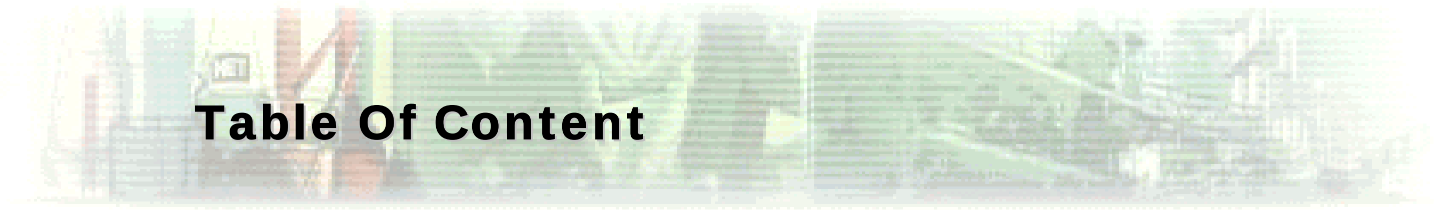
Chemical Industries of the Philippines Inc.

CHEMPHIL GROUP
1951

50 YEARS OF COMMITMENT TO QUALITY
1951 • 2001

Annual **Report**
2009



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CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.
2009 Consolidated Report on Operations

The Consolidated Gross Revenues of the Chemical Industries of the Philippines, Inc. (CIP) for the year 2009 is PhP 340.3 million. This is 34% lower than PhP 516.5 million Consolidated Gross Revenues earned in 2008.

The Company incurred Consolidated Net Loss of PhP 61 million in 2009. In 2008, the Company earned PhP 320.3 million.

CIP's Subsidiaries: 2009 Performance Highlights

CAWC, INC.

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 million 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.

LMG CHEMICALS CORP. (LMG)

LMG's Consolidated Results of Operation

The Consolidated Net Loss of LMG in 2009 is PhP 20.5 million. This represents a 107% decrease compared with 2008.

CMC's Operations

In 2009, the Net Loss of Chemphil Manufacturing Corp. (CMC) as a standalone company is PhP 59 million and Gross Revenue of PhP 127.7 million compared to the PhP 28.4 million and PhP 230.3 million, respectively in 2008. This represents a 307.7%

decrease in the Net Income in 2009 and 44.6% decrease in Gross Revenue compared to last year.

Chemphil Manufacturing Corp.

Manufacturing

CMC experienced a setback in 2009 with a significant reduction in production output of 67.8% for both its sulfuric acid and detergent sulfur plants.

Sulfuric Acid

In 2009, sulfuric acid production output decreased by 67.2% over that of 2008. The Acid Plant operated for only two months during the year. This was mainly due to the sluggish demand for acid, combined with uncharacteristic pricing for most commodities, including sulfur and acid. Typhoon *Ondoy* also greatly affected the plant's operations.

In addition, CMC provided tolling services for various customers. However, the volume of tolled acid significantly decreased by 70% compared to 2008.

Further, the plant continued to meet all environmental requirements and emission/effluent standards of the Department of Natural Environment and Resources (DENR).

Detergent Sulfur Flaking

In 2009, CMC's Detergent Sulfur Flaking Plant (DSP) production performance dipped by 86% compared to last year due to the prohibitive prices of sulfur in the market. As a result, there were no exports of sulfur flakes in 2009. Instead, any sulfur flakes produced were sold to the domestic market.

Sales and Marketing

Overall Volume Performance – Sales volume performance in 2009 is 58.6% lower than 2008.

Sulfuric Acid Technical Grade – Sales and tolling volume of Sulfuric Acid Technical Grade in 2009 decreased by a significant 61% compared with that of 2008. This was largely due to very sluggish demand and decreased tolling activities.

In September 2009, Typhoon *Ondoy* also caused massive flooding of the plant in Pasig. This resulted in the plant not being able to start up in the 3rd quarter of the year. Hence, CMC had extremely limited acid to sell and had to make do with whatever it had in inventory until –it could re-start its plant.

Sulfuric Acid Chemically Pure – Sales performance of Sulfuric Acid Chemically Pure or CP decreased by 5% versus 2008.

Oleum – Oleum sales showed a decrease in 2009 as inventory was limited due to the plant being shut down for most of the year. As a result, sales volume in 2009 was 34% lower than 2008.

Detergent Sulfur – Detergent sulfur sales in 2009 dropped significantly from the previous year's sales volume by 86%. This was mainly due to CMC's customers being able to purchase sulfur directly from other sources. Additionally, CMC intentionally did not pursue export of sulfur due to the very unattractive export prices.

Trading of Molten Sulfur – The trading of molten sulfur was very minimal as CMC's contract with Shell ended in June 2009. CMC did not submit a new bid for molten sulfur supply from Shell.

Tolling of Sulfur – In 2009, CMC continued to provide tolling service to customers, converting its sulfur into acid. CMC accommodated more clients in 2009. However, this did not have impact on sales as demand for acid remained slow.

<u>Strategic Material Purchasing</u>

Sulfur Supply – In 2009, CMC did not join the bidding for the supply of molten sulfur from Pilipinas Shell as CMC still had enough sulfur inventory for the year.

Kemwater Phils. Co.

The year 2009 was a difficult year for Kemwater Phils. Corp. (KPC). This was mainly due to the prohibitive costs of raw material and stiff competition. Despite the situation however, the Company was still able to contain its Net Loss to just PhP 4.2 million. The full impact of the cost increase of raw materials in 2009 was expected to adversely affect the profitability of the Company. In addition, competition was expected to exert more pressure, compelling KPC to be more aggressive in its pricing.

Gross Sales Revenues in 2009 decreased by 10% versus 2008, given an 11% decline in volume while average selling prices improved by 4%. The Company however, succeeded in reducing its fixed plant expenses.

In addition to rising raw material costs and aggressive competition, Typhoon *Ondoy* that hit Manila in September 2009 greatly affected plant operations. The repeated flooding of the plant for two months not only damaged products and equipment but also limited KPC's ability to run its plant or make deliveries. As a result, KPC was not able to provide its customers liquid alum at a time when it was most needed.

If not for the debilitating effects of the flooding and based on actual clients' delivery requirements, 2009 volumes would have grown by 16% and sales revenues by 21% over 2008, which could have given the Company positive and profitable results.

Manufacturing

KPC continued to focus on cost efficiency improvements as well safety and environmental considerations. The company now has a new stainless steel acid day tank that is double the capacity of the old one as well as two (2) new tank lorries. Several parts of the particle size reduction equipment were also replaced to increase capacity, minimize dusting, and reduce maintenance costs. These include the pulverizer casing and structure, screw conveyors, and a different design for the dust collection system.

With longer and better-managed production runs, and more preventive maintenance, total manufacturing overhead was reduced by 13.4%. This was an improvement over 2008.

Sales and Marketing

The total sales volume of KPC in 2009 declined by 11% compared to 2008. KPC has two partial supply contracts for liquid alum with 2 major water utilities. The volume of liquid alum delivered in 2009 was the same as in 2008. The deliveries could have doubled if not for Typhoon *Ondoy*.

Powdered alum sales, down by 20%, was the reason for the big decline in total alum sales volume. Management noted that Total Sales could have been maintained if not for the ill effects of the typhoon.

Due to the high raw material cost increases, KPC requested but failed to seek price adjustments from the water utilities. For other clients, KPC kept its pricing at levels that were in line with its competitors to protect volumes and market share.

The year 2009 also saw a big alum user trying alternative coagulants at plant scale. That company is considering using these coagulants on a regular basis. Said plan may be expected to adversely affect KPC.

Strategic Raw Material Purchasing

The price of aluminum hydroxide improved slightly in 2009. The forex rates, however, deteriorated, offsetting its lower dollar price.

The steep rise in the cost of sulfuric acid that started in 2008 continued to weigh down on KPC's profitability. Prices remained the same throughout the year.

Perfumeria Espanola Corporation

On November 25, 2008, the CIP Board of Directors approved the sale of its entire 49 % of CIP's shareholdings in Perfumeria Espanola Corporation (PEC) to the same set of private individuals who purchased the 51% shares owned by Perfumeria Gal of Spain (GAL) subject to certain terms and conditions. However, the deed of sale was not executed in 2009, hence; PEC remained under the Chemphil umbrella.

In 2009, PEC posted Gross Revenues of PhP59.3 million. This was a 14 % increase compared to the PhP 52 million in 2008.

Sales and Marketing

In January 31, 2009 the distribution agreement with Sysu was terminated. PEC then signed new distribution agreements with LTE Phils. Inc., Rhodesian Distributors, and Golden Gess Mktg. These new distributors started operations in February 2009 to cater to Key Accounts in Metro Manila, drug stores/wholesalers and Central Luzon trade outlets respectively.

In June 2009, the Company signed a distribution agreement with Jaka Distribution Inc. to service the Visayas and Mindanao areas.

In the last quarter of 2009 the company launched its print ad campaign. Its tag line, "Smell Beautiful" was used in advertisements that were placed in major magazines and publications. This campaign was specifically targeted to cater to the younger segment of the market.

It is expected that the changes in the distribution set-up will increase the availability of the *Heno de Pravia* and *Denenes* lines in trade outlets. It is also hoped that the advertising efforts were successful in influencing the younger market segment try out the product.

Business Units Within the CIP Corporate Organization

Office Leasing

In 2009, the CIP Office Leasing Division was affected by the slowdown in the rentals. This could have been due to many factors, including the downturn of the economy as a whole.

In 2009, the occupancy rate was down to only 72 % from a high of 100 % in 2008. The focus is now to lease out the 28% of space currently unoccupied. Total rental income was down to PhP 6 million in 2009 versus the PhP 6.6 million in 2008, or a decrease of 9%.

It was observed that in 2009 rental rates among buildings in areas comparably situated and of similar structure as the Chemphil Building have decreased by 5% to 10%. Hence, some of the building's tenants asked for slight decreases in rent, which management agreed to so as not to lose the business.

Despite the tight economic situation, the CIP Leasing Division has exerted its best effort to cope with the climbing costs of operation without having to increase rental rates. Building renovations and improvements that were conducted and completed in 2009, as follows:

1. Submission of new set of structural, sanitary, electrical, mechanical as-built plans as required by the Engineering Office of the Makati City Hall.
2. Rehabilitation of smoke detectors
3. Upgrading and rehabilitation of electrical system and switches of all package type air-condition units
4. Rehabilitation of breakers complete with magnetic contactor, relays, high and low pressure gauges.
5. Waterproofing of drain pipe located at the back parking area and de-clogging of main sanitary pipes.
6. Repair/cleaning and replace of damaged drain pipe and repair of rubber hose and installation of PVC for sump pump located at the basement area.

Power and water utilization were maintained at the same consumption levels. The rise in the cost of utilities was mainly due to the increase in basic utility rates.

Continuing cost reduction and preventive maintenance programs have been implemented by the Division in cooperation with the building tenants.

The Makati Municipal Building Inspection team audited the Chemphil Building on March 25, 2009 and gave a favorable rating without major violations. Building management and its operating staff have done its best efforts to sustain or, when possible, upgrade its standard of service to its tenants.

Management Support Services Organization

In 2009, the Management Support Services Organization (MSSO) continued to provide support services to the Chemphil Group. Through its Management Control and Information Systems Services Division (MCISS), MSSO ensures that systems comply with business and regulatory requirements.

MCISS has been able to meet the increasing demand for services in spite of its limited resources. A goal has been to continually improve and polish existing application systems. Program changes were made to the Payroll and Disbursement Systems to conform to the new revenue regulations of the BIR. New reports were added to the Spares and Supplies Inventory System (SSIS) to further aid users in the analysis of information. In addition, other computerized systems were updated to incorporate some changes in policies and procedures. Also, several ad hoc reports, customized MS Excel templates, data download facilities and enhanced query reports were developed to assist users in their analysis and simplify their work.

In October 2009, Typhoon *Ondoy* temporarily stalled the operations at the Pasig Plant and damaged about 35% of its IT hardware infrastructure. Immediately after the onslaught, computers and peripherals, which were submerged in water, were replaced with spare units from Makati. MIS reconstructed the computers and restored the data and systems.

Despite budget cuts and delayed spending, the network infrastructure was rehabilitated following the upgrade of its mail and application servers last year. In order to improve the network performance and lower the cost of maintenance, the following projects were implemented:

1. Replacement of Internet / Proxy server and switches
2. Upgrade of security software (Firewall)
3. Installation WIFI zone on the 5th and 7th floors of Makati Bldg.
4. Upgrade of Windows operating systems and Office productivity tools (first phase of implementation)
5. Transfer of Internet service provider from PLDT to Infocom
6. Update of the Chemphil Group website

MCISS is still focused on maximizing the utilization of existing resources and improve its services. Cost-cutting measures have been established and observed to lower the costs of doing business.

BUSINESS OUTLOOK FOR 2010

CAWC, Inc.

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.

LMG Chemicals Corp.

In 2010, Management of LMG has decided to resume its trading activities. The prospects are good since prospective customers have been identified. The products for trading are currently being tested by prospective customers.

Chemphil Manufacturing Corp.

The year 2010 is going to be quite challenging for CMC but hopefully better than 2009. Commodity prices, including that of sulfur and sulfuric acid, are expected to stabilize. CMC will also be better prepared for unexpected calamities.

Acid sales are expected to increase with the improvements that the Company is seeing in the economy. It is anticipated that the sluggish market for acid to turn around through increased trading activities and the recovery of the fertilizer industry. Tolling services will continue to play a major part in the operations. The customers which contracted CMC to toll sulfur for them last year are expected to resume and increase their tolling activities in 2010.

The local and export sales of Detergent Sulfur may also resume once sulfur prices are more competitive.

The price of Sulfur is a key issue that must be focused on because it is the basic raw material in the production of sulfuric acid. Competitive and attractive sulfur price is the key to CMC's success in 2010. CMC is expected to purchase new sulfur inventories in 2010 from local and foreign sources.

As has been stated, it is imperative for CMC to source well-priced raw material. However, it is equally important that CMC runs its plant as efficiently as possible. This, coupled with increased selling activities due to the improvement of the economy, is expected to result in 2010 being a better year for CMC. It is a challenge that Management is taking head on with the hope that CMC ends the year on a positive note.

Kemwater Phils. Corp.

KPC does not expect volume to increase much in 2010. Therefore, being able to obtain cheaper raw materials will be the key to its success this year. Market indications already show that sulfuric acid prices for KPC may improve. It is hoped that other raw material prices follow suit.

Profitability will also remain to be the biggest challenge as competition remains to be very aggressive. Thus, KPC will counter this by making drastic changes in production processes that will result in lower production costs, enabling KPC to provide more competitive pricing.

KPC will also be more active in promoting specialty products as applied in water and wastewater treatment as well as by other new industries. This is in line with the plan of water utilities to use coagulants other than alum.

KPC's goal is to become a total provider of water treatment chemicals and not just a manufacturer of alum sulfate.

Statement of Management's
Responsibility for Financial Statement

The Management of ***Chemical Industries of the Philippines, 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	**JOSE RICARDO C. GARCIA**
President and Chief Executive Officer	Treasurer

BOARD AUDIT COMMITTEE REPORT

The Stockholders and the Board of Directors
Chemical Industries of the Philippines, Inc.

In compliance with the requirements of the SEC Memorandum Circular No. 2, the Board Audit Committee, in coordination with the Corporate Governance-Compliance Management Committee of the Company, would like to report the accomplishments of the Committee for the year 2009, to wit:

1. The Committee has reviewed the financial reports prepared by SyCip Gorres Velayo & Co., the approved auditors of the Company. The BAC members recognized that the audited financial statements prepared were in accordance with the Philippine Financial Reporting Standards;
2. The Committee has reviewed the accomplishments report submitted by the Company's Internal Auditor. The BAC members also took cognizance of the accomplishments of the Corporate Governance-Compliance Management Committee in regard to internal control and legal compliance; and
3. The attendance of the Company's Board of Directors to the Board Meetings held in 2008 was duly reported to SEC in a Certification submitted on 05 January 2009.

Overall, the Board Audit Committee finds that the Company has complied with the principles of good governance.

JESUS N. ALCORDO
Chairman

AUGUSTO P. NILO
Member

EUSEBIO M. GARCIA, JR.
Member

Statement of Management's Responsibility for Financial Statement

The Management of ***Chemical Industries of the Philippines, 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	**JOSE RICARDO C. GARCIA**
President and Chief Executive Officer	Treasurer

Chemical Industries of the Philippines, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2009 and 2008
and Years Ended December 31, 2009, 2008 and 2007

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

SGVMC310453

COVER SHEET

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SEC Registration Number

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC. AND SUBSIDIARIES

(Company's Full Name)

Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City

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

Alexandra G. Garcia

(Contact Person)

818-8711

(Company Telephone Number)

1 2	**3 1**
Month	*Day*

(Calendar Year)

A A C F S

(Form Type)

Month	*Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

Not Applicable	**Not Applicable**
Domestic	Foreign

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chemical Industries of the Philippines, Inc.

We have audited the accompanying financial statements of Chemical Industries of the Philippines, Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009, 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.

SGVMC310453

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Chemical Industries of the Philippines, Inc. and subsidiaries as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

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

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱107,358,943**	₱57,157,030
Receivables (Note 6)	**103,349,720**	140,779,931
Inventories (Notes 7 and 15)	**63,806,081**	144,704,923
Due from related parties (Note 15)	**280,018,862**	320,084,062
Other current assets (Note 8)	**54,772,084**	54,731,695
	609,305,690	717,457,641
Investment in an associate held for sale (Note 9)	**12,158,468**	12,158,468
Total Current Assets	**621,464,158**	729,616,109
Noncurrent Assets		
Property, plant and equipment (Note 11)		
At cost	**65,141,225**	103,645,103
At revalued amounts	**908,257,089**	908,257,089
Deferred income tax assets (Note 22)	**28,148,158**	36,232,416
Other noncurrent assets (Note 12)	**67,453,889**	52,130,978
Total Noncurrent Assets	**1,069,000,361**	1,100,265,586
TOTAL ASSETS	**₱1,690,464,519**	₱1,829,881,695
LIABILITIES AND EQUITY		
Current Liabilities		
Notes payable (Note 13)	**₱4,000,000**	₱4,000,000
Accounts payable and accrued expenses (Note 14)	**139,480,370**	161,250,226
Advances from sale of investment (Note 8)	**16,207,001**	–
Liabilities under letters of credit and trust receipts (Note 7)	**64,989,183**	71,109,511
Income tax payable	**–**	324,631
Due to related parties (Note 15)	**21,939,111**	21,732,120
Total Current Liabilities	**246,615,665**	258,416,488
Noncurrent Liabilities		
Accrued retirement benefits (Note 20)	**11,998,087**	21,795,304
Deferred income tax liabilities (Note 22)	**174,814,447**	174,686,074
Total Noncurrent Liabilities	**186,812,534**	196,481,378
Total Liabilities	**433,428,199**	454,897,866
Equity		
Equity attributable to the Parent Company stockholders:		
Capital stock - ₱10 par value		
Authorized - 19,000,000 shares		
Issued - 10,296,688 shares (held by 24 equity holders in 2009 and 2008)	**102,966,880**	102,966,880
Additional paid-in capital	**16,621,243**	16,621,243
Net changes in fair values of available-for-sale financial assets, net of related deferred income tax (Note 12)	**5,185,775**	4,046,654
Revaluation increment in land, net of related deferred income tax (Notes 11 and 16)	**405,569,060**	405,569,060
Retained earnings (Note 16)	**490,707,246**	541,215,255
	1,021,050,204	1,070,419,092
Less cost of 87 shares held in treasury	**870**	870
	1,021,049,334	1,070,418,222
Minority interests	**235,986,986**	304,565,607
Total Equity	**1,257,036,320**	1,374,983,829
TOTAL LIABILITIES AND EQUITY	**₱1,690,464,519**	₱1,829,881,695

See accompanying Notes to Consolidated Financial Statements.

