plant was inundated with floods for almost two months. Yet, CAWC continued its operations and was able to continuously serve the requirements of its customers.

BUSINESS OUTLOOK FOR 2010

With the decision to shut down its STPP Business and to dispose of the STPP plant, CAWC's operations will remain focused on the production of Phosphoric Acid Food Grade.

CAWC, as in previous years, will again participate in the annual bidding conducted by a soft drink multinational company for the Phosphoric Acid requirements of its Philippine subsidiary as CAWC's contract ends in January 2010. There are strong positive indications that CAWC will win the bid, as in previous years.

In addition, the company will continue to vigorously pursue other customers of PAFG. These include industrial chemical manufacturers, milk producing companies and other users of the chemical. It is expected that these efforts will generate increased sales and the growth of CAWC's PAFG business.

CAWC also continues to look at other opportunities through the equipment that it still has available. Management is currently studying the possibility of reviving its CO₂ plant that was once attached to the STPP plant. There are prospects for the CO₂ plant to be hooked up to one of the many refineries currently in operation or being built. However, the costs to transfer the equipment and the CO₂ market are carefully being reviewed before the project can be implemented. Management hopes to finalize the study and proceed with the venture, if viable, in 2010.

Statement of Management's Responsibility for Financial Statement

The Management of *CAWC, Inc.* is responsible for all information and representations contained in the financial statements as of December 31, 2009 and 2008 and for the years ended December 31, 2009 and 2008. The financial statements have been prepared in accordance with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of Management with an appropriate consideration to materiality.

In this regard, Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The Management likewise discloses to the Company's Audit Committee and to its external auditor: (1) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (2) material weaknesses in the internal controls; and (3) any fraud that involves Management or other employees who exercise significant roles in internal controls.

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

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders and the Board of Directors has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of the presentation upon completion of such examination, in its report to the Board of Directors and Stockholders.

ANA MARIA G. ORDOVEZA
President and Chief Executive Officer

JOSE RICARDO C. GARCIA
Treasurer

ALEXANDRA G. GARCIA
Chief Operating Officer

CAWC, Inc.

**Financial Statements
December 31, 2009 and 2008**

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
CAWC, Inc.

We have audited the accompanying financial statements of CAWC, Inc., which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity (capital deficiency) and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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.

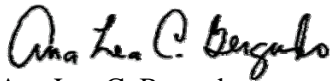
*** SGVMC310457 ***

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CAWC, Inc. as of December 31, 2009 and 2008, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred net loss for the year ended December 31, 2008 and, as of December 31, 2009 and 2008, the Company still reported deficit. These conditions, along with other matters discussed in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

SYCIP GORRES VELAYO & CO.



Ana Lea C. Bergado

Partner

CPA Certificate No. 80470

SEC Accreditation No. 0660-A

Tax Identification No. 012-082-670

PTR No. 2087366, January 4, 2010, Makati City

April 14, 2010

CAWC, INC.**STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱32,405,747	₱2,765,459
Receivables (Note 5)	1,571,927	12,440,204
Inventories (Note 6)	10,297,293	14,559,735
Due from related parties (Note 11)	2,546,182	2,546,182
Prepayments and other current assets (Note 7)	15,747,564	15,736,849
Total Current Assets	62,568,713	48,048,429
Noncurrent Assets		
Property, plant and equipment (Note 8):		
At cost	7,902,156	34,701,566
At revalued amount	238,600,000	238,600,000
Other noncurrent assets (Note 9)	26,362,299	12,824,349
Total Noncurrent Assets	272,864,455	286,125,915
TOTAL ASSETS	₱335,433,168	₱334,174,344
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	74,006,778	77,917,692
Liabilities under letters of credit and trust receipts (Note 6)	64,989,183	71,109,511
Due to related parties (Note 11)	134,714,112	124,606,994
Total Current Liabilities	273,710,073	273,634,197
Noncurrent Liabilities		
Deferred income tax liability (Note 18)	59,194,707	59,194,707
Accrued retirement payable (Note 17)	139,283	1,524,760
Total Noncurrent Liabilities	59,333,990	60,719,467
Total Liabilities	333,044,063	334,353,664
Equity (Capital Deficiency)		
Capital stock - ₱1 par value		
Authorized - 500,000,000 shares		
Issued - 301,341,929 shares	301,341,929	301,341,929
Additional paid-in capital	801,166	801,166
Revaluation increment in land (Notes 8 and 16)	64,147,040	64,147,040
Deficit (Note 16)	(363,901,030)	(366,469,455)
Total Equity (Capital Deficiency)	2,389,105	(179,320)
TOTAL LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)	₱335,433,168	₱334,174,344

See accompanying Notes to Financial Statements.

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CAWC, INC.**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2009	2008
NET SALES	₱72,845,591	₱133,240,129
COST OF GOODS SOLD (Note 12)	66,006,894	167,663,008
GROSS INCOME (LOSS)	6,838,697	(34,422,879)
Operating expenses (Note 13)	(10,788,774)	(47,585,395)
Interest expense (Notes 6 and 11)	(11,987,307)	(15,746,156)
Foreign exchange gain (loss) - net	1,442,637	(7,366,159)
Gain on sale of property, plant and equipment and investments in stock	926,234	232,143
Interest income (Note 4)	218,887	834,124
Other income - net (Note 15)	16,556,408	4,627,053
	(3,631,915)	(65,004,390)
INCOME (LOSS) BEFORE INCOME TAX	3,206,782	(99,427,269)
PROVISION FOR INCOME TAX (Note 18)	638,357	1,457
NET INCOME (LOSS)	2,568,425	(99,428,726)
OTHER COMPREHENSIVE INCOME		
Effect of changes in tax rates on revaluation increment in land (Note 18)	-	5,416,253
TOTAL COMPREHENSIVE INCOME (LOSS)	₱2,568,425	(₱94,012,473)

See accompanying Notes to Financial Statements.

