CAWC, Inc.

Financial Statements
December 31, 2008 and 2007

and

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
CAWC, Inc.

We have audited the accompanying financial statements of CAWC, Inc., which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of income, statements of changes in equity (capital deficiency) and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CAWC, Inc. as of December 31, 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that the Company incurred recurring net loss for the years ended December 31, 2008 and 2007 and, as of those dates, the Company has reported deficit. These conditions, along with other matters discussed in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as going concern.

SYCIP GORRES VELAYO & CO.

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Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-1
Tax Identification No. 102-086-208
PTR No. 1566427, January 5, 2009, Makati City

April 13, 2009

CAWC, INC.
BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱2,765,459**	₱774,911
Receivables - net (Note 5)	**12,440,204**	30,336,180
Inventories (Note 6)	**31,724,435**	81,271,915
Prepayments and other current assets (Note 7)	**15,736,849**	19,427,245
Due from related parties (Note 12)	**2,546,182**	2,546,182
Total Current Assets	**65,213,129**	134,356,433
Noncurrent Assets		
Property, plant and equipment (Note 8)		
At cost - net	**17,536,866**	74,554,285
At revalued amount	**238,600,000**	238,600,000
Other noncurrent assets (Note 9)	**12,824,349**	16,278,366
Total Noncurrent Assets	**268,961,215**	329,432,651
TOTAL ASSETS	**₱334,174,344**	₱463,789,084
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		
Current Liabilities		
Notes payable (Note 10)	**₱–**	₱16,666,840
Accounts payable and accrued expenses (Note 11)	**77,917,692**	88,287,456
Liabilities under letters of credit and trust receipts (Note 6)	**71,109,511**	88,943,672
Due to related parties (Note 12)	**124,606,994**	111,447,004
Total Current Liabilities	**273,634,197**	305,344,972
Noncurrent Liability		
Deferred income tax liability (Note 18)	**59,194,707**	64,610,959
Accrued retirement payable (Note 17)	**1,524,760**	–
Total Noncurrent Liabilities	**60,719,467**	64,610,959
Total Liabilities	**334,353,664**	369,955,931
Equity (Capital Deficiency)		
Capital stock - ₱1 par value		
Authorized - 500,000,000 shares		
Issued - 301,341,929 shares	**301,341,929**	301,341,929
Additional paid-in capital	**801,166**	801,166
Revaluation increment in land (Notes 8 and 16)	**64,147,040**	58,730,787
Deficit (Note 16)	**(366,469,455)**	(267,040,729)
Total Equity (Capital Deficiency)	**(179,320)**	93,833,153
TOTAL LIABILITIES AND EQUITY	**₱334,174,344**	₱463,789,084

See accompanying Notes to Financial Statements.

CAWC, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2008	2007
NET SALES	**₱133,240,129**	₱185,369,078
COST OF GOODS SOLD (Note 13)	**150,498,308**	218,520,093
GROSS LOSS	**(17,258,179)**	(33,151,015)
Operating expenses (Note 14)	**(64,750,095)**	(26,261,076)
Interest expense (Note 12)	**(15,746,156)**	(15,098,590)
Foreign exchange gain (loss) - net	**(7,366,159)**	9,192,652
Gain on sale of fixed assets	**232,143**	–
Interest income	**834,124**	528,149
Scrap sales	**683,478**	482,080
Financial assistance from Soap and Detergent Association of the Philippines (SDAP) (Note 1)	**–**	12,000,000
Others - net	**3,943,575**	(812,007)
	(82,169,090)	(19,968,792)
LOSS BEFORE INCOME TAX	**(99,427,269)**	(53,119,807)
PROVISION FOR INCOME TAX (Note 18)	**1,457**	1,082
NET LOSS	**(₱99,428,726)**	(₱53,120,889)

See accompanying Notes to Financial Statements.

CAWC, INC.

STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Capital Stock	Additional Paid-in Capital	Revaluation Increment in Land (Notes 8 and 16)	Deficit (Note 16)	Total
BALANCES AT DECEMBER 31, 2006	**₱301,341,929**	**₱801,166**	**₱58,730,787**	**(₱213,919,840)**	**₱146,954,042**
Net loss for the year	–	–	–	(53,120,889)	(53,120,889)
BALANCES AT DECEMBER 31, 2007	**301,341,929**	**801,166**	**58,730,787**	**(267,040,729)**	**93,833,153**
Effect of changes in tax rates (Note 18)	–	–	5,416,253	–	5,416,253
Net loss for the year	–	–	–	(99,428,726)	(99,428,726)
BALANCES AT DECEMBER 31, 2008	**₱301,341,929**	**₱801,166**	**₱64,147,040**	**(₱366,469,455)**	**(₱179,320)**

See accompanying Notes to Financial Statements.

