PAS 1.46 (a)
PAS 1.46 (b)
PAS 1.46
PAS 1.46 (c)
PAS 1.46 (d)
PAS 1.46 (e)

PNA MANUFACTURING CORPORATION
(A Wholly Owned Subsidiary of Granthor Holdings Philippines, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Amounts in Philippines Pesos)

1. CORPORATE INFORMATION

PAS 1.126 (b)

PNA Manufacturing Corporation (the Company[1]) was incorporated in the Philippines on June 29, 1976. The Company is presently engaged in the manufacture, distribution and installation of integrated circuits, conventional and surface mount printed circuit boards and other similar products.

PAS 1.126 (c)

The Company is a wholly owned subsidiary of Granthor Holdings Philippines, Inc. (Granthor),[2] a company incorporated and domiciled in the Philippines. Granthor is presently engaged in the manufacture and distribution of electronic components, the manufacture and installation of insulation products, and the manufacture and sale of ready-to-wear clothes.

PAS 1.126 (a)
PAS 1.126 (c)

The Company's registered office,[3] which is also its principal place of business, is located at 123 Maganda Street, Future Village, Makati City. The registered office of Granthor[4] is located at 90 Amihan Street, Somewhere There Avenue, Pasay City.

PAS 1.46 (c)
PAS 10.17

The financial statements of the Company for the year ended December 31, 2006 (including the comparatives for the year ended December 31, 2005) were authorized for issue by the Board of Directors on March 31, 2007.[5]

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[1] Or "PNA," however, the term chosen should be used consistently within the notes to financial statements.

[2] The name of the parent company and the ultimate parent company (if any) of the group should be disclosed.

[3] Or principal place of business, if different from the registered address.

[4] Disclosure of the registered office of the parent company and the ultimate parent (if any) is only required if the Company does not present consolidated financial statements.

[5] Refer to AAR 04-03 for discussion on the relationship of the date of client's authorization for the issuance of the financial statements and the date of the auditors' report thereon. In addition, if the owners or others have the power to amend the financial statements after issue, such should also be disclosed.

PAS 1.108 (b)

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 the years presented, unless otherwise stated.

2.1 Basis of Preparation

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

(i) PFRSs – corresponding to International Financial Reporting Standards;

(ii) Philippine Accounting Standards (PASs) – corresponding to International Accounting Standards; and,

(iii) 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.

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets, property, plant and equipment and investment property. The measurement bases are more fully described in the accounting policies that follow.

PAS 1.14

(b) Transition to PFRS in 2005

In compliance with the pronouncements of the FRSC and the regulations of the Securities and Exchange Commission, the Company adopted all the relevant PFRSs for the first time in its financial statements for the year ended December 31, 2005, with January 1, 2004 as its transition date.

The transition from the previous generally accepted accounting principles in the Philippines to PFRS was made in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards.*

The Company's transition to PFRS in 2005 resulted in the restatement of the balance of Equity as of January 1, 2005. The total adjustment to Equity, particularly in the balance of Revaluation Reserves and Retained Earnings, arising from the transition amounted to P115,139,729 and is broken down as follows:

	Relevant PFRS	Revaluation Reserves	Retained Earnings	Total Adjustment
Remeasurement of available-for-sale financial instruments	PAS 39	P 229,102	(P 1,197,477)	(P 968,375)
Fair value adjustment of investment property	PAS 40	(1,320,436)	1,320,436	-
Remeasurement of refundable security deposits	PAS 39	-	(12,562,985)	(12,562,985)
Reversal of equity in net earnings of subsidiaries and associates	PAS 27/28	-	(84,433,605)	(84,433,605)
Recognition of restoration costs of leased property	PAS 16	-	(1,860,215)	(1,860,215)
Recognition of transitional liability and defined benefit expense	PAS 19	-	(21,799,613)	(21,799,613)
Deferred tax adjustment	PAS 12	732,420	5,752,644	6,485,064
		(P 358,914)	(P 114,780,815)	(P 115,139,729)

In addition to the foregoing adjustments to Equity, the structure of the balance sheet and income statement was also revised.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.14).

