LMG

Chemicals Corp.

50 YEARS OF COMMITMENT TO QUALITY

1951 • 2001

Annual **Report**

2009

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LMG CHEMICALS CORP. (LMG)
2009 Annual Report on Operations

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 Income of Chemphil Manufacturing Corp. (CMC) as a stand alone 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 Income compared to last year.

HIGHLIGHTS of 2009 OPERATIONS

Chemphil Manufacturing Corp.

<u>Manufacturing</u>

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.

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.

Strategic Material Purchasing

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 inventories 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 (2) 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.

2010 BUSINESS OUTLOOK

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.

BOARD AUDIT COMMITTEE REPORT

The Stockholders and the Board of Directors
LMG Chemicals Corp.

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 2008, 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 08 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

JOSE RICARDO C. GARCIA
Member

Statement of Management's Responsibility for Financial Statement

The Management of ***LMG Chemicals Corp.*** 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 Board of Directors has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of the presentation upon completion of such examination, in its report to the Board of Directors and Stockholders.

ANA MARIA G. ORDOVEZA
President and Chief Executive Officer

JOSE RICARDO C. GARCIA
Treasurer

ALEXANDRA G. GARCIA
Chief Operating Officer

LMG Chemicals Corp. 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.

COVER SHEET

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SEC Registration Number

L M G   C H E M I C A L S   C O R P .   A N D

S U B S I D I A R I E S

(Company's Full Name)

C h e m p h i l   B u i l d i n g ,   8 5 1   A .   A r n a i z

A v e n u e ,   L e g a s p i   V i l l a g e ,

M a k a t i   C i t y

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

Alexandra G. Garcia	818-8711
(Contact Person)	(Company Telephone Number)

1 2	3 1	A A C F S		
Month	*Day*	(Form Type)	*Month*	*Day*
(Calendar Year)			(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**
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
LMG Chemicals Corp.

We have audited the accompanying financial statements of LMG Chemicals Corp. 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of LMG Chemicals Corp. 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

LMG CHEMICALS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**₱–**	₱29,555,628
Receivables (Note 6)	**3,086,641**	114,279,073
Inventories (Notes 7 and 13)	**–**	130,145,188
Due from related parties (Note 13)	**242,038,096**	386,584,048
Other current assets (Note 8)	**–**	31,960,683
Total Current Assets	**245,124,737**	692,524,620
Noncurrent Assets		
Property, plant and equipment (Notes 9 and 13):		
At cost - net	**–**	67,849,491
At revalued amounts	**–**	463,397,794
Deferred income tax assets (Note 19)	**–**	23,535,444
Other noncurrent assets (Note 10)	**–**	18,274,449
Total Noncurrent Assets	**–**	573,057,178
TOTAL ASSETS	**₱245,124,737**	₱1,265,581,798
LIABILITIES AND EQUITY		
Current Liabilities		
Note payable (Note 11)	**₱–**	₱4,000,000
Accounts payable and accrued expenses (Note 12)	**–**	61,275,215
Income tax payable	**–**	324,631
Due to related parties (Note 13)	**–**	8,545,633
Total Current Liabilities	**–**	74,145,479
Noncurrent Liabilities		
Accrued retirement benefits payable (Note 18)	**–**	19,540,743
Deferred income tax liabilities (Note 19)	**–**	39,819,547
Total Noncurrent Liabilities	**–**	59,360,290
Total Liabilities	**–**	133,505,769
Equity (Note 14)		
Equity attributable to the Parent Company stockholders:		
Capital stock - ₱1 par value		
Authorized - 200,000,000 shares		
Issued - 193,644,204 shares (held by 17 equity holders in both 2009 and 2008)	**193,644,204**	193,644,204
Additional paid-in capital	**51,480,533**	51,480,533
Revaluation increment in land transferred to a subsidiary, net of related deferred income tax (Notes 9 and 14)	**–**	254,472,263
Retained earnings (Note 14):	**–**	
Appropriated	**289,000**	289,000
Unappropriated	**–**	581,517,857
	245,413,737	1,081,403,857
Less cost of 100,028 shares held in treasury (Note 14)	**289,000**	289,000
	245,124,737	1,081,114,857
Minority interest	**–**	50,961,172
Total Equity	**245,124,737**	1,132,076,029
TOTAL LIABILITIES AND EQUITY	**₱245,124,737**	₱1,265,581,798

See accompanying Notes to Consolidated Financial Statements.

LMG CHEMICALS ORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
REVENUE (Note 13)	**₱–**	₱–	₱110,475,742
COST OF SALES AND SERVICES (Note 15)	**–**	–	109,548,973
GROSS PROFIT	**–**	–	926,769
Interest income (Note 17)	**111,137**	259,955	1,323,333
Operating expenses (Note 16)	**(80,050)**	(4,752,797)	(29,406,946)
Interest expense (Notes 13 and 17)	**–**	–	(1,284,783)
Other income (expense) - net	**(37,218)**	(1,182,138)	(88,894)
	(6,131)	(5,674,980)	(29,457,290)
LOSS BEFORE INCOME TAX FROM CONTINUING OPERATION	**(6,131)**	(5,674,980)	(28,530,521)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)			
Current	**20,518**	41,418	(3,532,423)
Deferred	**(38,635,264)**	–	(1,912,763)
	(38,614,746)	41,418	(5,445,186)
INCOME (LOSS) FROM CONTINUING OPERATION	**38,608,615**	(5,716,398)	(23,085,334)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 2)	**(59,143,127)**	307,339,760	33,941,013
NET INCOME (LOSS) FOR THE YEAR	**(20,534,512)**	301,623,362	10,855,679
OTHER COMREHENSIVE INCOME			
Effect of changes in the applicable tax rate on revaluation increment in land (Note 20)	**–**	96,803,040	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱20,534,512)**	₱398,426,402	₱10,855,679
Net income (loss) attributable to:			
Equity holdings of the parent	**(₱19,034,912)**	₱297,795,884	₱7,422,290
Minority interest	**(1,499,600)**	3,827,478	3,433,389
	(₱20,534,512)	₱301,623,362	₱10,855,679
EARNINGS (LOSS) PER SHARE (Note 19)			
Basic/diluted, for net income attributable to equity holdings of the parent	**(₱0.099)**	₱1.538	₱0.039
Basic/diluted, for net income from continuing operation attributable to equity holdings of the parent	**₱0.199**	(₱0.030)	(₱0.119)

See accompanying Notes to Consolidated Financial Statements.

LMG CHEMICALS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

	Equity Attributable to Parent Company Stockholders								
				Retained Earnings (Note 13)					
	Capital Stock	Additional Paid-in Capital	Revaluation Increment in Land	Appropriated	Unappropriated	Treasury Stock	Total	Minority Interest	Total Equity
BALANCES AT DECEMBER 31, 2006	**₱193,644,204**	**₱51,480,533**	**₱310,798,043**	**₱289,000**	**₱123,170,863**	**(₱289,000)**	**₱679,093,643**	**₱46,100,305**	**₱725,193,948**
Total comprehensive income for the year	–	–	–	–	7,422,290	–	7,422,290	3,433,389	10,855,679
BALANCES AT DECEMBER 31, 2007	**193,644,204**	**51,480,533**	**310,798,043**	**289,000**	**130,593,153**	**(289,000)**	**686,515,933**	**49,533,694**	**736,049,627**
Total comprehensive income for the year	–		(56,325,780)	–	450,924,704	–	394,598,924	3,827,478	398,426,402
Cash dividends declared - ₱0.0522 per share (Note 14)	–	–	–	–	–	–	–	(2,400,000)	(2,400,000)
BALANCES AT DECEMBER 31, 2008	**193,644,204**	**51,480,533**	**254,472,263**	**289,000**	**581,517,857**	**(289,000)**	**1,081,114,857**	**50,961,172**	**1,132,076,029**
Total comprehensive loss for the year	–	–	–	–	(19,034,912)	–	(19,034,912)	(1,499,600)	(20,534,512)
Transfer of revaluation increment due to disposal of investments	–	–	(254,472,263)	–	254,472,263	–	–	–	–
Property dividends declared (Notes 1 and 2)	–	–	–	–	(593,984,138)	–	(593,984,138)	(49,461,572)	(643,445,710)
Cash dividends declared - ₱1.152 per share (Note 14)	–	–	–	–	(222,971,070)	–	(222,971,070)	–	(222,971,070)
BALANCES AT DECEMBER 31, 2009	**₱193,644,204**	**₱51,480,533**	**₱–**	**₱289,000**	**₱–**	**(₱289,000)**	**₱245,124,737**	**₱–**	**₱245,124,737**

See accompanying Notes to Consolidated Financial Statements.