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUE			
Net sales (Note 15)	**₱335,022,835**	₱510,647,064	₱408,737,952
Rental (Note 15)	**5,255,598**	5,875,861	4,933,932
	340,278,433	516,522,925	413,671,884
COST OF SALES AND SERVICES (Notes 15 and 17)	**343,963,203**	409,252,849	414,351,352
GROSS PROFIT (LOSS)	**(3,684,770)**	107,270,076	(679,468)
OTHER INCOME (EXPENSE)			
Operating expenses (Note 18)	**(62,130,462)**	(125,547,471)	(70,350,455)
Interest expense (Note 19)	**(8,034,761)**	(11,686,252)	(15,101,960)
Other income (Note 19)	**22,443,619**	119,907,529	28,042,299
INCOME (LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS	**(51,406,374)**	89,943,882	(58,089,584)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 22)			
Current	**1,554,936**	32,990,799	1,552,559
Deferred	**8,084,256**	5,954,830	(2,448,933)
	9,639,192	38,945,629	(896,374)
INCOME (LOSS) FROM CONTINUING OPERATION	**(61,045,566)**	50,998,253	(57,193,210)
INCOME FROM DISCONTINUED OPERATION (Note 2)	**–**	269,282,207	25,971,214
NET INCOME (LOSS)	**(61,045,566)**	320,280,460	(31,221,996)
OTHER COMPREHENSIVE INCOME			
Changes in fair values of available-for-sale financial assets (Note 12)	**976,625**	3,944,621	5,677,529
Impairment of available-for-sale financial assets	**162,496**	–	–
Realization of gain on sale of shares of stock (Note 15)	**–**	11,432,500	–
Effect of changes on applicable tax rate in revaluation increment in land (Notes 11 and 22)	**–**	119,248,260	–
	1,139,121	134,625,381	5,677,529
TOTAL COMPREHENSIVE INCOME	**(₱59,906,445)**	₱454,905,841	(₱25,544,467)
Net income (loss) attributable to:			
Equity holdings of the Parent	**(₱50,508,009)**	₱239,066,758	(₱36,415,077)
Minority interests	**(10,537,557)**	81,213,702	5,193,081
	(₱61,045,566)	₱320,280,460	(₱31,221,996)
EARNINGS (LOSS) PER SHARE (Note 21)			
Basic / diluted, for net income attributable to equity holdings of the parent	**(₱4.905)**	₱23.218	(₱3.536)
Basic / diluted, for net income from continuing operation attributable to equity holdings of the parent	**(₱4.905)**	₱3.884	(₱5.401)

See accompanying Notes to Consolidated Financial Statements.

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CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Equity Attributable to the Parent Company Stockholders								
	Capital Stock	Additional Paid-in Capital	Net Changes in Fair Values of Available-for-Sale Financial Assets	Revaluation Increment in Land	Retained Earnings (Note 16)	Treasury Stock	Total	Minority Interests	Total Equity
BALANCES AT DECEMBER 31, 2006	**₱102,966,880**	**₱16,621,243**	**₱12,210,000**	**₱439,528,572**	**₱256,137,806**	**(₱870)**	**₱827,463,631**	**₱220,558,824**	**₱1,048,022,455**
Total comprehensive income (loss) for the year	–	–	5,677,529	–	(36,415,077)	–	(30,737,548)	5,193,081	(25,544,467)
BALANCES AT DECEMBER 31, 2007	**102,966,880**	**16,621,243**	**17,887,529**	**439,528,572**	**219,722,729**	**(870)**	**796,726,083**	**225,751,905**	**1,022,477,988**
Total comprehensive income (loss) for the year	–	–	(13,840,875)	119,169,308	268,363,706	–	373,692,139	81,213,702	454,905,841
Transfer of revaluation increment to retained earnings through sale	–	–	–	(153,128,820)	153,128,820	–	–	–	–
Dividends declared (Note 16)	–	–	–	–	(100,000,000)	–	(100,000,000)	(2,400,000)	(102,400,000)
BALANCES AT DECEMBER 31, 2008	**102,966,880**	**16,621,243**	**4,046,654**	**405,569,060**	**541,215,255**	**(870)**	**1,070,418,222**	**304,565,607**	**1,374,983,829**
Total comprehensive income (loss) for the year	–	–	1,139,121	–	(50,508,009)	–	(49,368,888)	(10,537,557)	(59,906,445)
Dividends declared (Note 16)	–	–	–	–	–	–	–	(58,041,064)	(58,041,064)
BALANCES AT DECEMBER 31, 2009	**₱102,966,880**	**₱16,621,243**	**₱5,185,775**	**₱405,569,060**	**₱490,707,246**	**(₱870)**	**₱1,021,049,334**	**₱235,986,986**	**₱1,257,036,320**

See accompanying Notes to Consolidated Financial Statements.

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax from continuing operations	**(₱51,406,374)**	₱89,943,882	(₱58,089,584)
Adjustments for:			
Depreciation (Notes 11, 17 and 18)	**41,063,619**	43,830,869	48,752,561
Interest expense	**8,034,762**	11,686,252	15,101,960
Provision for impairment of available-for-sale financial asset	**162,496**	387,500	–
Interest income (Note 19)	**(2,802,030)**	(2,355,367)	(2,300,435)
Unrealized foreign exchange gain	**(1,288,911)**	7,989,153	(8,937,799)
Gain on sale of property, plant and equipment and investment properties (Notes 12 and 19)	**(492,725)**	(113,877,627)	(509,490)
Equity in net earnings of an associate (Notes 10 and 19)	**–**	913,845	(3,072,212)
Provision for impairment of assets (Note 18)	**–**	22,178,035	–
Provision for doubtful accounts and inventory obsolescence (Notes 17 and 18)	**–**	44,140,536	3,938,445
Proceeds from insurance company	**–**	–	(10,206,170)
Amortization of deferred license fee	**–**	–	2,549,475
Operating income (loss) before working capital changes	**(6,729,163)**	104,837,078	(12,773,249)
Decrease (increase) in:			
Receivables	**37,430,211**	(49,308,971)	11,328,232
Inventories	**80,898,842**	(64,429,464)	(29,157,837)
Due from related parties	**40,065,200**	(88,373,150)	(7,749,660)
Other current assets	**1,435,109**	7,728,069	(2,850,045)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(21,427,830)**	(2,093,563)	(1,376,811)
Liabilities under letters of credit and trust receipts	**(4,831,417)**	(17,834,161)	15,377,382
Due to related parties	**206,991**	90,344,590	12,806,039
Other noncurrent liability	**–**	–	(320,591)
Accrued retirement benefits	**(9,797,217)**	(17,465,646)	(2,004,178)
Net cash from (used in) operations	**117,250,726**	(36,595,218)	(16,720,718)
Interest paid	**(8,376,786)**	(12,772,395)	(15,039,857)
Interest received	**2,802,030**	2,410,312	2,300,435
Income taxes paid, including creditable withholding and final tax	**(3,081,675)**	(18,935,633)	(346,307)
Net cash flows from (used in) operating activities	**108,594,295**	(65,892,934)	(29,806,447)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 11)	**(16,608,952)**	(3,131,370)	(7,967,728)
Proceeds from sale of property, plant and equipment and investment property (Note 12)	**1,367,496**	110,615,301	1,993,974
Purchase of investments in shares of stock	**–**	(187,500)	–
Proceeds from time deposit	**(498,828)**	1,184,005	–
Advance payment received from sale of investment	**16,207,001**	–	–
Additions to investment in shares of stock	**(600,000)**	–	–
Increase in other noncurrent assets	**(218,035)**	(541,122)	(661,727)
Advances to stockholders (Note 15)	**(58,041,064)**	(309,505,231)	–
Disposals of other noncurrent assets	**–**	–	696,143
Dividends received (Note 9)	**–**	–	2,940,000
Net cash flows used in investing activities	**(58,392,382)**	(201,565,917)	(2,999,338)

(Forward)

	For Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of notes payable	**₱–**	₱4,000,000	₱8,166,840
Payments of:			
Notes payable	**–**	(61,816,840)	–
Liabilities under letters of credit and trust receipts	**–**	(3,249,467)	–
Dividends paid (Note 16)	**–**	(87,268,444)	–
Net cash flows from (used in) financing activities	**–**	(148,334,751)	8,166,840
NET CASH FLOWS FROM DISCONTINUED OPERATION (Note 2)	**–**	460,505,268	443,717
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**50,201,913**	44,711,666	(24,195,228)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**57,157,030**	12,445,364	36,640,592
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱107,358,943**	₱57,157,030	₱12,445,364

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information
Chemical Industries of the Philippines, Inc. (the Parent Company) and its subsidiaries (collectively referred to as the Group) are incorporated in the Philippines and are primarily engaged in the manufacture and distribution of industrial chemicals and leasing of office space to related parties. The registered office address of the Group is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

Organization
LMG Chemicals Corp. (LMG) is a 73.93%-owned subsidiary of the Parent Company and has the following domestic subsidiaries: Chemphil Manufacturing Corp., (CMC) and Kemwater Phil. Corp. (KPC), subsidiaries until December 2009, and LMG Land Development Corporation (Landco), subsidiary until August 2008.

In 2009, LMG's investments in CMC and KPC were declared as property dividend to the stockholders of LMG. As a consequence, CMC and KPC became direct subsidiaries of the Parent Company as of December 18, 2009, with the Parent Company owning 73.93% in CMC and 44.36% in KPC in 2009.

CMC is engaged, as an exclusive agent, in the sale and distribution of liquid caustic soda and other industrial chemicals.

KPC is engaged in the manufacture and trade of chemicals such as water and sewage treatment chemicals, inorganic coagulants for the paper industry and ground alum for the detergent industry.

Landco is engaged to own, use, improve, develop, subdivide, sell, exchange, lease and hold for investment or otherwise, real estate of all kinds, including buildings, houses, apartments and other structures. Landco was a subsidiary up to August 15, 2008 only (see Note 2).

CAWC, Inc. (CAWC), a 99.67%-owned subsidiary of the Parent Company, is primarily engaged in the manufacture and sale of industrial chemicals.

Perfumeria Española Corp. (PEC), a 49%-owned associate of the Parent Company, is engaged in the marketing and distribution of soap and beauty products through a local distributor. As of December 31, 2009 and 2008, this investment is classified as held for sale (see Note 8).

Status of Operations and Restructuring
The accompanying consolidated financial statements were prepared under the going concern assumption. For the years ended December 31, 2009, 2008 and 2007, the Group incurred net income (losses) amounting to (₱61.05 million), ₱320.28 million and (₱31.22 million), respectively. Net cash flows from (used in) operating activities amounted to ₱81.25 million, (₱65.89 million) and (₱29.81 million) in 2009, 2008 and 2007, respectively.

The Group's total equity amounted to ₱1.26 billion and ₱1.37 billion as of December 31, 2009 and 2008 with retained earnings at ₱490.71 million and ₱541.22 million as of the same dates.

Currently, the Group is in continuous pursuit of restructuring its business to improve its operating results.

CAWC

In October 2005, CAWC announced its temporary shutdown in order to stop the massive losses being incurred. CAWC was adversely and critically affected by the surge of Sodium Tri-Polyphosphates (STPP) imports from various countries. Moreover, CAWC 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, CAWC received the order from the DTI providing provisional Safeguard Measure in the amount of ₱14.15 per kg. This amount was 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, CAWC entered into a memorandum of agreement with the Soap and Detergent Association of the Philippines (SDAP). SDAP members have agreed to provide a ₱12.00 million support for CAWC to undertake and implement its cost savings measures. Under the memorandum of agreement, SDAP will encourage its members to purchase STPP from CAWC.

CAWC’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. CAWC 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 above conditions indicate the existence of a material uncertainty which may cast significant doubt about CAWC’s ability to continue as a going concern.

LMG, CMC, KPC and Landco

In line with the Group restructuring, certain net assets of LMG relating to the manufacture of sulfuric acid products were transferred to CMC in 2007. With the transfer of the manufacturing facilities from LMG, CMC’s focus has shifted to manufacturing, with its current trading operations acting as support activity only.

Also in 2007, certain parcels of land, storage tanks and net assets were transferred by LMG to Landco. With the transfer of these assets, the existing lease agreements attached to these properties were accordingly transferred to Landco subject to the lessees’ approval. Landco started to deal directly with these lessees in January 2008.

In August 15, 2008, LMG sold its investment in shares of stock in Landco to a third party. Gain on disposal of investment in shares of stock in Landco amounted to ₱202.75 million (see Note 2).

On October 8, 2009, LMG's Board of Director (BOD) declared LMG's investments in shares of CMC and KPC as property dividends (see Note 16). At the same BOD meeting, LMG's BOD approved the assignment of LMG's receivables from Chemoil and CMC amounting to ₱32,818,488 and ₱56,660,420, respectively, to its shareholders in proportion to their shareholdings with LMG.

As a result of the above divestments, LMG's operations will shift to trading.

The ultimate outcome of Group's actions and programs as discussed above cannot be presently determined. The accompanying consolidated financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Authorization for Issuance of the Financial Statements

The consolidated financial statements of the Group as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, were authorized for issue by the BOD on April 14, 2010.

2. Discontinued Operation

In March 2008, LMG's BOD approved and adopted a resolution to sell its entire shareholdings in Landco (formerly tank farm operation of LMG in 2007 and 2006) to a third party that offered the most advantageous and beneficial price, terms and conditions to LMG. On August 15, 2008, the investment of shares in stock in Landco was sold to a third party. With the sale of the investment in shares of stock in Landco, LMG realized the revaluation increment pertaining to the parcels of land transferred to Landco amounting to ₱153.13 million, net of deferred income tax liability amounting to ₱82.45 million. The carrying revalued amount of the parcels of land sold amounted to ₱240.22 million.

Effective August 15, 2008, Landco ceased to be a subsidiary of LMG.

Statements of comprehensive income of Landco for the 33-week period ended August 15, 2008 and the year ended December 31, 2007 are shown as follows:

	2008	2007
REVENUE		
Tank rental	₱35,185,658	₱46,572,627
Throughput	4,117,680	3,009,542
	39,303,338	49,582,169
COST OF SERVICES	11,985,616	18,957,735
GROSS PROFIT	27,317,722	30,624,434
General and administrative expenses	(27,492,907)	(6,688,829)
Interest expense	(53)	(7,923)
Interest income	176,801	1,000
Income from sale of Landco net assets	202,751,515	–
Other income	1,852,372	9,307,038
INCOME BEFORE INCOME TAX	204,605,450	33,235,720
PROVISION FOR (BENEFIT) FROM INCOME TAX	(64,676,757)	7,264,506
NET INCOME	₱269,282,207	₱25,971,214

Assets and liabilities of Landco as of December 31, 2007 are as follows:

ASSETS	
Receivable	₱2,668,576
Inventories	403,590
Property, plant and equipment (Note 11)	
At cost	31,225,005
At revalued amounts	240,220,499
TOTAL ASSETS	₱274,517,670
LIABILITIES	
Accounts payable and accrued expenses	₱9,679,186
Deferred income tax liabilities	82,453,979
TOTAL LIABILITIES	₱92,133,165

Cash flows of Landco for the 33-week period ended August 15, 2008 and for the year ended December 31, 2007 are as follows:

	2008	2007
Net cash from (used in):		
Operating activities	(₱17,113,849)	₱1,139,860
Investing activities	477,619,117	(696,143)
Net cash inflow	₱460,505,268	₱443,717

3. **Summary of Significant Accounting and Financial Reporting Policies**

<u>Basis of Preparation and Statement of Compliance</u>
The consolidated financial statements of the Group have been prepared on historical cost basis, except for available-for-sale financial assets that have been measured at fair value (see Note 12) and parcels of land classified as property, plant and equipment, which are carried at revalued amounts (see Note 11). The consolidated financial statements are presented in Philippine Peso (Peso), which is the Group's functional and presentation currency and all values are rounded to the nearest peso, except when otherwise indicated.

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

<u>Basis of Consolidation</u>
The consolidated financial statements include the accounts of the Parent Company and its subsidiaries as of December 31 of each year. The financial statements of the subsidiaries are prepared for the same reporting year as those of the Parent Company using uniform accounting policies. These subsidiaries and the effective percentages of ownership of the Parent Company are as follows:

	Percentage of Ownership (%)		
Subsidiaries	**2009**	2008	2007
CAWC	**99.67**	99.67	99.67
LMG	**73.93**	73.93	73.93
CMC*	**73.93**	73.93	73.93

(Forward)

	Percentage of Ownership (%)		
Subsidiaries	**2009**	2008	2007
KPC*	**44.36**	44.36	44.36
Landco**	**–**	–	73.93

* *Prior to December 18, 2009, CMC and KPC were subsidiaries of LMG, with LMG owning 100% and 60%, respectively. These subsidiaries were declared as property dividend to LMG stockholders in 2009. Subsequent to December 18, 2009, CMC and KPC became direct subsidiaries of the Parent Company.*

** *Landco was sold to a third party in August 2008 (see Note 2).*

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which the control is transferred out of the Group. Control is normally evidenced when the Parent Company owns, either directly or indirectly, more than 50% of the voting rights of the subsidiary's share in capital and/or is able to govern the financial and operating policies of the subsidiary so as to benefit from its activities.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany transactions and balances, including intercompany profits and unrealized gains and losses are eliminated in full.

The equity and net income attributable to minority interests of the consolidated subsidiaries are shown separately in the consolidated statements of financial position and consolidated statements of comprehensive income, respectively.

<u>Minority Interest</u>
Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Parent Company. If losses applicable to the minority interest in a subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated with all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

<u>Adoption of New and Revised Accounting Standards and Interpretations</u>
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new Philippine Accounting Standards (PAS), Amendments and 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 Group's consolidated financial statements. They did, however, give rise to additional disclosures including, in some cases, revision to accounting policies.

- Amendments to Philippine Accounting Standard (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 Group has elected to present comprehensive income in a single statement. The Group also adopted the title "statement of financial position" to replace "balance sheet" as brought about by the adoption of the amendments to PAS 1.

- Amendments to PAS 18, *Revenue*
  The amendment 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:

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

  The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. There was no change in the Group's revenue recognition policy.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements*
  The amendments to PFRS 1 allowed an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The revision to PAS 27 was applied prospectively. The new requirement did not affect the Group's consolidated financial statements.

- Revised PAS 23, *Borrowing Costs*
  The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. In accordance with the transitional requirements in the standard, the Group will adopt this as a prospective change. The Group's policy is capitalize borrowing cost even before revision of PAS 23. This amendment has no impact on the Group since the Group already capitalizes borrowing costs.

- Amendment to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  Amendments to PAS 27 has changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
  These amendments identify, among others, certain specified features, the presence of all of which will make puttable financial instruments to be classified as equity.

- Amendment 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 23 and 24.

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of comprehensive income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. Operating segments identified under PFRS 8 and PAS 14 are the same. PFRS 8 disclosures are shown in Note 27. The amendment did not affect the Group's operating segments disclosures.

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

- Amendment to PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
- 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 PFRS
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 improvements to the following standards did not have an impact on the Group's consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*
- PFRS 5, *Non-current 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 Balance Sheet*
- 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 Group will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the consolidated 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 Noncash Assets to Owners*
  This Interpretation covers accounting for all nonreciprocal 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.

Improvements to PFRS
In April 2009, the IASB issued Improvements to PFRS. The Group 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, *Agreements 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 in banks earn interest at the respective bank deposit rates. 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 that are subject to an insignificant risk of change in value.

Financial Instruments
The Group recognizes a financial asset or a financial liability in the consolidated statements 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.

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. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

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 asset or financial liability at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting period.

As of December 31, 2009 and 2008, the Group has no financial instrument classified as fair value through profit or loss or held-to-maturity investments.

a. Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other financial assets held for trading', designated as 'available-for-sale investments' or 'financial assets designated at fair value through profit or loss'.

Loans and receivables are carried at cost using effective interest rate (EIR) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. 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 Group's cash in bank and cash equivalents, receivables, due from related parties, other current assets and long-term receivables (see Note 24).

b. Available-for-sale financial assets

Available-for-sale financial assets are nonderivatives that are either designated in this category or do not qualify to be classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include equity investments, money market papers and other debt instruments.

The unrealized gains and losses arising from the fair valuation of available-for-sale financial assets, except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest are excluded, net of tax, from reported earnings, are reported in the consolidated statement of comprehensive income. These changes in fair values are recognized in other comprehensive income until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the consolidated statements of comprehensive income.

Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statements of comprehensive income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within 12 months from the consolidated reporting period.

The Group has designated its investments in shares of stock and proprietary shares as available-for-sale financial assets as of December 31, 2009 and 2008 (see Note 24).

c. Other financial liabilities

This category pertains to financial liabilities that are not held for trading or are not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss presented in the consolidated statements of comprehensive income over the period of the borrowing using the effective interest rate method.

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

The Group has designated its notes payable, accounts payable and accrued expenses, liabilities under letters of credit and trust receipts and due to related parties as other financial liabilities as of December 31, 2009 and 2008 (see Note 24).

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

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

b. Financial liabilities

A financial liability is derecognized when the obligation under the 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 carrying value liability and the recognition of a new liability at fair value and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Group assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective criteria of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence includes observable data that comes to the attention of the Group 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.

a. Assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. 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.

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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, past due status, and terms.

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 by adjusting the allowance account. The amount of the reversal is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral, if any, has been realized or has been transferred to the Group. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance for impairment losses account. If a future write-off is later recovered, the recovery is recognized in the consolidated statements of income under "Other income" account. Any subsequent reversal of an impairment loss is recognized in profit or loss under "Provision for (reversal of) impairment losses" account, to the extent that the carrying value of the asset does not exceed its amortized cost at reversal date.

b. Assets carried at cost

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

c. Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group is impaired.