CAWC, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱99,427,269)**	(₱53,119,807)
Adjustments for:		
Depreciation and amortization (Note 8)	**16,566,174**	19,416,028
Interest expense (Note 12)	**15,746,156**	15,098,590
Interest income (Note 12)	**(835,079)**	(529,231)
Reversal of allowance for doubtful accounts and inventory obsolescence	**7,116,380**	3,938,444
Provision for doubtful accounts and inventory obsolescence	**5,190,416**	–
Provision for impairment of assets (Note 8)	**39,342,735**	–
Proceeds from insurance company (Note 5)	**–**	(10,206,170)
Gain on sale of property, plant and equipment	**(232,143)**	–
Unrealized foreign exchange loss (gain) - net	**7,989,153**	(8,937,799)
Operating loss before working capital changes	**(8,543,477)**	(34,339,945)
Decrease (increase) in:		
Receivables	**17,568,691**	500,822
Inventories - net	**37,567,969**	(42,102,774)
Other current assets	**5,975,349**	(6,895,584)
Increase (decrease) in:		
Accounts payable and accrued expenses	**(15,939,510)**	2,015,686
Liabilities under letters of credit and trust receipts	**(17,834,161)**	17,034,955
Accrued retirement payable	**1,524,760**	–
Amounts due to related parties	**13,159,990**	57,688,922
Cash generated from (used in) operations	**33,479,611**	(6,097,918)
Interest paid	**(16,778,480)**	(15,013,989)
Interest received	**835,079**	529,231
Income taxes paid, including creditable withholding taxes and final tax	**(2,286,410)**	(1,082)
Net cash from (used in) operating activities	**15,249,800**	(20,583,758)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment (Note 8)	**(278,572)**	(1,407,687)
Proceeds from sale of property, plant and equipment	**232,143**	–
Decrease in other noncurrent assets	**3,454,017**	2,091,724
Net cash from investing activities	**3,407,588**	684,037
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of notes payable	**–**	8,166,840
Payment of notes payable	**(16,666,840)**	–
Net cash from (used in) financing activities	**(16,666,840)**	8,166,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,990,548**	(11,732,881)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**774,911**	12,507,792
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱2,765,459**	₱774,911

See accompanying Notes to Financial Statements.

1. **Corporate Information and Status of Operations**

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

Status of Operations
The Company incurred recurring net losses of ₱99,428,726 and ₱53,120,889 for the years ended December 31, 2008 and 2007, respectively, and, as of those dates, the Company has reported deficit of ₱366,469,455 and ₱267,040,729, respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

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

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

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

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

At this time, the Company has not yet attained normal operation. However, the Company continues to operate intermittently producing small quantities of STPP for a loyal Filipino detergent producer.

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

The financial statements of the Company as of and for the years ended December 31, 2008 and 2007 were authorized for issue by the Board of Directors (BOD) through its Executive Committee on April 13, 2009.

2. Summary of Significant Accounting and Financial Reporting Policies

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Company:

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

New Accounting Standards, Interpretations, and Amendments to
Existing Standards Effective Subsequent to December 31, 2008
The Company will adopt the following standards and interpretations enumerated below 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. The relevant disclosures will be included in the notes to the financial statements when these become effective.

Effective in 2009

PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled.

PFRS 8, *Operating Segments*
This standard will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences.

Amendment to PAS 1, *Presentation of Financial Statements*
This amendment requires a company to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate statement of income and a statement of comprehensive income. The statement of comprehensive income shall disclose profit and loss for the period, plus each component of income and expense recognized outside of profit and loss. The Company will assess the impact of this standard to its financial statements.

PAS 23, *Borrowing Costs*
This amendment requires capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements of this standard, the Company will adopt this as a prospective change in accounting policy. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments 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

Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

The Company does not expect any significant changes in its accounting policies when it adopts the above standards, amendment and interpretations except for the amendment to PAS 1 and PAS 23.

Improvements to PFRSs
In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The applicable amendments to the Company are as follows:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
  When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

- PAS 19, *Employee Benefits*
  Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.

  Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.

- PAS 23, *Borrowing Costs*
  Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs' - that is, components of the interest expense calculated using the effective interest rate method.

- PAS 28, *Investment in Associates*
  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

- PAS 36, *Impairment of Assets*
  When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value-in-use'.

- PAS 38, *Intangible Assets*
  Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the service.

- PAS 40, *Investment Properties*
  Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

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 and PAS 27 must be applied retrospectively, except for some scenarios, and will affect future acquisitions and transactions with non-controlling interests.

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.

Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*
Amendment to PAS 39 will be effective on July 1, 2009, which addresses only 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. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

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 a 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 and are subject to an insignificant risk of changes in value.

Financial Assets and Financial Liabilities

Classification and recognition

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.