2.2 Impact of New Standards, and Amendments and Interpretations to Existing Standards that are Relevant to the Company

(a) Effective in 2006

In 2006, the Company adopted the amendments and interpretations to existing accounting standards issued by the IASB and adopted by the FRSC which are mandatory for accounting periods beginning on or after January 1, 2006. These amendments and interpretations are as follows:

PAS 19 (Amendment)	:	Employee Benefits
PAS 39 (Amendment)	:	The Fair Value Option
PAS 39 and PFRS 4 (Amendment)	:	Financial Guarantee Contracts
Philippine Interpretation		

IFRIC 4	:	Determination Whether an Arrangement Contains a Lease

Discussed below are the impact on the financial statements of each of these amendments and interpretations.

(i) PAS 19 (Amendment), *Employee Benefits.* The amendment introduces an option for an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements and imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. Because the Company does not intend to change its current accounting policy for recognition of actuarial gains and losses and does not participate in any multi-employer plans, the adoption of this amendment did not result in a material adjustment to the financial statements.

(ii) PAS 39 (Amendment), *The Fair Value Option.* This amendment changes the definition of financial instruments classified as at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The adoption of this amendment did not result in a material reclassification of financial instruments because their current designation conforms with the amendments to PAS 39.

(iii) PAS 39 and PFRS 4 (Amendment), *Financial Guarantee Contracts.* The amendment requires the recognition of guarantee liability, at its fair value, of the parent company in relation to a third party loan to a subsidiary guaranteed by the parent company. The Company's adoption of the amendment did not result in a material adjustment to the financial statements as management opted not to record the fair value of the liability of P528,000 in 2006 and P485,345 in 2005 because of the short duration of the contracts (see Note 23.5) and the low probability of the subsidiary's default in paying its borrowings guaranteed by the Company.

(iv) Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Philippine Interpretation IFRIC 4 requires the determination of whether an arrangement is or contains a lease based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset. Based on the management's current year assessment, the adoption of Philippine Interpretation IFRIC 4 has no significant impact on the Company's current operations because there were no outstanding arrangements that were identified to be a lease or contains a lease.

(b) Effective Subsequent to 2006

There are a few new standards, and amendments and interpretation to existing standards that are effective for periods subsequent to 2006. Of these new standards, and amendments and interpretations, the following are relevant to the Company but the Company has opted not to adopt them early[6].

PAS 8.30

PAS 1 (Amendment)[7]	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

Below is a discussion of the possible impact of the foregoing standards, amendments and interpretations which the Company will apply in 2007 in accordance with their transitional provisions.

(i) PFRS 7, *Financial Instruments: Disclosures* and complementary amendment to PAS 1 (effective for annual periods beginning on or after January 1, 2007). PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company has assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1.

(ii) Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006). It prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company is currently evaluating the impact of this interpretation on its financial statements and has initially determined that such may not have significant effects on the financial statements for 2007, as well as for prior and future periods.

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[6] When any of the new accounting standards, and amendments and interpretations is applied early (i.e., before January 1, 2007), the fact should be disclosed together with the other information required under the specific standard and/or amendments and interpretations.

[7] This is a complementary amendment resulting from the adoption of PFRS 7.

PAS 27.41 (a) (b)

2.3 Separate Financial Statements[8] and Investments in Subsidiaries and Associates

These financial statements are prepared as the Company's separate financial statements. As allowed under the existing standards, the Company has not presented consolidated financial statements because it is a wholly owned subsidiary of Granthor, which presents consolidated financial statements which are available for public use, and its debt or equity securities are not traded in a public market[9].

PAS 27.37
PAS 39.66

The Company's investments in subsidiaries and associates are accounted for in these separate financial statements at cost,[10] less any impairment loss. Impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered. The impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. Such amount of the impairment loss is recognized in the income statement.

PAS 27.12
PAS 27.14

Subsidiaries are entities over which the Company has the power to govern the financial reporting policies generally accompanying a shareholding of more than one half of the voting rights. The Company obtains and excises control through voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Company controls another entity.

PAS 28.13

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

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[8] See Appendix for sample disclosures on certain items if the FS presented are not separate FS (i.e., consolidated or investor's financial statements are presented).

[9] PAS 27.10 provides the exemption criteria when a parent need not present consolidated financial statements.

[10] Alternatively, these investments may be accounted for under PAS 39.

PAS 1.108 (b)

2.4 Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

PAS 1.110
PAS 7.46

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

PAS 32.61
PAS 32.60 (b)

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

PAS 1.110
PAS 32.60
PAS 39.9

The foregoing categories of financial instruments are more fully described below.