If an available-for-sale financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of income, is transferred from equity to the profit or loss. Reversals in respect of equity instruments classified as available-for-sale financial assets are not recognized in profit or loss.

In the case of debt instruments classified as available-for-sale financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

<u>'Day 1' Profit or Loss</u>
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is

not observable, the differences between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day-1' profit or loss amount.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 consolidated statements of financial position.

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

Raw materials, semi-processed goods, merchandise on hand, spare parts and factory supplies	-	Cost is 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

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion, marketing and distribution.

Other Current Assets
Other current assets are expensed paid in advance and recorded as asset before they are utilized. This account comprises prepaid taxes, input taxes and other prepaid items. Prepaid taxes are deducted from income tax payable on the same year, the revenue was recognized and other prepaid items are apportioned over the period covered by the payment and charged to the appro0rpiate accounts in profit or loss when incurred. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise these are classified as other noncurrent assets.

Value-added Tax
Revenues, expenses, assets and liabilities are recognized net of the amount of value-added tax, except where the value-added tax incurred on a purchase of assets or series is not recoverable from the taxation authority, in which case the value-added tax is recognized as part of the cost of the acquisition of the asset or as part of the expense item as applicable. The net amount of value-added tax recoverable from or payable to, the taxation authority is included as part of Other current assets or Accounts payable and accrued expenses in the Group's consolidated statement of financial position.

Investment in an Associate
The Parent Company carries its investment in an associate, where it holds 20% or more stock ownership interest or where it has the ability to significantly influence its operating and financial affairs, at cost plus post-acquisition changes in the Parent Company's share of the net assets of the associate, less any impairment in value. The carrying amount of investment in an associate is increased or decreased to recognize the Parent Company's share of the profits or losses of the

associate after the date of acquisition. Dividends received from associate reduce the carrying amount of the investment. Adjustments are made to the carrying amount for changes in the Parent Company's proportionate interest in the associate arising from changes in the associate's equity that have not been included in profit or loss. Such changes can include proportionate adjustments arising from the revaluation of property, plant and equipment including land.

If the Parent Company's share in the cumulative losses of the associate equals or exceeds the carrying amount of the investment, the Parent Company ordinarily discontinues recognizing its share of further losses. The investment is reported at zero value. Additional losses are provided for to the extent that the Parent Company has incurred obligations or made payments on behalf of the associate to satisfy the obligations of the associate that the Parent Company has guaranteed or otherwise committed. If the associate subsequently reports profits, the Parent Company resumes recognizing its share of those profits only after its share of the profits equals the share of net losses not recognized.

When an investment in an associate is sold or disposed of, the cost and the related accumulated equity in earnings or losses and share in any recognized revaluation increment in property of the associate and any impairment in value are removed from the accounts and any resulting gain or loss is taken to profit or loss.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, except for parcels of land which are carried at revalued amounts as determined by an independent firm of appraisers.

The net appraisal increment from revaluation, net of deferred income tax, is shown as "Revaluation increment in land" account under the equity section of the consolidated statements 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 end of 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 income 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.

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

The initial cost of property, plant and equipment consists 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 income 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.

Depreciation commences when the asset is ready and available for its intended use. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Land improvements	5-10
Buildings, structures and improvements	8-30
Machinery and equipment	3-10
Transportation equipment	3-5
Office furniture and fixtures	1-3

The residual values, useful lives and depreciation method are periodically reviewed and adjusted if appropriate at each reporting period.

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

Construction in progress represents property and equipment under construction and 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 become available for use.

Investment Property

Investment property, which is included under other noncurrent assets in the consolidated statements of financial position, pertains to a parcel of land not used in operations and is stated at cost less any impairment in value. This is used by the Group to earn rentals under operating lease arrangements or for capital appreciation or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or sale in the ordinary course of business.

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

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

Assets Held for Sale

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and net selling price. Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use.

This condition is regarded as met, only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued Operations
A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

In the profit or loss of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Group retains a non-controlling interest in the asset after the sale. The resulting profit or loss (after taxes) is reported separately in the profit or loss. Property, plant and equipment once classified as held for sale are not depreciated.

Impairment of Nonfinancial Assets
The carrying values of property, plant and equipment and investment property 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 net selling price 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 reflect 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 or 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 Group 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 a 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 Group, 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.

Treasury Shares
The Parent Company's common shares which are reacquired and recorded at cost (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Parent Company's common shares.

Retained Earnings
Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Dividend Distributions
Dividends on common shares are recognized as a liability and deducted from equity when approved by the shareholders of the Group. Dividends for the year that are approved after the end of the reporting period are dealt with as an event after the reporting period.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The Group has assessed its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and concluded that it is acting as principal in all arrangements.

Sales
Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. It is measured at fair value of the consideration received or receivable taking into account the amount of any sales discounts and allowances allowed by the Group.

Rental income
Rental income is recognized on a straight-line basis over the term of the lease.

Interest income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset. The Group's interest income pertains to cash in banks, cash equivalents, Meralco refund, unpaid rentals and advances from affiliates.

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

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

Other operating expenses
Other operating expenses constitute costs of administering the business are expensed as incurred.

Interest Expense
Interest expense is recognized in profit or loss as the interest accrues taking into account the effective yield on the related liability. The Group's interest expense pertains mainly to its notes payable and trust receipts.

Retirement Benefits Cost
Retirement benefits cost is actuarially computed using the projected unit credit method. 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 option to accelerate when significant changes to underlying assumptions occur. Retirement benefits cost includes current service cost, interest cost, expected return on 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 at 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 Group 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.

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

The net retirement asset recognized by the Group in respect of the defined benefit retirement plan is the lower of: (a) the present value of the defined benefit obligation at the reporting period less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement liability.

Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A re-assessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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

The determination whether a lease agreement is a finance or an operating lease is dependent on the retention or transfer of substantially all the risks and rewards incidental to the ownership of the leased asset. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

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

Group as lessor
Leases where the Group 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.

Borrowing Costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of fund.

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 of reporting period.

Deferred income tax
Deferred income tax is provided, using the balance sheet liability method on all 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 income liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carry forward benefits of unused tax credits from minimum corporate income tax (MCIT) over the 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 unused NOLCO can be utilized.

Deferred income tax assets and liabilities are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries and affiliates.

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 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 of 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 liabilities are offset if a legally enforceable right exists to set off the deferred income tax assets against the deferred 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. Outstanding 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 Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects 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 consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefit is probable.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares issued and outstanding after considering the retroactive effect, if any, of stock dividends declared during the year.

Diluted earnings (loss) per share is calculated by dividing the net income (loss) by the weighted average number of ordinary shares outstanding during the year and adjusted for the effects of all dilutive potential common shares, if any.

Events after the Reporting Period

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's asset-producing revenues are located in the Philippines (i.e., one geographical location).

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the consolidated 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 consolidated financial statements. While the Group 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.

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Group's functional currency
The Group, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Peso. It is the currency of the primary economic environment in which the Parent Company and its subsidiaries operate.

Classification of financial instruments
The Group 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 Group's consolidated statements of financial position.

Financial assets are classified as at FVPL, HTM investments, loans and receivables and AFS financial assets. Financial liabilities, on the other hand, are classified as at FVPL and other financial liabilities.

The Group determines the classification at initial recognition and re-evaluates this classification at every reporting period.

The carrying value of financial assets amounted to ₱243,520,201 and ₱227,695,856 and the carrying value of financial liabilities amounted to ₱406,427,625 and ₱252,677,857 as of December 31, 2009 and 2008, respectively (see Note 24).

Classification of investment held for sale and discontinued operations
In March 2008, the LMG's BOD approved and adopted a resolution to sell its entire shareholdings in Landco which handles the tankyard segment of the Group. Management considered the subsidiary to have met the criteria as discontinued operation and accordingly presented the results of Landco's operations as part of the discontinued operation in 2008 and 2007 (see Note 2).

In August 2008, the investment in shares of stock in Landco was sold to a third party (see Note 2).

In November 2008, the Parent Company's BOD approved the sale of its investment in an associate and therefore classified it as "Investment in an associate held for sale". The Parent Company's BOD considered that the associate met the criteria to be classified as held for sale.

Consolidation of KPC
KPC is considered a subsidiary of the Parent Company and therefore included in the consolidated accounts eventhough the Parent Company only owns 44.36% of KPC. The Parent Company is able to exercise control over KPC since it has the power to govern the financial and operating policies of KPC with majority representations in the BOD and control of KPC is by that board. The Parent Company also has the most number of ownership interest in KPC among the shareholders and therefore has the power to appoint or remove majority of the members of the BOD as well as the power to cast majority of the votes at the meetings of BOD.

Contingencies
a. The Parent Company and some subsidiaries have pending deficiency tax assessments covering certain years. Management believes that the ultimate outcome of these assessments, if any, would not materially affect the Group's financial position or results of operations.

b. Some subsidiaries are defendants in various court cases relating to claims for damages and labor claims. It is the opinion of the subsidiaries' management that settlement costs, if any, will not materially affect the subsidiaries' financial position and operating results.

Classification of leases
The Group classifies leases as finance or operating lease in accordance with the substance of the contractual agreement and the transfer of the risks and benefits incidental to the ownership of the leased item. Leases where management has determined that the risks and rewards related to the leased item are transferred to the Group are classified as finance lease. On the other hand, leases entered into by the Group where management has determined that the risks and rewards of the leased item are retained with the lessors are accounted for as operating leases. The Group has entered into property leases which are accounted for as operating leases.

Rent income amounted to ₱5,255,598, ₱5,875,861 and ₱4,933,932 in 2009, 2008 and 2007, respectively (see Note 15).

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 and uncertainty at the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year are discussed below.

Estimation of allowance for doubtful accounts
The Group maintains allowance for doubtful accounts based on the result of an individual assessment under PAS 39. Under the individual assessment, the Group is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. Receivables, net of allowance for doubtful accounts, amounted to ₱103,349,720 and ₱140,779,931 as of December 31, 2009 and 2008, respectively. Due from related parties, net of allowance for doubtful accounts, amounted to ₱280,018,862 and ₱320,084,062 as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts on receivables and due from related parties amounted to ₱31,717,176 and ₱31,875,176 as of December 31, 2009 and 2008, respectively (see Notes 6 and 15).

Estimation of provision for impairment of available-for-sale financial assets
The Group treats available-for-sale financial assets as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is ‘significant’ or ‘prolonged’ requires judgment.

The Group treats ‘significant’ generally as 30% or more of the original cost of investment and ‘prolonged’ as greater than one year. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Based on assessment management’s assessment, no impairment loss needs to be recognized in 2009, 2008 and 2007.

Determination of net realizable value of inventories
The Group’s estimates of the net realizable values of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The Group’s inventories as of December 31, 2009 and 2008 amounted to ₱63,806,081 and ₱144,704,923, respectively (see Note 7).

Revaluation of land
The Group’s parcels of land included in property and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The valuations of land are performed by professionally qualified independent appraisers. 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.

The resulting increase in the valuation of land, net of the related deferred income tax liability based on the latest valuation taken in 2007 is presented under “Revaluation increment in land” in the consolidated statements of financial position. The carrying value of land amounted to ₱908,257,089 both as of December 31, 2009 and 2008 (see Note 11).

Estimation of useful lives of property, plant and equipment
The Group estimates the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in 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 amounted to ₱65,141,225 and ₱103,645,103 as of December 31, 2009 and 2008, respectively. Total depreciation expense charged to operations amounted to ₱41,063,619 in 2009, ₱43,830,869 in 2008 and ₱48,752,561 in 2007 (see Notes 11, 17 and 18). The estimated useful lives of the Group’s depreciable assets are disclosed in Note 3.

Estimation of provision for impairment of nonfinancial assets
The Group determines whether its property, plant and equipment, investment properties and other nonfinancial assets are impaired when indicators exist. 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 Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows.

The carrying values of property, plant and equipment at cost amounted to ₱65,141,225 and ₱103,645,103 as of December 31, 2009 and 2008, respectively. In 2008, an impairment loss was recognized amounting to ₱39,342,735. Land, carried at revalued amount and also subject to impairment has a carrying value of ₱908,257,089 both as of December 31, 2009 and 2008. Investment property - land not used in operations at cost amounted to ₱10,363,446 both in 2009 and 2008. Based on management's assessment, no impairment was recognized on land (see Note 11).

Estimation of retirement benefits cost
The determination of the obligation and cost of retirement benefits depend on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 20 and include among others, discount rates, expected returns on plan asset and salary increase rates. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group 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 expense and obligations. Accrued retirement benefits amounted to ₱11,998,087 and ₱21,795,304 as of December 31, 2009 and 2008, respectively. Retirement expense charged to operations amounted to ₱8,203,023 in 2009, ₱12,045,460 in 2008 and ₱9,906,550 in 2007 (see Note 20).

Recognition of deferred income tax assets
The Group 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 future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Deferred income tax assets recognized amounted to ₱28,148,158 and ₱36,232,416 as of December 31, 2009 and 2008, respectively (see Note 22).

Provisions
The Group 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 Group. 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. No provision was recognized in 2009, 2008 and 2007.

5. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱8,130,393**	₱12,017,546
Short-term investments	**99,228,550**	45,139,484
	₱107,358,943	₱57,157,030

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at respective short-term deposit rates. Interest earned amounted to ₱2,634,489 and ₱1,150,218 in 2009 and 2008, respectively.

6. Receivables

	2009	2008
Trade	**₱41,550,053**	₱82,533,432
Receivable from Chemoil	**32,801,077**	–
Insurance claim receivable	**15,390,264**	–
Officers and employees	**172,850**	805,249
Current portion of receivable from MERALCO - net of deferred interest income (Note 12)	**2,385,285**	3,338,106
Others	**34,249,268**	77,460,221
	126,548,797	164,137,008
Less allowance for doubtful accounts	**23,199,077**	23,357,077
	₱103,349,720	₱140,779,931

On October 8, 2009, LMG's BOD approved the assignment of the outstanding receivable from Chemoil amounting to ₱44,367,750 to LMG's stockholders, in proportion to their shareholdings in LMG. As such, the Group recognized receivable from Chemoil amounting to ₱32,801,077 as of December 31, 2009.

Insurance claim receivable pertains to the claims of CAWC due to inventory loss covered by the insurance policy. Management believes that the receivable recognized will be recovered from the insurance company.

Other receivables mainly pertain to the remaining outstanding balance collectible from the sale of Parent Company's investment properties amounting to ₱9.6 million and advances to Phil. Indochem amounting to ₱13.1 million.

A reconciliation of the allowance for impairment losses, all relating to trade accounts receivable, is as follows:

	2009	2008
Beginning balances	**₱23,357,077**	₱9,206,014
Charge for the year (Note 18)	**–**	14,327,048
Recoveries - net (Note 18)	**(158,000)**	(108,785)
Disposal	**–**	(67,200)
Ending balances	**₱23,199,077**	₱23,357,077

As of December 31, 2009, total allowance for doubtful accounts pertain to past due accounts. There was no impairment of trade and other receivables classified as high grade or standard grade in 2009 (see Note 23).

Management's individual assessment of its receivables as at December 31, 2009 and 2008 resulted in the reversal of allowance for impairment loss of ₱158,000 and recognition of additional impairment loss of ₱14,327,048, respectively (see Note 18). There was no additional impairment loss in 2009.

7. **Inventories**

	2009			2008		
	At cost	**At NRV**	**At lower of cost and NRV**	At cost	At NRV	At lower of cost and NRV
Finished goods	**₱13,349,871**	**₱11,934,824**	**₱11,934,824**	₱34,312,217	₱29,680,563	₱29,680,563
Semi-processed goods	**100,762**	**100,762**	**100,762**	7,873,098	7,873,098	7,873,098
Merchandise on hand	**530,303**	**530,303**	**530,303**	1,234,593	1,234,593	1,234,593
Raw materials:						
On hand	**47,697,671**	**37,977,076**	**37,977,076**	89,150,931	88,236,981	88,236,981
In transit	**7,198**	**7,198**	**7,198**	439,161	439,161	439,161
Spare parts and factory supplies	**23,100,312**	**13,255,918**	**13,255,918**	39,477,034	17,240,527	17,240,527
	₱84,786,117	**₱63,806,081**	**₱63,806,081**	₱172,487,034	₱144,704,923	₱144,704,923

Under the terms of agreements covering liabilities under letters of credit and trust receipts, some inventories were released by the suppliers to the Group in trust for the banks. The Group 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 ₱64,989,183 and ₱71,109,511, respectively. Interest expense amounted to ₱6,624,371 in 2009 and ₱8,915,346 in 2008.

Movements in the allowance for inventory losses follow:

	2009	2008
Beginning balance	**₱27,782,111**	₱12,151,384
Provision for the year (Notes 17 and 18)	**1,331,465**	22,697,107
Write-offs	**(8,133,540)**	(7,066,380)
Ending balance	**₱20,980,036**	₱27,782,111

8. **Other Current Assets**

	2009	2008
Prepaid taxes	**₱46,603,146**	₱43,101,657
Input taxes	**3,371,017**	7,403,676
Prepaid expenses	**1,853,149**	1,429,345
Others	**2,944,772**	2,797,017
	₱54,772,084	₱54,731,695

9. **Investment in an Associate Held For Sale**

In 2008, Perfumeria Gal of Spain (GAL), 51% owner of PEC, decided to cease all its business activities in the Philippines and Asia to focus mainly on its business operations in Europe and in the United States. In GAL's special board meeting held in May 2008, GAL made an offer to the Parent Company to sell to Parent Company the entire 51% shareholdings in PEC and for Parent Company to exercise its right of first refusal. However, the Parent Company's BOD declined this offer. GAL's shares were then offered to a group of private business individuals who in return purchased 51% of PEC's in June 2008.

In November 2008, the Parent Company's BOD approved to sell the entire 49% of the Parent Company's shares in PEC to the same set of private business individuals subject to certain terms and conditions. Upon fulfilment of the said terms and conditions, PEC will cease to be an affiliate of the Parent Company.

Investment in PEC as of December 31, 2008 amounting to ₱12,158,468, which is the lower between its carrying value and net selling price less cost to sell, was presented as asset held for sale. Difference between the carrying value of the investment in PEC as of November 2008 and December 2008 was deemed insignificant.

In 2009, the Parent Company received from the buyer of PEC shares full payment amounting to ₱16,207,001. However, as of December 31, 2009, the deed of sale has not yet been executed.

10. Investment in an Associate

Movements in the balance of investment in an associate in 2008 are as follows:

Acquisition cost	₱10,803,306
Accumulated equity in net earnings:	
Balance at beginning of year	2,269,007
Equity in net loss during the year (Note 19)	(913,845)
Balance at end of year before reclassification	12,158,468
Reclassification to investment in an associate held for sale (Note 9)	(12,158,468)
Balance at end of year	₱–

The Group's investment in an associate accounted for under the equity method pertains to the Parent Company's 49% investment in PEC. The summarized financial information of PEC as of and for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Total assets	**₱44,038,416**	₱38,854,120
Total liabilities	**17,510,315**	13,995,352
Equity	**26,528,101**	24,858,768
Net income (loss)	**1,669,333**	(1,864,990)

PEC paid dividends amounting to ₱6,000,000 in 2007. The license agreements between PEC and GAL expired on November 30, 2008. In 2008, the carrying value of investment in PEC shares was reclassified and presented as "Investment in an associate held for sale" (see Note 9).

In 2009, PEC entered in a manufacturing and distribution agreement with GAL. Terms of the agreement are consistent with the expired license agreement in November 2008 (see Note 9).