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

Financial assets and financial liabilities are further classified into the following categories: financial assets or financial liabilities at 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 balance sheet date.

a. Financial assets or financial liabilities at fair value through profit or loss

   Financial assets or financial liabilities classified in this category are financial assets or financial liabilities that are held for trading or financial assets and financial liabilities that are designated by management as at fair value through profit or loss on initial recognition when any of the following criteria are met:

   - the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis, or
   - the assets and liabilities are part of a group of financial assets and financial liabilities, respectively, or both financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
   - the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

   Financial assets are classified as held for trading if these are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in profit or loss. Interest earned is recorded as interest income, while dividend income is recorded in dividend income according to the terms of the contract, or when the right of the payment has been established. Interest incurred is recorded as interest expense.

The Company has not designated any financial asset or financial liability as at fair value through profit or loss as of December 31, 2008 and 2007.

Embedded derivatives
An embedded derivative is separated from the host financial or non-financial contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at fair value through profit or loss.

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

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets as at fair value through profit or loss. Changes in fair values are included in the statement of income.

The Company has no embedded derivatives as of December 31 2008 and 2007.

b. 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 balance sheet. 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 and cash equivalents, receivables and due from related parties (see Note 20).

c. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at cost or amortized cost in the balance sheet. Amortization is determined using the effective interest rate method. Assets under this category are classified as current assets if maturity is within 12 months from the balance sheet date, otherwise, these are classified as noncurrent assets.

The Company has not designated any financial asset as held-to-maturity as of December 31, 2008 and 2007.

d. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are carried at fair value in the balance sheet. Changes in the fair value of investments classified as available-for-sale financial assets are recognized in equity (net of the related deferred tax), except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest which are taken directly to the statement of 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 the statement of income. Assets under this category are classified as current assets if maturity is within 12 months of the balance sheet date, otherwise, these are classified as noncurrent assets.

The Company has not designated any financial asset classified as available-for-sale as of December 31, 2008 and 2007.

e. 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.

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

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

Derecognition of Financial Assets and Financial Liabilities

a. Financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

b. Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or a group of financial assets is impaired.

a. Assets carried at amortized cost

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

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

b. Assets carried at cost

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

c. Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income. 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. 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 the statement of income. 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 the statement of income, the impairment loss is reversed through the statement of income.

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 the statement of operations 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 the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day-1' profit or loss amount.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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 balance sheet.

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

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

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

Net realizable value of raw materials is the current replacement cost.

Property, Plant and Equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment in value, except for land which is carried at revalued amount as determined by an independent firm of appraiser.

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

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 balance sheet date. For subsequent revaluations, the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment in land," net of related deferred tax liability. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

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 operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

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

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

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

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

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

Borrowing Costs
Borrowing costs are expensed as incurred.

Impairment of Nonfinancial Assets
The Company assess at each reporting date whether there is an indication that a nonfinancial asset may be impaired. 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 the statement of income.

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

Revenue

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

Sales

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

Interest

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

Retirement Benefits Cost

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

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

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating to 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 reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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

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

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

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

Income Taxes
Current Tax
Current 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 balance sheet date.

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary, carryforward benefits of unused tax credits from minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future tax 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 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 or loss nor taxable profit or loss.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced 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. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recorded.

Deferred 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 balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off the deferred tax assets against the deferred 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 exchange rates prevailing and the balance sheet date. Foreign exchange differences between the rates at transaction date and settlement date or balance sheet date of foreign currency-denominated monetary assets or liabilities are recognized in the statement of income.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflect current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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

3. **Significant Accounting Judgments, Assumptions and Estimates**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate 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.

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

Determination of the Company's functional currency
The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Peso. 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 Company's balance sheet.

The Company determines the classification at initial recognition and re-evaluates this classification at every reporting date.

The carrying value of financial assets amounted to ₱17,693,377 and ₱36,160,857 and financial liabilities amounted to ₱273,347,380 and ₱295,344,972 as of December 31, 2008 and 2007, respectively (see Note 20).

Determination of leases
The Company has property leases, where it has determined that the risks and rewards related to those properties are retained by the lessors. As such, these lease agreements are accounted for as operating leases.

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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The Company's receivables, net of allowance for doubtful accounts, amounted to ₱12,440,204 and ₱30,336,180 as of December 31, 2008 and 2007, respectively (see Note 5).

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

The Company's inventories, net of allowance for inventory losses, amounted to ₱31,724,435 and ₱81,271,915 as of December 31, 2008 and 2007, respectively (see Note 6).

Estimation of useful lives and residual values of property, plant and equipment
The Company estimates the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives and residual values of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation expense and decrease noncurrent assets. The carrying value of property, plant and equipment, excluding land, amounted to ₱17,536,866 and ₱74,554,285 as of December 31, 2008 and 2007, respectively. Total depreciation and amortization expense charged to operations amounted to ₱16,566,174 in 2008 and ₱19,416,029 in 2007 (see Note 8). The estimated useful lives of the Company's depreciable assets are disclosed in Note 2.