LMG CHEMICALS CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax from continuing operation	**(₱6,131)**	(₱5,674,980)	(₱28,530,521)
Adjustments for:			
Interest income	**(111,137)**	(259,955)	(1,315,535)
Depreciation and amortization (Note 9)	**–**	–	25,989,721
Interest expense (Notes 13 and 17)	**–**	–	1,284,784
Loss on disposals of investment	–	–	64,139
Operating loss before working capital changes	**(117,268)**	(5,934,935)	(2,507,412)
Decrease (increase) in:			
Receivables	**–**	(20,440,803)	236,615
Inventories	**–**	–	1,150,180
Due from related parties	**(2,223,994)**	(76,271,402)	(4,834,085)
Other current assets	**30,773**	(30,773)	5,046,458
Increase (decrease) in:			
Accounts payable and accrued expenses	**(238,578)**	238,577	3,696,071
Liabilities under letters of credit and trust receipts	**–**	–	(1,657,573)
Due to related parties	**–**	–	1,124,352
Accrued retirement benefits payable	**–**	–	153,331
Other noncurrent liabilities	**–**	–	(797,222)
Cash flows from (used in) operations	**(2,549,067)**	(102,439,336)	1,610,715
Interest paid	**–**	–	(1,307,281)
Interest received	**195,409**	330,441	1,323,333
Income taxes paid, including creditable withholding and final taxes	**(23,446)**	– –	5,445,186
Net cash flows from (used in) operating activities	**(2,377,104)**	(102,108,895)	7,071,953
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received	**1,800,000**	–	–
Additions to property, plant and equipment	**–**	–	(6,408,766)
Proceeds from sale of property and equipment and investments	**–**	–	1,156,132
Cash from deconsolidated subsidiaries	**(44,621,177)**	–	–
Additions to other noncurrent assets	**–**	–	(2,157,529)
Purchase of investments in shares of stock	**–**	(187,500)	–
Advances to stockholders	**–**	(344,041,373)	–
Net cash flows used in investing activities	**(42,821,177)**	(344,228,873)	(7,410,163)
NET CASH FLOWS FROM (USED IN) DISCONTINUED OPERATION (Note 2)	**(15,642,653)**	464,504,918	(3,317,585)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(29,555,628)**	18,167,150	(3,655,795)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**29,555,628**	11,388,478	15,044,272
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**₱–**	₱29,555,628	₱11,388,477

See accompanying Notes to Consolidated Financial Statements.

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

Corporate Information
LMG Chemicals Corp. (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. The Group's registered office address is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

Organization
The Parent Company is currently a 73.93%-owned subsidiary of Chemical Industries of the Philippines, Inc. (CIP), the ultimate parent, and has three domestic subsidiaries, Chemphil Manufacturing Corp. (CMC), Kemwater Phil. Corp. (KPC) and LMG Land Development Corporation (Landco), a company incorporated in the Philippines on December 15, 2006.

CMC is engaged, as an exclusive agent, in the sale and distribution of liquid caustic soda and other industrial chemicals. CMC is a subsidiary up to 2009 only (see Note 2).

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. KPC is a subsidiary up to 2009 only (see Note 2).

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 2008 only (see Note 2).

Status of Operations
The Group is in continuous pursuit of restructuring its business. In line with this, certain net assets of the Parent Company relating to the manufacture of sulfuric acid products were transferred to CMC in 2007. With the transfer of the manufacturing facilities from the Parent Company, CMC's focus shifted to manufacturing, with its current trading operations acting as a support activity only.

Also in 2007, certain parcels of land, storage tanks and net assets were transferred by the Parent Company 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 2008, the Parent Company 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 ₱202,751,515 (see Note 2).

On October 8, 2009, the BOD declared Parent Company's investments in shares of CMC and KPC as property dividends (see Note 2).

At the same BOD meeting, the Parent Company's BOD approved the assignment of Parent Company's receivables from Chemoil and CMC to the Company's shareholders, in proportion to their shareholdings with the Company amounting to ₱44,367,750 and ₱76,600,043, respectively.

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

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 Operations**

2009
On October 8, 2009, the BOD declared LMG's investments in shares of CMC and KPC, which comprise the chemical segment of the Group, as property dividends. On December 18, 2009, a deed of assignment was executed to assign the Company'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 Parent Company in proportion to their respective shareholdings.

With the property dividend declaration of the Parent Company's investment in shares of stock of CMC and KPC, the Parent Company realized in retained earnings the revaluation increment pertaining to the parcels of land amounting to ₱254.47 million, net of deferred income tax liabilities amounting to ₱39.82 million.

Effective December 18, 2009, CMC and KPC ceased to be subsidiaries of the Parent Company.

Combined statements of comprehensive income of CMC and KPC for the 11½ months period ended December 18, 2009 and the years ended December 31, 2008 and 2007 are as follows:

	2009	2008	2007
SALES	**₱261,577,244**	₱359,178,067	₱111,455,988
COST OF SALES (Note 12)	**276,888,431**	259,451,977	86,282,285
GROSS PROFIT (LOSS)	**(15,311,187)**	99,726,090	25,173,703
General and administrative expenses (Note 12)	**(41,685,084)**	(45,870,677)	(15,912,184)
Interest income (Note 12)	**3,175,293**	3,843,810	2,959,830
Interest expense (Note 12)	**(381,667)**	(819,544)	(5,650)
Gain on sale of property, plant and equipment	**(433,510)**	–	–
Other income - net	**1,355,251**	5,860,808	273,969
Other - expense	**(5,862,223)**	–	–
INCOME (LOSS) BEFORE INCOME TAX	**(59,143,127)**	62,740,487	12,489,668
PROVISION FOR INCOME TAX	**–**	24,682,934	4,519,869
NET INCOME (LOSS)	**(59,143,127)**	38,057,553	7,969,799
OTHER COMPREHENSIVE INCOME	**–**	–	–
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱59,143,127)**	₱38,057,553	₱7,969,799

Combined assets and liabilities of CMC and KPC as of December 31, 2008 are as follows:

ASSETS	
Current Assets	
Cash and cash equivalents (Note 5)	₱28,978,524
Receivables - net (Note 6)	66,824,682
Inventories (Note 7)	130,145,188
Due from related parties (Note 13)	40,676,275
Other current assets (Note 8)	31,929,910
Total Current Assets	298,554,579
Noncurrent Assets	
Available-for-sale financial assets (Note 10)	900,540
Property, plant and equipment - net (Note 9)	531,247,284
Deferred income tax assets (Note 20)	23,535,444
Other noncurrent assets (Note 10)	15,373,481
Total Noncurrent Assets	571,056,749
TOTAL ASSETS	₱869,611,328
LIABILITIES	
Current Liabilities	
Note payable	₱4,000,000
Accounts payable and accrued expenses (Note 12)	59,836,635
Income tax payable	321,703
Dividends payable (Note 14)	1,200,000
Due to related parties (Note 12)	8,545,633
Total Current Liabilities	73,903,971
Noncurrent Liabilities	
Accrued retirement benefits payable	19,540,743
Deferred income tax liabilities - net (Note 19)	598,243
Total Noncurrent Liabilities	20,138,986
TOTAL LIABILITIES	₱94,042,957

Cash flows of CMC and KPC for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Net cash from (used in):			
Operating activities	**₱35,318,244**	₱17,013,087	(₱3,761,302)
Investing activities	**(16,675,591)**	(6,563,970)	–
Financing activities	**(3,000,000)**	(6,449,467)	–
Net cash inflow (outflow)	**(₱15,642,653)**	₱3,999,650	(₱3,761,302)

2008

In March 2008, the Parent Company's BOD approved and adopted a resolution to sell its entire shareholdings in Landco (formerly tank yard operations in 2007 and 2006) to a third party that would offer the most advantageous and beneficial price, terms and conditions to the Parent Company. On August 15, 2008, the investment in shares of stock of Landco was sold to a third party. With the sale of the investment in shares of stock of Landco, the Parent Company realized the revaluation increment pertaining to the parcels of land transferred to Landco in retained earnings amounting to ₱153.13 million, net of deferred income tax liabilities 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 the Parent Company.

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 SALES	**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 net assets of Landco	**202,751,515**	–
Other income	**1,893,791**	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	
Receivables	₱2,668,578
Inventories	403,590
Property, plant and equipment (Note 9)	
At cost	31,225,005
At revalued amounts	240,220,499
TOTAL ASSETS	₱274,517,672
LIABILITIES	
Accounts payable and accrued expenses	₱9,679,186
Deferred income tax liability	82,453,979
TOTAL LIABILITIES	₱92,133,165

Cash flows of Landco for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Net cash from (used in):		
Operating activities	(₱17,155,268)	₱1,139,860
Investing activities	477,660,536	(696,143)
Net cash inflow	₱460,505,268	₱443,717

3. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for parcels of land classified as property, plant and equipment, which are carried at revalued amounts (see Note 9). The consolidated financial statements are prepared in Philippine Peso (Peso), which is the Parent Company'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).

Basis of Consolidation

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 percentages of ownership of the Parent Company are as follows:

	Percentage of Ownership		
Subsidiaries	**2009****	2008*	2007
CMC	**–**	100	100
KPC	**–**	60	60
Landco	**–**	–	100

**Landco was sold to a third party on August 15, 2008.*
***CMC and KPC was declared as property dividends in 2009.*

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. This 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. Significant 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 statement of financial position and consolidated statement comprehensive of income, respectively.

Minority Interest

Minority interest represents the interest in subsidiaries, 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 all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

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 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 consolidated 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 Sheets" 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 policy's is to capitalize borrowing cost even before revision of PAS 23. This amendment has no impact on the Company since they already capitalized borrowing costs in the past and currently has no borrowings.

- 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.

- 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 consolidated financial statements.

- 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 21 and 22.

- 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.

The following new and amended PFRS and Philippine Interpretations which became effective on January 1, 2009 are not relevant on the Company'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 wording. The improvements in the Standards did not have an impact on the Company'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 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 consolidated financial statements.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidatedand Separate Financial Statements*
  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as "minority Interests"); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while the revised PAS 27 must be applied retrospectively with certain exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.

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

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*
  This Interpretation applies to the accounting for transfers of items of property, plant and equipment by an entity that receive such transfers from its customer, wherein the entity must then use such transferred asset either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

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

- PFRS 2, *Share-based Payment*
  Contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations*.