*** SGVMC310457 ***

CAWC, INC.**STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	Capital Stock	Additional Paid-in Capital	Revaluation Increment in Land (Notes 8 and 16)	Deficit (Note 16)	Total
BALANCES AT DECEMBER 31, 2007	₱301,341,929	₱801,166	₱58,730,787	(₱267,040,729)	₱93,833,153
Total comprehensive income (loss)	–	–	5,416,253	(99,428,726)	(94,012,473)
BALANCES AT DECEMBER 31, 2008	301,341,929	801,166	64,147,040	(366,469,455)	(179,320)
Total comprehensive income	–	–	–	2,568,425	2,568,425
BALANCES AT DECEMBER 31, 2009	₱301,341,929	₱801,166	₱64,147,040	(₱363,901,030)	₱2,389,105

See accompanying Notes to Financial Statements.

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CAWC, INC.**STATEMENTS OF CASH FLOWS**

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	₱3,206,782	(₱99,427,269)
Adjustments for:		
Depreciation and amortization (Note 8)	13,494,483	16,566,174
Interest expense (Notes 6 and 11)	11,987,307	15,746,156
Interest income (Note 4)	(218,887)	(835,079)
Provision for impairment of assets (Note 8)	–	22,178,035
Gain on sale of property, plant and equipment and investment in stock (Note 8)	(926,234)	(232,143)
Net movement in retirement payable	(1,385,477)	1,524,760
Unrealized foreign exchange loss (gain) - net	(1,288,911)	7,989,153
Operating income (loss) before working capital changes	24,869,063	(36,490,213)
Decrease (increase) in:		
Receivables	10,868,277	17,568,691
Inventories	4,262,442	67,039,465
Other current assets	(10,715)	5,975,349
Increase (decrease) in:		
Accounts payable and accrued expenses	(3,568,889)	(15,939,510)
Liabilities under letters of credit and trust receipts	(4,831,417)	(17,834,161)
Amounts due to related parties	10,107,118	13,159,990
Cash generated from operations	41,695,879	33,479,611
Interest paid	(12,329,331)	(16,778,480)
Interest received	218,887	835,079
Income taxes paid, including creditable withholding taxes and final tax	(638,357)	(2,286,410)
Net cash from operating activities	28,947,078	15,249,800
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (Note 8)	(74,120)	(278,572)
Proceeds from sale of property, plant and equipment and investment in stock	1,266,158	232,143
Payments (refund) of deposits	(498,828)	3,454,017
Net cash from investing activities	693,210	3,407,588
CASH FLOW FROM A FINANCING ACTIVITY		
Payment of notes payable	–	(16,666,840)
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,640,288	1,990,548
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,765,459	774,911
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱32,405,747	₱2,765,459

See accompanying Notes to Financial Statements.

*** SGVMC310457 ***

CAWC, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information, Status of Operations and Authorization for Issuance of the Financial Statements

Corporate Information

CAWC, Inc. (the Company), a 99.67%-owned subsidiary of Chemical Industries of the Philippines, Inc. (CIP or the parent company) was incorporated in the Philippines and is primarily engaged in the manufacture and sale of industrial chemicals. The Company's registered office address is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

Status of Operations

The Company incurred net loss of ₱99,428,726 for the year ended December 31, 2008 and, as of that date, has reported deficit of ₱366,469,455. In 2009, total deficit amounted to ₱363,901,030. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

In October 2005, the Company announced its temporary shutdown in order to stop the massive losses being incurred. The Company was adversely and critically affected by the surge of Sodium Tri-Polyphosphates (STPP) imports from various countries. Moreover, the Company filed its petition for Safeguard Measure with the Department of Trade and Industry (DTI). Safeguard Measure is a remedy and safety net against the injurious effect of the surge in imports enshrined and recognized by the Constitution. The petition for Safeguard Measure was filed in accordance with the provisions of Republic Act (RA) 8800 otherwise known as "Safeguard Measure Act" and the World Trade Organization (WTO) Agreements on Safeguards.

In July 2006, the Company received the order from the DTI providing provisional Safeguard Measure in the amount of ₱14.15 per kg. This amount is imposed on imported STPP on top of the normal import taxes and duties. At the same time, the case was forwarded to the Tariff Commission (Commission), the agency tasked to conduct a formal investigation.

In January 2007, the Commission concluded its formal investigation. The results of the formal investigation of the Commission affirmed the findings of the DTI and recommended that the imposition of the Safeguard Measure is justified in terms of RA 8800 and the WTO Agreements on Safeguards.

In May 2007, the Company entered into a memorandum of agreement with the Soap and Detergent Association of the Philippines (SDAP). SDAP members have agreed to provide a ₱12.0 million support for the Company to undertake and implement its cost savings measures. Under the memorandum of agreement, SDAP will encourage its members to purchase STPP from the Company.

The Company's STPP plant was shut down in 2008 and has ceased to operate since then. The price of imported STPP remains to be lower than the cost to produce locally. The Company will remain focused on the production of Phosphoric Acid Food Grade and will participate in the annual bidding conducted by a soft drink multinational company.

The accompanying financial statements do not include any adjustments that may result from the outcome of this uncertainty.

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Authorization for Issuance of the Financial Statements

The financial statements of the Company as of and for the years ended December 31, 2009 and 2008 were authorized for issue by the Board of Directors (BOD) through its Executive Committee on April 14, 2010.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The financial statements of the Company are prepared under a historical cost basis except for land, which is carried at appraised value, and are presented in Philippine Peso (Peso), which is the Company's functional currency. The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Adoption of New and Revised Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended Philippine Accounting Standards (PAS) and Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations which became effective on January 1, 2009. Adoption of these changes in PFRS did not have any significant effect on the Company's financial statements. These give rise to additional disclosures including, in some cases, revision to accounting policies.

- **Amendments to PAS 1, *Presentation of Financial Statements***

The revision introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity, (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate statement of income and a statement of comprehensive income), separately from owner changes in equity, (c) components of other comprehensive income to be displayed in the statement of comprehensive income and (d) total comprehensive income to be presented in the financial statements. The Company has elected to present comprehensive income in a single statement. The Company also adopted the title "Statement of Financial Position" to replace "Balance Sheet" as allowed in the amendments to PAS 1.
- **Revised PAS 23, *Borrowing Costs***

The standard has been revised to require capitalization of borrowing costs when such costs relate to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company's policy is to capitalize borrowing cost even before revision of PAS 23. The amendment has no impact on the Company since it currently has no borrowings.
- **Amendments to PAS 18, *Revenue***

The amendment has adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as principal are whether the entity:

 - a. has primary responsibility for providing the goods or service;
 - b. has inventory risk;
 - c. has discretion in establishing prices; and
 - d. bears the credit risk.