11. Property, Plant and Equipment

	2009						
	Land Improvements	**Buildings, Structures and Improvements**	**Machinery and Equipment**	**Transportation Equipment**	**Office Furniture and Fixtures**	**Construction in Progress**	**Total**
At Cost:							
Cost							
Beginning balances	**₱21,676,397**	**₱195,955,142**	**₱775,158,174**	**₱29,859,270**	**₱50,940,158**	**₱1,546,527**	**₱1,075,135,668**
Additions	**–**	**–**	**12,328,866**	**191,964**	**890,771**	**3,197,351**	**16,608,952**
Disposals	**–**	**–**	**(1,570,814)**	**(215,000)**	**–**	**–**	**(1,785,814)**
Reclassifications	**–**	**–**	**(284,600,760)**	**–**	**33,659**	**–**	**(284,567,101)**
Ending balances	**21,676,397**	**195,955,142**	**501,315,466**	**29,836,234**	**51,864,588**	**4,743,878**	**805,391,705**
Accumulated Depreciation							
Beginning balances	**19,176,381**	**180,488,382**	**693,762,245**	**27,900,307**	**50,163,250**	**–**	**971,490,565**
Additions (Notes 16 and 17)	**808,296**	**7,676,548**	**31,168,371**	**999,772**	**410,632**	**–**	**41,063,619**
Disposals	**–**	**–**	**(868,223)**	**(214,999)**	**–**	**–**	**(1,083,222)**
Reclasification	**–**	**–**	**(271,220,482)**	**–**	**–**	**–**	**(271,220,482)**
Ending balances	**19,984,677**	**188,164,930**	**452,841,911**	**28,685,080**	**50,573,882**	**–**	**740,250,480**
Net Book Value	**₱1,691,720**	**₱7,790,212**	**₱48,473,555**	**₱1,151,154**	**₱1,290,706**	**₱4,743,878**	**₱65,141,225**

	2008						
	Land Improvements	Buildings, Structures and Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost:							
Cost							
Beginning balances	₱32,905,200	₱196,688,184	₱867,438,445	₱29,799,314	₱51,186,176	₱7,435,936	₱1,185,453,255
Additions	–	–	964,388	875,000	312,001	618,229	2,769,618
Disposals	–	–	–	(1,278,484)	–	–	(1,278,484)
Reclassifications	–	1,773,493	2,304,574	1,124,804	(4,075)	(6,224,125)	(1,025,329)
Discontinued operation (Note 2)	(11,228,803)	(2,506,535)	(95,549,233)	(661,364)	(553,944)	(283,513)	(110,783,392)
Ending balances	21,676,397	195,955,142	775,158,174	29,859,270	50,940,158	1,546,527	1,075,135,668
Accumulated Depreciation							
Beginning balances	27,679,521	174,732,086	704,731,137	28,640,075	50,401,875	–	986,184,694
Additions (Notes 16 and 17)	839,656	8,165,391	33,446,810	1,066,240	312,772	–	43,830,869
Disposals	–	–	–	(1,144,646)	–	–	(1,144,646)
Provision for impairment	–	–	22,178,035		–	–	22,178,035
Discontinued operation (Note2)	(9,342,796)	(2,409,095)	(66,593,737)	(661,362)	(551,397)	–	(79,558,387)
Ending balances	19,176,381	180,488,382	693,762,245	27,900,307	50,163,250	–	971,490,565
Net Book Value	₱2,500,016	₱15,466,760	₱81,395,929	₱1,958,963	₱776,908	₱1,546,527	₱103,645,103

	2009	2008
Land		
At revalued amounts:		
Beginning balance	**₱908,257,089**	₱1,146,662,200
Discontinued operation (Note 2)	**–**	(240,220,499)
Reclassification (transfer)	**–**	1,815,388
Ending balance	**₱908,257,089**	₱908,257,089
At cost	**₱69,702,850**	₱69,702,850

Land is carried at revalued amounts using the fair market value as determined by an independent firm of appraisers in February 2007. In 2008, the Parent Company reassessed the related tax liability arising from the appraisal increase as a result of changes in applicable tax rates subsequent to 2008. The Group decreased the related deferred income tax liability by ₱119,248,260 and increased the revaluation increment in land by the same amount. As of December 31, 2009 and 2008, the revaluation increment in land amounted to ₱405,569,060, net of deferred income tax liability of ₱174,245,724.

The aggregate cost of fully depreciated property, plant and equipment that are still being used in operations amounted to ₱66,806,972 and ₱62,750,317 as of December 31, 2009 and 2008, respectively.

12. Other Noncurrent Assets

	2009	2008
Receivable from local government	**₱12,694,252**	₱12,169,733
Asset held for disposal	**13,380,278**	–
Investment property - land not used in operations	**10,363,446**	10,363,446
Available-for-sale financial assets	**8,621,363**	7,558,526
Input tax for refund	**6,565,814**	5,737,102
Refundable deposits	**1,740,661**	1,210,625
Cash in bank restricted for use in operations	**956,969**	1,058,030
Receivable from MERALCO - net of deferred interest income	**632,400**	1,024,065
Other long-term receivables	**9,439,283**	8,713,348
Other noncurrent assets	**3,593,956**	4,830,636
	67,988,422	52,665,511
Less allowance for doubtful accounts	**534,533**	534,533
	₱67,453,889	₱52,130,978

Receivable from Local Government
Receivable from local government represents the balance of the local tax credit of CMC and CAWC from the Municipality of San Pascual, Batangas which management believes is expected to be recovered in due time but beyond one year. This will be offset against future tax liabilities of CMC and CAWC to the Municipality of San Pascual, Batangas.

Asset held for disposal
In 2009, machinery and equipment with a carrying value of ₱13,109,123 was reclassified to asset held for disposal under “Other noncurrent assets”.

Investment Property
Investment property - land not used in operations is carried at cost. As of December 31, 2009 and 2008, the appraised value amounted to ₱430,642,944 as determined by independent appraisers on February 2007. The excess of the appraised value of the land over their carrying amount is not recognized in the consolidated financial statements, in accordance with the cost model policy of the Group for investment properties (see Note 3).

In 2008, investment property of the Parent Company amounting to ₱4,013,033 was sold for a total consideration of ₱109,253,130. Total gain on sale recognized from the sale amounted to ₱105,240,097 (see Note 19).

Available-for-sale financial assets
Available-for-sale financial assets consist of:

a. Investments in the shares of stock of the following companies have been fully impaired and charged to profit and loss in previous years.

Cost of investments are as follows:

All Asia Capital and Trust Corporation (All Asia)	₱108,437,500
Petrochemicals Corporation of Asia Pacific (Petrocorp)	724,761,279

In 2008, the Group wrote-off its investment in Petrocorp.

b. Other investments amounting to ₱8,042,355 in 2009 and ₱7,429,843 in 2008 representing proprietary shares.

   Other investments are carried at fair value with net cumulative gain as of December 31, 2009 and 2008 of ₱5,185,775, net of deferred tax liability of ₱568,725, and ₱4,046,654, net of deferred tax liability of ₱440,350, respectively, recognized as a separate component of equity.

Restricted Cash
Cash in bank restricted for use in operations consists of (a) time deposit which serves as a collateral for a short-term loan, (b) garnished bank accounts related to the lawsuit filed by one of the Group's stockholders and (c) bank accounts restricted for use by CMC for a particular supplier.

Receivable from MERALCO
In 2005, MERALCO, informed the Group that in reference to the MERALCO Phase IV-B of the refund approved by the Energy Regulatory Board, the Groups's electric service was qualified for refund under Phase IV-B.

Under the MERALCO refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Group opted to recover the refund through postdated checks to be collected over 5.25 years and 1.5 years, starting in April 2006 up to July 2011 and April 2006 up to October 2007, respectively.

The receivable was discounted using an effective interest rate of 9.57%. Breakdown of outstanding balance as of December 31, 2009 and 2008 are as follows:

	2009		2008	
	Current	**Noncurrent**	Current	Noncurrent
Receivable from MERALCO*	**₱2,590,114**	**₱647,528**	₱3,474,854	₱1,105,925
Deferred interest income	**204,829**	**15,128**	136,748	81,860

The current portion of the refund receivable, net of deferred interest income, is included under "Receivables" account in the consolidated statement of financial position (see Note 6).

13. Notes Payable

In October 2008, CMC availed of loan from E.S. Garcia Foundation, a related party, and U.P. Medical Class '36 Foundation Inc. amounting to ₱4,000,000 (see Note 15). The loan carries an interest at 10% per annum. In October 2009, the loan which is payable in September 2010, was renewed. Total interest expense on notes payable amounted to ₱380,667 and ₱86,667 in 2009 and 2008, respectively.

14. **Accounts Payable and Accrued Expenses**

	2009	2008
Trade	**₱107,317,838**	₱131,138,277
Accrued expenses	**5,503,040**	8,928,257
Output taxes - net	**3,753,096**	2,346,463
Others	**22,906,396**	18,837,229
	₱139,480,370	₱161,250,226

15. **Related Party Transactions**

The Group has the following significant transactions with affiliates:

a. Service agreement with affiliates. The service fee consists of management fee and the shared services fee. Management fee represents the related parties' share in the general corporate overhead incurred by the Group. The shared services fee is billed using an activity-based costing, under which, services rendered are based on man hours spent or number of items processed or output produced, as applicable. Management fee and shared services fee charged to affiliates are as follows:

	2009	2008	2007
Management fee:			
Vision Insurance Consultants, Inc. (VIC), a company owned by majority of the shareholders of the Parent Company	**₱600,000**	₱600,000	₱600,000
Shared services fees:			
PEC - associate	**1,232,143**	1,232,143	1,306,718
VIC	**960,000**	960,000	1,035,077
Landco - a subsidiary until August 2008	**–**	7,600,000	–
	2,192,143	9,792,143	2,341,795
	₱2,792,143	₱10,392,143	₱2,941,795

b. Rental agreements with an associate and affiliate for the Parent Company's office space for one year, renewable at the option of both parties. Total rental income amounted to ₱307,178 in 2009, ₱417,600 in 2008 and ₱800,802 in 2007.

c. KPC purchases merchandise inventories from its stockholder, Kemira Chemicals Oy of Finland (Kemira). Total purchases amounted to ₱889,272 in 2009, ₱415,990 in 2008 and ₱1,453,059 in 2007.

d. Cash advances to or from affiliates which are interest and noninterest-bearing and are due and demandable. Interest income in 2008 and 2007 amounted to ₱167,961 and ₱130,855, respectively (nil in 2009) (see Note 19).

e. In 2008, LMG and the Parent Company advanced to the stockholders of the Parent Company some of the proceeds from the sale of LMG's investment in Landco and the sale of the Parent Company's investment properties. The amount due from the stockholders of the Parent Company are noninterest-bearing and are due and demandable.

f. Availment of short-term borrowing from E.S. Garcia Foundation, a foundation of one of the stockholders of the Group (see Note 13).

g. Compensation of key management personnel is as follows:

	2009	2008	2007
Short-term employee benefits	**₱14,072,379**	₱18,134,903	₱21,339,681
Termination benefits	**699,932**	1,506,081	911,811
	₱14,772,311	₱19,640,984	₱22,251,492

Outstanding receivables from and payables to related parties as of December 31, except for item which are disclosed in Note 13, are as follows:

	Premiums Payable		Advances		Interest		Others		**2009**	2008
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**Total**	Total
Due from:										
Petrocorp	**₱–**	₱–	**₱25,473**	₱25,473	**₱1,026,861**	₱1,026,861	**₱7,480,920**	₱7,480,920	**₱8,533,254**	₱8,533,254
PEC	**–**	–	**–**	–	**–**	–	**1,079,240**	914,895	**1,079,240**	914,895
Landco	**–**	–	**–**	–	**–**	–	**7,011,486**	7,011,486	**7,011,486**	7,011,486
Stockholders	**–**	–	**271,912,981**	312,142,526		–	**–**	–	**271,912,981**	312,142,526
	–	–	**271,938,454**	312,167,999	**1,026,861**	1,026,861	**15,571,646**	15,407,301	**288,536,961**	328,602,161
Less allowance for doubtful accounts	**–**	–	**25,473**	25,473	**1,026,861**	1,026,861	**7,465,765**	7,465,765	**8,518,099**	8,518,099
	₱–	₱–	**₱271,912,981**	₱312,142,526	**₱–**	₱–	**₱8,105,881**	₱7,941,536	**₱280,018,862**	₱320,084,062
Due to:										
VIC	**₱18,707,180**	₱18,590,727	**₱3,065,367**	₱2,490,149	**₱–**	₱501,735	**₱–**	₱–	**₱21,772,547**	₱21,582,611
PEC	**–**	–	**–**	–	**–**	–	**59,727**	50,260	**59,727**	50,260
Other	**–**	–	**–**	–	**–**	–	**106,873**	99,249	**106,837**	99,249
	₱18,707,180	₱18,590,727	**₱3,065,367**	₱2,490,149	**₱–**	₱501,735	**₱166,600**	₱149,509	**₱21,939,111**	₱21,732,120

These outstanding balances with related parties are due and demandable, unsecured and are to be settled through cash. There have been no guarantees received or provided for any intercompany payables or receivables.

16. Equity

Quasi-Reorganization of CAWC

On June 23, 2005, CAWC's Board Executive Committee approved the quasi-reorganization of CAWC with the objective of eliminating CAWC's accumulated deficit as of December 31, 2004 amounting to ₱73.97 million by applying the revaluation increment in land as of such date.

On October 10, 2005, the Philippine Securities and Exchange Commission (SEC) approved the quasi-reorganization. Pursuant to the Philippine SEC approval of the foregoing, CAWC was subject to conditions that: (a) the remaining revaluation increment of ₱58.73 million as of December 31, 2005, after applying ₱73.97 million to the Group's deficit, will not be used to wipe out losses that may be incurred in the future without prior approval of Philippine SEC; (b) for purposes of dividend declaration, the retained earnings of CAWC shall be restricted to the extent of the deficit wiped out by the appraisal increment in land; and (c) CAWC shall disclose in its financial statements for a minimum period of three years the mechanics, purpose and effect of such quasi-reorganization, on the financial condition of CAWC.

Dividends

On December 8, 2008, the Parent Company declared cash dividends in the sum of ₱100.00 million to stockholders of record as of December 11, 2008 and payable on or before January 13, 2009. Total outstanding shares of stock as of the declaration date was 10.30 million shares excluding treasury shares of 87, resulting to dividends of ₱9.71 per share which was directly charged to unappropriated retained earnings.

In August 2008, KPC declared dividends amounting to ₱6.00 million or ₱0.0522 per share. Dividends attributable to minority interest amounted to ₱2.40 million. Out of the total dividends declared, KPC paid ₱3.00 million in 2008 of which ₱1.20 million is for KPC's minority holder. As of December 31, 2008, dividends payable to minority interest amounted to ₱1.20 million.

On May 19, 2009, LMG's BOD declared cash dividends in the sum of ₱344.04 million to stockholders of record as of June 2, 2009. On October 8, 2009, LMG's BOD partially rescinded the cash dividend declared on May 19, 2009 in the amount of ₱121.07 million; effective cash dividend declared amounted to ₱222.97 million.

At the same LMG BOD meeting, LMG's investments in shares of CMC and KPC were declared as property dividends and on December 18, 2009, a deed of assignment was executed to assign the LMG's rights, titles and interest over the 100.00 million common shares in CMC and 69.00 million common shares in KPC to the stockholders of LMG in proportion to their respective shareholdings.

Retained Earnings

The undistributed earnings of subsidiaries amounting to ₱301.20 million and ₱581.20 million as of December 31, 2009 and 2008, respectively, which are included as part of retained earnings, are not available for declaration as dividends until declared by such subsidiaries. Also, the Parent Company's retained earnings is restricted from dividend declaration to the extent of the cost of treasury shares amounting to ₱870 as of December 31, 2009 and 2008.

17. Cost of Sales and Services

	2009	2008	2007
Raw materials used and changes in inventories	**₱231,988,256**	₱258,177,784	₱234,728,592
Personnel (Note 20)	**30,437,760**	33,683,932	37,312,048
Manufacturing overhead:			
Depreciation (Note 11)	**40,261,642**	43,021,122	47,197,284
Taxes and licenses	**10,185,597**	14,351,567	13,651,554
Repairs and maintenance	**6,998,689**	10,555,556	10,570,793
Utilities	**5,553,726**	9,517,209	8,110,496
Outside services	**4,031,092**	6,620,311	10,125,280
Communication, light and water	**3,492,474**	9,843,360	12,815,931
Rent	**2,217,135**	1,895,530	3,682,155
Insurance	**1,951,032**	4,656,234	5,701,373
Provision for inventory losses (Note 7)	**1,331,465**	5,532,407	–
Supplies	**547,525**	3,393,491	17,800,082
Others	**3,707,709**	6,930,550	10,968,052
Merchandise sold	**1,259,101**	1,073,796	1,687,712
	₱343,963,203	₱409,252,849	₱414,351,352

18. Operating Expenses

	2009	2008	2007
Personnel (Note 20)	**₱36,182,066**	₱45,058,244	₱44,309,049
Outside services	**11,827,772**	16,344,571	13,854,472
Communication, light and water	**4,612,726**	5,234,713	4,944,890
Taxes and licenses	**3,189,565**	5,570,608	3,179,141

(Forward)

	2009	2008	2007
Repairs and maintenance	**₱2,253,539**	₱1,831,266	₱1,506,226
Depreciation (Note 11)	**801,977**	809,747	1,555,277
Travel	**520,495**	645,524	770,618
Provision for impairment of assets (Notes 7 and 11)	**–**	39,342,735	–
Provision for doubtful accounts (Note 6)	**–**	14,218,263	25,075
Others	**2,742,322**	(3,508,200)	205,707
	₱62,130,462	₱125,547,471	₱70,350,455

19. **Interest Expense and Other Income**

a. Interest Expense

Breakdown of interest expense as to source is as follows:

	2009	2008	2007
Notes payable and trust receipts	**₱8,034,761**	₱11,686,252	₱15,101,960

b. Other income consist of:

	2009	2008	2007
Gain on sales commitment	**₱18,447,921**	₱–	₱–
Interest income	**2,802,030**	2,355,367	2,300,435
Foreign exchange gain (loss) - net	**1,597,972**	(7,448,098)	9,171,150
Gain on sale of investment properties (Note 12)	**–**	105,240,097	509,490
Equity in net earnings (loss) of an associate (Note 10)	**–**	(913,845)	3,072,212
Income from SDAP (Note 1)	**–**	–	12,000,000
Gain on sale of investment	**–**	8,637,530	–
Others - net	**(404,304)**	12,036,478	989,012
	₱22,443,619	₱119,907,529	₱28,042,299

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.

The gain on sale of property, plant and equipment and investment properties in 2008 pertain to the proceeds less cost of parcels of land classified as investment property under other noncurrent assets (see Note 12).

c. Interest Income

Breakdown of interest income as to source is as follows:

	2009	2008	2007
Banks	**₱1,457,544**	₱1,150,218	₱375,649
MERALCO refund (Note 12)	**1,344,486**	1,037,188	793,931
Unpaid rentals	**–**	–	1,000,000
Affiliates - net (Note 15)	–	167,961	130,855
	₱2,802,030	₱2,355,367	₱2,300,435

20. **Personnel Expenses and Retirement Benefits Cost**

a. Personnel expenses consist of:

	2009	2008	2007
Salaries and wages	**₱43,020,928**	₱46,241,628	₱59,267,568
Retirement benefits cost	**8,203,023**	12,045,460	9,906,550
Other employee benefits	**15,395,875**	20,455,088	12,446,979
	₱66,619,826	₱78,742,176	₱81,621,097

b. Retirement benefits cost

The Group has a funded, noncontributory defined benefit retirement plan covering substantially all permanent employees, which requires contributions to be made to separately administered funds.

The following tables summarize the components of net retirement benefits cost recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated statements of financial position.

Net retirement benefits cost recognized in the consolidated statements of comprehensive income are as follows:

	2009	2008	2007
Current service cost	**₱1,666,207**	₱2,621,077	₱2,723,967
Interest cost	**4,177,441**	5,140,016	6,512,589
Expected return on plan assets	**(251,882)**	(620,389)	(1,716,947)
Net actuarial loss (gain)	**467,719**	9,663,524	996,120
Effect (reversal) of asset ceiling limit	**2,143,538**	(4,758,768)	1,390,821
Retirement benefits cost	**₱8,203,023**	₱12,045,460	₱9,906,550
Actual gain (loss) on plan assets	**(₱75,141)**	₱6,416,957	₱637,215

Accrued retirement benefits recognized in the consolidated statements of financial position are as follows:

	2009	2008
Present value of the obligation	**₱40,840,132**	₱40,263,297
Fair value of plan assets	**7,324,488**	2,518,821
	33,515,644	37,744,476
Unrecognized actuarial losses	**(23,667,929)**	(15,956,006)
Asset ceiling limit	**2,150,372**	6,834
Accrued retirement benefits	**₱11,998,087**	₱21,795,304

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

	2009	2008
Balances at beginning of year	**₱40,263,297**	₱63,403,295
Current service cost	**1,666,207**	2,621,077
Interest cost	**4,177,441**	5,140,016
Benefits paid	**(13,119,435)**	(31,421,651)
Actuarial loss	**7,852,623**	520,560
Balances at end of year	**₱40,840,133**	₱40,263,297

Changes in fair value of plan assets are as follows:

	2009	2008
Balance at beginning of year	**₱2,518,821**	₱6,203,893
Expected return on plan assets	**251,882**	620,389
Actual contributions	**18,000,243**	34,153,536
Benefits paid	**(13,119,435)**	(31,421,651)
Actuarial loss	**(327,022)**	(7,037,346)
Balance at end of year	**₱7,324,487**	₱2,518,821

The major categories of plan assets as a percentage of the fair value of plan assets as of December 31, 2009 and 2008 are as follows:

	2009	2008
Investment in government securities	**48%**	58%
Investment in shares of stock	**46%**	25%
Other investments	**5%**	5%
Other assets	**1%**	12%
	100%	100%

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

The principal assumptions used in determining retirement benefits costs for the Group's plan are as follows:

	2009	2008	2007
Number of employees	**131**	125	156
Discount rate per annum		6.97% -10.47%	6.95% - 10.47%
Expected annual rate of return on plan assets		10.00%	10.00%
Future annual increase in salary		6.30% - 6.63%	5.29% - 6.69%

As of December 31, 2009, the following are the assumptions: discount rate of 9.09% - 16.74%, expected annual rate of return on plan assets of 10% and future annual increase in salary of 6.00% - 6.63%.