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

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

- PAS 1, *Presentation of Financial Statements*
  The terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*
  The amendment explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 17, *Leases*
  The amendment removes the specific guidance on classifying land as a lease so that only the general guidance remains.

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

- PAS 38, *Intangible Assets*
  The amendment clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives.

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

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

Also, it clarifies that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date, applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken. Lastly, it clarifies that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of financial instruments or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  The IASB amended the scope paragraph of Philippine Interpretation IFRIC 9 to clarify that it does not apply to possible reassessment, at the date of acquisition, to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
  The amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Cash and Cash Equivalents
Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and 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 statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

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 assets and financial liabilities are 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.

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.

The Group's financial assets consist of loans and receivables and available-for-sale financial assets while financial liabilities are all classified as other financial liabilities.

a. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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 amortized 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 profit or loss 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 date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's cash and cash equivalents, receivables, due from related parties, other current assets and other noncurrent assets (see Note 22).

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 as available-for-sale debt securities and the related effective interest are excluded, net of tax, from reported earnings and are reported in other comprehensive income. These changes in fair values are recognized in equity 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 profit or loss.

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 profit or loss 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 golf club shares as available-for-sale financial asset as of December 31, 2008 (see Note 21).

c. Other financial liabilities

This category pertains to financial liabilities that are not held for trading or 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 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.

Accounts payable, accrued expenses, note payable and due to related parties are classified under this category and are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Group is established. These are measured at amortized cost, normally equal to nominal amount.

<u>Derecognition of Financial Instrument</u>
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 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 Group has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the 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.

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 values 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 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.

Assets carried at amortized cost
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually. 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 term.

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 the 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 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 profit or loss. 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 reversal date.

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.

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 of investments 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 profit or loss, 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 profit or loss.

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

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

<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 of Financial Instruments
Financial of 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 statement 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, 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.

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 amount as determined 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 consolidated 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 date. 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.

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.

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

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	10
Buildings and improvements	8-10
Machinery and equipment	10
Transportation equipment	5
Office furniture and fixtures	2-5

The 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 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.

Investment Property

Investment property, which is included under other noncurrent assets in the consolidated statement of financial position, pertains to a parcel of land not used in operation and 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 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 reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in profit or loss.

An assessment is made at each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation 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 Parent 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 Parent 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.

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.

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

Sales
Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.
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.

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.

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.

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 re-assessment 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 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 reporting period.

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

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

Income tax relating to items recognized directly in other comprehensive income is recognized in other comprehensive income and not in profit or loss.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off the deferred income tax assets against the deferred income tax liabilities and the deferred 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 closing 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 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). Therefore, geographical segment information is no longer presented.

Operating segments of the Group namely, the chemicals segment and the tankyard segment, have been presented separately in Note 2 as discontinued operations, therefore, separate note disclosure on segment information was no longer presented.

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. 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.

Judgments

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

Determination of Parent Company's functional currency

The Parent 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 Parent Company operates.

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 statement 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 ₱245,124,737 and ₱188,027,657 and the carrying value of financial liabilities amounted to ₱73,842,422 as of December 31, 2008 and nil in 2009 (see Note 21).

Discontinued operations

On October 8, 2009, the BOD declared the Parent Company's investments in shares of CMC and KPC as property dividends and on December 18, 2009, a deed of assignment was executed to assign the Company'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 Parent Company in proportion to their respective shareholdings. Effective December 18, 2009, CMC and KPC, which handles the chemical segment of the Group, cease to be subsidiaries of the Parent Company and accordingly presented income and expenses from such subsidiaries as discontinued operations in the profit or loss for the current and prior periods presented (see Note 2).

In March 2008, the Parent Company's BOD approved and adopted a resolution to sell its entire shareholdings in Landco which handles the tankyard segment of the Group. The Parent Company's BOD considered the subsidiary to have met the criteria as discontinued operations and accordingly presented the results of Landco operations as part of discontinued operations 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).

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 ₱417,600 and ₱3,621,846 in 2008 and 2007, respectively (see Note 2).

Contingencies

a. The Parent Company is a defendant in various court cases and labor claims. It is the opinion of management and its legal counsel that settlement costs, if any, will not materially affect the Group's consolidated financial position and operating results.

b. The Parent 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 Group's financial position or results of operations.

<u>Estimates and Assumptions</u>
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 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.

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 assessment is 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 ₱3,086,641 and ₱114,279,073 as of December 31, 2009 and 2008, respectively. Allowance for doubtful accounts amounted to ₱4,228,317 as of December 31, 2008 and nil in 2009 (see Note 6).

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 20% or more of the original cost of investment and ‘prolonged’ as greater than six months. 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. No impairment loss was 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, 2008 amounted to ₱130,145,188 and nil in 2009 (see Notes 2 and 7).

Revaluation of land
The Group’s parcels of land 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 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 2006, amounted to ₱181,942 and is presented under “Revaluation increment in land” in the consolidated statement of financial position. The carrying value of land amounted ₱463,397,794 as of December 31, 2008 and nil in 2009, respectively (see Notes 2 and 9).

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 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 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 depreciable property, plant and equipment, amounted to ₱67,849,491 as of December 31, 2008, (nil in 2009) [see Note 9]. Total depreciation expense charged to operations amounted to ₱26,682,298 in 2008 and ₱28,614,700 in 2007 (see Notes 2 and 9). 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 and other nonfinancial assets are impaired, at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the 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 value of property, plant and equipment at cost amounted to ₱67,849,491 as of December 31, 2008 (nil in 2009) respectively, of which no impairment loss of assets was recognized (see Note 9). Land carried at revalued amount and also subject to impairment, has a carrying value of ₱463,397,794 as of December 31, 2008 (nil in 2009). No impairment was recognized on land.

Estimation of retirement benefits cost
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 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 thereafter, generally affect the recognized expenses 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 obligations. Accrued retirement benefits payable amounted to ₱19,540,743 as of December 31, 2008 (nil in 2009). Retirement expense charged to operations amounted to ₱6,153,070 in 2008 and ₱6,176,464 in 2007 (see Note 2).

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 taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Deferred income tax assets recognized amounted to ₱23,535,444 as of December 31, 2008 (nil in 2009) [see Note 20].

Provisions and Contingencies
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 or 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 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. The Group has no provision or contingency in 2009, 2008 and 2007.

5. Cash and Cash Equivalents

	2008
Cash on hand and in banks	₱9,016,145
Short term investments	20,539,483
	₱29,555,628

Cash in bank earns 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 the respective short-term investment rates.

As of December 31, 2009, the cash and cash equivalents balance is zero.

6. Receivables

	2009	2008
Trade	**₱–**	₱66,134,064
Government agencies	**1,766,979**	1,766,979
Input tax for refund	**1,319,662**	1,319,662
Receivable from Chemoil	**–**	44,367,750
Advances to officers (Note 13)	**–**	619,521
Others (Note 10)	**–**	4,359,414
	3,086,641	118,567,390
Less allowance for doubtful accounts	**–**	4,288,317
	₱3,086,641	₱114,279,073

Receivable from Chemoil in 2008 pertains to the remaining outstanding balance collectible from the sale of the Parent Company's investment in Landco. On October 8, 2009, the BOD approved the assignment of the receivable from Chemoil to the Parent Company's shareholders, in proportion to their shareholdings in the Parent Company.

Movements in the allowance for doubtful accounts balance is as follows:

	2009	2008
January 1	**₱4,288,317**	₱4,414,302
Discontinued operation (Note 2)	**(4,288,317)**	(67,200)
Amounts written off	**–**	(58,785)
December 31	**₱–**	₱4,288,317

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

Management's individual assessment of its receivables as at December 31, 2008 resulted to no additional impairment loss to be recognized. Management wrote off ₱58,785 worth of accounts in 2008.

7. Inventories

	December 31, 2008		
	At cost	At NF	At lower of cost and NRV
Finished goods	₱29,050,786	₱29,050,7	₱29,050,786
Semi-processed goods	7,873,098	7,873,0	7,873,098
Merchandise on hand (Note 12)	1,234,594	1,234,5	1,234,594

(Forward)

	December 31, 2008		
	At cost	At NF	At lower of cost and NRV
Raw materials:			
On hand	₱77,704,165	₱76,790,2	₱76,790,215
In transit	439,161	439,1	439,161
Spare parts and factory supplies:			
On hand	16,526,997	14,757,3	14,757,334
	₱132,828,801	₱130,145,1	₱130,145,188

The inventories pertain to inventories of KPC and CMC. Allowance for inventory losses amounted to ₱3,568,438 in 2008.

As of December 31, 2009, the inventory balance is zero as KPC and CMC cease to be subsidiaries of the Parent Company as of December 18, 2009 (see Note 2).

8. Other Current Assets

	December 31, 2008
Prepaid income taxes	₱23,675,091
Input taxes	5,659,620
Prepaid expenses	535,421
Others	2,090,551
	₱31,960,683

As of December 31, 2009, these assets which pertain to CMC and KPC were no longer consolidated by the Parent Company (see Note 2).