Estimation of provision for impairment of nonfinancial assets
The Company determines whether its property, plant and equipment and other nonfinancial assets are impaired, at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of the cash flows. The carrying value of property, plant and equipment at cost amounted to ₱17,536,866 and

₱74,554,285 as of December 31, 2008 and 2007, respectively. Allowance for impairment of assets amounting to ₱39,342,735 was provided in 2008 (Note 8). Land carried at revalued amount and subject to impairment also, has carrying value of ₱238,600,000 as of December 31, 2008 and 2007. No impairment was recognized on land.

Recognition of deferred tax assets
The Company reviews the carrying amounts at each balance sheet date 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 tax assets to be utilized. The Company did not recognize deferred tax assets since management believes that the Company may not have sufficient taxable profit available to allow it to be utilized in the future or prior to expiration.

Estimation of retirement benefits cost
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17 to the financial statements and include among others, discount rates, expected returns on plan assets and salary increase rates. Actual results that differ from the Company's assumptions are accumulated over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations. Retirement expense charged to operations amounted to ₱4,069,763 in 2008 and ₱2,168,520 in 2007, respectively (see Note 17).

Provisions and contingencies
The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision and contingency is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Company. If the effect of the time value of money is material, provisions and contingencies are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision and contingency is being re-assessed at least on an annual basis to consider new relevant information. There is no provision recognized or contingency disclosed recognized as of December 31, 2008 and 2007.

4. Cash and Cash Equivalents

	2008	2007
Cash on hand and in banks	**₱765,459**	₱774,911
Short term investment	**2,000,000**	–
	₱2,765,459	₱774,911

Cash in banks earn interest at the respective bank deposit rates. Short-term investment is made for varying periods of up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term investment rates.

5. Receivables

	2008	2007
Trade (Note 19)	**₱15,089,649**	₱30,692,476
Insurance claim receivable	**–**	225,029
Receivable from Meralco - net of deferred interest income (Note 9)	**–**	1,299,913
Others	**1,754,189**	2,295,111
	16,843,838	34,512,529
Less allowance for doubtful accounts	**4,403,634**	4,176,349
	₱12,440,204	₱30,336,180

Insurance claim receivable pertains to reimbursement for losses suffered by the Company from typhoon in 2006.

A reconciliation of the allowance for doubtful accounts receivable by class is as follows:

	2008	2007
Beginning balances	**₱4,176,349**	₱4,558,057
Charge for the year	**277,285**	4,460
Recoveries	**(50,000)**	(271,851)
Amounts written off	**–**	(114,317)
Ending balances	**₱4,403,634**	₱4,176,349

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

Management's individual assessment of its receivables as at December 31, 2008 resulted to additional impairment loss of ₱277,285 being recognized. Also, management recovered ₱50,000 in 2008.

6. Inventories

	2008	2007
At net realizable value:		
Finished goods	**₱5,102,753**	₱11,226,331
Raw materials	**5,059,696**	47,858,203
Spare parts and factory supplies	**20,088,047**	20,530,154
	30,250,496	79,614,688
At cost:		
Raw materials	**1,473,939**	1,657,227
	₱31,724,435	₱81,271,915

Certain inventories were written down to their net realizable value, and as a result, recovery from inventory losses amounting to ₱3,671,113 were charged as part of cost of goods sold in 2007 (see Note 13).

Under the terms of agreements covering liabilities under letters of credit and trust receipts, some inventories amounting to ₱17,034,955 as of December 31, 2007 were released to the Company in trust for the banks. The Company is accountable to the banks for the trustees' inventories or their sales proceeds.

7. Prepayments and Other Current Assets

	2008	2007
Prepaid taxes	**₱13,665,930**	₱11,380,977
Input value added taxes	**1,735,582**	7,729,514
Prepaid insurance and others	**335,337**	316,754
	₱15,736,849	₱19,427,245