Amount for the current and previous years are as follows:

	2009	2008	2007	2006
Defined benefit obligations	**₱40,840,132**	₱40,263,297	₱63,403,295	₱78,559,573
Fair value of plan assets	**7,324,488**	2,518,821	6,203,893	17,169,477
Unfunded liability	**38,515,644**	37,744,476	57,199,402	61,390,096
Experience adjustments on plan liabilities - loss (gain)	–	(4,421,517)	(760,836)	11,769,609
Experience adjustments on plan assets - gain (loss)	–	(2,879,718)	(499,593)	17,199,527

The Group expects to contribute ₱3.2 million to the retirement fund in 2010.

21. **Basic/Diluted Earnings (Loss) Per Share**

Basic/diluted earnings per share attributable to equity holdings of the Parent Company were computed as follows:

	2009	2008	2007
Net income (loss) attributable to equity holdings of the parent from:			
Continuing operations	**(₱50,508,009)**	₱40,065,374	(₱55,615,596)
Discontinued operation	**–**	199,080,336	19,200,519
	(₱50,508,009)	₱239,145,710	(₱36,415,077)
Weighted average number of shares:			
Issued	**₱10,296,688**	₱10,296,688	₱10,296,688
Held in treasury	**(87)**	(87)	(87)
Outstanding	**10,296,601**	10,296,601	10,296,601
Earnings (loss) per share from:			
Continuing operations	**(₱4.905)**	₱3.884	(₱5.401)
Discontinued operation	**–**	19.334	1.865
	(₱4.905)	₱23.218	(₱3.536)

The Group has no dilutive potential common shares as of December 31, 2009, 2008, and 2007. Thus, the basic and diluted earnings (loss) per share in 2009, 2008, and 2007 are the same for each of the three years presented.

22. **Income Taxes**

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

	2009	2008	2007
RCIT	**₱14,671**	₱24,833,237	₱–
MCIT	**1,022,487**	2,928	1,379,624
Capital gains tax	**–**	7,924,600	100,027
Final tax on interest income	**517,778**	230,034	72,908
	₱1,554,936	₱32,990,799	₱1,552,559

b. The components of the deferred income tax assets and liabilities are as follows:

	2009	2008
Deferred income tax assets on:		
Unamortized past service cost contributions	**₱13,384,146**	₱14,444,175
Allowance for doubtful accounts	**8,342,491**	8,342,491
Deferred gain on sale of land	**4,273,412**	4,273,412
Allowance for probable inventory losses	**1,228,342**	1,228,342
Accrued expenses and others	**919,767**	1,804,001
Deferred interest from MERALCO refund	**–**	58,831
Accrued retirement benefits	**–**	6,081,164
	28,148,158	36,232,416

(Forward)

	2009	2008
Deferred income tax liabilities on:		
Revaluation increment in land	**174,245,724**	174,245,724
Cumulative changes in fair value of available-for-sale investments	**568,723**	440,350
	174,814,447	174,686,074
Net deferred income tax liabilities	**₱146,666,289**	₱138,453,658

Revaluation increment in land includes revaluation increment in land transferred to a subsidiary.

c. As of December 31, 2009, the Group's NOLCO and MCIT available for deduction from future taxable income and regular corporate income tax due, respectively, are as follows:

NOLCO

Year Incurred	NOLCO Incurred	Applied	Expired	Ending Balance	Available Until
2009	₱59,027,821	₱–	₱–	₱59,027,821	2012
2008	52,527,625	–	–	52,527,625	2011
2007	66,299,329	–	–	66,299,329	2010
2006	117,457,238	(108,536,673)	(8,920,565)	–	2009
	₱295,312,013	(₱108,536,673)	(₱8,920,565)	₱177,854,775	

MCIT

Year Incurred	MCIT Incurred	Applied	Expired	Ending Balance	Available Until
2009	₱1,022,487	₱–	₱–	₱1,022,487	2012
2007	1,379,624	–	–	1,379,624	2010
2006	1,786,925	–	(1,786,925)	–	2009
	₱4,189,036	₱–	(₱1,786,925)	₱2,402,111	

d. The deductible temporary differences, MCIT and NOLCO for which no deferred income tax assets were recognized are as follows:

	2009	2008	2007
NOLCO	**₱177,854,775**	₱230,389,193	₱308,205,325
MCIT	**2,402,111**	177,389	142,347
Allowance for inventory obsolescence	**26,059,690**	18,602,634	10,087,049
Unamortized portion of past service cost contribution	**7,610,685**	7,658,551	6,858,528
Allowance for doubtful accounts	**4,443,407**	4,403,634	4,435,861
Deferred interest income - MERALCO	**–**	–	826,837
Accrued expenses	**139,278**	–	–
Accrued retirement benefits	**11,998,087**	1,524,757	–

The deferred income tax assets on these deductible temporary differences, MCIT and NOLCO were not recognized because management believes that the Group may not have sufficient taxable profits available to allow all or part of these deferred income tax assets to be utilized in the future.

e. The reconciliation of the income taxes computed at the statutory income tax rates to the provision for (benefit from) income tax as shown in the consolidated statements of comprehensive income follows:

	2009	2008	2007
Statutory income tax	**(₱15,421,912)**	₱31,480,359	(₱20,331,354)
Additions to (reductions in) income tax resulting from:			
Temporary differences including NOLCO and MCIT for which no deferred income tax assets were recognized	**24,992,353**	33,561,429	20,307,531
Equity in net losses (earnings) in an associate	–	319,846	(1,075,274)
Nondeductible interest expense	**156,220**	110,452	35,283
Nondeductible expense	**166,177**	–	–
Interest income already subjected to final tax	**(258,890)**	(172,524)	(54,681)
Capital gains on disposal of assets	**–**	(13,151,947)	(98,773)
Gain on sale of investments in shares of stock	**–**	(3,449,328)	–
Tax penalty	**–**	34,636	–
Others	**5,244**	–	320,894
Effect of changes in tax rates	**–**	(9,787,294)	–
Provision for (benefit from) income tax	**₱9,639,192**	₱38,945,629	(₱896,374)

f. Under Republic Act (RA) 9337, the Expanded Value-Added Tax Act of 2005, which took effect on November 1, 2005, the corporate income tax rate shall be 35% for three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter; and the unallowable deduction for interest expense shall be 42% of the interest income subject to final tax, effective November 1, 2005 and 33% 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.

23. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, receivables, due to/from related parties, other current assets, receivable from MERALCO, available-for-sale investments, notes payable and liabilities under trust receipts. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. On an occasional basis, the Group obtains and/or grants advances to related parties depending on the funding requirements of the Group.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Cash flow interest rate risk
The Group's exposure to the risk for changes in market interest rates relates primarily to the Group's notes payable and liabilities under letters of credit and trust receipts with floating interest rates. The Group relies on budgeting and forecasting techniques to address cash flow concerns.

Liabilities under letters of credit and trust receipts amounting to ₱64,989,183 and ₱71,109,511 as of December 31, 2009 and 2008, respectively, and the Group's notes payable amounting to ₱4,000,000 in both years, has maturity of less than one year, thus the reasonably possible change will have no impact on the Group's profit and loss as of December 31, 2009 and 2008.

Credit risk
Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. Credit risk is minimized and monitored by limiting the Group's associations with business parties with high creditworthiness. Receivables are monitored on an ongoing basis through the Group's management reporting procedures. The Group does not have any significant exposure to any individual customer or counterparty. With respect to credit risk arising from cash and cash equivalents, receivables and available-for-sale investments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group deals only with financial institutions duly evaluated and approved by the BOD.

It is the Group'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 Group's exposure to bad debts is not significant.

Maximum exposure to credit risk
The table below shows the maximum exposure to credit risk for the components of the statements of financial position. The maximum exposure is shown gross before the effect of mitigation through the use of master netting and collateral agreements but net of allowance for probable losses, if any.

	2009	2008
Cash and cash equivalents, excluding cash on hand	**₱104,545,499**	₱56,865,740
Receivables	**103,349,720**	140,031,939
Due from related parties, excluding advances to directors and stockholders	**8,105,881**	7,941,626
Other current assets	**2,799,756**	2,797,017
Available-for-sale investments	**8,621,363**	8,042,565
Other noncurrent assets		
Receivable from MERALCO	**632,400**	1,772,057
Cash in bank restricted for use in operations	**956,969**	1,058,030
Refundable deposits	**1,740,661**	1,184,934
Other long-term receivables	**9,439,283**	2,821,964
Total credit risk exposure	**₱240,191,532**	₱222,515,872

Credit quality of financial assets
The credit quality of financial assets is managed by the Group through its Credit and Collection Department. High grade customers are those with sound financial standing, those that pay within their credit terms and require either little or nil collection efforts. Standard grade customers are those in good financial standing but with the paying habit of settling their accounts outside of regular credit terms which require moderate follow through. Substandard grade customers with poor financial condition and tend to default thus requiring strict follow through and monitoring.

The table below shows the credit quality by class of financial asset:

December 31, 2009

	Neither past due nor impaired				
	High Grade	**Standard Grade**	**Past due but not impaired**	**Impaired**	**Total**
Cash and cash equivalents, excluding cash on hand	**₱104,545,499**	**₱–**	**₱–**	**₱–**	**₱104,545,499**
Receivables	**16,168,873**	**11,565,005**	**75,615,842**	**23,199,077**	**126,548,797**
Due from related parties, excluding advances to directors and stockholders	**8,105,881**	**–**	**–**	**8,518,009**	**16,623,890**
Other current assets	**–**	**–**	**2,799,756**	**–**	**2,799,756**
Available-for-sale investments	**8,621,363**	**–**	**–**	**–**	**8,621,363**
Receivable from MERALCO	**632,400**	**–**	**–**	**–**	**632,400**
Cash in bank restricted for use in operations	**956,969**	**–**	**–**	**–**	**956,969**
Refundable deposits	**1,740,661**	**–**	**–**	**–**	**1,740,661**
Other long-term receivables	**9,439,283**	**–**	**–**	**–**	**9,439,283**
	150,210,929	**11,565,005**	**78,415,598**	**31,717,086**	**271,908,618**
Allowance for probable losses	**–**	**–**	**–**	**31,717,086**	**31,717,086**
Total	**₱150,210,929**	**₱11,565,005**	**₱78,415,598**	**₱–**	**₱240,191,532**

December 31, 2008

	Neither past due nor impaired				
	High Grade	Standard Grade	Past due but not impaired	Impaired	Total
Cash and cash equivalents, excluding cash on hand	₱56,865,740	₱–	₱–	₱–	₱56,865,740
Receivables	71,975,753	18,644,741	49,411,445	23,357,077	163,389,016
Due from related parties, excluding advances to directors and stockholders	7,926,471	–	15,155	8,518,009	16,459,635
Other current assets	–	–	2,797,017	–	2,797,017
Available-for-sale investments	8,042,565	–	–	–	8,042,565
Receivable from MERALCO	1,772,057	–	–	–	1,772,057
Other long term receivables	–	–	2,821,964	–	2,821,964
Cash in bank restricted for use in operations	1,058,030	–	–	–	1,058,030
Refundable deposits	1,184,934	–	–	–	1,184,934
	148,825,550	18,644,741	55,045,581	31,875,086	254,390,958
Allowance for probable losses	–	–	–	31,875,086	31,875,086
Total	₱148,825,550	₱18,644,741	₱55,045,581	₱–	₱222,515,872

Aging analysis of past due but not impaired financial assets

December 31, 2009

	Days Past Due				
	Less than 30 days	**31 to 60 days**	**61-90 days**	**More than 90 days**	**Total**
Receivables	**₱68,884,893**	**₱693,333**	**₱138,346**	**₱5,899,270**	**₱75,615,842**
Other current assets	**–**	**–**	**–**	**2,799,756**	**2,799,756**
Total	**₱68,884,893**	**₱693,333**	**₱138,346**	**₱8,699,026**	**₱78,415,598**

December 31, 2008

	Days Past Due				
	Less than 30 days	31 to 60 days	61-90 days	More than 90 days	Total
Receivables	₱35,198,658	₱4,520,094	₱249,410	₱9,443,283	₱49,411,445
Due from related parties, excluding advances to directors and stockholders	–	–	–	15,155	15,155
Other current assets	–	–	–	2,797,017	2,797,017
Other long-term receivables	–	–	–	2,821,964	2,821,964
Total	₱35,198,658	₱4,520,094	₱249,410	₱15,077,419	₱55,045,581

The Group has no financial assets whose terms have been renegotiated.

Impairment assessment
The main considerations for impairment assessment include whether any payments of principal or interest are within the normal payment cycle peculiar to the industry or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment 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 date, unless unforeseen circumstances require more careful attention.

Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows which could be used to secure additional funding if required.

The Group’s exposure to liquidity risk is managed by using internally-generated funds and proceeds from loans. Further, the Group maintains open credit lines with local banks in order to review and revolve maturing short-term loans.

The following tables summarize the collectibility of Group’s financial assets and maturity profile of the financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

December 31, 2009

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash	**₱104,545,499**	**₱–**	**₱–**	**₱–**	**₱–**	**₱104,545,499**
Receivables	**27,733,878**	**68,884,893**	**6,730,949**			**103,349,720**
Due from related parties, excluding advances to directors and stockholders	**8,105,881**	**–**	**–**	**–**	**–**	**8,105,881**
Available-for-sale investments	**–**	**–**	**–**	**–**	**8,621,363**	**8,621,363**
Other current assets	**–**	**–**	**2,799,756**	**–**	**–**	**2,799,756**
Total undiscounted financial assets	**₱140,385,258**	**₱68,884,893**	**₱9,530,705**	**₱–**	**₱8,621,363**	**₱227,422,219**
Financial liabilities:						
Notes payable	**₱–**	**₱4,000,000**	**₱–**	**₱400,000**	**₱–**	**₱4,400,000**
Accounts payable and accrued expenses	**135,727,274**	**–**	**–**	**–**	**–**	**135,727,274**
Liabilities under letters of credit and trust receipts	**64,989,183**	**–**	**–**	**–**	**–**	**64,989,183**
Due to related parties	**21,939,111**	**–**	**–**	**–**	**–**	**21,939,111**
Total undiscounted financial liabilities	**₱222,655,568**	**₱4,000,000**	**₱–**	**₱400,000**	**₱–**	**₱227,055,568**

December 31, 2008

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets:						
Cash	₱56,865,740	₱–	₱–	₱–	₱–	₱56,865,740
Receivables	90,620,494	35,198,658	14,212,787	–	–	140,031,939
Due from related parties, excluding advances to directors and stockholders	7,926,471	–	15,155	–	–	7,941,626
Available-for-sale investments	–	–	–	–	8,042,565	8,042,565
Others	–	–	2,797,017	–	–	2,797,017
Total undiscounted financial assets	₱155,412,705	₱35,198,658	₱17,024,959	₱–	₱8,042,565	₱215,678,887
Financial liabilities:						
Notes payable	₱–	₱–	₱4,000,000	₱400,000	₱–	₱4,400,000
Accounts payable and accrued expenses	155,836,226	–	–	–	–	155,836,226
Liabilities under letters of credit and trust receipts	71,109,511	–	–	–	–	71,109,511
Due to related parties	21,732,120	–	–	–	–	21,732,120
Total undiscounted financial liabilities	₱248,677,857	₱–	₱4,000,000	₱400,000	₱–	₱253,077,857

24. Financial Assets and Financial Liabilities

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

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Loans and Receivables:				
Cash and cash equivalents, excluding cash on hand	**₱104,545,499**	₱56,865,740	**₱104,545,499**	₱56,865,740
Receivables	**103,349,720**	140,031,939	**103,349,720**	140,031,939
Due from related parties, excluding due from stockholders	**8,105,881**	7,941,626	**8,105,881**	7,941,626
Other current assets	**2,799,756**	2,797,017	**2,799,756**	2,797,017
Other noncurrent assets:				
Receivable from MERALCO	**632,400**	1,772,057	**564,184**	1,951,428
Cash in bank restricted for use in operations	**956,969**	1,058,030	**956,969**	1,058,030
Refundable deposits	**1,740,661**	1,184,934	**1,740,661**	1,184,934
Other long-term receivable	**9,439,283**	2,821,964	**9,439,283**	2,821,964
	231,570,169	214,473,307	**231,501,953**	219,832,662
Available-for-sale investments	**8,621,363**	8,042,565	**8,621,363**	8,042,565
	₱240,191,532	₱222,515,872	**₱240,123,316**	₱227,875,227
Other financial liabilities:				
Notes payable	**₱4,000,000**	₱4,000,000	**₱4,000,000**	₱4,000,000
Accounts payable and accrued expenses	**135,727,274**	155,836,226	**135,727,274**	155,836,226
Liabilities under letters of credit and trust receipts	**64,989,183**	71,109,511	**64,989,183**	71,109,511
Due to related parties	**21,939,111**	21,732,120	**21,939,111**	21,732,120
	₱226,655,568	₱252,677,857	**₱226,655,568**	₱252,677,857

The carrying amounts of cash and cash equivalents, receivables, accounts payable and accrued expenses, due to/from related parties and notes payable approximate their fair values either because of their short-term nature or the interest rates that they carry approximate the interest rate for comparable instruments in the market.

The carrying value of cash in bank restricted for use in operations is subject to an insignificant risk of change in values.

The fair value of "Receivable from MERALCO" was determined using the effective interest rate of 7.61% in 2009 and 6.44% in 2008 and computed based on the remaining receivable balance as of each reporting period.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);

- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2009 and 2008, the fair value of shares of stock and proprietary shares classified as available-for-sale are based on the quoted market price at the close of business classified under Level 1.

25. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder values. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The following table summarizes the total capital considered by the Group:

	2009	2008
Capital stock	**₱102,966,880**	₱102,966,880
Additional paid-in capital	**16,621,243**	16,621,243
Retained earnings	**490,707,246**	541,215,255
Revaluation increment in land, net of related deferred tax	**405,569,060**	405,569,060
Treasury stock	**(870)**	(870)
	₱1,015,863,559	₱1,066,371,568

26. Comprehensive Agrarian Reform Law (CARL)

The CARL (Executive Order No. 229 and Republic Act No. 6657) provides, among others, the redistribution of all private and agricultural lands regardless of tenurial arrangements and commodity produced, subject to certain terms and conditions.

The Parent Company owns parcels of land located in Cuyapo, Nueva Ecija that are subjected to CARL. The 7.3437 hectares, costing ₱181,484, were placed by the Department of Agrarian Reform (DAR) under the Compulsory Acquisition scheme. The DAR Arbitration Board (DARAB) in Talavera, Nueva Ecija affirmed the valuation of Land Bank of the Philippine (LBP) fixing the just compensation to ₱186,717. The Parent Company filed a motion for reconsideration reiterating the Parent Company's position that the property should be valued at ₱587,496 based on the appraisal made by an independent appraiser in 2001. The motion was denied by the DARAB. The Parent Company has elevated the case to the Regional Trial Court. On January 4, 2007, the RTC denied the Company's petition for just compensation. The Company thereafter manifested its intention to the DAR and LBP to accept the amount of ₱186,717. The Company is waiting for the documentary requirements from the said government agencies to facilitate the payment.

27. **Segment Reporting**

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers several products and serves several markets. This is how management internally evaluates the performances of operating segments and allocates resources to these segments.

The chemicals segment manufactures and supplies chemical products for water and sewage treatment and inorganic coagulants for the paper industry. It offers products used in the food, water, battery, detergent, and paper industries.

The leasing segment provides tank yard and office space leasing. It provides facilities for power industry and businesses such as travel agencies and communications sites.

The Group generally accounts for inter-segment sales and transfers as if the sales or transfers were to third parties at current market prices.