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- Amendments to PFRS 7, *Financial Instruments: Disclosures*
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement and liquidity risk disclosures are not significantly impacted by the amendments and are presented in Notes 18 and 19.

The following new and amended PFRS and Philippine Interpretations which became effective on January 1, 2009 are not expected to be relevant on the Company's financial statements:

- Amendment to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
- PFRS 8, *Operating Segments*
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Improvements to PFRSs

In May 2008, the International Accounting Standards Board (IASB) issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and clarify wordings. The following improvements in PFRSs did not have an impact on the Company's financial statements.

- PAS 1, *Presentation of Financial Statements*
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 8, *Accounting Policies, Change in Accounting Estimates and Error*
- PAS 10, *Events after the Reporting Period*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 27, *Consolidated and Separate Financial Statements*
- PAS 28, *Investment in Associates*
- PAS 31, *Interest in Joint Ventures*
- PAS 34, *Interim Financial Reporting*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*

New Accounting Standards, Interpretations and Amendments
to Existing Standards Effective Subsequent to December 31, 2009

The Company will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as “minority interests”); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while the revised PAS 27 must be applied retrospectively with certain exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of fair value changes or cash flow variability of a financial instrument as a hedged item.
- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
This Interpretation applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

Improvements to PFRSs effective in 2010

In April 2009, the IASB issued improvements to PFRSs. Entities shall apply these amendments for annual periods beginning on or after July 1, 2009. Earlier application is permitted. There are separate transitional provisions for each standard.

- PFRS 2, *Share-based Payment*
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, *Business Combinations*.

- *PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*
The disclosures required in respect of noncurrent assets or disposals groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRSs only apply if specifically required for such noncurrent assets or discontinued operations.
- *PFRS 8, Operating Segments*
Segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *PAS 1, Presentation of Financial Statements*
The terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- *PAS 7, Statement of Cash Flows*
The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- *PAS 17, Leases*
The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.
- *PAS 36, Impairment of Assets*
The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment, as defined in PFRS 8 before aggregation for reporting purposes.
- *PAS 38, Intangible Assets*
The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives.

Also, it clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.

- *PAS 39, Financial Instruments: Recognition and Measurement*
For assessment of loan prepayment penalties as embedded derivatives, it clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

Also, it clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.

Lastly, it clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of financial instruments or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- **Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives***
The IASB amended the scope paragraph of Philippine Interpretation IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.
- **Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation***
The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- **Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate***
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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.

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 the date of acquisition and are subject to an insignificant risk of changes in value.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Initial recognition of financial instruments

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

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 are further classified into the following categories: financial assets or financial liabilities at FVPL, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting period.

The Company's financial assets consist only of loans and receivables while its financial liabilities are classified as other financial liabilities.

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the statement of financial position. Amortization is determined using the effective interest rate method. Loans and receivables are included in current assets if maturity is within 12 months from the reporting period, otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Company's cash in bank and cash equivalents, receivables and due from related parties (see Note 19).

b. Other financial liabilities

This category pertains to financial liabilities that are not held for trading and are not designated as at FVPL upon the inception of the liability. These include liabilities arising from operating and financing activities.

Accounts payable, accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are measured at cost or amortized cost.

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

As of December 31, 2009 and 2008, the Company has classified accounts payable and accrued expenses, liabilities under letters of credit and trust receipts, and due to related parties as other financial liabilities.

Determination of fair value

The fair value of financial instruments traded in active markets at reporting period is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Derecognition of Financial Instruments

a. 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 financial asset have expired;
- the Company retains the right to receive cash flows from the financial 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 Company has transferred its rights to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

Where the Company has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Company’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

b. Financial liabilities

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

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

Impairment of Financial Assets

The Company assesses at each reporting period whether there is an objective evidence that its financial asset or a group of financial assets is impaired.

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

The Company 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. Objective evidence includes observable data that comes to the attention of the Company about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial

reorganization. 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 the group of financial assets with similar credit risk and 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 recognized are not included in a collective assessment of impairment.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. 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 profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related financial assets and financial liabilities are presented gross in the statement of financial position.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost incurred in bringing each item to its present location and condition are accounted for as follows:

- | | | |
|---|---|--|
| Raw materials, spare parts and factory supplies | - | purchase cost determined on a moving-average method; |
| Finished goods | - | cost includes direct materials and labor and a proportion of manufacturing overhead costs determined on a moving-average method. |

NRV of raw materials is the current replacement cost. NRV finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion, marketing and distribution.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value, except for parcels of land which are carried at revalued amounts as determined as of March 28, 2007 by an independent firm of appraisers. The Company obtained an appraisal report dated August 18, 2009 on its parcels of land. There was no significant movement of the value of the parcels of land as of December 31, 2009.

The net appraisal increment from revaluation is shown as "Revaluation increment in land" account under the equity section of the statement of financial position.

Revaluation is made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting period. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment in land", net of related deferred tax liability. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

* SGVMC310457 *

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

Construction in progress is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are completed and are made available for use.

Depreciation commences once the assets are put into operation and are computed on a straight-line basis over the estimated useful lives of the asset as follows:

	Years
Land improvements	10
Buildings and structures	10
Machinery and equipment	10
Transportation equipment	5
Office furniture and fixtures	3

The residual values, useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

The cost and related accumulated depreciation and amortizations of fully depreciated property and equipment are kept in the books until the asset has been retired or disposed of.

When property, plant and equipment carried at cost are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and impairment in value are removed from the accounts, and any resulting gain or loss is recognized in profit or loss.

Upon disposal of revalued property, plant and equipment, the related revaluation increment realized in respect of the latest valuation will be released from the revaluation increment directly to retained earnings.

Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An asset's recoverable amount is the greater of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss.

An assessment is made at each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Capital Stock

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued and outstanding.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Deficit

Deficit represents the cumulative balance of net income or loss, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Revenue

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Net sales

Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Net sales are measured at fair value of the consideration received, net of returns, discounts and value-added taxes.

Interest income

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

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company concluded that it is acting as a principal in all of its revenue arrangements.

Cost and Expenses

Cost and expenses are recognized in profit or loss when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has risen that can be measured reliably.