8. Property, Plant and Equipment

	2008						
	Land Improvements	**Buildings and structures**	**Machinery and Equipment**	**Transportation Equipment**	**Office Furniture and Fixtures**	**Construction In Progress**	**Total**
At Cost:							
Cost							
Beginning balances	**₱9,102,402**	**₱45,764,631**	**₱440,813,478**	**₱12,789,201**	**₱11,071,335**	**₱1,381,043**	**₱520,922,090**
Additions	–	–	**268,337**	–	**4,196**	**6,039**	**278,572**
Disposals	–	–	–	**(957,272)**	–	–	**(957,272)**
Reclassification	–	–	–	–		**(1,387,082)**	**(1,387,082)**
Ending balances	**9,102,402**	**45,764,631**	**441,081,815**	**11,831,929**	**11,075,531**	–	**518,856,308**
Accumulated Depreciation and Impairment loss							
Beginning balances	**8,970,871**	**41,527,343**	**373,101,170**	**11,767,657**	**11,000,764**	–	**446,367,805**
Depreciation (Notes 13 and 14)	**33,578**	**1,209,575**	**15,089,541**	**202,546**	**30,934**	–	**16,566,174**
Allowance for impairment of assets (Note 14)	–		**39,342,735**	–	–	–	**39,342,735**
Disposals	–	–	–	**(957,272)**	–	–	**(957,272)**
Ending balances	**9,004,449**	**42,736,918**	**427,533,446**	**11,012,931**	**11,031,698**	–	**501,319,442**
Net Book Values	**₱97,953**	**₱3,027,713**	**₱13,548,369**	**₱818,998**	**₱43,833**	**₱–**	**₱17,536,866**

	2007						
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture and Fixtures	Construction in Progress	Total
At Cost:							
Cost							
Beginning balances	₱9,102,402	₱45,764,631	₱440,813,478	₱12,789,201	₱11,044,691	₱–	₱519,514,403
Additions	–	–	–	–	26,644	1,381,043	1,407,687
Ending balances	9,102,402	45,764,631	440,813,478	12,789,201	11,071,335	1,381,043	520,922,090
Accumulated Depreciation							
Beginning balances	₱8,937,293	₱40,202,990	₱355,281,885	₱11,565,112	₱10,964,496	₱–	₱426,951,776
Depreciation (Notes 13 and 14)	33,578	1,324,353	17,819,285	202,545	36,268	–	19,416,029
Ending balances	8,970,871	41,527,343	373,101,170	11,767,657	11,000,764	–	446,367,805
Net Book Values	₱131,531	₱4,237,288	₱67,712,308	₱1,021,544	₱70,571	₱1,381,043	₱74,554,285

As of December 31, 2008 and 2007, land has a total revalued amount of ₱238,600,000 with cost amounting to ₱41,284,311.

9. Other Noncurrent Assets

	2008	2007
Receivable from local government	**₱12,169,733**	₱12,575,220
Deposits	**25,691**	25,691
Receivable from Manila Electric Company (MERALCO) - net of deferred interest income	–	2,722,839
Others	**628,925**	954,616
	₱12,824,349	₱16,278,366

Receivable from local government includes local tax credit from the Municipality of San Pascual, Batangas, amounting to ₱12,169,733 and ₱12,575,220 in 2008 and 2007, respectively, which will be applied against future real property taxes.

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

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

The Company recognized a receivable from Meralco amounting to ₱8,953,214, which consists of unearned interest income of ₱1,979,009 and income from refund of ₱6,974,205. The receivable was discounted using an effective interest rate of 11%. Breakdown of the outstanding balances are as follows:

	2008		2007	
	Current (Note 5)	**Noncurrent**	Current (Note 5)	Noncurrent
Receivable from Meralco	**₱–**	**₱–**	₱1,705,374	₱3,837,092
Deferred interest income	–	–	405,461	421,376

10. Notes Payable

These consist of unsecured notes payable to a local bank with annual interest rates ranging from 4.78% to 8% in 2007. Notes payable were repaid in full in 2008.

11. Accounts Payable and Accrued Expenses

	2008	2007
Trade payables	**₱75,812,671**	₱83,127,915
Accrued operating expenses	**1,207,827**	3,035,354
Accrued interest	**589,235**	1,621,560
Others	**307,959**	502,627
	₱77,917,692	₱88,287,456

12. **Related Party Transactions**

The Company has the following significant related party transactions:

a. Service agreement with CIP for the Company's management support activities. The service fee consists of management and shared services fees. Management fee amounting to ₱2,100,000 and ₱3,000,000 in 2008 and 2007, respectively, represents the Company's share in the general corporate overhead incurred by CIP. The shared services fee is billed using activity-based costing, whereby services rendered are based on man-hours spent or number of items processed or output produced as applicable. Share in common services charged to operating expenses amounted to ₱5,880,000 in 2008 and ₱7,840,720 in 2007 (Note 14).

b. Facility agreement with LMG Chemicals Corp. (LMG) for the Company's use of LMG's truck scale. The shared services fee is billed using activity-based costing, whereby services are based on the number of times of truck scale weighing. Share in common services charged to cost of goods sold amounted to ₱118,450 in 2008 and ₱290,441 in 2007 (Note 13).

c. Rental agreement with CIP for the Company's office space for one year renewable at the option of both parties. Rent expense charged to operations amounted to ₱280,440 both in 2008 and 2007 (Note 14).

d. In 2008 and 2007, the Company has outstanding loans from CIP and LMG amounting to ₱519,107,575 and ₱38,837,742 and ₱33,413,716 and ₱48,706,182 with interest rate of 8% per annum. These loans were obtained by the Company to finance its operations.