(a) Financial Assets at Fair Value through Profit or Loss

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition.[11] A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the balance sheet date.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

(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. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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[11] In addition, if an entity has derivative financial instruments that do not qualify for hedge accounting, these derivative financial instruments are classified as held for trading and additional disclosures as required by PAS 32 for derivatives should be included in the notes to financial statements.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows.

Loans and receivables are presented as Trade and Other Receivables in the balance sheets.

(c) Held-to-maturity Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Company has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included in non-current assets under Long-term Financial Assets account in the balance sheets, except those maturing within 12 months of the balance sheet date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(d) Available-for-sale Financial Assets

This include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Long-term Financial Assets account in the balance sheets unless management intends to dispose of the investment within 12 months of the balance sheet date.

All financial assets within this category are initially recognized at fair value plus transaction costs and subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in income statement, the impairment loss is reversed through the income statement.

PAS 39
AG 72 to 74

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.[12]

PAS 32.66 (c)

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.5 Inventories

PAS 2.36 (a)
PAS 1.108 (a)

At the balance sheet date, inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Finished goods and work-in-process include the cost of raw materials, direct labor and a proportion of manufacturing overheads based on normal operating capacity, excluding borrowing cost. The cost of raw materials include all cost directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

2.6 Property, Plant and Equipment[13]

PAS 1.110

Land and buildings and improvements are measured at fair value less depreciation for buildings and improvements. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment in value.

PAS 16.73 (a)

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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[12] If the fair value is determined through a specific valuation technique, disclose that fact. Refer to PAS 32.92 for guidance.

[13] See Appendix 2.3 for the sample disclosure on PPE measured using cost model.

PAS 16.39

Following initial recognition at cost, land and buildings and improvements are carried at revalued amounts which are the fair values at the date of the revaluation, as determined by independent appraisers, less any subsequent accumulated depreciation (on buildings and improvements) and accumulated impairment losses. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any revaluation surplus is credited to the Revaluation Reserves account included in the Equity section of the balance sheet. Any revaluation deficit directly offsetting a previous surplus in the same asset is directly offset against Revaluation Reserves. Annually, an amount from the Revaluation Reserves is transferred to Retained Earnings for the depreciation relating to the revaluation surplus. Additionally, accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Revaluations are performed every three years ensuring that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

PAS 16.73 (b)

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

PAS 16.73 (c)

Buildings and improvements	10-20 years
Machinery and equipment	5-12 years
Office furniture, fixtures and other equipment	5-10 years
Transportation equipment	3-5 years

Transportation equipment held under finance lease agreements [see Note 2.13(a)] are depreciated over their expected useful lives (determined by reference to comparable owned assets) or over the term of lease, if shorter.

PAS 36.59

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

PAS 16.51

The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each balance sheet date.

PAS 16.68, 71

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

2.7 Investment Property

PAS 40.75 (a) (d) (e)

Investment property is measured initially at acquisition cost. Subsequently, investment property is stated at fair value[14] as determined by independent appraisers. The carrying amounts recognized in the balance sheet reflect the prevailing market conditions at the balance sheet date.

PAS 1.108 (b)

Any gain or loss resulting from either a change in the fair value is immediately recognized in the income statement as Fair Value Gains from Investment Property.

PAS 40.66
PAS 40.69

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

2.8 Intangible Assets[15]

PAS 38.118 (a)
PAS 38.118 (b)

Intangible assets include acquired licenses, franchises and internally developed software used in production and administration which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from 3 to 10 years) as the lives of these intangible assets are considered limited. In addition, other intangible assets are subject to impairment testing as described in Note 2.15.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred.

PAS 1.108 (b)

Costs associated with research activities are expensed in the income statement as incurred. Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technological feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits through internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion;

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[14] Investment property may be measured using the cost model (PAS 40.75). If cost model is used, disclose the fair value of the investment property.

[15] The rebuttable presumption under the previous standard that the ceiling for the amortization of goodwill and other intangible assets is 20 years no longer appears in PAS 38. Accordingly, an entity may use a useful life of more than 20 years to amortize its intangible assets. In addition, intangible assets may be assessed as having indefinite useful lives and therefore should not be amortized but should be subjected to annual impairment testing.

and,

(iv) the intangible asset can be reliably measured.