	2009		
	Chemical	**Leasing**	**Total**
Revenue	**₱329,167,237**	**₱5,855,598**	**₱335,022,835**
Segment results:			
Income (loss) before income tax	**(63,038,846)**	**11,632,473**	**(51,406,374)**
Income tax provision	**(9,195,631)**	**(443,561)**	**(9,639,192)**
Net income (loss) for the year	**(72,234,478)**	**11,188,912**	**(61,045,566)**
Assets	**1,065,649,166**	**624,815,353**	**1,690,464,519**
Liabilities	**324,419,923**	**109,008,276**	**433,428,199**
Segment Cash Flows:			
Cash flows from (used in):			
Operating activities	**56,439,014**	**52,155,281**	**108,594,295**
Investing activities	**16,564,087**	**(46,659,025)**	**(58,392,382)**
Financing activities	**–**	**–**	**–**
Other Segment Information:			
Acquisition (Property, plant and equipment and other noncurrent investments)	**15,973,763**	**635,190**	**16,608,952**
Depreciation and amortization	**40,454,783**	**608,836**	**41,063,619**

	2008		
	Chemical	Leasing	Total
Revenue:			
Revenue from external customers	₱465,461,753	₱23,800,377	₱489,262,130
Revenue from other segments	15,783,148	5,601,786	21,384,934
Segment results:			
Income (loss) before income tax	(38,207,446)	128,151,328	89,943,882
Income tax provision	25,791,927	14,219,818	38,945,629
Net income (loss) for the year	206,348,950	113,931,510	320,280,460
Assets	1,051,714,030	778,167,665	1,829,881,695
Liabilities	110,272,330	344,625,536	454,897,866
Segment Cash Flows:			
Cash flows from (used in):			
Operating activities	(32,020,191)	(33,872,743)	(65,892,934)
Investing activities	385,211,071	183,645,154	(201,565,917)
Financing activities	(23,116,307)	(125,218,444)	(148,334,751)

(Forward)

	2008		
	Chemical	Leasing	Total
Other Segment Information:			
Acquisition (Property, plant and equipment and other noncurrent investments)	₱2,911,879	₱219,491	₱3,131,370
Depreciation and amortization	43,248,472	582,397	43,830,869

	2007		
	Chemical	Leasing	Total
Revenue:			
Revenue from external customers	₱393,566,875	₱–	₱393,566,875
Revenue from other segments	–	15,171,077	15,171,077
Segment results:			
Income (loss) before income tax	(68,938,447)	10,848,863	(58,089,584)
Income tax provision	(924,235)	27,861	(896,374)
Net income (loss) for the year	(42,132,998)	10,911,002	(31,221,996)
Assets	1,240,285,465	549,533,243	1,789,818,708
Liabilities	621,054,440	146,286,280	767,340,720
Segment Cash Flows:			
Cash flows from (used in):			
Operating activities	(17,272,906)	(12,533,541)	(29,806,447)
Investing activities	(6,726,127)	3,726,789	(2,999,338)
Financing activities	8,166,840	–	8,166,840
Other Segment Information:			
Acquisition (Property, plant and equipment and other noncurrent investments)	7,816,452	151,276	7,967,728
Depreciation and amortization	48,030,729	721,832	48,752,561

28. Contingencies

The Parent Company is one of the defendants in a court case involving a dispute between two stockholders. The case involves the complaint for damages in the amount of ₱390.0 million based on the allegation of a certain stockholder that it suffered damages as a result of the defendants' alleged fraudulent act of representing that the shares purchased from one of the defendants were free from all liens and encumbrances other than those stated in the deed of sale.

On September 4, 2000, the Regional Trial Court (RTC) rendered a decision ordering the defendants to pay the plaintiff the total amount of ₱269.1 million, which consisted of ₱256.0 million for the value of lost shares minus the balance of the purchase price, ₱12.0 million for litigation expenses, ₱0.1 million for exemplary damages, and ₱1.0 million for attorney's fees. The motions for reconsideration were filed by the defendants but were denied by the RTC on November 14, 2000.

On March 5, 2004, there was a notice of decision from the Court of Appeals exonerating the Parent Company on the above case.

Motions for partial reconsideration were filed by the two stockholders with the Supreme Court. As of April 14, 2010, the motions have remained pending with the said court.

Chemical Industries of the Philippines, Inc.

Parent Company Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

148-12

SEC Registration Number

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.

(Company's Full Name)

Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City

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

Alexandra G. Garcia

(Contact Person)

818-8711

(Company Telephone Number)

12 **31**

Month *Day*

(Calendar Year)

AAPFS

(Form Type)

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic	Foreign
Not Applicable	**Not Applicable**

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891 0307
Fax: (632) 819 0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Chemical Industries of the Philippines, Inc.

We have audited the accompanying financial statements of Chemical Industries of the Philippines, Inc., which comprise the parent company statements of financial position as at December 31, 2009 and 2008, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company 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.

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Chemical Industries of the Philippines, 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.

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

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱30,332,020**	₱24,835,943
Receivables (Note 5)	**50,363,343**	15,539,573
Due from related parties (Note 12)	**345,777,392**	294,655,809
Other current assets (Note 7)	**7,563,287**	7,034,161
	434,036,042	342,065,486
Investment held for sale (Notes 6 and 8)	**10,803,306**	10,803,306
Total Current Assets	**444,839,348**	352,868,792
Noncurrent Assets		
Investments (Note 8)	**598,542,442**	158,304,968
Property and equipment (Note 9):		
At cost - net	**1,120,400**	1,094,046
At revalued amount	**252,250,000**	252,250,000
Other noncurrent assets - net (Note 10)	**13,653,737**	13,775,240
Total Noncurrent Assets	**865,566,579**	425,424,254
TOTAL ASSETS	**₱1,310,405,927**	₱778,293,046

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	**9,425,254**	22,057,321
Advances from sale of investment (Note 6)	**16,207,001**	–
Due to related parties (Note 12)	**181,783,696**	257,349,627
Total Current Liabilities	**207,415,951**	279,406,948
Noncurrent Liabilities		
Deferred credit (Note 8)	**1,478,919**	1,478,919
Deferred income tax liabilities - net (Note 16)	**63,095,757**	63,009,869
Accrued retirement benefits payable (Note 15)	**–**	729,801
Total Noncurrent Liabilities	**64,574,676**	65,218,589
Total Liabilities	**271,990,627**	344,625,537
Equity (Note 19)		
Capital stock - ₱10 par value		
Authorized - 19,000,000 shares		
Issued - 10,296,688 shares		
(held by 24 holders in 2009 and 2008)	**102,966,880**	102,966,880
Additional paid-in capital	**16,621,243**	16,621,243
Revaluation increment in land (Note 9)	**175,621,810**	175,621,810
Net changes in fair value of available-for-sale financial assets (Note 8)	**5,185,775**	4,046,654
Retained earnings (Note 13)	**738,020,462**	134,411,792
	1,038,416,170	433,668,379
Less cost of 87 shares held in treasury (Note 13)	**870**	870
Total Equity	**1,038,415,300**	433,667,509
TOTAL LIABILITIES AND EQUITY	**₱1,310,405,927**	₱778,293,046

See accompanying Notes to Parent Company Financial Statements.

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2009	2008
REVENUE (Note 12)		
Management fees	**₱4,300,000**	₱22,801,788
Rental - net	**5,996,668**	6,600,375
	10,296,668	29,402,163
INTEREST INCOME (Notes 4, 10 and 12)	**3,721,319**	3,066,142
OTHER INCOME - Net		
Dividend income (Note 8)	**604,101,182**	–
Gain on sale of investment property (Note 10)	**–**	104,962,327
Gain on sale of available-for-sale financial assets (Note 8)	**–**	9,869,510
Other income (expense)	**(698,990)**	1,449,883
	603,402,192	116,281,720
GENERAL AND ADMINISTRATIVE EXPENSES		
Operating costs and expenses (Note 14)	**(13,276,554)**	(19,842,062)
Interest expense (Note 12)	**(91,394)**	(756,635)
	(13,367,948)	(20,598,697)
INCOME BEFORE INCOME TAX	**604,052,231**	128,151,328
PROVISION FOR INCOME TAX (Note 16)		
Current	**486,047**	15,216,402
Deferred	**(42,486)**	(996,584)
	443,561	14,219,818
NET INCOME	**603,608,670**	113,931,510
OTHER COMPREHENSIVE INCOME		
Changes in fair value of available-for-sale financial assets (Note 8)	**976,625**	(718,375)
Fair value changes of available-for-sale financial assets removed from equity and recognized in net income through:		
Impairment	**162,496**	387,500
Sale	**–**	4,275,496
Effect of change in tax rates on revaluation increment in land	**–**	12,544,415
	1,139,121	16,489,036
TOTAL COMPREHENSIVE INCOME	**₱604,747,791**	₱130,420,546

See accompanying Notes to Parent Company Financial Statements.

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	Capital Stock	Additional Paid-in Capital	Revaluation Increment in Land (Note 9)	Net Changes in Fair Value of Available-for-sale Financial Assets (Note 8)	Retained Earnings (Note 13)	Treasury Stock	Total
BALANCES AT DECEMBER 31, 2007	**₱102,966,880**	**₱16,621,243**	**₱163,077,395**	**₱17,887,529**	**₱102,694,786**	**(₱870)**	**₱403,246,963**
Total comprehensive income	–	–	12,544,415	(13,840,875)	131,717,006	–	130,420,546
Dividends declared (Note 13)	–	–	–	–	(100,000,000)	–	(100,000,000)
BALANCES AT DECEMBER 31, 2008	**102,966,880**	**16,621,243**	**175,621,810**	**4,046,654**	**134,411,792**	**(870)**	**433,667,509**
Total comprehensive income	–	–	–	1,139,121	603,608,670	–	604,747,791
BALANCES AT DECEMBER 31, 2009	**₱102,966,880**	**₱16,621,243**	**₱175,621,810**	**₱5,185,775**	**₱738,020,462**	**(₱870)**	**₱1,038,415,300**

See accompanying Notes to Parent Company Financial Statements.

CHEMICAL INDUSTRIES OF THE PHILIPPINES, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱604,052,231**	₱128,151,328
Adjustments for:		
Dividend income	**(604,101,182)**	–
Interest income (Note 12)	**(3,721,319)**	(3,066,142)
Depreciation (Note 9)	**608,836**	582,397
Impairment of available-for-sale financial assets	**162,496**	387,500
Interest expense (Notes 10 and 12)	**91,394**	756,635
Accrued retirement benefits payable (Note 15)	**(729,801)**	(6,477,635)
Gain on sale of investment property (Note 10)	**–**	(104,962,327)
Gain on sale of available-for-sale financial assets (Note 8)	**–**	(9,869,510)
Operating income (loss) before working capital changes	**(3,637,345)**	5,502,246
Decrease (increase) in:		
Receivables	**(2,022,693)**	7,883,189
Due from related parties	**143,271,243**	(30,449,862)
Other current assets	**(529,126)**	125,382
Decrease in:		
Accounts payable and accrued expenses	**(12,632,067)**	(8,128,072)
Due to related parties	**(75,565,931)**	(1,262,583)
Cash generated from (used in) operations	**48,884,081**	(26,329,700)
Interest paid	**(91,394)**	(756,635)
Interest received	**3,721,319**	3,066,142
Income taxes paid, including creditable withholding and final tax	**(357,673)**	(9,852,549)
Net cash from (used in) operating activities	**52,156,333**	(33,872,742)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances to directors and stockholders (Note 12)	**(194,392,826)**	(219,987,471)
Advances from LMG (Note 12)	**132,167,632**	254,523,613
Advance payment received from sale of investment (Note 6)	**16,207,001**	–
Additions to property and equipment (Note 9)	**(635,190)**	(219,491)
Net proceeds from sale of investment property and available-for-sale financial assets (Notes 8 and 10)	**–**	148,029,510
Proceeds from time deposit (Note 10)	**–**	1,184,005
Decrease (increase) in other noncurrent assets	**(6,873)**	114,987
Net cash from (used in) investing activities	**(46,660,256)**	183,645,153
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable	**–**	(39,150,000)
Dividends paid (Note 13)	**–**	(86,068,444)
Cash used in financing activities	**–**	(125,218,444)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,496,077**	24,553,967
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,835,943**	281,976
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱30,332,020**	₱24,835,943

See accompanying Notes to Parent Company Financial Statements.

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

Corporate Information
Chemical Industries of the Philippines, Inc. (the Company) is incorporated in the Philippines and is the holding company of corporations primarily engaged in the manufacture and sale of industrial chemicals. The registered office address of the Company is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

The Company has two majority-owned domestic subsidiaries, namely, CAWC, Inc. (CAWC) and LMG Chemicals Corp. and Subsidiaries (LMG). In 2008, LMG has a wholly owned domestic subsidiary, Chemphil Manufacturing Corp., (CMC), and a majority-owned domestic subsidiary, Kemwater Phil. Corp. (KPC).

The Company also owns 49% of Perfumeria Española Corp. (PEC) known in the Philippines for the Heno de Pravia brand of personal care lines (see Note 6).

Status of Operation
In November 2008, the Company's Board of Directors (BOD) approved to sell the entire 49% of the Company's ownership in PEC. Accordingly, investments in PEC was classified as "Investment held for sale" in the parent company statement of financial position (see Note 6). In 2009, the Company received from the buyer of PEC shares full payment amounting to ₱16,207,001. However, as of December 31, 2009, the deed of absolute sale has not yet been executed.

During the October 8, 2009 BOD meeting of LMG, its investments in shares of CMC and KPC were declared as property dividends. A deed of assignment was executed on December 18, 2009 to assign LMG's rights, titles and interest over the 100,000,000 common shares in CMC and 69,000,000 common shares in KPC to the stockholders of LMG in proportion to their respective shareholdings.

At the same LMG BOD meeting, LMG's BOD approved the assignment of LMG's receivables from Chemoil, Inc. (Chemoil) and CMC amounting to ₱32,801,077 and ₱56,660,420, respectively to the Company.

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 issuance and by the BOD on April 14, 2010.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation
The separate financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets which have been measured at fair value and parcels of land, classified as property and equipment, which are carried at revalued amounts. The separate financial statements are presented in Philippine Peso (Peso), which is the Company's functional and presentation currency and all values are rounded to the nearest peso, except when otherwise indicated.

Statement of Compliance

The separate financial statements are prepared for submission to the Philippine Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR). The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements. The consolidated financial statements are filed and may be obtained from the SEC.

The parent company financial statements are the Company's separate financial statements and have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) following Philippine Accounting Standards (PAS) 27, *Consolidated and Separate Financial Statements*.

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 Philippine Accounting Standards (PAS), amendments and 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. They did, however, 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 brought about by the adoption of 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 a qualifying asset. In accordance with the transitional requirements in the standard, the Company will adopt this as a prospective change. The Company's previous policy was to capitalize borrowing cost directly attributable to a qualifying asset even before revision of PAS 23. This amendment has no impact on the Company since they already capitalized borrowing costs.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards* and PAS 27, *Consolidated and Separate Financial Statements*
  The amendments to PFRS 1 allowed an entity to determine the "cost" of investments in subsidiaries, jointly controlled entities or associates in its opening PFRS financial statements in accordance with PAS 27, or using a deemed cost method. The amendment to PAS 27 required all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. The revision to PAS 27 was applied prospectively. The new requirement did not affect the Company's financial statements.

- Amendments to PAS 18, *Revenue*
  The amendment 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:

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

- Amendment to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
  Amendments to PAS 27 have changes in respect of the holding companies separate financial statements including (a) the deletion of "cost method", making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
  These amendments identify, among others, certain specified features, the presence of all of which will make puttable financial instruments to be classified as equity.

- Amendment 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 17 and 18.

- PFRS 8, *Operating Segments*
  The amended standard requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly-traded, or are in the process of filing with the SEC for purposes of issuing any class of instruments in a public market.

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 PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- 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 PFRS
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 PFRS did not have an impact on the Company's financial statements.

- PAS 1, *Presentation of Financial Statements*
- PFRS 5, *Non-current 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
<u>to Existing Standards Effective Subsequent to December 31, 2009</u>
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.

Improvements to PFRS
In April 2009, the IASB issued Improvements to PFRS. 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 on 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 consists of 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 change in value.

Financial Instruments
The Company recognizes a financial asset or a financial liability in the parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases on sale of financial assets require delivery of assets within the time frame generally established by regulation in the market price.

Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs, if any, are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at fair value through profit or loss (FVPL). Fair market value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all the future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.

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 instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified as either, financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets, as appropriate. Financial liabilities on the other hand are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The Company determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting period.

As of December 31, 2009 and 2008, the Company's financial assets and financial liabilities consist of loans and receivables, AFS financial assets and 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 parent company 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 twelve (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, due from related parties, deposits and other long-term receivables (see Note 18).

b. AFS financial assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. AFS financial assets are carried at fair value in the parent company statement of financial position, if the fair values are available in the market, otherwise such assets are valued at cost. The unrealized gains or losses on changes in their fair value are recognized directly in the parent company statement of comprehensive income. When the financial asset is disposed of, the cumulative gain or loss previously recorded as other comprehensive income is recognized as part of profit or loss in the parent company statement of comprehensive income. Interest earned on the financial asset is reported as interest income using the effective interest method. These financial assets are classified as noncurrent assets unless there is intention to dispose of such assets within 12 months from the reporting period.

The Company's investments in proprietary shares are classified under this category (see Note 8).

c. 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 (e.g., accounts payable and accrued expenses) and financing (e.g., short and long-term borrowings) activities.

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss presented in the parent company statement of comprehensive income over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. Accounts payable, accrued expenses, dividends payable 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 amortized cost, normally equal to nominal amount.

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 and due to related parties as other financial liabilities.

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 right to receive cash flows from the financial asset has 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 right 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 asset, but has transferred control of the financial asset.

Where the Company has transferred its right 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 financial asset is measured at the lower of original carrying amount of the financial 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 liability is discharged, cancelled or has expired.

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

<u>Impairment of Financial Assets Carried at Amortized Cost</u>
The Company assesses at each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

a. Assets carried at amortized cost

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.

b. Assets carried at cost

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

c. AFS financial assets

If an AFS financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the parent company statement of comprehensive income, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as AFS are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss. In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Day 1 Profit or Loss

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the parent company 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 financial asset and settle the financial 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 parent company statement of financial position.

Investments in Shares of Stock

The Company's investments in shares of stock of CAWC, a 99.67% owned subsidiary, CMC, a 73.93% majority-owned subsidiary and KPC, a 44.36% owned subsidiary, are accounted for under the cost method in the parent company financial statements. A subsidiary is an entity which the Company holds, directly or indirectly, more than half of the issued share capital, or controls more than half of the voting power, or exercises control over the operation and management of the subsidiary. The Company recognizes income from investment only to the extent that the Company receives distribution from any accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of investment. Upon disposal of investments, the difference between the carrying value and the proceeds is recognized as gain or loss in profit or loss.

Property and Equipment

Property 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 December 31, 2007 by an independent firm of appraisers.

The net appraisal increment from revaluation is shown as "Revaluation increment in land" account under the equity section of the parent company 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. For subsequent revaluations, the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Any resulting increase in the asset's carrying amount as a result of the revaluation is recognized as other comprehensive income, net of related deferred tax liability. Any resulting decrease is directly charged against any related revaluation increment through the parent company statement of comprehensive income to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

The initial cost of property and equipment consists 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 and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

	Number of Years
Buildings and improvements	25-30
Machinery and equipment	3-5
Transportation equipment	3-5
Office furniture and fixtures	1-3

The residual values, useful lives and depreciation method are periodically reviewed and adjusted if appropriate at each reporting period.

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

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

Investment Property

Investment property, which is included under "Other noncurrent assets" in the parent company statement of financial position, pertains to a parcel of land not used in operations and stated at cost less any impairment in value. This is used by the Company to earn rentals under operating lease arrangements or for capital appreciation on both, rather than use in the production or supply of goods or services, or for administrative purposes; or sale in the ordinary course of business.

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

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

Assets Held for Sale

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and net selling price. Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met, only when the sale is highly probable and the assets or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the parent company statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from normal income and expenses down to the level of profit after taxes, even when the Company retains a non-controlling interest in the asset after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss.

Property and equipment once classified as held for sale are not depreciated.

Impairment of Nonfinancial Assets

The carrying values of property and equipment and investment property 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 costs 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 reflect 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, 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.

Retained Earnings
Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effects of changes in accounting policy and other capital adjustments.

Treasury Shares
The Company's common shares which are reacquired and recorded at cost (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Company's common shares.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Revenue is measured as the fair value of the consideration received less any discount and sales tax. The following specific recognition criteria must also be met before revenue is recognized:

a. Management fee is recognized as services are rendered.
b. Rental is recognized on a straight-line basis over the term of the lease.
c. Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

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

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

General, administrative and selling expenses
General and administrative expenses constitute costs of administering the business. Selling expenses are costs incurred to sell/distribute the merchandise. General, administrative and selling expenses are expensed as incurred.