e. Extension of noninterest and interest-bearing cash advances and reimbursement of expenses with parent company and affiliates. The interest-bearing cash advances have interest rates ranging from 8% to 12% in 2008 and 2007. For 2008 and 2007, there were no interest income earned from related parties. Related interest expense amounted to ₱6,830,810 in 2008 and ₱5,108,204 in 2007.

f. Outstanding current receivables from related parties are as follows:

	Advances	
	2008	2007
Petrocorp	**₱25,472**	₱25,472
Stockholders	**2,520,710**	2,520,710
	₱2,546,182	₱2,546,182

Outstanding payables to related parties are as follows:

	Premiums		Advances		Loans		Interest		**2008**	2007
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**Total**	Total
Current:										
CIP	**₱–**	₱–	**₱–**	₱–	**₱59,107,575**	₱38,837,742	**₱4,586,460**	₱2,087,535	**₱63,694,035**	₱40,925,277
Kemwater Phil. Corp.	–	–	–	–	**35,413,716**	48,706,182	**4,994,935**	2,635,839	**40,408,651**	51,342,021
LMG		–	**1,800,000**	1,118,908		–	**66,400**	40,370	**1,866,400**	1,159,278
Vision Insurance Consultants, Inc.	**17,145,616**	14,764,955	–	–	–	–	**1,343,864**	191,981	**18,489,480**	14,956,936
Chemphil Marketing Corp.	–	–	**130,424**	37,735	–	–	–	–	**130,424**	37,735
Perfumeria Espanola Corp.	–	–	**18,004**	3,025,757	–	–	–	–	**18,004**	3,025,757
	₱17,145,616	₱14,764,955	**₱1,948,428**	₱4,182,400	**₱94,521,291**	₱87,543,924	**₱10,991,659**	₱4,955,725	**₱124,606,994**	₱111,447,004

g. Compensation of key management personnel consists of short-term employee benefits and termination benefits amounting to ₱5,140,866 and ₱638,086, respectively, in 2008 and ₱7,353,267 and ₱226,774, respectively, in 2007.

13. **Cost of Goods Sold**

	2008	2007
Raw materials used	**₱89,828,077**	₱158,399,436
Direct labor (Notes 14 and 15)	**3,503,422**	3,884,322
Manufacturing overhead:		
Depreciation (Note 8)	**16,556,540**	19,405,209
Communication, light and water	**6,374,591**	9,619,896
Provision for inventory losses	**4,913,131**	–
Taxes and licenses	**3,208,551**	2,395,227
Outside services	**3,149,320**	5,897,658
Insurance	**3,081,021**	3,815,362
Repairs and maintenance	**3,019,500**	3,539,852
Supplies	**2,850,891**	12,294,972
Rent	**676,720**	929,850
Share in common services (Note 12)	**118,450**	290,441
Recovery from inventory losses (Note 6)	**–**	(3,671,113)
Others	**280,134**	598,702
Changes in finished goods inventories	**12,937,960**	1,120,279
	₱150,498,308	₱218,520,093

14. **Operating Expenses**

	2008	2007
Provision for impairment loss (Note 8)	**₱39,342,735**	₱–
Personnel expenses (Notes 15 and 17)	**13,969,252**	9,995,113
Share in common services (Note 12)	**5,880,000**	7,840,720
Management fee (Note 12)	**2,100,000**	3,000,000
Outside services	**1,864,762**	3,376,090
Taxes and licenses	**329,156**	324,790
Communication, light and water	**340,119**	435,077
Rent (Note 12)	**280,440**	280,440
Transportation and travel	**81,521**	176,504
Depreciation (Note 8)	**9,634**	10,820
Others	**552,476**	821,522
	₱64,750,095	₱26,261,076

15. **Personnel Expenses**

	2008	2007
Salaries and wages	**₱9,487,737**	₱10,011,440
Retirement benefits cost (Note 17)	**4,069,753**	2,168,520
Other employee benefits	**3,915,184**	1,709,475
	₱17,472,674	₱13,889,435

16. **Quasi-Reorganization**

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

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

17. **Retirement Benefits Cost**

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

The following tables summarize the components of retirement benefits cost recognized in the statements of operations and the funding status and amounts recognized in the balance sheets.