9. Property, Plant and Equipment

	December 31, 2008						
	Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Construction in Progress	Total
Cost:							
Beginning balance	₱23,802,797	₱128,029,434	₱417,430,953	₱12,815,023	₱10,733,988	₱6,054,892	₱598,867,087
Additions	–	–	681,051	1,236,753	103,313	612,190	2,633,307
Disposal	–	–	–	(321,212)	–	–	(321,212)
Reclassifications	–	1,773,493	2,304,574	763,051	(4,075)	(4,837,043)	–
Discontinued operation (Note 2)	(11,228,803)	(2,506,535)	(95,549,233)	(661,364)	(553,944)	(283,513)	(110,783,392)
Ending balances	12,573,994	127,296,392	324,867,345	13,832,251	10,279,282	1,546,526	490,395,790
Accumulated Depreciation							
Beginning balance	18,708,648	111,563,112	322,436,060	12,433,912	10,468,031	–	475,609,763
Depreciation	806,078	6,525,039	18,353,102	863,694	134,385	–	26,682,298
Disposal	–	–	–	(187,374)	–	–	(187,374)
Discontinued operation (Note 2)	(9,342,796)	(2,409,095)	(66,593,738)	(661,362)	(551,397)	–	(79,558,388)
Ending balances	10,171,930	115,679,056	274,195,424	12,448,870	10,051,019	–	422,546,299
Net Book Values	₱2,402,064	₱11,617,336	₱50,671,921	₱1,383,381	₱228,263	₱1,546,526	₱67,849,491

	2009	2008
Land at revalued amount		
Beginning balance	**₱463,397,794**	₱701,802,905
Discontinued operation (Note 2)	**(463,397,794)**	(240,220,499)
Reclassification (Note 10)	**–**	1,815,388
Ending balance	**₱–**	₱463,397,794
Cost	**₱–**	₱73,047,544

The above assets pertain to CMC and KPC. As a result of the property dividend declaration as discussed in Note 2, these assets were no longer consolidated as of December 31, 2009.

10. Other Noncurrent Assets

	December 31, 2008
Input VAT for refund	₱5,737,102
Receivable from local government	5,063,576
Refundable deposits	1,184,934
Receivable from MERALCO - net of deferred interest income	964,459
Available-for-sale financial assets	900,540
Other noncurrent assets	4,423,838
	₱18,274,449

Input VAT for Refund
Input VAT for refund pertains to input VAT accumulated by CMC from its zero-rated sales to its customers.

Receivable from Local Government
Receivable from local government represents the balance of the local tax credit 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 the Parent Company to the Municipality of San Pascual, Batangas. In 2008, the Parent Company was able to apply ₱1,028,458, respectively, out of this receivable against real property taxes.

Refundable Deposits
Refundable deposits include a deposit with Pasig City environmental fund for possible environmental disaster amounting to ₱500,000. This will be applied against future charges that will be incurred by the Group. Components of refundable deposits also include amounts deposited with MERALCO for electric meters.

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 Group'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 intends to recover the refund through postdated checks to be collected over 5.25 years, starting in April 2006 up to July 2011.

The Group recognized a receivable in 2005 from MERALCO amounting to ₱4,345,981, net of deferred interest income of ₱960,631, and income from refund of ₱3,385,350 (Note 16). The receivable was discounted using an effective interest rate of 9.57%. Breakdown of outstanding balance as of December 31, 2008 is as follows:

	2008	
	Current	Noncurrent
Receivable from MERALCO	₱821,079	₱1,041,484
Deferred interest income	127,515	77,025

The current portion of the receivable from MERALCO amounting to ₱693,564 in 2008 is included under "Receivables-others" account (see Note 6).

Available-for-sale financial assets
Available-for-sale financial assets consist of other investments in proprietary shares. These investments are carried at fair value based on the published market prices of these shares.

Other noncurrent assets
Other noncurrent assets consist of goodwill amounting to ₱2,000,428 and noncurrent receivables amounting to ₱2,423,410.

The above assets pertain to CMC and KPC. As of December 31, 2009, these assets were no longer consolidated by the Parent Company (see Note 2).

11. Note Payable

In October 2008, CMC availed a loan from E.S. Garcia Foundation, related party, and U.P. Medical Class '36 Foundation Inc. amounting to ₱4,000,000. The loan carries an interest at 10% per annum. In 2009, this liability ceased to be consolidated in the Parent Company financial statements (see Note 2). Total interest expense paid on note payable amounted to ₱380,667 and ₱86,667 in 2009 and 2008, respectively (see Note 2).

As of December 31, 2009, CMC was no longer consolidated by the Parent Company (see Note 2).

12. Accounts Payable and Accrued Expenses

	2008
Trade	₱54,642,559
Accrued expenses	3,745,618
Others	2,887,038
	₱61,275,215

In 2009, the outstanding accounts payable and accrued expenses pertaining to CMC and KPC were deconsolidated while those pertaining to the Parent Company amounting to ₱238,577 were fully paid.

13. Related Party Transactions

The Group has the following significant transactions with related parties:

a. The Group shares in common costs and expenses. CMC pays management fees under a management support service agreement with CIP based on activity-based costing, whereby services rendered are based on man hours spent or number of items or output produced as applicable. Management fees amounting to ₱2,500,000 in 2009 and 2008, represent the share of CMC in the general overhead incurred by CIP while management fee, amounting to ₱2,500,000 in 2007 represents the share of the Parent Company (see Note 2). CMC and KPC's share in common expenses of the Group amounted to ₱17,526,630 in 2009, ₱17,535,986 in 2008, and ₱8,981,111 in 2007. The Parent Company's share in common expenses amounted to ₱11,453,698 in 2007 and nil in 2008 and 2009 (see Notes 2 and 16).

b. CMC and KPC lease their office space from CIP for one year renewable at the option of both parties. Rental expense amounted to ₱466,474 in 2009, ₱444,073 in 2008, and ₱219,254 in 2007 (see Note 2). In 2007, the Parent Company also lease their office space from CIP, rental expense amounted to ₱300,308 (see Note 15).

c. The Parent Company and its subsidiaries have noninterest- and interest-bearing advances and receive reimbursement of expenses from affiliates. The interest-bearing cash advances bear annual interest rates ranging from 8% to 12% in 2009, 2008 and 2007. Related interest expense amounted to ₱84,272 in 2009, ₱618,412 in 2008, and ₱4,378 in 2007 (see Note 2). Related interest income amounted to ₱81,899 in 2009, ₱3,256,840 in 2008 and ₱2,848,675 in 2007 (see Notes 2 and 16).

d. CMC has a facility agreement with CAWC, Inc. (CAWC) for the use of CMC truck scale. The shared service fee is billed to CAWC using activity-based costing, whereby services are based on the number of times of truck scale weighings. Share in common services billed to CAWC amounted to ₱117,232 in 2009, ₱118,450 in 2008, and ₱290,441 in 2007 (see Note 2).

e. KPC extends loans with interest rate of 8% in 2007 and non-interest bearing advances in 2006 to CAWC to support CAWC's operations. Outstanding loans and advances to CAWC amounted to ₱35,498,446 as of December 31, 2008. In 2009 and 2008, interest income on these loans amounted to ₱1,846,818 and ₱2,977,679, respectively (see Note 2).

f. KPC purchases merchandise inventories from Kemira Chemical Oy of Finland (Kemira), a stockholder of KPC. Total purchases amounted to ₱415,990 in 2008 and ₱1,453,059 in 2007 (see Note 2).

g. On October 8, 2009, the BOD approved the assignment of receivables from CMC amounting to ₱76,600,043 to the Parent Company's shareholders, in proportion to their shareholdings with the Parent Company.

   The assigned receivable includes the ₱72,490,819 advances, the ₱1,823,321 money market placement, ₱1,948,300 cash balance and ₱337,603 various receivables which were transferred to CMC during the year.

Compensation of key management personnel is as follows:

	2007 (As restated, Note 2)
Short term employee benefits	₱7,537,693
Termination benefits	259,718
	₱7,797,411

Outstanding receivables from related parties which are due and demandable and payables to related parties are as follows:

	Advances		Loans		Interest		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Due from:								
Shareholders	**₱242,038,096**	₱344,157,957	**₱–**	₱–	**₱–**	₱–	**₱242,038,096**	₱344,157,957
CAWC	**–**	1,813,717	**–**	35,498,446	**–**	5,093,313	**–**	42,405,476
Others	**–**	20,615	**–**	–	**–**	–	**–**	20,615
	₱242,038,096	₱345,992,289	**₱–**	₱35,498,446	**₱–**	₱5,093,313	**₱242,038,096**	₱386,584,048

	Advances		Insurance premiums		Total	
	2009	2008	**2009**	2008	**2009**	2008
Due to:						
CIP	**₱–**	₱6,504,659	**₱–**	₱–	**₱–**	₱6,504,659
PEC	**–**	32,256	**–**	–	**–**	32,256
VIC	**–**	-	**–**	2,008,718	**–**	2,008,718
	₱–	₱6,536,915	**₱–**	₱2,008,718	**₱–**	₱8,545,633

14. Equity

a. Appropriated retained earnings amounting to ₱289,000 as of December 31, 2009 and 2008, pertains to appropriation for treasury stock.

b. The undistributed earnings of subsidiaries and associates amounting to ₱43,748,076 as of December 31, 2008 which are included as part of retained earnings, are not available for declaration as dividends until declared by such subsidiaries.

c. In August 2008, KPC declared dividends amounting to ₱6,000,000 or ₱0.0522 per share. Dividends attributable to minority interest amounted to ₱2,400,000. Out of the total dividends declared, KPC paid ₱3,000,000 in 2008 of which ₱1,200,000 is for KPC's minority holder. As of December 31, 2008, dividends payable to minority interest amounted to ₱1,200,000.

d. On May 19, 2009, the BOD declared cash dividends in the sum of ₱344,041,443 to stockholders of record as of June 2, 2009. On October 8, 2009, the BOD partially rescinded the cash dividend declared on May 19, 2009 in the amount of ₱121,070,373; effective cash dividend declared amounted to ₱222,971,070.