Cost of goods sold

Cost of goods is recognized as expense when the related goods are sold.

Operating expenses

Operating expenses are costs incurred to sell or distribute merchandise and includes cost of administering the business. Operating expenses are recognized as incurred.

Retirement Benefits Cost

Retirement benefits cost is actuarially computed using the projected unit credit method of actuarial valuation. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with options to accelerate when significant changes in underlying assumptions occur. Retirement benefits cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the defined benefit plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets on that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the defined benefit plan.

The net retirement liability recognized by the Company in respect of the defined benefit retirement plan is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by the past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly.

Leases

Company as 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 profit or loss on a straight-line basis over the lease term.

Company as lessor

Leases where the Company does not transfer substantially all the risk and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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 have been enacted or substantively enacted at the end reporting period.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary, carryforward benefits of unused tax credits from minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carry forward benefits of unused tax credits from excess MCIT over RCIT and NOLCO can be utilized.

* SGVMC310457 *

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on the tax rates that have been enacted or substantively enacted at the end reporting period.

Income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

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

Foreign Currency-denominated Transactions and Translations

Transactions denominated in foreign currencies are recorded in Peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated to Peso at exchange rates prevailing at the end of reporting period.

Foreign exchange gains or losses arising from foreign currency-denominated transactions and translations are credited to or charged against current operations.

Provisions and Contingencies

Provisions are recognized when the Company 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 determined by discounting the expected future cash flows at a pre-tax rate that reflect current market assessment 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.

Contingent liabilities are not recognized in the 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 financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable as of the date of the financial statements. While the Company believes that the assumptions are reasonable and appropriate, differences in the actual experience or changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements.

Determination of the Company's functional currency

The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Peso. The Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the selling price of goods and the cost of good sold.

Classification of financial instruments

The Company classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's statement of financial position.

The Company determines the classification at initial recognition and re-evaluates this destination, where allowed and appropriate, at every reporting period. The categories of the Company's financial assets and financial liabilities are disclosed in Note 20.

The carrying value of financial assets amounted to ₱36,504,085 and ₱17,693,377 and financial liabilities amounted to ₱273,177,177 and ₱273,347,380 as of December 31, 2009 and 2008, respectively (see Note 20).

Classification of leases

The Company has property leases, where it has determined that the risks and rewards related to those properties are retained by the lessors. As such, these lease agreements are accounted for as operating leases. Rent expense amounted to ₱510,828 and ₱957,160 in 2009 and 2008, respectively (see Notes 11, 12, and 13).

Estimates and Assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimation of allowance for doubtful accounts

Allowance for doubtful accounts is provided for accounts that are specifically identified to be doubtful as to collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts, including, but not limited to, the length of relationship with customer and the customer's credit status.

The Company's receivables, net of allowance for doubtful accounts, amounted to ₱1,571,927 and ₱12,440,204 as of December 31, 2009 and 2008, respectively (see Note 5).

Estimation of allowance for inventory losses

Provisions are made for inventory specifically identified to be obsolete. The level of this allowance is evaluated by management on the basis of factors that affect the realizability of the inventory.

The Company's inventories, net of allowance for inventory losses, amounted to ₱10,297,293 and ₱14,559,735 as of December 31, 2009 and 2008, respectively (see Note 6).

Estimation of useful lives and residual values of property, plant and equipment

The Company estimates the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives and residual values of property, plant 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 operation could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation expense and decrease noncurrent assets. The carrying value of property, plant and equipment, excluding land, amounted to ₱7,902,156 and ₱34,701,566 as of December 31, 2009 and 2008, respectively. Total depreciation and amortization expense charged to operations amounted to ₱13,494,483 in 2009 and ₱16,566,174 in 2008 (see Note 8). The estimated useful lives of the Company's depreciable assets are disclosed in Note 2.

Impairment of property, plant and equipment

The Company determines whether its property, plant and equipment and other nonfinancial assets are impaired, at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of the cash flows. The carrying value of property, plant and equipment at cost amounted to ₱7,902,156 and ₱34,701,566 as of December 31, 2009 and 2008, respectively. Allowance for impairment of assets amounted to ₱22,178,035 as of December 31, 2008 (see Note 8). Land carried at revalued amount and subject to impairment also, has carrying value of ₱238,600,000 as of December 31, 2009 and 2008. No impairment was recognized on land.

Recognition of deferred income tax assets

The Company reviews the carrying amounts at each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company

did not recognize deferred income tax assets as management believes that the Company may not have sufficient future taxable profit available to allow it to be utilized in the future or prior to expiration (see Note 18).

Estimation of retirement benefits cost

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 to the financial statements and include among others, discount rates, expected returns on plan assets and salary increase rates. Actual results that differ from the Company's assumptions are accumulated over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations. Retirement expense charged to operations amounted to ₱116,263 in 2009 and ₱4,069,753 in 2008, respectively (see Note 17).

Provisions and contingencies

The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision and contingency is based on known information at reporting period, net of any estimated amount that may be reimbursed to the Company. If the effect of the time value of money is material, provisions and contingencies are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision and contingency is being re-assessed at least on an annual basis to consider new relevant information. There is no provision recognized or contingency disclosed as of December 31, 2009 and 2008.

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	₱178,610	₱765,459
Short-term investment	32,227,137	2,000,000
	₱32,405,747	₱2,765,459

Cash in banks earn interest at the respective bank deposit rates. Short-term investment is made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates. Interest earned from cash in banks and short term investment amounted to ₱218,887 and ₱835,079 in 2009 and 2008, respectively.

5. Receivables

	2009	2008
Trade (Note 11)	₱4,370,007	₱15,089,649
Others	1,447,554	1,754,189
	5,817,561	16,843,838
Less allowance for doubtful accounts	4,245,634	4,403,634
	₱1,571,927	₱12,440,204

*** SGVMC310457 ***

Movements of the allowance for doubtful trade accounts receivable is as follows:

	2009	2008
Beginning balances	₱4,403,634	₱4,176,349
Provision for the year	-	277,285
Recoveries	(158,000)	(50,000)
Ending balances	₱4,245,634	₱4,403,634

As of December 31, 2009 and 2008, total allowance for doubtful accounts pertain to past due accounts. There was no impairment of trade and other receivables classified as high grade, standard grade, or substandard grade.