Retirement benefits cost are as follows:

	2008	2007
Current service cost	**₱413,350**	₱315,165
Interest cost	**971,233**	908,763
Expected return on plan assets	**(410,937)**	(410,062)
Net actuarial loss	**7,738,538**	87,005
Recognition (reversal) of asset limit	**(4,642,431)**	1,267,649
Net retirement benefits cost for the year	**₱4,069,753**	₱2,168,520
Actual return on plan assets	**(₱233,468)**	₱398,236

Net retirement liability recognized by the Company in the balance sheets follows:

	2008	2007
Present value of retirement liabilities	**₱194,671**	₱9,278,818
Fair value of plan assets	**(1,501,740)**	4,109,369
	(1,696,411)	5,169,449
Net cumulative unrecognized actuarial loss	**(171,651)**	(9,811,880)
Asset ceiling limit	**–**	4,642,431
Net retirement liability	**(₱1,524,760)**	₱–

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

	2008	2007
Balance at beginning of year	**₱9,278,818**	₱10,962,163
Interest cost	**971,233**	908,763
Current service cost	**413,350**	315,165
Benefits paid	**(7,922,634)**	(2,558,011)
Actuarial gain for the year	**(2,546,096)**	(349,262)
Balance at end of year	**₱194,671**	₱9,278,818

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

	2008	2007
Balances at beginning of year	**₱4,109,369**	₱4,100,624
Expected return on plan assets	**410,937**	410,062
Actual contributions	**2,544,993**	2,168,520
Benefits paid	**(7,922,634)**	(2,558,011)
Actuarial loss	**(644,405)**	(11,826)
Balance at end of year	**(₱1,501,740)**	₱4,109,369

The major categories of net plan assets as of December 31, 2008 and 2007 of the Company as a percentage of the fair value of the plan assets are as follows:

	2008	2007
Investment in government securities	–	68%
Investment in stocks	–	13%
Other investments	–	13%
Other assets	–	6%
Liabilities	**100%**	–

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

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

	2008	2007
Number of employees	**9**	19
Discount rate per annum	**10.47%**	10%
Expected annual rate of return on plan assets	**10.00%**	10%
Future annual increase in salary	**6.63%**	6%

As of December 31, 2008, the following are the assumptions: discount rate of 14.30%, expected annual rate of return on plan assets of 10% and future annual increase in salary of 6.63%.

Amount for the current and previous years are as follows:

	2008	2007	2006	2005
Defined benefit obligations	**₱194,671**	₱9,278,818	₱32,00,179	₱32,001,179
Fair value of plan assets	**(1,501,740)**	4,109,369	4,100,624	28,758,533
Unfunded present value of retirement obligation	**1,696,411**	5,169,449	6,861,539	3,242,646
Experience adjustment on plan liabilities - loss (gain)	**(70,557)**	(629,711)	1,187,143	–
Experience adjustment on plan assets - gain (loss)	**(375,523)**	7,648	(8,415,966)	–

The Company expects to contribute ₱3.5 million to the retirement fund in 2009.

18. **Income Taxes**

a. Provision for income tax - current represents final tax on interest income amounting to ₱1,457 in 2008 and ₱1,082 in 2007.

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

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

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

	2008	2007
NOLCO	**₱220,853,429**	₱306,541,826
Allowance for inventory obsolescence	**8,089,559**	10,242,808
Deferred interest income - MERALCO	–	826,837
Allowance for doubtful accounts	**4,403,634**	4,176,349
Unamortized portion of past service cost	**7,658,551**	6,858,528
MCIT	–	139,965
Accrued personnel expenses	**1,524,760**	–

d. The reconciliation of the benefit from income tax computed at the statutory income tax rate to the provision for income tax as shown in the statements of operations for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008	2007
Benefit from income tax computed at statutory income tax rate	**(₱34,799,544)**	(₱18,591,932)
Additions to (reductions in) income tax resulting from:		
Unrecognized deferred tax assets	–	(4,470,549)
Interest income subjected to final tax	**(1,093)**	(812)
Nondeductible interest expense and others	**1,071**	795

(Forward)

	2008	2007
Temporary differences for which no deferred tax assets were recognized	**₱34,801,023**	₱22,989,446
Others	**–**	74,134
Provision for income tax	**₱1,457**	₱1,082

e. As of December 31, 2008, the Company's NOLCO that can be claimed as deduction from future taxable income are as follows:

NOLCO

Year Incurred	Amount	Tax Effect	Expired/ Applied	Balance as of December 31, 2008	Available Until
2005	₱138,216,022	₱48,375,608	₱138,216,022	₱–	2008
2006	102,641,674	35,924,586	–	102,641,674	2009
2007	65,684,130	22,989,446	–	65,684,130	2010
2008	52,527,625	15,758,288	–	52,527,625	2011
	₱359,069,451	₱123,047,928	₱138,216,022	₱220,853,429	

f. 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.

g. On July 7, 2008, RA 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made.

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

19. Financial Instruments, Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of receivables. The Company has various other financial assets and liabilities such as accounts payable and accrued liabilities, which arise directly from its operations.