   At the same BOD meeting, the BOD declared the Company's investments in shares of CMC and KPC as property dividends and on December 18, 2009, a deed of assignment was executed to assign the Company'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 Company in proportion to their respective shareholdings. The related revaluation increment in land was accordingly transferred to retained earnings amounting to ₱254,472,263, net of deferred tax liability of ₱39,819,547.

15. **Cost of Sales and Services**

Breakdown of cost of sales and services for the year ended December 31, 2007, as restated (see Note 2) follows:

Raw materials used and changes in inventories	₱7,668,295
Personnel (Note 18)	28,405,820
Manufacturing overhead:	
Depreciation (Note 2)	25,408,448
Taxes and licenses	10,114,057
Repairs and maintenance	4,893,155
Export charges	3,605,703
Outside services	4,221,972
Communication, light and water	699,493
Insurance	1,367,120
Others	20,479,622
Changes in inventories of finished goods and semi-processed goods	2,685,288
	₱109,548,973

16. **Operating Expenses**

	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
Personnel (Note 18)	**₱75,000**	₱4,493,030	₱9,742,475
Outside services	**5,050**	5,050	1,345,714
Share in common expenses (Note 13a)	–	–	11,453,698
Taxes and licenses	–	–	680,492
Management fees (Note 13a)	–	–	2,500,000
Communication, light and water	–	1,276	477,346
Rent (Note 13b)	–	–	300,308
Travel	–	–	319,501
Depreciation (Note 9)	–	–	650,000
Repairs and maintenance	–	–	58,233
Others	–	253,441	1,879,179
	₱80,050	₱4,752,797	₱29,406,946

17. **Interest Expense and Interest Income**

a. Interest Expense

Breakdown of interest expense as to source is as follows:

	2007 (As restated, Note 2)
Short-term loans and trust receipts (Note 13)	₱1,284,783

b. Interest Income

Breakdown of interest income as to source is as follows:

	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
Affiliates (Note 13)	**₱81,899**	₱67,500	₱21,441
Banks	**29,238**	192,455	1,301,892
	₱111,137	₱259,955	₱1,323,333

18. Personnel Expenses and Retirement Benefits Cost

a. Personnel expenses consist of:

	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
Salaries and other compensation	**₱–**	₱30,000	₱38,080,814
Retirement benefits	**–**	4,463,030	67,481
Other employee benefits	**75,000**	–	–
	₱75,000	₱4,493,030	₱38,148,295

b. Retirement benefits cost

Accrued retirement benefits as of December 31, 2007 was assumed by CMC following the transfer of the Parent Company’s employees to the subsidiaries (see Note 1). In 2008, retirement benefits cost amounting to ₱4.5 million was charged to the Parent Company, as management deemed that it is for the Parent Company’s operations. In 2009, the Parent Company has not incurred any retirement benefits cost since it has no more employees.

19. Earnings (Loss) Per Share

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

	2009	2008	2007
Net income (loss) attributable to equity holdings of the parent from:			
Continuing operations	**₱38,608,615**	(₱5,716,398)	(₱23,085,334)
Discontinued operations	**(57,643,527)**	303,512,282	30,507,624
	(₱19,034,912)	₱297,795,884	₱7,422,290
Weighted average number of shares:			
Issued	**₱193,644,204**	₱193,644,204	₱193,644,204
Held in treasury	**(100,028)**	(100,028)	(100,028)
Outstanding	**₱193,544,176**	₱193,544,176	₱193,544,176
Earnings (loss) per share from:			
Continuing operations	**₱0.199**	(₱0.030)	(₱0.119)
Discontinued operations	**(0.298)**	1.568	0.158
	(₱0.099)	₱1.538	₱0.039

The Parent Company has no dilutive potential common shares as of December 31, 2009, 2008 and 2007. Thus, the basic and diluted earnings per share are the same for each of the years presented.

20. Income Taxes

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

	2009	2008 (As restated, Note 2)	2007 (As restated, Note 2)
Regular corporate income tax	**₱14,671**	₱–	₱–
Final tax on interest income	**5,847**	38,490	9,589
MCIT	**–**	2,928	1,012,510
Tax benefit from operating losses	**–**	–	(4,554,522)
	₱20,518	₱41,418	(₱3,532,423)

b. The components of deferred income tax assets and liabilities as of December 31, 2008 are as follows:

Deferred income tax assets on:	
Accrued retirement benefits	₱5,862,223
Unamortized past service cost contributions	9,428,542
Deferred gain on sale of land	4,273,412
Accrued expenses and others	1,610,571
Allowance for doubtful accounts	1,228,802
Allowance for probable inventory losses	1,070,532
Deferred interest on MERALCO refund	61,362
	23,535,444
Deferred income tax liability on revaluation increment in land	39,819,547
Net deferred income tax liabilities	₱16,284,103

Deferred income tax assets and liabilities in 2008 pertain to CMC and KPC. Since these subsidiaries were declared as dividends in 2009 and the Parent Company has no temporary differences, the balance of deferred income tax assets and liabilities became zero as of December 31, 2009.

Deferred gain on sale of land in 2008 pertains to unrealized gain on sale of the Parent Company's parcel of land to KPC which will only be realized if sold to outside parties.

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
2007	₱615,199	₱–	₱–	₱615,199	2010
2006	12,260,096	5,894,999	6,365,097	–	2009
	₱12,875,295	₱5,894,999	₱6,365,097	₱615,199	

MCIT

Year Incurred	MCIT Incurred	Applied	Expired	Ending Balance	Available Until
2007	₱1,014,892	₱–	₱–	₱1,014,892	2010
2006	811,955	–	811,955	–	2009
	₱1,826,847	₱–	₱811,955	₱1,014,892	

d. The reconciliation of the provision for income tax at statutory rates and the provision for income tax shown in the consolidated statements of income follows:

	2009	2008	2007
Provision for (benefit from) income tax computed at statutory income tax rate	**(₱1,839)**	(₱1,986,243)	(₱9,985,682)
Adjustments for:			
Reversal of deferred income tax liability on revaluation increment in land	**(38,635,264)**	–	–
Interest income already subjected to final tax	**(2,924)**	(108,089)	(27,889)
MCIT and NOLCO for which no deferred income tax assets were recognized in current year	**–**	–	4,585,698
Nondeductible interest expense	**–**	47,306	9,026
Others	**25,281**	34,636	(26,339)
Effect of changes in tax rates	**–**	2,053,808	–
Provision for (benefit from) income tax	**(₱38,614,746)**	₱41,418	(₱5,445,186)

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. 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.

21. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, note payable, and liabilities under letters of credit and trust receipts. The main purpose of these financial instruments is to raise financial assistance for the Group's operations. The Group 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 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 of changes in market interest rates relates primarily to the Group's liabilities under letters of credit and trust receipts. These instruments have floating rates as reprised by the issuing bank. The Group relies on budgeting and forecasting techniques to address cash flow concerns.

As of December 31, 2009 and 2008, the Group has insignificant exposure to cash flow interest rate risk since the Group has no outstanding liabilities under letters of credit and trust receipts.

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 2009 and 2008 consolidated statement financial position:

	2009	2008
Cash and cash equivalents, excluding cash on hand	**₱–**	₱29,350,587
Trade receivables	**–**	61,845,747
Other receivables	**3,086,641**	51,846,669
Due from related parties	**242,038,096**	42,426,091
Available-for-sale financial assets	**–**	900,540
Receivable from MERALCO	**–**	1,658,023
Total credit risk exposure	**₱245,124,737**	₱188,027,657

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 have 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 for loan-related statement of financial position lines, based on the Group's credit rating system.

The credit quality of financial assets is managed by the Company using above criteria. The Company classifies its financial assets as high grade as of December 31, 2009:

Cash	₱–
Receivables	3,086,641
Due from related parties*	–
	₱3,086,641

** Excluding the amounts due from the shareholders of the Company as it is not expected that these will be collected in the form of other financial instruments.*

As of December 31, 2009, financial assets pertaining to CMC and KPC were no longer consolidated by the Parent Company (see Note 2).

As of December 31, 2008

	Neither past due nor impaired		Past due but		
	High Grade	Standard Grade	not impaired	Impaired	Total
Cash and cash equivalents, excluding cash on hand	₱29,350,587	₱–	₱–	₱–	₱29,350,587
Trade receivables	8,759,933	18,318,646	34,767,168	4,288,317	66,134,064
Other receivables	1,434,051	–	50,412,618	–	51,846,669
Due from affiliates	–	–	42,426,091	–	42,426,091
Available-for-sale financial assets	900,540	–	–	–	900,540
Receivable from MERALCO	1,658,023	–	–	–	1,658,023
	₱42,103,134	₱18,318,646	₱127,605,877	₱4,288,317	₱192,315,974

** Excluding the amounts due from the shareholders of the Company as it is not expected that these will be collected in the form of other financial instruments.*

Aging analysis of past due but not impaired financial assets

As of December 31, 2008

	Days Past Due				
	Less than 30 days	31 to 60 days	61-90 days	More than 90 days	Total
Trade receivables	₱29,986,257	₱4,197,079	₱–	₱583,832	₱34,767,168
Other receivables	–	–	–	50,412,618	50,412,618
Due from affiliates	–	–	–	42,426,091	42,426,091
	₱29,986,257	₱4,197,079	₱–	₱93,422,541	₱127,605,877

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

<u>Liquidity Risk</u>
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, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

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.

As of December 31, 2009, financial liabilities pertaining to CMC and KPC were no longer consolidated by the Parent Company (see Note 2).