Interest Expense
Interest expense is recognized as the interest accrues taking into account the effective yield on the related liability. The Company's interest expense pertains mainly to its short-term borrowings.

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.

The net retirement asset recognized by the Company in respect of the defined benefit retirement plan is the lower of (a) the present value of the defined benefit obligation at the reporting period less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms of maturity approximating the terms of the related retirement liability.

Leases
The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A re-assessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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

The determination whether a lease agreement is a finance or an operating lease is dependent on the retention or transfer of substantially all the risks and rewards incidental to the ownership of the leased asset. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

Company as lessee
Leases where the lessor retains substantially all the risks and rewards 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 rewards 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 are enacted or substantively enacted at the end of reporting period.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method, on all 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. Deferred income tax assets are recognized for all deductible temporary differences, excess of 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 excess of MCIT over RCIT and NOLCO can be utilized. Deferred income tax assets and liabilities are not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax liabilities are not provided on taxable temporary differences associated with investments in subsidiaries and affiliates.

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 asset 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 of reporting period. Unrecognized deferred income tax assets are remeasured at each reporting period, and are recognized to the extent that it has become probable that future taxable income will allow all or part of the deferred tax assets to be recovered.

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

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to offset the deferred income tax assets against the deferred 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. Outstanding 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

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 reflects 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.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the parent company financial statements but disclosed when an inflow of economic benefit is probable.

Events After the Reporting Period

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the parent company financial statements. The judgments, assumptions and estimates used in the parent company 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 have the most significant effect on the amounts recognized in the parent company financial statements.

Determination of 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. It is the currency of the primary economic environment in which the Company operates.

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 parent company statement of financial position.

The Company classified its financial assets as loans and receivables and AFS financial assets. Financial liabilities, on the other hand, are classified as other financial liabilities.

The carrying value of financial assets amounted to ₱230,864,509 and ₱122,090,220 and the carrying value of financial liabilities amounted to ₱206,566,366 and ₱277,233,180 as of December 31, 2009 and 2008, respectively (see Note 18).

Classification of leases
The Company has property leases, where it has determined that the risks and rewards of ownership of those properties are retained by the Company. Since the ownership of the property will not transfer to the lessee at the end of the lease term, these lease agreements are accounted for as operating lease. Rent income amounted to ₱5,996,668 and ₱6,600,375 in 2009 and 2008, respectively.

Classification of investment held for sale
The Company has classified its investment in PEC as held for sale since its carrying amount will be recovered principally through a sale transaction. As of December 31, 2009, full payment has been received from the buyers of PEC shares but the deed of absolute sale has not yet been executed.

Contingencies
The Company has pending deficiency tax assessments covering certain years. Management believes that the ultimate outcome of these assessments, if any, would not materially affect the Company's financial position or results of operations.

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 asset and liabilities within the next financial year are discussed below.

Estimation of allowance for doubtful accounts
The Company maintains allowance for doubtful accounts based on the result of an individual assessment under PAS 39. Under the individual assessment, the Company is required to obtain the present value of estimated cash flows using the receivable's original effective interest rate. Impairment loss is determined as the difference between the receivable's carrying balance and the computed present value. The methodology and assumptions used for the individual assessments are based on management's judgment and estimate.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year. Receivables, net of allowance for doubtful accounts, amounted to ₱50,363,343 and ₱15,539,573 as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts amounted to ₱14,665,126 in December 31, 2009 and 2008 (see Note 5). Due from related parties, net of allowance for doubtful accounts, amounted to ₱345,777,392 and ₱294,655,809 as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts amounted to ₱8,518,099 in both years. Long-term receivables included under "Other noncurrent asset account" amounted to ₱2,319,422 and ₱2,287,432 as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts amounted to ₱534,533 in both years.

Revaluation of land
The Company's parcels of land, included in property and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The valuations of land are performed by professionally qualified appraisers. Revaluation is made with sufficient regularity such that the carrying value does not differ materially from that which would be determined using fair value at reporting period.

The revalued amount of land amounted to ₱252,250,000 as of December 31, 2009 and 2008 (see Note 9).

Determination of impairment on nonfinancial assets
The Company assesses impairment on nonfinancial assets, which includes property and equipment, whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

There were no indicators of impairment that warranted impairment review as of December 31, 2009 and 2008.

Estimation of useful lives of property and equipment
The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of 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 and equipment would increase depreciation expense and decrease noncurrent assets. The carrying values of the property and equipment at cost amounted to ₱1,120,400 and ₱1,094,046 as of December 31, 2009 and 2008, respectively (see Note 9). Total depreciation expense charged to profit or loss amounted to ₱608,836 and ₱582,397 in 2009 and 2008, respectively (see Note 9). The estimated useful lives of the Company's depreciable assets are disclosed in Note 2.

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 future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company's deferred income tax assets amounted to ₱12,739,457 and ₱12,696,971 as of December 31, 2009 and 2008, respectively (see Note 16).

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 the actuary in calculating such amounts. Those assumptions are described in Note 15 and include among others, discount rates, expected returns on plan asset and salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and thereafter, generally affect the recognized expenses 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.

The Company's accrued retirement benefits payable amounted to ₱729,801 as of December 31, 2008 and nil in 2009. Retirement expense charged to operations amounted to ₱3,093,429 in 2009 and ₱1,822,637 in 2008 (see Note 15).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	**₱965,955**	₱2,235,943
Short-term investments	**29,366,065**	22,600,000
	₱30,332,020	₱24,835,943

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are 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 amounted to ₱1,175,157 and ₱435,817 in 2009 and 2008, respectively.

5. Receivables

	2009	2008
Trade	**₱1,840,509**	₱1,309,719
Receivable from Chemoil	**32,801,077**	–
Officers and employees	**44,248**	73,149
Current portion of receivable from MERALCO - net of deferred interest income (Note 10)	**52,432**	47,701
Others	**30,290,203**	28,774,130
	65,028,469	30,204,699
Less allowance for doubtful accounts	**14,665,126**	14,665,126
	₱50,363,343	₱15,539,573

On October 8, 2009, LMG's BOD approved the assignment of the outstanding receivable from Chemoil amounting to ₱44,367,750 to LMG's stockholders, in proportion to their shareholdings in LMG. As such, the Company recognized receivable from Chemoil amounting to ₱32,801,077 as of December 31, 2009.

Other receivables mainly pertain to the remaining outstanding balance collectible from the sale of the investment property amounting to ₱9.6 million (see Note 10) and advances to Phil. Indochem amounting to ₱13.1 million.

A reconciliation of the allowance for impairment losses for accounts receivables is as follows:

	2009	2008
Beginning balances	**₱14,665,126**	₱615,363
Provision for doubtful accounts (Note 14)	**–**	14,049,763
Ending balances	**₱14,665,126**	₱14,665,126

As of December 31, 2009, total allowance for doubtful accounts pertain to past due accounts, and there was no impairment of trade and other receivables classified as high grade, standard grade, or substandard grade (see Note 17).

6. Investment Held for Sale

In 2008, Perfumeria Gal of Spain (GAL), 51% owner of PEC, decided to cease all its business activities in the Philippines and Asia to focus mainly on its business operations in Europe and in the United States. In GAL's special BOD meeting held in May 2008, GAL made an offer to the Company to sell to the Company the entire 51% shareholdings in PEC and for the Company to exercise its right of first refusal. However, the Company's BOD declined this offer. GAL's shares were then offered to a group of private business individuals who in return purchased 51% of PEC's shares in June 2008.

In November 2008, the Company's BOD approved to sell the entire 49% of the Company's ownership in PEC to the same set of private business individuals subject to certain terms and conditions. Accordingly, the carrying value of PEC shares was reclassified and presented under "Investment held for sale" account in the parent company statement of financial position as of December 31, 2008. In 2009, the Company received from the buyers of PEC shares full payment amounting to ₱16,207,001. However, as of December 31, 2009, the deed of absolute sale has not yet been executed.

7. Other Current Assets

	2009	2008
Prepaid taxes	**₱6,358,210**	₱5,760,636
Investment in trust fund	**503,308**	503,308
Supplies	**355,837**	406,359
Deposits and others	**345,932**	363,858
	₱7,563,287	₱7,034,161

8. Investments

	2009	2008
Investments in subsidiaries and associates (Note 6)	**₱590,295,416**	₱151,162,945
Available-for-sale financial assets	**8,247,026**	7,142,023
	₱598,542,442	₱158,304,968

Subsidiaries and associates
Movements in the investments in subsidiaries and associates are as follows:

	2009	2008
Beginning balance	**₱151,162,945**	₱161,966,251
Investments in CMC and KPC (Notes 1 and 12)	**439,132,471**	–
Investment in PEC reclassified as held for sale (Note 6)	**–**	(10,803,306)
Ending balances	**₱590,295,416**	₱151,162,945

Investments in subsidiaries and associates, which are all incorporated in the Philippines, consist of investments in the shares of stock of the following companies:

Subsidiaries and associates	Percentage of Ownership	
	2009	2008
CAWC	**99.67**	99.67
LMG	**73.93**	73.93
CMC	**73.93**	–
KPC	**44.36**	–
PEC	**49.00**	49.00

In 2008, investment in PEC (an associate) was reclassified to "Investment held for sale" (see Note 6).

On May 19, 2009, the BOD of LMG declared cash dividend amounting to ₱344,041,443 to its stockholders of record as of June 2, 2009. On October 8, 2009, the BOD of LMG partially rescinded the cash dividend declared on May 19, 2009 in the amount of ₱121,070,373 thereby making the effective cash dividend declared by LMG to be ₱222,971,070. The Company's share amounting to ₱164,968,711 recorded as dividend income in 2009 was offset against advances from LMG (see Note 12).

At the same LMG BOD meeting, LMG's BOD declared LMG's investments in shares of CMC and KPC as property dividends and on December 18, 2009, a deed of assignment was executed to assign LMG's rights, titles and interest over the 100,000,000 common shares in CMC and 69,000,000 common shares in KPC to the stockholders of the LMG in proportion to their respective shareholdings. The carrying value of the investments in shares of CMC and KPC recorded as dividend income in 2009 amounted to ₱439,132,471.

The combined financial information of its subsidiaries, excluding that of PEC, are summarized below:

	2009	2008
Total assets	**₱1,370,024,587**	₱1,600,683,482
Total liabilities	**517,093,892**	470,045,089
Minority interest	**49,540,524**	50,965,789
Total equity	**803,390,172**	1,079,672,604
Net income	**54,495,343**	197,774,892

Deferred credit, amounting to ₱1,478,919, classified as noncurrent liability in the parent company statements of financial position, pertains to the portion of the gain on sale of the Company's 4.79% ownership in KPC to LMG attributable to the Company's interest in LMG. This was deferred and will only be realized from transactions with outside parties through sale. The portion of the gain on sale attributable to the deemed sale to the minority in LMG amounting to ₱521,512 was recognized as a realized gain in 2003, the year of sale.

Available-for-sale
Available-for-sale financial assets consist of investment in proprietary shares amounting to ₱7,634,304 and ₱6,529,301 as of December 31, 2009 and 2008, respectively, and bonds and other debt instruments amounting to ₱612,722 as of December 31, 2009 and 2008.

In 2008, the Company sold one of its instruments in proprietary shares amounting to ₱16,000,000 resulting in a gain of ₱9,869,510.

Available-for-sale financial assets are carried at fair value, net cumulative gain on changes in fair value as of December 31, 2009 and 2008 of ₱5,185,775, net of deferred tax liability of ₱568,724, and ₱4,046,654, net of deferred tax liability of ₱440,350, respectively, is recognized as a separate component of equity.

9. Property and Equipment

	2009				
	Buildings and Improvements	**Machinery and Equipment**	**Transportation Equipment**	**Office Furniture and Fixtures**	**Total**
Cost					
Beginning balances	**₱22,894,117**	**₱9,209,012**	**₱4,195,091**	**₱29,585,347**	**₱65,883,567**
Additions	**–**	**–**	**–**	**635,190**	**635,190**
Ending balances	**22,894,117**	**9,209,012**	**4,195,091**	**30,220,537**	**66,518,757**
Accumulated Depreciation					
Beginning balances	**22,072,410**	**9,198,074**	**4,195,074**	**29,323,963**	**64,789,521**
Depreciation	**342,988**	**3,403**	**–**	**262,445**	**608,836**
Ending balances	**22,415,398**	**9,201,477**	**4,195,074**	**29,586,408**	**65,398,357**
Net Book Values	**₱478,719**	**₱7,535**	**₱17**	**₱634,129**	**₱1,120,400**

	2008				
	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Total
Cost					
Beginning balances	₱22,894,117	₱9,194,012	₱4,195,091	₱29,380,856	₱65,664,076
Additions	–	15,000	–	204,491	219,491
Ending balances	22,894,117	9,209,012	4,195,091	29,585,347	65,883,567
Accumulated Depreciation					
Beginning balances	21,641,631	9,193,908	4,195,074	29,176,511	64,207,124
Depreciation	430,777	4,167	–	147,453	582,397
Ending balances	22,072,408	9,198,075	4,195,074	29,323,964	64,789,521
Net Book Values	₱821,709	₱10,937	₱17	₱261,383	₱1,094,046

Carrying value of land as of December 31, 2009 and 2008 are as follows:

Land	
At revalued amount	₱252,250,000
At cost	₱1,361,700

Land is carried at revalued amounts using the fair market value as determined by an independent firm of appraisers on October 9, 2001. The resulting increase in valuation of these assets amounting to ₱163,077,395, net of deferred tax liability of ₱87,810,905, is presented under the "Revaluation increment in land" account in the equity section of the parent company statement of financial position as of December 31, 2007.

In 2008, as a result of changes in applicable tax rates subsequent to 2008 (see Note 16), the Company decreased the related deferred tax liability on appraisal increase by ₱12,544,415 and increased the revaluation increment in land by the same amount. As of December 31, 2009 and

2008, the revaluation increment in land amounted to ₱175,621,810, net of deferred tax liability of ₱75,266,490. There was no change in the valuation of these assets based on the appraisal report dated March 16, 2007.

The cost of fully depreciated property and equipment which are still used in operations as of December 31, 2009 and 2008 are as follows:

	2009	2008
Buildings and improvements	**₱12,478,315**	₱11,213,276
Machinery and equipment	**9,194,012**	9,194,012
Transportation equipment	**4,195,091**	4,740,545
Office furniture and fixtures	**29,279,231**	24,178,293
	₱55,146,649	₱49,326,126

10. **Other Noncurrent Assets**

	2009	2008
Investment property - land not used in operations (Note 20)	**₱10,363,446**	₱10,363,446
Other long-term receivables	**2,853,955**	2,821,965
Cash in bank restricted for use in operations	**956,969**	1,058,030
Receivable from MERALCO - net of deferred interest income	**13,900**	66,332
	14,188,270	14,309,773
Less allowance for doubtful accounts	**534,533**	534,533
	₱13,653,737	₱13,775,240

Investment property
Investment property - land not used in operations is carried at cost. The appraised value of the property amounted to ₱357.9 million as determined by independent appraisers on March 16, 2007. The excess of the appraised value of the land over the carrying value is not recognized in the parent company financial statements.

In 2008, the Company sold its land in Pinamucan, Batangas to a third party. Gain on sale of investment property amounted to ₱104,962,327. Outstanding balance collectible from the sale amounted to ₱9.6 million as of December 31, 2009 and 2008.

Restricted cash
Cash in bank restricted for use in operations as of December 31, 2009 consists of time deposit which serves as a collateral for garnished bank accounts related to the lawsuit filed by one of the Company's stockholders. In 2008, the cash in bank was restricted for payments for notes payable.

Receivable from MERALCO
In 2005, Manila Electric Company (MERALCO) informed the Company that in reference to the MERALCO Phase IVB of the refund approved by the Energy Regulatory Board, the Company's electric service was qualified for refund under Phase IVB.

Under the MERALCO refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company recovers the refund through postdated checks to be collected over 5.25 years, starting in April 2006 up to July 2011. The

Company recognized a receivable from MERALCO amounting to ₱1,212,589 consisting of unearned interest income of ₱116,613 and income from refund of ₱1,095,976. The receivable was discounted using an effective interest rate of 11%. Breakdown of outstanding balances are as follows:

	2009		2008	
	Current	**Noncurrent**	Current	Noncurrent
Receivable from MERALCO	**₱56,934**	**₱14,233**	₱56,934	₱71,167
Deferred interest income	**4,502**	**333**	9,233	4,835

The current portion of the refund receivable is presented under "Receivables" account in the parent company statements of financial position (see Note 5).

11. Accounts Payable and Accrued Expenses

	2009	2008
Trade account payable	**₱305,588**	₱683,046
Accrued expenses	**1,727,898**	2,612,549
Output taxes payable	**2,213,140**	2,173,769
Dividends payable (Note 12)	**2,016,824**	13,994,583
Advances from tenants	**1,126,423**	1,126,423
Withholding tax, SSS and PAG-IBIG payable	**553,208**	751,886
Other payables	**1,482,173**	715,065
	₱9,425,254	₱22,057,321

In 2009, dividends payable amounting to ₱11,977,759 was offset against the receivables from the respective stockholders (see Note 12).

12. Related Party Transactions

The Company has the following significant transactions with related parties:

a. Service agreements with affiliates. The service fee consists of management fee and shared services fee. Management fee represents the related parties' share in the general corporate overhead incurred by the Company. The shared services fee is billed using an activity-based costing, under which, services rendered are based on manhours spent or number of items processed or output produced, as applicable. Management fee and shared services fee charged to affiliates are as follows:

	2009	2008
Management Fee:		
CMC	**₱2,500,000**	₱2,500,000
CAWC	**1,200,000**	2,100,000
Vision Insurance Consultants, Inc. (VIC)	**600,000**	600,000
Landco	**–**	17,200,000
	₱4,300,000	₱22,400,000

(Forward)

	2009	2008
Shared Services Fee:		
CMC	**₱11,091,996**	₱11,091,996
KPC	**6,434,634**	5,940,237
CAWC	**3,360,000**	5,880,000
PEC	**1,232,143**	1,232,143
VIC	**960,000**	960,000
Landco	**–**	7,600,000
	₱23,078,773	₱32,704,376

b. Rental agreement with subsidiaries and affiliates for one year renewable at the option of both parties. Total rental income from subsidiaries and affiliates are as follows:

	2009	2008
PEC	**₱271,092**	₱271,092
KPC	**265,068**	265,068
CMC	**257,652**	276,524
CAWC	**218,350**	341,550
VIC	**75,520**	77,711
	1,087,682	1,231,945
Less discount to tenant	**117,562**	224,789
	₱970,120	₱1,007,156

c. Extension and availment of noninterest and interest-bearing (interest rates of 10% in 2009 and 2008) cash advances. Interest income earned amounted to ₱2,545,467 and ₱2,558,406 in 2009 and 2008, respectively. Related interest expense amounted to ₱91,394 and ₱220,260 in 2009 and 2008, respectively.

d. In October 2003, the Company entered into a loan agreement with CAWC. Also, in 2008 and 2007, the Company extended advances to CAWC with interest rate of 8% in both years. Outstanding advances amounted to ₱63,022,906 and ₱55,159,700 in 2009 and 2008, respectively. Interest income from these advances amounted to ₱2,545,467 and ₱2,558,406 in 2009 and 2008, respectively.

e. Due from directors and stockholders pertain to noninterest-bearing cash advances extended by the company to its directors and stockholders. These advances are due and demandable anytime during the year

f. In 2009, LMG declared cash dividends amounting to ₱222,971,070 million. The Company's share amounting to ₱164,968,711 was offset against the outstanding advances from LMG.