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

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

The following is the Company's aging of undiscounted payments to loans payable as of December 31:

	Rate	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
2008	**Floating**	**₱71,109,511**	**₱**	**₱**	**₱**	**₱**	**₱71,109,511**
2007	Floating	88,943,672	–	–	–	–	88,943,672

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

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

Maximum exposure to credit risk without taking account of any collateral
The table below shows the maximum exposure to credit risk for the components of the balance sheet. The maximum exposure as of December 31, 2008 and 2007 is shown below at gross, without regard to the use of master netting and collateral agreements.

	2008	2007
Cash in bank and cash equivalents	**₱2,706,991**	₱727,280
Receivables	**12,440,204**	32,856,890
Due from related parties	**2,546,182**	2,546,182
Total credit risk exposure	**₱17,693,377**	₱36,130,352

The credit quality of financial assets is managed by the Company using internal credit verification. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Company's credit verification process.

December 31, 2008

	Neither past due nor impaired				
	High Grade	**Standard Grade**	**Past due but not impaired**	**Impaired**	**Total**
Cash in bank and cash equivalents	**₱2,706,991**	**₱–**	**₱–**	**₱–**	**₱2,706,991**
Receivables	**5,445,258**	**2,080,285**	**4,914,661**	**4,403,634**	**16,843,838**
Due from related parties	**2,520,710**	**–**	**25,472**	**–**	**2,546,182**
Total	**₱10,672,959**	**₱2,080,285**	**₱4,940,133**	**₱4,403,634**	**₱22,097,011**

December 31, 2007

	Neither past due nor impaired				
	High Grade	Standard Grade	Past due but not impaired	Impaired	Total
Cash in bank and cash equivalents	₱727,280	₱–	₱–	₱–	₱727,280
Receivables	24,272,972	2,585,970	4,698,035	4,176,349	35,733,326
Due from related parties	2,520,710	–	25,472	–	2,546,182
MERALCO refund	4,715,629	–	–	–	4,715,629
Total	₱32,236,591	₱2,585,970	₱4,723,507	₱4,176,349	₱43,722,417

Aging analysis of past due but not impaired loans per class of financial assets

December 31, 2008

	Past due individually impaired	
	2008	2007
Trade receivables, less than 30 days past due	**₱4,914,661**	₱521,686
Allowance for doubtful accounts	**4,403,634**	4,176,349
Past due or individually impaired	**₱9,318,295**	₱4,698,035

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

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

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

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

The table below summarizes the maturity profile of the Company’s financial liabilities based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's experience on such payment requests/demand.

December 31, 2008

	On demand	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities						
Accounts payable and accrued expenses	**₱77,630,875**	**₱–**	**₱–**	**₱–**	**₱–**	**₱77,630,875**
Due to affiliates	**124,606,994**	**–**	**–**	**–**	**–**	**124,606,994**
Liabilities under trust receipts	**71,109,511**	**–**	**–**	**–**	**–**	**71,109,511**
Total undiscounted financial liabilities	**₱273,347,380**	**₱–**	**₱–**	**₱–**	**₱–**	**₱273,347,380**

December 31, 2007

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial liabilities						
Notes Payable	₱6,666,840	₱10,000,000	₱–	₱–	₱–	₱16,666,840
Accounts payable and accrued expenses	88,287,455	–	–	–	–	88,287,455
Due to affiliates	111,447,004	–	–	–	–	111,447,004
Liabilities under trust receipts	88,943,672	–	–	–	–	88,943,672
Total undiscounted financial liabilities	₱295,344,971	₱10,000,000	₱–	₱–	₱–	305,344,971

20. Financial Assets and Liabilities

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

	Carrying Amount		Fair Value	
	2008	2007	**2008**	2007
Financial assets:				
Loans and Receivables				
Cash in bank and cash equivalents	**₱2,706,991**	₱727,280	**₱2,706,991**	₱727,280
Receivables	**12,440,204**	30,692,476	**12,440,204**	30,692,476
Receivable from MERALCO	**–**	4,715,629	**–**	4,715,629
Due from related parties	**2,546,182**	2,546,182	**2,546,182**	2,546,182
	₱17,693,377	36,160,857	**₱17,693,377**	36,160,857
Financial liabilities:				
Other Liabilities				
Accounts payable and accrued expenses	**₱77,630,875**	₱88,287,456	**₱77,630,875**	₱88,287,456
Notes payable	**–**	6,666,840	**–**	6,666,840
Liabilities under letters of credit and trust receipts	**71,109,511**	88,943,672	**71,109,511**	88,943,672
Due to related parties	**124,606,994**	111,447,004	**124,606,994**	111,447,004
	₱273,347,380	₱295,344,972	**₱273,347,380**	₱295,344,972

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

21. **Capital Management**

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

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

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

	2008	2007
Capital stock	**₱301,341,929**	₱301,341,929
Additional paid-in capital	**801,166**	801,166
Deficit	**(366,469,455)**	(267,040,729)
Revaluation increment on property	**64,147,040**	58,730,787
	(₱179,320)	₱93,833,153