APPLICABLE DISCLOSURES FOR NPAEs
WHICH HAVE ADOPTED SOME OF THE PFRSs[1]

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of Preparation

PAS 1.14

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the Philippines applicable to non-publicly accountable entities (NPAEs) as set forth in Philippine Accounting Standards (PAS) 101, *Financial Reporting Standards for NPAEs*, issued and approved by the Financial Reporting Standards Council (FRSC), formerly Accounting Standard Council and the Securities and Exchange Commission, effective for periods beginning on or after January 1, 2005 to 2007. PAS 101 provides an option to NPAEs to apply financial reporting standards effective as of December 31, 2004, and not to apply any of the new Philippine Accounting Standards (PASs) and Philippine Financial Reporting Standards (PFRSs) that became effective in 2005, or to apply all or some of the relevant new accounting standards.

The Company has qualified as an NPAE under PAS 101 and it has opted to apply the applicable financial reporting standards effective as of December 31, 2004, and some of the PASs and PFRSs that became effective in 2005, which are relevant to the Company. The adoption of these new and revised accounting standards is more fully discussed in Note 3.

The financial statements have been prepared on the historical cost basis. The measurement bases are more fully described in the accounting policies below.

[1] Under PAS 101, an entity that qualifies as an NPAE has an option to (a) apply only the GAAP effective as of December 31, 2004, (b) to apply all the PFRS that are effective as of January 1, 2005, or (c) to apply the 2004 GAAP plus some of the new PFRS.

The financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated.

Management is required to make judgments, estimates and assumptions in the preparation of financial statements. Although these estimates and assumptions are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on a continuing basis and any revisions to accounting estimates are recognized prospectively. [2]

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*[**Note:** Accounting policies and related disclosures of the PFRSs adopted should be revised based on the requirement of specific PFRS (refer to 2006llustrative FS of PNA Manufacturing Corporation for sample disclosures). GAAP applied based on standards effective as of December 31, 2004 should be retained (refer to the 2004 Illustrative FS for PNA for sample disclosures).*

Note 3 – CHANGE IN ACCOUNTING POLICIES

PAS 1.105 (b)

In 2004, the FRSC issued a series of new accounting standards that are adopted from International Accounting Standards (IASs), revised IASs and new International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). The new FRSC accounting standards are effective in the Philippines for financial statements covering periods beginning on or after January 1, 2005.

Also, to correspond better with the issuances of the IASB, the FRSC re-named the Standards it issues as PFRSs (previously referred to as Statements of Financial Accounting Standards or SFASs). PFRSs consist of:

a. PFRSs – corresponding to International Financial Reporting Standards;

b. PASs – corresponding to IASs; and,

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[2] The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements should be disclosed, hence, the above paragraph should be modified accordingly. See Note 3 to the financial statements of PNA Manufacturing Corporation for sample disclosures.

c. Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee, of the IASB which are adopted by the FRSC.

Of the new FRSC pronouncements[3], the following are the standards adopted by the Company effective on January 1, 2005:

PAS 1	:	Presentation of Financial Statements
PAS 8		: Accounting Policies, Changes in Accounting Estimates and Errors
PAS 10	:	Events after the Balance Sheet Date
PAS 16	:	Property, Plant and Equipment

The requirements of these new standards have been applied in accordance with their specific transitional provisions, or retrospectively in accordance with PAS 8, in the absence of such specific transitional provisions.

The Company's adoption of these new and revised PAS and PFRSs in 2005 did not result in material adjustments to the financial statements of the current and prior years, except for the reclassification of certain accounts to be consistent with the current financial statement presentation.[4]

In 2006, new standards, amendments and interpretations to existing standards became effective. Management has opted not to adopt any of the new standards, amendments and interpretations.[5]

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[3] See AA 2005-01 for the complete list of new and revised accounting standards effective for the periods beginning on or after January 1, 2005.

[4] If the adoption of any of the standards results in material adjustments, the significant effects on the FS should be disclosed (refer to the 2004 Illustrative FS of ABC Company for sample disclosures).

[5] If in case any of the new standards, and amendments and interpretations to existing standards are adopted by the Company, modify this paragraph, enumerate such standards, and/or amendments and interpretations that are adopted by the Company and describe their effect to the Company's financial statements.