6. Inventories

	2009	2008
At NRV:		
Finished goods	₱3,214,818	₱5,102,753
Raw materials	693,350	5,059,696
Spare parts and factory supplies	5,518,320	2,923,347
	9,426,488	13,085,796
At cost:		
Raw materials	870,805	1,473,939
	₱10,297,293	₱14,559,735

Allowance for inventory obsolescence amounted to ₱18,195,818 and ₱25,254,259 in 2009 and 2008, respectively.

In 2009, the Company recognized provision for inventory obsolescence amounting to ₱2,115,686 and has written-off certain spare parts and factory supplies amounting to ₱9,174,127.

Under the terms of agreements covering liabilities under letters of credit and trust receipts, some inventories were released by the suppliers to the Company in trust for the banks. The Company is accountable to the banks for the trustees' inventories or their sales proceeds. As of December 31, 2009 and 2008, total liabilities under letters of credit and trust receipts, which bear interest rates ranging from 6.99% to 8.98% in 2009 and 7.50% to 9.50% in 2008, amounted to ₱64,989,113 and ₱71,109,511, respectively. Interest expense amounted to ₱6,624,371 in 2009 and ₱8,915,346 in 2008.

7. Prepayments and Other Current Assets

	2009	2008
Prepaid taxes	₱13,852,711	₱13,665,930
Input value added taxes	1,705,553	1,735,582
Prepaid insurance and others	189,300	335,337
	₱15,747,564	₱15,736,849

* SGVMC310457 *

8. Property, Plant and Equipment

2009							
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Construction In Progress	Total
Cost							
Beginning balances	₱9,102,402	₱45,764,631	₱441,081,815	₱11,831,929	₱11,075,531	₱-	₱518,856,308
Additions	-	-	-	-	-	74,120	74,120
Disposals	-	-	(1,563,629)	(215,000)	-	-	(1,778,629)
Reclassification	-	-	(283,037,132)	-	-	-	(283,037,132)
Ending balances	9,102,402	45,764,631	156,481,054	11,616,929	11,075,531	74,120	234,114,667
Accumulated Depreciation							
Beginning balances	9,004,449	42,736,918	410,368,746	11,012,931	11,031,698	-	484,154,742
Depreciation (Notes 12 and 13)	33,577	871,384	12,362,442	202,546	24,534	-	13,494,483
Disposals	-	-	(1,293,705)	(214,999)	-	-	(1,508,704)
Reclassification	-	-	(269,928,010)	-	-	-	(269,928,010)
Ending balances	9,038,026	43,608,302	151,509,473	11,000,478	11,056,232	-	226,212,511
Net Book Values	₱64,376	₱2,156,329	₱4,971,581	₱616,451	₱19,299	₱74,120	₱7,902,156

2008							
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Construction In Progress	Total
Cost							
Beginning balances	₱9,102,402	₱45,764,631	₱440,813,478	₱12,789,201	₱11,071,335	₱1,381,043	₱520,922,090
Additions	-	-	268,337	-	4,196	6,039	278,572
Disposals	-	-	-	(957,272)	-	-	(957,272)
Reclassification	-	-	-	-	-	(1,387,082)	(1,387,082)
Ending balances	9,102,402	45,764,631	441,081,815	11,831,929	11,075,531	-	518,856,308
Accumulated Depreciation and Impairment Loss							
Beginning balances	8,970,871	41,527,343	373,101,170	11,767,657	11,000,764	-	446,367,805
Depreciation (Notes 12 and 13)	33,578	1,209,575	15,089,541	202,546	30,934	-	16,566,174
Allowance for impairment of assets (Note 13)	-	-	22,178,035	-	-	-	22,178,035
Disposals	-	-	-	(957,272)	-	-	(957,272)
Ending balances	9,004,449	42,736,918	410,368,746	11,012,931	11,031,698	-	484,154,742
Net Book Values	₱97,953	₱3,027,713	₱30,713,069	₱818,998	₱43,833	₱-	₱34,701,566

In 2009, machinery and equipment with a carrying value of ₱13,109,122 was reclassified to asset held for disposal under "Other Noncurrent Assets" (see Note 9).

As of December 31, 2009 and 2008, land has a total revalued amount of ₱238,600,000 with cost amounting to ₱41,284,311.

9. Other Noncurrent Assets

	2009	2008
Receivable from local government	₱12,694,252	₱12,169,733
Asset held for disposal (Note 8)	13,109,122	-
Deposits	555,727	25,691
Others	3,198	628,925
	₱26,362,299	₱12,824,349

Receivable from local government pertains to local tax credit from the Municipality of San Pascual, Batangas, which will be applied against future real property taxes.

10. Accounts Payable and Accrued Expenses

	2009	2008
Trade payables	₱71,567,142	₱75,812,671
Accrued operating expenses	1,638,386	1,207,827
Accrued interest (Note 11)	247,212	589,235
Others	554,038	307,959
	₱74,006,778	₱77,917,692

11. Related Party Transactions

The Company has the following significant related party transactions:

- a. Service agreement with CIP for the Company's management support activities. The service fees consist of management and shared services fees. Management fee amounting to ₱1,200,000 and ₱2,100,000 in 2009 and 2008, respectively, represents the Company's share in the general corporate overhead incurred by CIP (see Note 13). The shared services fee is billed using activity-based costing, whereby services rendered are based on man-hours spent or number of items processed or output produced as applicable. Share in common services charged to operating expenses amounted to ₱3,360,000 in 2009 and ₱5,880,000 in 2008 (see Note 13).
- b. Facility agreement with LMG Chemicals Corp. (LMG) for the Company's use of LMG's truck scale. The shared services fee is billed using activity-based costing, whereby services are based on the number of times of truck scale weighing. Share in common services charged to cost of goods sold amounted to ₱117,232 in 2009 and ₱118,450 in 2008 (see Note 12).
- c. Rental agreement with CIP for the Company's office space for one year renewable at the option of both parties. Rent expense charged to operations amounted to ₱196,468 and ₱280,440 in 2009 and 2008, respectively (see Note 13).
- d. In 2009 and 2008, the Company has outstanding loans from CIP and LMG amounting to ₱67,478,940 and ₱59,107,575 and ₱29,530,167 and ₱33,413,716 with interest rate of 6% per annum. These loans were obtained by the Company to finance its operations. In 2009 and 2008, interest expense on these loans amounted to ₱6,634,371 and ₱8,915,346, respectively.
- e. Extension of noninterest and interest-bearing cash advances and reimbursement of expenses with parent company and affiliates. The interest-bearing cash advances have interest rates ranging from 8% to 12% in 2009 and 2008. Related interest expense amounted to ₱5,362,936 in 2009 and ₱6,830,810 in 2008.
- f. Outstanding receivables from related parties as of December 31, 2009 and 2008 are as follows:

Petrocorp	₱25,472
Stockholders	2,520,710
	₱2,546,182

*** SGVMC310457 ***

Outstanding payables to related parties are as follows:

	Premiums		Advances		Loans		Interest		2009	2008
	2009	2008	2009	2008	2009	2008	2009	2008	Total	Total
CIP	P	P-	P	P-	P67,478,940	P59,107,575	P7,120,610	P4,586,460	P74,599,550	P63,694,035
Kemwater Phil. Corp.	-	-	-	-	29,530,167	35,413,716	6,550,961	4,994,935	36,081,128	40,408,651
LMG	-	-	-	1,800,000	-	-	-	66,400	-	1,866,400
Vision Insurance Consultants, Inc.	17,549,968	17,145,616	-	-	-	-	2,205,416	1,343,864	19,755,384	18,489,480
Chemphil Manufacturing Corp.	-	-	4,261,509	130,424	-	-	-	-	4,261,509	130,424
Perfumeria Espanola Corp.	-	-	16,541	18,004	-	-	-	-	16,541	18,004
	P17,549,968	P17,145,616	P4,278,050	P1,948,428	P97,009,107	P94,521,291	P15,876,987	P10,991,659	P134,714,112	P124,606,994

- g. Compensation of key management personnel consists of short-term employee benefits and termination benefits amounting to P1,694,492 and P38,229, respectively, in 2009 and P5,140,866 and P638,086, respectively, in 2008.

12. Cost of Goods Sold

	2009	2008
Raw materials used	P63,511,421	P89,828,077
Direct labor (Notes 14 and 16)	1,596,375	3,503,422
Manufacturing overhead:		
Depreciation (Note 8)	13,488,019	16,556,540
Taxes and licenses	2,259,889	3,208,551
Provision for inventory losses	2,115,686	22,077,831
Outside services	1,314,426	3,149,320
Communication, light and water	825,305	6,374,591
Repairs and maintenance	551,693	3,019,500
Insurance	427,360	3,081,021
Rent	314,360	676,720
Supplies	149,161	2,850,891
Share in common services (Note 11)	117,232	118,450
Others	185,161	280,134
Changes in finished goods inventories	(20,849,194)	12,937,960
	P66,006,894	P167,663,008

13. Operating Expenses

	2009	2008
Personnel expenses (Notes 14 and 16)	P3,834,024	P13,969,252
Share in common services (Note 11)	3,360,000	5,880,000
Outside services	1,560,813	1,864,762
Management fee (Note 11)	1,200,000	2,100,000
Taxes and licenses	262,053	329,156
Rent (Note 11)	196,468	280,440
Communication, light and water	182,939	340,119
Transportation and travel	114,147	81,521
Depreciation (Note 8)	6,464	9,634
Provision for impairment loss (Note 8)	-	22,178,035
Others	71,866	552,476
	P10,788,774	P47,585,395

* SGVMC310457 *

14. Personnel Expenses

	2009	2008
Salaries and wages	₱4,432,844	₱9,487,737
Retirement benefits cost (Note 16)	116,263	4,069,753
Other employee benefits	881,292	3,915,184
	₱5,430,399	₱17,472,674

15. Other Income - net

	2009	2008
Gain on sales commitment	₱18,477,921	₱-
Scrap sales	3,486,138	683,478
Other income (charges)	(5,407,651)	3,943,575
	₱16,556,408	₱4,627,053

Gain on sales commitment pertains to the cash received from a customer as payment for the difference between actual sales and the purchase commitment of the customer.

16. Quasi-Reorganization

On June 23, 2005, the Board Executive Committee approved the quasi-reorganization of the Company with the objective of eliminating the Company's accumulated deficit as of December 31, 2004 amounting to ₱73,973,943 by applying the revaluation increment in land as of such date.

On October 10, 2005, the SEC approved the quasi-reorganization. Pursuant to the SEC approval of the foregoing, the Company was subject to conditions that: (a) the remaining revaluation increment of ₱58,730,787 as of December 31, 2005, after applying ₱73,973,943 to the Company's deficit, will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; (b) for purposes of dividend declaration, the retained earnings of the Company shall be restricted to the extent of the deficit wiped out by the appraisal increment in land; and (c) the Company shall disclose in its financial statements for a minimum period of three years the mechanics, purpose and effect of such quasi-reorganization, on the condition of the Company.

17. Retirement Benefits Cost

The Company, together with its affiliated companies, has a funded non-contributory defined benefit plan covering substantially all its regular employees. The benefits are based on the years of service and latest monthly compensation of the employees. The latest actuarial valuation report is as of December 31, 2008.

The following tables summarize the components of retirement benefits cost recognized in the profit or loss and the funding status and amounts recognized in the statement of financial position.

*** SGVMC310457 ***

Retirement benefits cost are as follows:

	2009	2008
Current service cost	₱79,145	₱413,350
Interest cost	27,526	971,233
Expected return on plan assets	-	(410,937)
Net actuarial loss	9,592	7,738,538
Reversal of asset limit	-	(4,642,431)
Net retirement benefits cost for the year	₱116,263	₱4,069,753
Actual return on plan assets	₱-	(₱233,468)

Net retirement liability recognized by the Company in the statement of financial position follows:

	2009	2008
Present value of retirement liabilities	₱293,986	₱194,671
Fair value of plan assets	-	(1,501,740)
	(293,986)	(1,696,411)
Net cumulative unrecognized actuarial loss	154,703	171,651
Net retirement liability	₱139,283	₱1,524,760

Changes in the present value of retirement liabilities are as follows:

	2009	2008
Balance at beginning of year	₱194,671	₱9,278,818
Interest cost	27,526	971,233
Current service cost	79,145	413,350
Benefits paid	-	(7,922,634)
Actuarial gain for the year	(7,356)	(2,546,096)
Balance at end of year	₱293,986	₱194,671

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

	2009	2008
Balances at beginning of year	(₱1,501,740)	₱4,109,369
Expected return on plan assets	-	410,937
Actual contributions	1,501,740	2,544,993
Benefits paid	-	(7,922,634)
Actuarial loss	-	(644,405)
Balance at end of year	₱-	(₱1,501,740)

The principal assumptions used in determining retirement benefit costs for the Company's plan as of January 1 are as follows:

	2009	2008
Number of employees	7	9
Discount rate per annum	14.14%	10.47%
Expected annual rate of return on plan assets	10.00%	10.00%
Future annual increase in salary	6.16%	6.63%

As of December 31, 2009, the following are the assumptions: discount rate of 10.24% and future annual increase in salary of 6.16%.