The table below summarizes the maturity profile of the Group’s financial liabilities at December 31, 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	On demand	Less than 3 months	3 to 12 months	Total
Note payable	₱–	₱–	₱4,000,000	₱4,000,000
Accounts payable and accrued expenses	57,529,595	3,767,194	–	61,296,789
Due to related parties	8,578,497	–	–	8,578,497
Total undiscounted financial liabilities	₱66,108,092	₱3,767,194	₱4,000,000	₱73,875,286

22. **Financial Assets and Financial Liabilities**

The following table summarizes the categories of financial instruments and their carrying and fair values as of December 31.

	Carrying Amount		Fair Value	
	2009	2008	**2009**	2008
Loans and Receivables				
Cash and cash equivalents, excluding cash on hand	**₱–**	₱29,350,587	**₱–**	₱29,350,587
Receivables:				
Trade	**–**	61,845,747	**–**	61,845,747
Others	**3,086,641**	51,846,669	**3,086,641**	51,846,669
Due from related parties, excluding due from stockholders	**242,038,096**	42,426,091	**242,038,096**	42,426,091
Receivable from MERALCO	**–**	1,658,023	**–**	1,658,023
Available-for-sale investments				
Golf club shares	**–**	900,540	**–**	900,540
	₱245,124,737	₱188,027,657	**₱245,124,737**	₱188,027,657
Other liabilities				
Note payable	**₱–**	₱4,000,000	**₱–**	₱4,000,000
Accounts payable and accrued expenses:				
Trade	**–**	54,642,559	**–**	54,642,559
Accrued expenses	**–**	3,767,194	**–**	3,767,194
Others	**–**	2,887,036	**–**	2,887,036
Due to related parties		8,545,633	**–**	8,545,633
	₱–	₱73,842,422	**₱–**	₱73,842,422

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

The fair value of “Receivable from MERALCO” was determined using the effective interest rate of 6.01% in 2007 and 5.93% in 2006 and computed based on the remaining receivable balance as of each balance sheet date.

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

23. Capital Management

The Group maintains a capital base to cover risks inherent in the business. The primary objectives of the Group'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 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 or return capital to shareholders. 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	**₱193,644,204**	₱193,644,204
Additional paid-in capital	**51,480,533**	51,480,533
Retained earnings	**289,000**	581,806,857
Revaluation increment in land transferred to a subsidiary	**–**	254,472,263
Treasury shares	**(289,000)**	(289,000)
Minority interest	**–**	50,961,172
	₱245,124,737	₱1,132,076,029

LMG Chemicals Corp.

Parent Company Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

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L M G C H E M I C A L S C O R P .

(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 P 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

Total No. of Stockholders

Not Applicable Domestic

Not Applicable Foreign

To be accomplished by SEC Personnel concerned

File Number

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
LMG Chemicals Corp.

We have audited the accompanying financial statements of LMG Chemicals Corp., 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 financial statements present fairly, in all material respects, the financial position of LMG Chemicals Corp. 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

LMG CHEMICALS CORP.
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash	**₱–**	₱577,104
Receivables (Note 4)	**3,086,641**	47,454,391
Due from related parties (Note 7)	**242,038,096**	420,217,422
Input taxes	**–**	30,773
Total Current Assets	**245,124,737**	468,279,690
Noncurrent Assets		
Investments (Note 5)	**–**	605,634,645
TOTAL ASSETS	**₱245,124,737**	₱1,073,914,335
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 6)	**₱–**	₱238,577
Income tax payable (Note 12)	**–**	2,928
Total Current Liabilities	**–**	241,505
Noncurrent Liability		
Deferred income tax liability - net (Notes 1 and 12)	**–**	38,635,264
Total Liabilities	**–**	38,876,769
Equity		
Capital stock - ₱1 par value		
Authorized - 200,000,000 shares		
Issued - 193,644,204 shares (held by 17 equity holders both in 2009 and 2008)	**193,644,204**	193,644,204
Additional paid-in capital	**51,480,533**	51,480,533
Revaluation increment in land transferred to a subsidiary, net of related deferred income tax (Notes 1 and 8)	**–**	252,735,314
Retained earnings (Note 8):		
Appropriated	**289,000**	289,000
Unappropriated	**–**	537,177,515
	245,413,737	1,035,326,566
Less cost of 100,028 shares held in treasury (Note 8)	**289,000**	289,000
Total Equity	**245,124,737**	1,035,037,566
TOTAL LIABILITIES AND EQUITY	**₱245,124,737**	₱1,073,914,335

See accompanying Notes to Parent Company Financial Statements.

LMG CHEMICALS CORP.
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2009	2008
OTHER INCOME (EXPENSE)		
Impairment of investment (Note 5)	**(₱11,650,507)**	₱–
Interest income (Note 7)	**195,409**	330,441
Operating expenses (Note 9)	**(80,050)**	(4,752,797)
Gain on disposal of investments (Notes 1 and 5)	**–**	202,751,515
Dividend income (Note 7)	**–**	3,600,000
Other income (expense) - net	**(37,219)**	8,425
INCOME BEFORE INCOME TAX	**(11,572,367)**	201,937,584
BENEFIT FROM INCOME TAX (Note 12)		
Current	**20,518**	17,155,268
Deferred (Notes 1, 5 and 12)	**(38,635,264)**	(82,453,980)
	(38,614,746)	(65,298,712)
NET INCOME FOR THE YEAR	**27,042,379**	267,236,296
OTHER COMPREHENSIVE INCOME		
Effect of change in the applicable tax rate on revaluation increment in land (Notes 8 and 12)	**–**	96,605,658
	–	96,605,658
TOTAL COMPREHENSIVE INCOME	**₱27,042,379**	₱363,841,954

See accompanying Notes to Parent Company Financial Statements.

LMG CHEMICALS CORP.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱11,572,367)**	₱201,937,584
Adjustments for:		
Interest income	**(195,409)**	(330,441)
Impairment loss on investment (Note 5)	**11,650,507**	–
Gain on disposal of investment (Notes 1 and 5)	**–**	(202,751,515)
Dividend income	**–**	(3,600,000)
Operating loss before working capital changes	**(117,269)**	(4,744,372)
Decrease (increase) in:		
Receivables (Notes 4 and 16)	**–**	(15,000,271)
Due from related parties (Note 16)	**(2,223,994)**	(74,376,049)
Input taxes	**30,773**	(30,773)
Increase (decrease) in accounts payable and accrued expenses	**(238,577)**	238,577
Cash used in operations	**(2,549,067)**	(93,912,888)
Interest received	**195,409**	330,441
Income taxes paid, including final taxes	**(23,446)**	(17,152,340)
Net cash used in operating activities	**(2,377,104)**	(110,734,787)
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividend received (Note 7)	**1,800,000**	1,800,000
Proceeds from sale of investment (Note 5)	**–**	448,472,250
Purchase of investments in shares of stock (Note 5)	**–**	(187,500)
Payments of advances to stockholders (Notes 7 and 16)	**–**	(344,041,373)
Net cash from investing activities	**1,800,000**	106,043,377
NET DECREASE IN CASH	**(577,104)**	(4,691,410)
CASH AT BEGINNING OF YEAR	**577,104**	5,268,514
CASH AT END OF YEAR	**₱–**	₱577,104

See accompanying Notes to Parent Company Financial Statements.

LMG CHEMICALS CORP.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. **Corporate Information, Restructuring and Authorization for Issuance of the Financial Statements**

Corporate Information
LMG Chemicals Corp. (the Company), a 73.93%-owned subsidiary of Chemical Industries of the Philippines, Inc. (CIP), was incorporated in the Philippines primarily to engage in the manufacture of industrial chemicals. The registered office address of the Company is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

Restructuring
The Company and its subsidiaries are in continuous pursuit of restructuring their business. In line with this, in 2007, certain assets and liabilities relating to the manufacture of sulfuric acid products were transferred from the Company to Chemphil Manufacturing Corp. (CMC), formerly Chemphil Marketing Corp., (a wholly owned subsidiary). With the transfer of the manufacturing facilities to CMC, the common management of both the Company and CMC envisions that CMC's focus will shift to manufacturing and its trading operations will just become a support activity.

Also in 2007, certain parcels of land and storage tanks were transferred by the Company to LMG Land Development Corporation (Landco), a wholly owned subsidiary. 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.

Also in relation to the restructuring, the Company transferred to CMC and Landco all of its remaining inventories, and various other current and noncurrent assets in 2007. With the transfer of facilities, Landco and CMC absorbed all of the regular employees of the Company. Finally, CMC and Landco also assumed all liabilities of the Company with the approval of the Company's creditors.

As a result of the above assets and liabilities transfers, the Company became a holding company.

In March 2008, the Company's Board of Directors (BOD) approved and adopted a resolution to sell its entire shareholdings in Landco to a third party that would offer the most advantageous and beneficial price, terms and conditions to the Company. On August 15, 2008, the investment of shares in stock in Landco was sold to a third party. The related revaluation increment transferred to retained earnings amounted to ₱153,128,818, net of deferred tax liability of ₱82,453,980.

On October 8, 2009, the BOD declared the Company's investments in shares of CMC and Kemwater Philipines Corp. (KPC), a 60%-owned subsidiary, as property dividends. On December 18, 2009, a deed of assignment was executed to assign the Company'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 Company in proportion to their respective shareholdings. The related revaluation increment in land transferred to CMC was accordingly transferred to retained earnings amounting to ₱252,735,314, net of deferred tax liability of ₱38,635,264.