Outstanding balances from the foregoing transactions are as follows:

	Advances									
	Noninterest-bearing		Interest-bearing		Interest		Others		2009	2008
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**Total**	Total
Due from:										
Petrocorp	**₱–**	₱–	**₱–**	₱–	**₱1,026,861**	₱1,026,861	**₱7,485,778**	₱7,485,778	**₱8,512,639**	₱8,512,639
CMC	–	–	**–**	–	**–**	–	**60,604,353**	6,844,983	**60,604,353**	6,844,983
KPC	–	–	**–**	–	**–**	–	**562,355**	145,524	**562,355**	145,524
Landco	–	–	**–**	–	**–**	–	**7,011,486**	7,011,486	**7,011,486**	7,011,486

(Forward)

	Advances									
	Noninterest-bearing		Interest-bearing		Interest		Others		2009	2008
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**Total**	Total
CAWC	**₱–**	₱–	**₱63,022,906**	₱55,159,700	**₱7,120,610**	₱4,586,460	**₱38,788**	₱36,222	**₱70,182,304**	₱59,782,382
PEC	**–**	–	**–**	–		–	**1,051,768**	889,423	**1,051,768**	889,423
Advances to directors and stockholders	**206,370,586**	219,987,471	**–**	–	**–**	–	**–**	–	**206,370,586**	219,987,471
Total	**206,370,586**	219,987,471	**63,022,906**	55,159,700	**8,147,471**	5,613,321	**76,754,528**	22,413,416	**354,295,491**	303,173,908
Less allowance for doubtful accounts	**–**	–	**–**	–	**1,026,861**	1,026,861	**7,491,238**	7,491,238	**8,518,099**	8,518,099
	₱206,370,586	₱219,987,471	**₱63,022,906**	₱55,159,700	**₱7,120,610**	₱4,586,460	**₱69,263,290**	₱14,922,178	**₱345,777,392**	₱294,655,809

			Advances									
	Premiums Payable		Noninterest-bearing		Interest-bearing		Interest		Others		2009	2008
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**Total**	Total
Due to:												
VIC	**₱401,329**	₱477,394	**₱–**	₱–	**₱607,019**	₱607,019	**₱–**	₱–	**₱–**	₱–	**₱1,008,348**	₱1,084,413
LMG	**–**	–	**–**	254,523,613	**1,642,352**	1,642,352	**–**	–	**–**	–	**1,642,352**	256,165,965
Others	**–**	–	**–**	–	**–**	–	**–**	–	**179,132,996**	99,249	**179,132,996**	99,249
	₱401,329	₱477,394	**₱–**	₱254,523,613	**₱2,249,371**	₱2,249,371	**₱–**	₱–	**₱179,132,996**	₱99,249	**₱181,783,696**	₱257,349,627

g. In October 2009, LMG receivables amounting to ₱89,478,908 were assigned to the Company (see Note 1).

h. Compensation of key management personnel consists of short-term employee benefits and termination benefits amounting to ₱2,918,334 and ₱239,065, respectively, in 2009 and ₱2,573,237 and ₱318,397, respectively, in 2008.

13. Retained Earnings

On December 8, 2008, the Company declared cash dividends in the sum of ₱100,000,000 to stockholders of record as of December 11, 2008 and payable on or before January 13, 2009. Total outstanding shares of stock as of the declaration date was 10,296,601 shares excluding treasury shares of 87, resulting in dividends of ₱9.71 per share which was directly charged to unappropriated retained earnings. The Company's retained earnings are restricted for dividend distribution up to the extent of the cost of treasury shares amounting to ₱870.

14. Operating Costs and Expenses

	2009	2008
Salaries and other compensation	**₱16,277,592**	₱17,315,890
Outside services	**6,830,599**	9,193,228
Communication, light and water	**3,769,412**	4,125,336
Retirement benefits cost (Note 15)	**3,093,429**	1,822,637
Taxes and licenses	**2,079,206**	1,698,711
Repairs and maintenance	**2,024,312**	1,656,235
Depreciation and amortization (Note 9)	**608,836**	582,397
Impairment of available-for-sale financial assets	**162,496**	387,500
Travel	**142,642**	132,995
Insurance	**94,950**	119,479
Provision for doubtful accounts (Note 5)	**–**	14,049,763
Others	**1,271,853**	1,462,267
	36,355,327	52,546,438
Less share of subsidiaries and related parties in cost of common services (Note 12)	**23,078,773**	32,704,376
	₱13,276,554	₱19,842,062

15. **Retirement Benefits Cost**

The Company has a funded, non-contributory defined benefit retirement plan covering substantially all permanent employees, which requires contributions to be made to a separately administered fund.

The following tables summarize the components of retirement benefits cost recognized in the parent company statements of comprehensive income and the funding status and amounts recognized in the parent company statements of financial position.

Net retirement benefits cost recognized in the parent company statements of comprehensive income are as follows:

	2009	2008
Current service cost	**₱485,824**	₱651,467
Interest cost	**1,577,383**	1,095,084
Expected return on plan assets	**(607,053)**	(20,558)
Net actuarial loss recognized	**199,966**	96,644
Effect of asset limit	**1,437,309**	–
Retirement benefits cost for the year	**₱3,093,429**	₱1,822,637
Actual return (loss) on plan assets	**(₱69,229)**	₱373,025

Accrued retirement benefits payable recognized in the parent company statements of financial position are as follows:

	2009	2008
Present value of the obligation	**₱16,094,298**	₱11,995,074
Fair value of plan assets	**(6,748,305)**	(6,070,531)
	9,345,993	5,924,543
Unrecognized net actuarial loss	**(10,783,302)**	(5,194,742)
Asset ceiling limit	**1,437,309**	–
Accrued retirement benefits payable	**₱–**	₱729,801

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

	2009	2008
Balance at beginning of year	**₱11,995,074**	₱10,463,906
Current service cost	**485,824**	651,467
Interest cost	**1,577,352**	1,095,084
Benefits paid	**(3,076,196)**	(2,062,293)
Actuarial gain on obligation	**5,112,244**	1,846,910
Balance at end of year	**₱16,094,298**	₱11,995,074

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

	2009	2008
Balance at beginning of year	**₱6,070,531**	₱205,578
Expected return on plan assets	**607,053**	20,558
Actual contributions	**3,823,199**	8,300,271
Benefits paid	**(3,076,196)**	(2,062,293)
Actuarial loss on plan assets	**(676,282)**	(393,583)
Balance at end of year	**₱6,748,305**	₱6,070,531

The major categories of plan assets of the Company as a percentage of the fair value of the plan assets as of December 31, 2009 and 2008 are as follows:

	2009	2008
Investment in government securities	**48%**	58%
Investment in stock	**46%**	25%
Other investments	**4%**	5%
Other assets	**2%**	12%

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

The principal assumptions used in determining retirement benefits cost for the Company's plan are as follows as of January 1 of each year:

	2009	2008
Discount rate per annum	**13.15%**	10.47%
Expected annual rate of return on plan assets	**10.00%**	10.00%
Future annual increase in salary	**6.30%**	6.30%

As of December 31, 2009, the following are the assumptions: discount rate of 13.15%, expected annual rate of return on plan assets of 10%, and future annual increase in salary of 6.30%.

Amount for the current and previous annual period of the present value of the defined benefit obligation, fair value of plan assets, deficit in the plan and any experience adjustments are as follows:

	2009	2008	2007	2006
Defined benefit obligations	**₱16,094,298**	₱11,995,074	₱10,463,906	₱22,496,777
Fair value of plan assets	**(6,748,305)**	6,070,531	205,578	8,334,917
Unfunded retirement obligation	**9,345,993**	5,924,543	10,258,328	14,161,860
Experience adjustment on plan liabilities - loss (gain)	**–**	–	(2,122,785)	3,728,932
Experience adjustment on plan assets - loss	**–**	–	(236,904)	(3,524,076)

The Company expects to contribute ₱2,900,860 million to the retirement fund in 2010.

16. **Income Taxes**

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

	2009	2008
MCIT	**₱260,270**	₱–
RCIT	**–**	7,207,346
Capital gains tax	**–**	7,924,600
Final tax on interest income	**225,777**	84,456
	₱486,047	₱15,216,402

b. The components of the Company’s net deferred income tax liability included in the parent company statements of financial position are as follows:

	2009	2008
Deferred income tax assets on:		
Allowance for doubtful accounts	**₱7,113,689**	₱7,113,689
Unamortized past service cost contributions	**5,272,050**	5,015,632
Accrued other expenses	**201,209**	193,430
Provision for probable losses	**157,810**	157,810
Interest from MERALCO refund	**(5,301)**	(2,531)
Accrued retirement benefits	**–**	218,941
	12,739,457	12,696,971
Deferred income tax liabilities on:		
Revaluation increment in land	**75,266,490**	75,266,490
Cumulative changes in fair value of available-for-sale financial assets (Note 8)	**568,724**	440,350
	75,835,214	75,706,840
Net deferred income tax liabilities	**₱63,095,757**	₱63,009,869

Management believes that it is not probable 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 reconciliation of the income taxes computed at the statutory income tax rates to the provision for income tax shown in the parent company statements of comprehensive income follows:

	2009	2008
Provision for income tax computed at statutory income tax rates	**₱181,215,669**	₱44,852,965
Adjustments for:		
Dividend income	**(181,230,355)**	(125,380)
MCIT	**260,270**	–
Nondeductible expense	**166,177**	62,075
Interest income subjected to final tax	**(112,890)**	(63,342)
NOLCO	**68,523**	–
Gain on sale of investments	**–**	(33,756,543)
Nondeductible portion of interest expense	**27,418**	–
Others	**48,749**	–
Effect of change in income tax rates	**–**	3,250,043
Provision for income tax	**₱443,561**	₱14,219,818

As of December 31, 2009, the Company’s NOLCO and MCIT that are available for deduction from future taxable income and regular corporate income tax, respectively, are as follows:

<u>NOLCO</u>

Year Incurred	NOLCO incurred	Expiry Date	Expired/ Applied	Balance as of December 31, 2009	Tax Effect
2006	₱2,555,468	2009	2,555,468		
2009	837,476	2012	–	837,4	251,2
	₱3,392,944		–	₱837,4	₱251,2

MCIT

Year Incurred	MCIT incurred	Expiry date	Balance as of December 31, 2009
2009	₱260,270	2012	₱260,270

e. Under Republic Act 9337, the Expanded Value-Added Tax Act of 2005, which took effect on November 1, 2005, the corporate income tax rate shall be 35% for three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter; and the unallowable deduction for interest expense shall be 42% of the interest income subject to final tax, effective November 1, 2005 and 33% effective January 1, 2009.

f. The President signed into law on June 17, 2008 RA 9504 amending provisions of the 1997 Tax Code. RA 9504 became effective on July 7, 2008 fifteen (15) days after its publication last June 22, 2008 in major newspapers of general circulation. The new law shall be effective starting taxable year 2008. The new law includes provision relating to the availment of optional standard deductions (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 return its intention to avail 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.

17. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise cash and cash equivalents, receivable from MERALCO, available-for-sale investments and notes payable. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various other financial assets and liabilities, such as trade receivables and trade payables and due to/from related parties, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below.

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.

The Company's remaining receivables consist of receivables from government agencies and related parties. These receivable balances are monitored on a continuous basis with the result that the Company's exposure to bad debts is not significant.

Maximum exposure to credit risk
The table below shows the maximum exposure to credit risk for the components of the parent company statements of financial position. The maximum exposure as of December 31, 2009 and 2008 is shown gross, before the effect of mitigation through the use of master netting and collateral agreements, if any.

	2009	2008
Cash and cash equivalents, excluding cash on hand	**₱30,173,079**	₱24,808,161
Receivables	**50,363,343**	15,539,573
Available-for-sale financial assets	**8,247,026**	7,142,023
Due from related parties, excluding advances to directors and stockholders	**139,406,806**	74,668,338
Receivable from MERALCO	**13,900**	66,332
Other long term receivables	**2,853,955**	2,821,965
	₱231,058,109	₱125,046,392

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality of financial assets
The credit quality of financial assets is managed by the Company using results of internal credit evaluation. The tables below show the credit quality by class of financial asset based on the Company's assessment.

As of December 31, 2009

	Neither past due nor impaired		**Past due**		
	High Grade	**Standard Grade**	**but not impaired**	**Impaired**	**Total**
Cash and cash equivalents	**₱30,173,079**	**₱**	**₱–**	**₱–**	**₱30,173,079**
Receivables	**50,363,343**	**–**	**–**	**14,665,126**	**65,028,469**
Available-for-sale financial assets	**8,247,026**	**–**	**–**	**–**	**8,247,026**
Due from related parties	**130,888,707**	**–**	**–**	**8,518,099**	**139,406,806**
Receivable from MERALCO	**13,900**	**–**	**–**	**–**	**13,900**
Other long term receivables	**2,853,955**	**–**	**–**	**–**	**2,853,955**
	₱222,540,010	**₱–**	**₱–**	**₱23,183,225**	**₱245,723,235**

As of December 31, 2008

	Neither past due nor impaired		Past due		
	High Grade	Standard Grade	but not impaired	Impaired	Total
Cash and cash equivalents	₱24,808,161	₱–	₱–	₱–	₱24,808,161
Receivables	9,695,721	73,149	5,770,703	14,665,126	30,204,699
Available-for-sale financial assets	4,356,527	–	–	–	4,356,527
Due from related parties	74,668,338	–	–	8,518,099	83,186,437
Deposits and others	–	363,858	–	–	363,858
Receivable from MERALCO	66,332	–	–	–	66,332
Other long term receivables	2,287,432	–	534,533	–	2,821,965
	₱115,882,511	₱437,007	₱6,305,236	₱23,183,225	₱145,807,979

Aging analysis of past due but not impaired receivables and other long-term receivables as of December 31, 2008

	Days Overdue				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
Receivables	₱297,740	₱323,015	₱249,410	₱4,900,538	₱5,770,703
Other long term receivables	–	–	–	534,533	534,533
	₱297,740	₱323,015	₱249,410	₱5,435,071	₱6,305,236

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 date, 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. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Company addresses liquidity concerns primarily through cash flows from operations and short-term borrowings.

The tables below summarize the maturity profile of the Company's financial assets held for liquidity purposes and financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's deposit retention history.

As of December 31, 2009

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Financial assets:					
Cash in bank and cash equivalents	**₱30,173,079**	**₱–**	**₱–**	**₱–**	**₱30,173,079**
Receivables	**–**	**–**	**–**	**50,363,343**	**50,363,343**

(Forward)

SGVMC310454

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Total**
Receivable from MERALCO	**₱–**	**₱13,900**	**₱–**	**₱–**	**₱13,900**
Due to related parties	**139,406,806**	**–**	**–**	**–**	**139,406,806**
Other long-term receivables	**–**	**–**	**2,821,965**	**–**	**2,821,965**
Available-for-sale financial assets	**–**	**–**	**–**	**8,247,026**	**8,247,026**
Total undiscounted financial assets	**₱169,579,885**	**₱13,900**	**₱2,821,965**	**₱58,605,369**	**₱230,864,509**
Financial liabilities:					
Accounts payable and accrued expenses	**₱7,212,114**	**₱–**	**₱–**	**₱–**	**₱7,212,114**
Due to related parties	**181,786,696**	**–**	**–**	**–**	**181,786,696**
Total undiscounted financial liabilities	**₱188,998,810**	**₱–**	**₱–**	**₱–**	**₱188,998,810**

As of December 31, 2008

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
Financial assets:					
Cash in bank and cash equivalents	₱24,808,161	₱–	₱–	₱–	₱24,808,161
Receivables	–	–	–	15,539,573	15,539,573
Receivable from MERALCO	–	66,332		–	66,332
Due to related parties	74,668,338	–	–	–	74,668,338
Deposits and others	–	–	363,858	–	363,858
Other long-term receivables	–	–	2,287,431	–	2,287,431
Available-for-sale financial assets	–	–	–	4,356,527	4,356,527
Total undiscounted financial assets	₱99,476,499	₱66,332	₱2,651,289	₱19,896,100	₱122,090,220
Financial liabilities:					
Accounts payable and accrued expenses	₱19,883,553	₱–	₱–	₱–	₱19,883,553
Due to related parties	257,349,627	–	–	–	257,349,627
Total undiscounted financial liabilities	₱277,233,180	₱–	₱–	₱–	₱277,233,180

18. Financial Assets and Financial Liabilities

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

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Financial assets:				
Loans and receivables				
Cash in bank and cash equivalents	**₱30,173,079**	₱24,808,161	**₱30,173,079**	₱24,808,161
Receivables	**50,363,343**	15,539,573	**50,363,343**	15,539,573
Receivable from MERALCO	**13,900**	66,332	**11,570**	67,270

(Forward)

SGVMC310454

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Due from related parties	**₱139,406,806**	₱74,668,338	**₱139,406,806**	₱74,668,338
Other long term receivables	**2,319,423**	2,287,431	**2,319,423**	2,287,431
Available-for-sale financial assets	**2,853,955**	4,356,527	**2,853,955**	4,356,527
	₱225,130,506	₱121,726,362	**₱225,128,176**	₱121,727,300
Financial liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**₱7,212,114**	₱19,883,553	**₱7,212,114**	₱19,883,553
Due to related parties	**181,783,696**	257,349,627	**181,783,696**	257,349,627
	₱188,995,810	₱277,233,180	**₱188,995,810**	₱277,233,180

The carrying amounts of cash and cash equivalents, trade and other receivables and payables, due to/from related parties, note payable and long term receivables approximate their fair values because of their short-term nature.

The fair value of "Receivable from MERALCO" was determined using the effective interest rate of 17.62% in 2009 and 6.44% in 2008 and computed based on the remaining receivable balance as of each reporting period.

The Company uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Quoted prices have been used to determine the fair values of available-for-sale investments.

19. 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. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The following table summarizes the total capital considered by the Company:

	2009	2008
Capital stock	**₱102,966,880**	₱102,966,880
Additional paid-in capital	**16,621,243**	16,621,243
Revaluation increment in land	**175,621,810**	175,621,810
Retained earnings	**738,020,462**	134,411,792
Treasury Shares	**(870)**	(870)
	₱1,033,229,525	₱429,620,855

20. Comprehensive Agrarian Reform Law

The CARL (Executive Order No. 229 and Republic Act No. 6657) provides, among others, the redistribution of all private and agricultural lands regardless of tenurial arrangements and commodity produced, subject to certain terms and conditions.

The Company owns parcels of land located in Cuyapo, Nueva Ecija that are subjected to CARL 7.3437 hectares, costing ₱181,484, were placed by the Department of Agrarian Reform (DAR) under the Compulsory Acquisition scheme. The DAR Arbitration Board (DARAB) in Talavera, Nueva Ecija affirmed the valuation of Land Bank of the Philippines (LBP) fixing the just compensation to ₱186,717. The Company filed a motion for reconsideration reiterating the Company's position that the property should be valued at ₱587,496 based on the appraisal made by an independent appraiser in 2001. The motion was denied by the DARAB. The Company has elevated the case to the Regional Trial Court (RTC). On January 4, 2007, the RTC denied the Company's petition for just compensation. The Company thereafter manifested its intention to the DAR and LBP to accept the amount of ₱186,717. The Company is waiting for thedocumentary requirements from the said government agencies to facilitate the payment.

21. Other Matters

The Company is one of the defendants in a court case involving a dispute between two stockholders. The case involves the complaint for damages in the amount of ₱390.0 million based on the allegation of a certain stockholder that it suffered damages as a result of the defendants' alleged fraudulent act of representing that the shares purchased from one of the defendants were free from all liens and encumbrances other than those stated in the deed of sale.

On September 4, 2000, the RTC rendered a decision ordering the defendants to pay the plaintiff the total amount of ₱269.1 million, which consisted of ₱256.0 million for the value of lost shares minus the balance of the purchase price, ₱12.0 million for litigation expenses, ₱0.1 million for exemplary damages, and ₱1.0 million for attorney's fees. The motions for reconsideration were filed by the defendants but were denied by the RTC on November 14, 2000.

On March 5, 2004, there was a notice of decision from the Court of Appeals exonerating the Company on the above case.

Motions for partial reconsideration were filed by the two stockholders with the Supreme Court. As of April 14, 2010, the motions have remained pending with the said court.

22. Notes to Statements of Cash Flows

The principal noncash transactions in 2009 under investing activities pertain to the advances to CMC that was assigned by LMG to the Company amounting to ₱56,660,420.

Board of Directors

Antonio M. Garcia
Chairman of the Board

Jesus N. Alcordo

Ramon M. Garcia

Manuel M. Gamboa

Ana Maria G. Ordoveza
President &
Chief Executive Officer

Paulino C. Alvaro

Augusto P. Nilo

Executive Officers

Antonio M. Garcia	-	Chairman of the Board
Ana Maria G. Ordoveza	-	President & Chief Executive Officer
Jose Ricardo C. Garcia	-	Treasurer
Luis A. Vera Cruz	-	Corporate Secretary
Salvador L. Pena	-	Asst. 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, Corprate 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

HEAD OFFICE
Chemphil Building, 851 Antonio S. Arnaiz Avenue
Legaspi Village, Makati City
Telephone Nos.: 818-8711 to 28
Fax No.: 817-4803

PLANT LOCATION
Bo. Kalawaan, Pasig City
Telephone Nos.: 641-0891 to 94, 641-9275 to 77
Fax No.: 641-8987

MAILING ADDRESS
P.O. Box 1489
Makati Central Post Office

WEBSITE
www.chemphil.com.ph

Email ADDRESS
chemphilgroup@chemphil.com.ph
mktg&infoservices@chemphil.com.ph

EXTERNAL AUDITOR
SyCip, Gorres, Velayo & Co.
SGV Building, 6760 Ayala Avenue
Makati City

EXTERNAL LEGAL COUNSELS
Angara, Abello, Concepcion, Regala & Cruz
5th Floor, ACCRA Building
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