*** SGVMC310457 ***

Amount for the current and previous years are as follows:

	20	2008	2007	2006	2005
Defined benefit obligations	₱293,9	₱194,671	₱9,278,818	₱32,001,179	₱32,001,179
Fair value of plan assets		(1,501,740)	4,109,369	4,100,624	28,758,533
Unfunded present value of retirement obligation	293,9	1,696,411	5,169,449	6,861,539	3,242,646
Experience adjustment on plan liabilities - loss (gain)		(70,557)	(629,711)	1,187,143	-
Experience adjustment on plan assets - gain (loss)		(375,523)	7,648	(8,415,966)	-

The Company expects to contribute ₱87,000 to the retirement fund in 2010.

18. Income Taxes

- a. The components of the Company's provision for income tax-current are as follows:

	2009	2008
MCIT	₱594,580	₱-
Final tax	43,777	1,457
	₱638,357	₱1,457

- b. The Company's deferred tax liability pertains to the revaluation increment on land carried at revalued amount.

Management, however, believes that it is improbable that any actual income tax liability will arise from revaluation of land since it is unlikely that the revalued property will be sold, exclusive of the business, in the foreseeable future.

- c. The Company did not recognize deferred income tax assets on the following items since management believes that the Company may not have sufficient taxable profit available to allow all or part of these to be utilized in the future or prior to expiration.

	2009	2008
Allowance for inventory obsolescence, including amounts written off in 2009	₱27,369,945	₱25,254,259
Allowance for doubtful accounts	4,245,634	4,403,634
Unamortized portion of past service cost	7,610,685	7,658,551
Accrued retirement expenses	139,278	1,524,760
NOLCO	115,837,055	220,853,429
MCIT	594,580	-

- d. The reconciliation of provision for (benefit from) income tax computed at the statutory income tax as shown in the statements of comprehensive income for the years ended December 31 is summarized as follows:

	2009	2008
Provision for (benefit from) income tax computed at statutory income tax rate	₱962,035	(₱34,799,544)
Interest income subjected to final tax	(21,889)	(1,093)

(Forward)

*** SGVMC310457 ***

	2009	2008
Nondeductible interest expense and others	₱21,670	₱1,071
Temporary differences for which no deferred income tax assets were recognized	(323,459)	34,801,023
Provision for income tax	₱638,357	₱1,457

- e. As of December 31, 2009, the Company's NOLCO and MCIT that can be claimed as deduction from future taxable income and income tax payable, respectively, are as follows:

NOLCO

Year Incurred	Amount	Tax Effect	Expired/ Applied	Balance as of December 31, 2009	Available Until
2006	₱102,641,674	₱30,792,502	₱102,641,674	₱-	2009
2007	65,684,130	19,705,239	2,374,700	63,309,430	2010
2008	52,527,625	15,758,288	-	52,527,625	2011
2009	-	-	-	-	2012
	₱220,853,429	₱66,256,029	₱105,016,374	₱115,837,055	

MCIT

Year Incurred	Amount	Expired/applied	Balance as of December 31, 2009	Available Until
2009	₱594,580	₱-	₱594,580	2012

- f. Under RA 9337, the Expanded Value-Added Tax Act of 2005, which took effect on November 1, 2005, the corporate income tax rate shall be 30% starting on January 1, 2009 and thereafter; and the unallowable deduction for interest expense shall be 33% of the interest income subject to final tax effective January 1, 2009.
- g. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% 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.

On September 24, 2008, the Bureau of Internal Revenue issued Revenue Regulation 10-2008 for the implementing guidelines of the law.

19. Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of receivables. The Company has various other financial assets and financial liabilities such as cash and cash equivalents, accounts payable and accrued liabilities, due from/to related parties and liabilities under letters of credit and trust receipts which arise directly from its operations.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, credit risk and liquidity risk. The BOD reviews and approves policies for managing each of these risks and they are summarized as follows:

*** SGVMC310457 ***

Cash flow interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's due to related parties. The interest rate risk is somehow mitigated since the annual interest rate is still subject to mutual agreement by both parties. The other financial instruments are not subject to interest rate risk as they are noninterest-bearing.

The following is the Company's aging of undiscounted payments to liabilities under letters of credit and trust receipts as of December 31:

	Rate	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
2009	Floating	P64,989,183	P-	P-	P-	P-	P64,989,183
2008	Floating	P71,109,511	P-	P-	P-	P-	P71,109,511

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

It is the Company's policy that all customers that wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a continuous basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure of the Company with respect to this credit risk is presented below.

Maximum exposure to credit risk without taking account of any collateral

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure as of December 31, 2009 and 2008 is shown below at gross, without regard to the use of master netting and collateral agreements.

	2009	2008
Cash in bank and cash equivalents	P32,385,976	P2,706,991
Receivables	1,571,927	12,440,204
Due from related parties	2,546,182	2,546,182
Total credit risk exposure	P36,504,085	P17,693,377

The credit quality of financial assets is managed by the Company using internal credit verification. The tables below show the credit quality by class of asset for loan-related accounts based on the Company's credit verification process.