At the same BOD meeting, the BOD approved the assignment of receivables from Chemoil and CMC to the Company's shareholders, in proportion to their shareholdings with the Company amounting to ₱44,367,750 and ₱76,600,043, respectively (see Notes 4 and 7).

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

Authorization for Issuance of the Financial Statements
The parent company financial statements as of and for the years ended December 31, 2009 and 2008 were authorized for issue by the BOD on April 14, 2010.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance
The separate financial statements of the Company have been prepared on a historical cost basis and are presented in Philippine Peso (Peso), which is the Company's functional and presentation currency.

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 Philippine 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 Interpretation
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new 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.

- 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.

- Revised PAS 23, *Borrowing Costs*
  The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. 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 have already capitalized borrowing costs in the past and currently has no borrowings.

- 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.

- 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 13 and 14.

- 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.

The following new and amended PFRS and Philippine Interpretations which became effective on January 1, 2009 are not 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 wording. The improvements in the following standards 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
to Existing Standards Effective Subsequent to December 31, 2009
The Company will adopt the following standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*
  The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that (a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill

nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as "minority interests"); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 must be applied prospectively, while the revised PAS 27 must be applied retrospectively with certain exceptions. The changes will affect future acquisitions and transactions with non-controlling interests.

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

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*
  This Interpretation covers accounting for all non-reciprocal distribution of non-cash assets to owners. It provides guidance on when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability and the consequences of doing so.

Improvements to PFRS
In April 2009, the IASB issued Improvements to IFRS. Entities shall apply these amendments for annual periods beginning on or after 1 July 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
Cash consists of cash on hand and in banks.

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. 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 Company 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 Company's financial assets consist only of loans and receivables while financial liabilities represent only other financial liabilities. The Company has no financial assets and liabilities at FVPL, HTM and AFS financial assets.

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 12 months from the balance sheet date, otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Company's cash in bank, receivables and due from related parties (see Note 14).

b. Other financial liabilities

This category pertains to financial liabilities that are not held for trading and are not designated as at fair value through profit or loss upon the inception of the liability. These include liabilities arising from operating (e.g., accounts payable and accrued expenses) and financing activities.

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.

Accounts payable and accrued expenses 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.

The Company has designate its accounts payable and accrued expenses as other financial liabilities as of December 31, 2009 and 2008 (see Note 14).

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

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

Where the Company has transferred its rights to receive cash flows from an financial asset and has neither transferred nor retained substantially all the risks and rewards of the financial asset nor transferred control of the 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.

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 liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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 t 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 Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Offsetting of 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 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 parent company statement of financial position.

Investments in Shares of Stock of Subsidiaries
The Company's investments in shares of stock of CMC (wholly owned subsidiary up to December 2009), Landco (wholly owned subsidiary until 2008) and KPC (60% owned subsidiary until December 2009), are accounted for under the cost method in the parent company financial statements less any impairment. 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 investments 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 in profit or loss.

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually and 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 re-organization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics, such as customer type, payment history, past-due status and term, and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting period.

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 settled 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 or cancellation of the Company's common shares.

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

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

Dividend income
Dividend income is recognized when the Company's right to receive the payment is established.

Interest Income
Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

<u>Cost and Expenses</u>
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.

<u>Retirement Benefits Cost</u>
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.

<u>Income Taxes</u>
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 other comprehensive income is recognized in other comprehensive income and not in profit or loss.

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 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.

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 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 company financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the parent company financial statements and accompanying notes. 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 parent company financial statements. While the Company believes that the assumptions are reasonable and appropriate, differences in the actual experience or changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments
In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the 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 classification of the various financial instruments of the Company are disclosed in Note 14.

Impairment of investments
In assessing whether there is any indication that the investments are impaired, the Company compares the carrying amount of the investments in the parent company financial statements against the carrying amount of the investee's net assets in the absence of other relevant information to determine value-in-use. Any excess of the investments' carrying amount in the parent company financial statements over the investees' net assets is recognized as impairment loss.

Impairment loss recognized in 2009 amounted to ₱11,650,507 (see Note 5).

Contingencies
a. The Company is a defendant in various court cases and labor claims. It is the opinion of management that settlement costs, if any, will not materially affect the Company's financial position and operating results.

b. 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 assets 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 amounted to ₱3,086,641 and ₱47,454,391 as of December 31, 2009 and 2008, respectively (see Note 4). The Company did not recognize any valuation allowance on receivable as of December 31, 2009 and 2008.

Recognition of deferred income tax assets
The Company reviews the carrying amounts at each reporting period and adjusts the balance of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company did not recognize any deferred income tax assets as of December 31, 2009 and 2008.

4. Receivables

	2009	2008
Government agencies	**₱1,766,979**	₱1,766,979
Input tax for refund	**1,319,662**	1,319,662
Receivable from Chemoil	**–**	44,367,750
	₱3,086,641	₱47,454,391

Receivable from Chemoil pertains to the outstanding balance due from Chemoil for the sale of Landco shares (see Note 1). On October 8, 2009, the BOD approved the assignment of the receivable from Chemoil to the Company's shareholders, in proportion to their shareholdings with the Company (see Note 7).

5. Investments

	2009	2008
Investments in shares of stock of subsidiaries - at cost:		
Beginning balance	**₱605,634,645**	₱870,535,630
Additional investment in shares of stock of subsidiaries	**–**	187,500
Impairment of investment	**(11,650,507)**	–
Disposal of investment in shares of stock of subsidiaries through property dividend (Notes 1 and 8)	**(593,984,138)**	(265,088,485)
Ending balance	**₱–**	₱605,634,645

Investments in subsidiaries, which are all incorporated in the Philippines, are accounted for under the cost method. The Company's subsidiaries and the corresponding ownership percentage in 2008 are as follows:

CMC	100%
KPC	60%

CMC's and KPC's status of operations
With the transfer of LMG's manufacturing operations to CMC in 2007, CMC has shifted its operations from trading to chemical manufacturing (see Note 1).

In 2009, the Company recognized impairment loss amounting to ₱11,650,507 representing the excess of the carrying amount of the investments in the parent company financial statements over the carrying amount of the investees' net assets.

As stated in Notes 1 and 8, the Company declared its investments in shares of CMC and KPC as property dividends and a deed of assignment was executed to assign its 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 Company in proportion to their respective shareholdings.

Landco
In 2006, the Company invested ₱62,500 in Landco, a newly formed company which was incorporated in the Philippines on December 15, 2006.

As stated in Note 1, the Company transferred various assets and liabilities to Landco. The net carrying value of these transferred assets and liabilities at transfer date were recognized in 2007 as additional investment in the subsidiary.

On August 15, 2008, the Company sold its investment in shares of stock of Landco to a third party, Chemoil (see Note 1). Gain on disposal of investment in share of stock of Landco amounted to ₱202,751,515. Outstanding receivable from Chemoil as of December 31, 2008 amounting to ₱44,367,750 was assigned to the Company's stockholders in 2009 (see Notes 4 and 7).

The combined financial information of CMC and KPC as of and for the year ended December 31, 2008 is summarized below:

	KPC	CMC
Total assets	₱155,889,108	₱605,193,959
Total liabilities	28,288,797	175,868,852
Total equity	127,600,311	429,325,107
Net income	9,568,696	28,418,371

As of December 31, 2009, these financial information of CMC and KPC were no longer consolidated by the Company.

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expense as of December 31, 2008 consists of:

Trade	₱236,657
Accrued expenses	1,920
	₱238,577

In 2009, the outstanding accounts payable and accrued expenses were paid.

7. **Related Party Transactions**

Significant transactions with related parties consist of the following:

a. In 2008, the Company advanced to the stockholders of CIP some of the proceeds from the sale of investment in Landco. Advances to stockholders as of December 31, 2008 amounted to ₱344,041,373. In 2009, the Company declared cash dividends amounting to ₱222,971,070, which was then offset against the outstanding advances to shareholders (see Note 8). The unpaid portion as of December 31, 2009 amounted to ₱121,070,303. Also in 2009, the BOD approved the assignment of receivable from Chemoil amounting to ₱44,367,750 to the Company's shareholders, in proportion to their shareholdings with the Company (see Note 4).

b. Advances to CMC as of December 31, 2008 amounts to ₱72,490,819, ₱1,852,130 of which is interest bearing. The whole amount is payable upon demand and pertains to payments made by the Company to the liabilities transferred to CMC in 2007.

   On October 8, 2009, the BOD approved the assignment of receivables from CMC amounting to ₱76,600,043 to the Company's shareholders, in proportion to their shareholdings with the Company.

   The assigned receivable includes the ₱72,490,819 advances, the ₱1,823,321 money market placements, ₱1,948,300 cash balance and ₱337,603 various receivables which were transferred to CMC during the year.

c. In 2008, KPC declared dividends amounting to ₱6,000,000, of which ₱3,600,000 is attributable to the Company. Dividends received amounting to ₱1,800,000 was loaned to CAWC Inc. (CAWC), a sister company, and the unpaid portion are outstanding from KPC as of December 31, 2008.

   In 2009, the Company was able to fully collect the outstanding dividend receivable from KPC and advances to CAWC.