<i>December 31, 2009</i>	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High Grade	Standard Grade			
Cash in bank and cash equivalents	P32,385,976	P-	P-	P-	P32,385,976
Receivables	878,630	315,735	377,562	4,245,634	5,817,561
Due from related parties	2,520,710	-	25,472	-	2,546,182
Total	P35,785,316	P315,735	P403,034	P4,245,634	P40,749,719

<i>December 31, 2008</i>	Neither past due nor impaired		Past due but not impaired	Impaired	Total
	High Grade	Standard Grade			
Cash in bank and cash equivalents	P2,706,991	P-	P-	P-	P2,706,991
Receivables	5,445,258	2,080,285	4,914,661	4,403,634	16,843,838
Due from related parties	2,520,710	-	25,472	-	2,546,182
Total	P10,672,959	P2,080,285	P4,940,133	P4,403,634	P22,097,011

Past due but not impaired receivables and due from related parties amounting to ₱403,034 and ₱4,940,133 as of December 31, 2009 and 2008, respectively, are aged from one to over one year.

The Company holds no collateral to any of its financial assets. The Company has no financial assets whose terms have been renegotiated.

Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or interest are within the normal payment cycle peculiar to the industry there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Company addresses impairment on an individual account basis.

Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of any collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting period, unless unforeseen circumstances require more careful attention.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Company's objective is to maintain a balance between continuity of funding and flexibility. The Company avails credit facilities from related parties and maximizes the net cash inflows from operations to finance its working capital requirements.

The maturity profile of the Company's financial liabilities based on contractual undiscounted repayment obligations as of December 31, 2009 and 2008 totaling ₱273,177,177 and ₱273,347,380, respectively, are all on demand. Repayments which are subject to notice are treated as if notice were to be given immediately.

On the other hand, the Company's financial assets managed to address liquidity totaling ₱36,523,856 and ₱17,751,845 as of December 31, 2009 and 2008, respectively, are expected to be available for collection upon demand.

20. Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments that are carried in the financial statements.

	Carrying Amount		Fair Value	
	2009	2008	2009	2008
Financial assets:				
<i>Loans and Receivables</i>				
Cash in bank and cash equivalents	₱32,385,976	₱2,706,991	₱32,385,976	₱2,706,991
Receivables	1,571,927	12,440,204	1,571,927	12,440,204
Due from related parties	2,546,182	2,546,182	2,546,182	2,546,182
	₱36,504,085	₱17,693,377	₱36,504,085	₱17,693,377

(Forward)

*** SGVMC310457 ***

	Carrying Amount		Fair Value	
	2009	2008	2009	2008
Financial liabilities:				
<i>Other Liabilities</i>				
Accounts payable and accrued expenses	₱73,473,882	₱77,630,875	₱73,473,882	₱77,630,875
Liabilities under letters of credit and trust receipts	64,989,183	71,109,511	64,989,183	71,109,511
Due to related parties	134,714,112	124,606,994	134,714,112	124,606,994
	₱273,177,177	₱273,347,380	₱273,177,177	₱273,347,380

The carrying amounts of cash and cash equivalents, receivables, due to/from related parties, accounts payable and accrued expenses and liabilities under letters of credit and trust receipts approximate their fair values because of their short-term nature.

21. Capital Management

The Company maintains a capital base to cover risks inherent in the business. The primary objectives of the Company's capital management are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

The following table summarizes the total equity (capital deficiency) considered by the Company:

	2009	2008
Capital stock	₱301,341,929	₱301,341,929
Additional paid-in capital	801,166	801,166
Deficit	(363,901,030)	(366,469,455)
Revaluation increment in land	64,147,040	64,147,040
	₱2,389,105	(₱179,320)



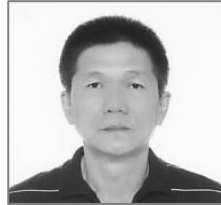
Board of Directors



Antonio M. Garcia
Chairman of the Board



Ana Maria G. Ordoveza
President &
Chief Executive Officer



Ramon Y. Navarro



Alexandra G. Garcia



Ramon M. Garcia



Eusebio M. Garcia, Jr



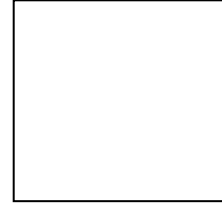
Jose Ma. L. Ordoveza



Jose Ricardo C. Garcia



Jose Raul P. Barredo (deceased)



Augusto P. Nilo

Executive Officers

- Antonio M. Garcia - Chairman of the Board
- Ana Maria G. Ordoveza - President & Chief Executive Officer
- Alexandra G. Garcia - Chief Operating Officer
- Jose Ricardo C. Garcia - Treasurer
- Jose Raul P. Barredo (deceased) - General Manager
- Nestos D. Juridicho - Plant Head
- Erwin A. Temprosa - Corporate Secretary

CIP Management Support Services Group

(As of December 31, 2009)

Ana Maria G. Ordoveza

President & Chief Executive Officer

Corporate Affairs, Marketing Research
& Information Services

Elenita A. Calar, *Vice-President*

Legal Services

Erwin A. Temprosa, *Senior Manager*

Building Administrator

Joseph L. Estabillo, *Manager*

Integrated Procurement Services

Benedicto M. Hernandez, *Sr. Manager*

Gerardo Ernesto J. Roca, *Asst. Manager*

Financial Services

Maureen T. Cabanban, *Vice-President*

Carlota M. Paulino, *Manager, Corporate Finance & Treasury*

Avelinda C. Latinazo, *Asst. Manager, Disbursement Services*

Precello F. Faigao, *Asst. Manager, Credit & Collection Services*

Controllership and Internal Audit Services

Donald M. Sanchez, *Senior Manager /Group Controller*

Human Resources (HR)

Hilda M. Del Rosario, *Director, HR*

Pearl T. Laurea Bravo, *Assistant Vice-President, HR-Pasig*

Fe O. Ureta, *Manager, HR-Makati*

Management Information System Services

Ma. Teresa E. Manaog, *Manager*

Judith A. Erne, *Asst. Manager*

Medical & Community Services Department

Luz D. Pagkalinawan, *Consultant, Medical Services*

Alexis B. Alumno, *Medical Officer*

Corporate Directory

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EXTERNAL LEGAL COUNSELS

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122 Gamboa Street, Legaspi Village, Makati City

Benitez, Parlade, Africa, Herrera, Parlade and Panga Law Offices
Ground Floor, Pacific Bank Building
6776 Ayala Avenue, Makati City

BANKS

Metropolitan Bank & Trust Company
Country Rural Bank of Taguig, Inc.
Hongkong & Shanghai Banking Corp. Ltd.
Landbank of the Phils.
Maybank Phils., Inc.
Bank of Commerce