Outstanding due from related parties which are due and demandable are as follows:

	Advances		Interest		**2009**	200
	2009	2008	**200**	2008	**Total**	Tota
Due from:						
Shareholders of the Company	**₱242,038,096**	₱344,041,373	**₱–**	₱–	**₱242,038,096**	₱344,041,37
CMC	**–**	72,490,819	**–**	18,830	**–**	72,509,64
KPC	**–**	1,800,000	**–**	–	**–**	1,800,00
CAWC	**–**	1,800,000	**–**	66,400	**–**	1,866,40
	₱242,038,096	₱420,132,192	**₱–**	₱85,230	**₱242,038,096**	₱420,217,42

8. Equity

a. Appropriated retained earnings amounting to ₱289,000 as of December 31, 2009 and 2008, pertaining to the cost of treasury stock.

b. As disclosed in Note 1, on August 15, 2008, the Company sold its investment in shares of stock of Landco to a third party. Revaluation increment relating to the land transferred to Landco amounting to ₱153,128,818 was realized and released from revaluation increment and transferred directly to retained earnings.

c. On May 19, 2009, the BOD declared cash dividends in the sum of ₱344,041,443 to stockholders of record as of June 2, 2009. On October 8, 2009, the BOD partially rescinded the cash dividend declared on May 19, 2009 in the amount of ₱121,070,373 resulting in effective cash dividend declaration amounting to ₱222,971,070.

   At the same BOD meeting, the BOD declared the Company's investments in shares of CMC and KPC as property dividends and on December 18, 2009, a deed of assignment was executed to assign the Company'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 Company in proportion to their respective shareholdings. The related revaluation increment in land transferred to CMC was accordingly transferred to retained earnings amounting to ₱252,735,314, net of deferred tax liability of ₱38,635,264.

9. Operating Expenses

	2009	2008
Personnel (Note 10)	**₱75,000**	₱4,493,030
Taxes and licenses	**5,050**	–
Outside services	**–**	5,050
Communication, light and water	**–**	1,276
Others	**–**	253,441
	₱80,050	₱4,752,797

10. Personnel Expenses

	2009	2008
Salaries and other compensation	**₱–**	₱30,000
Retirement benefits cost (Note 11)	**–**	4,463,030
Other employee benefits	**75,000**	–
	₱75,000	₱4,493,030

11. Retirement Benefits Cost

Accrued retirement benefits as of December 31, 2007 was assumed by CMC following the transfer of the Company's employees to the subsidiaries (see Note 1). In 2008, retirement benefits cost amounting to ₱4.5 million was charged to the Company, as management deemed that it is for the Company's operations. In 2009, the Company has not incurred any retirement benefits cost since it has no more employees.

12. **Income Taxes**

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

	2009	2008
RCIT/MCIT	**₱14,671**	₱2,928
Final tax on interest income	**5,847**	38,491
Capital gains tax	**–**	17,113,849
	₱20,518	₱17,155,268

b. Deferred income tax liability in 2008 represents the tax effect of the revaluation increment in land transferred to a subsidiary. The rollforward of deferred income tax liabilities are as follows:

	2009	2008
January 1	**(₱38,635,264)**	(₱217,694,902)
Realization through declaration of property dividend and sale of investment (Notes 1 and 8)	**38,635,264**	82,453,980
Effect of change in tax rate	**–**	96,605,658
December 31	**₱–**	(₱38,635,264)

c. As of December 31, 2009, the Company's NOLCO incurred in 2008 amounting to ₱4,606,386 and MCIT paid in 2008 amounting to ₱2,928 are available for deduction from future taxable income and regular corporate income tax due, respectively, until 2010.

The Company did not recognize deferred income tax assets on NOLCO and MCIT as management believes that taxable profit in the future will not be sufficient to allow these NOLCO and MCIT to be utilized prior to their expiration.

d. The reconciliation of the provision for income tax at statutory rate and the benefit from income tax shown in the parent company statements of comprehensive income follows:

	2009	2008
Provision for (benefit from) income tax computed at statutory income tax rate	**(₱3,471,710)**	₱70,678,154
Adjustments for:		
Impairment of investment	**3,495,152**	–
Reversal of deferred income tax liability on revaluation increment in land	**(38,635,264)**	(6,439,431)
Interest income already subject to final tax	**(2,924)**	(28,868)
Gains on disposal of land subjected to capital gains tax	**–**	(70,963,030)
Effect of changes in tax rate	**–**	(58,900,700)
Others	**–**	355,163
Benefit from income tax	**(₱38,614,746)**	(₱65,298,712)

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.

13. Financial Risk Management Objectives and Policies

The Company's financial instruments comprise of cash in bank. The Company also has receivables, due from related parties and accounts payable and accrued expenses which arise directly from its operations.

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

The main risk arising from the Company's financial instruments is credit risk. The BOD reviews and approves on certain policies for managing some of these risks and they are summarized as follows:

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 without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statements of financial position as of December 31:

	2009	2008
Cash	**₱–**	₱577,104
Receivables	**3,086,641**	47,454,391
Due from related parties*	**–**	76,176,049
Total credit risk exposure	**₱3,086,641**	₱124,207,544

**Excluding the amounts due from the shareholders of the Company.*

Due from related parties excludes amounts due from the shareholders of the Company. The Company believes that these receivables are not expected to be collected in the form of any other financial assets.

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.

The credit quality of financial assets is managed by the Company using internal credit ratings. The Company classifies its financial assets as high grade as of December 31:

	2009	2008
Cash	**₱–**	₱577,104
Receivables	**3,086,641**	47,454,391
Due from related parties*	**–**	76,176,049
Total	**₱3,086,641**	₱124,207,544

**Excluding the amounts due from the shareholders of the Company.*

High grade receivables pertains to those receivables from clients or customers that consistently pay before the maturity date. Standard grade includes receivables that are collected on their due dates even without an effort from the Company to follow them up while receivables which are collected on their due dates provided that the Company made a persistent effort to collect them are included under Sub-standard grade receivables. Past due receivables include those that are past due but are still collectible.

As of December 31, 2009 and 2008, the Company has no financial assets classified as standard grade, sub-standard grade or past due but not impaired.

14. Financial Instrument

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

	Carrying Amount		Fair Value	
	20	2008	**200**	2008
Financial assets:				
Loans and receivables				
Cash	**₱–**	₱577,104	**₱-**	₱577,104
Receivables	**3,086,641**	47,454,391	**3,086,64**	47,454,391
Due from related parties*	**–**	76,176,049	-	76,176,049
	₱3,086,641	₱124,207,544	**₱3,086,64**	₱124,207,544
Financial liabilities:				
Other financial liabilities				
Accounts payable and accrued expenses	**₱–**	₱238,578	**₱-**	₱238,578

**Excluding the amounts due from the shareholders of the Company.*

The carrying amounts of above financial instruments approximate their fair values because of their short-term nature.

15. 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	**₱193,644,204**	₱193,644,204
Additional paid-in capital	**51,480,533**	51,480,533
Revaluation increment in land	**–**	252,735,314
Retained earnings	**289,000**	537,466,515
Treasury Shares	**(289,000)**	(289,000)
	₱245,124,737	₱1,035,037,566

16. **Notes to Statements of Cash Flows**

The principal noncash transactions in 2009 under investing activities pertain to the property dividend declaration of the Company amounting to ₱593,984,138, cash dividend declaration amounting to ₱222,971,070 which was offset against advances to stockholders and the assignment of the Company's receivable from Chemoil to the Company's shareholders amounting to ₱44,367,750 (see Notes 1, 4, 5 and 7).

LMG CHEMICALS CORP.

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 Transferred to a Subsidiary	Retained Earnings (Note 8) Appropriated	Retained Earnings (Note 8) Unappropriated	Treasury Stock (Note 8)	Total
BALANCES AS OF DECEMBER 31, 2007	**₱193,644,204**	**₱51,480,533**	**₱309,258,474**	**₱289,000**	**₱116,812,401**	**(₱289,000)**	**₱671,195,612**
Transfer of revaluation increment due to disposal of an investment (Notes 1 and 8)	–	–	(153,128,818)	–	153,128,818	–	–
Total comprehensive income for the year	–	–	96,605,658	–	267,236,296	–	363,841,954
BALANCES AS OF DECEMBER 31, 2008	**193,644,204**	**51,480,533**	**252,735,314**	**289,000**	**537,177,515**	**(289,000)**	**1,035,037,566**
Transfer of revaluation increment due to disposal of investments (Notes 1 and 8)	–	–	(252,735,314)	–	252,735,314	–	–
Property dividends declared (Notes 5 and 8)	–	–	–	–	(593,984,138)	–	(593,984,138)
Cash dividends declared - ₱1.152 per share (Note 8)	–	–	–	–	(222,971,070)	–	(222,971,070)
Total comprehensive income for the year	–	–	–	–	27,042,379	–	27,042,379
BALANCES AS OF DECEMBER 31, 2009	**₱193,644,204**	**₱51,480,533**	**₱–**	**₱289,000**	**₱–**	**(₱289,000)**	**₱245,124,737**

See accompanying Notes to Parent Company Financial Statements.

Board of Directors

Antonio M. Garcia
Chairman of the Board

Ana Maria G. Ordoveza
President &
Chief Executive Officer

Ramon M. Garcia

Eusebio M. Garcia, Jr

Jose Ma. L. Ordoveza

Alexandra G. Garcia

Jose Ricardo C. Garcia

Jesus N. Alcordo

Paulino C. Alvaro

Augusto P. Nilo

Henry C. Leung

Executive Officers

Antonio M. Garcia	-	Chairman of the Board
Ana Maria G. Ordoveza	-	President & Chief Executive Officer
Alexandra G. Garcia	-	Chief Operating Officer / Acting General Manager
Jose Ricardo C. Garcia	-	Treasurer
Jose Januario S. Javier	-	Sales Manager
Constantine V. Domingo	-	Pasig Operation, AVP Plant Head
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

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

BANKS
Metropolitan Bank & Trust Company