PAS 38.118 (a) (c) (d)

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads. The costs of internally generated software developments are recognized as intangible assets; they are subject to the same subsequent measurement method as externally acquired software licenses. However, until completion of the development project, the assets are subject to impairment testing only as described in Note 2.15. Amortization commences upon completion of the asset.

PAS 1.113

All other development costs are expensed as incurred.

PAS 1.108 (b)

2.9 Assets Classified as Held-for-sale

Assets held-for-sale[16] include property and equipment that the Company intends to sell within one year from the date of classification as held for sale.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. The profit or loss arising from the sale or revaluation of held-for-sale assets is included as part of Other Income (Charges) in the income statement.

2.10 Financial Liabilities

PAS 1.108 (b)

Financial liabilities include bank loans, trade and other payables and finance lease liabilities, due to related parties and retirement benefit obligation.

PAS 32.60 (b)

Financial liabilities are recognized when the Company becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the income statement under the caption Finance Costs.

PAS 32.60 (a) (b)
PAS 32.66 (c)

Bank loans are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 26.2).

PAS 32.60 (a) (b)

Trade payables are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

PAS 10.12

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders.

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[16] Include non-current intangible assets in the disclosure if there are and such qualify as assets held-for-sale in accordance with PFRS 5, *Non-current Assets Held-for-sale and Discontinued Operations*.

PAS 39.39

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

PAS 1.108 (b)

2.11 Provisions

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

PAS 1.108 (a)

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

PAS 1.108 (a)

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.12 Revenue and Cost Recognition

PAS 18.35 (a)

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

(a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer.

(b) *Rendering of services* – Revenue from the installation of integrated circuits and other products is recognized by reference to the stage of completion. The stage of completion is measured by reference to the labor hours incurred to date as a percentage of total estimated labor hours for each contract. Where the outcome of the contract cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(c) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

(d) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

Cost and expenses are recognized in the income statement upon utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. Finance costs are reported on an accrual basis.

2.13 Leases[17]

PAS 1.108 (a)
PAS 1.108 (b)

The Company accounts for its leases as follows:

(a) *Company as Lessee*

Leases which transfer to the Company substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the balance sheets at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are directly charged against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the income statement on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Company as Lessor*

Leases wherein the Company substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented as receivable at an amount equal to the Company's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in the income statement on a straight-line basis over the lease term.

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[17] PAS 17.23, *Leases,* requires a general description of significant leasing arrangements including, but not limited to, (a) the basis on which contingent rent payments are determined; (b) the existence and terms of renewal or purchase options and escalation clauses and (c) restrictions imposed by the lease arrangements.

Philippine Interpretation IFRIC 4

The Company determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. See also Note 2.2(a)(iv).

2.14Functional Currency and Foreign Currency Transactions

PAS 21.53

(a) Functional and Presentation Currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency.

PAS 1.108 (a) (b)
PAS 21.23
PAS 21.28

(b) Transactions and Balances

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

2.15 Impairment of Non-financial Assets[18]

PAS 1.108 (a)
PAS 1.108 (b)

The Company's investments in subsidiaries and an associate, intangible assets, property, plant and equipment and investment property are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.
An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

[18] Revise accounting policy disclosure for impairment if there is any goodwill.

PAS 1.108 (b)

2.16 Employee Benefits[19]

(a) Retirement Benefit Obligations

Pension benefits are provided to employees through a defined benefit plan, as well as several defined contribution plans.

PAS 19.48-125

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

PAS 19.49-62

The liability recognized in the balance sheet for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

PAS 19.120 A(a)

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

PAS 19.43-47

A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

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[19] If the entity does not have any of the employee benefit plans discussed in this note, do not include them in the disclosure. On the other hand, if there are share-based compensation and other post-employment obligations, disclose also the entity's policies here.

PAS 19.133
PAS 19.134
PAS 19.139

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

PAS 19.17

(c) Profit-sharing and Bonus Plans

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

PAS 19.11

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the balance sheet date. They are included in Trade and Other Payables accounts at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.17 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

2.18 Income Taxes[20]

PAS 1.108 (a)
PAS 1.108 (b)

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the income statement.

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[20] PAS 12, *Income Taxes,* provides the disclosure requirements for accounting for income taxes.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.
Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

PAS 1.76 (b)

2.19 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury shares are stated at the cost of re-acquiring such shares.

Revaluation reserve comprises gains and losses due to the revaluation of property, plant and equipment and certain financial assets.

Retained earnings include all current and prior period results as disclosed in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes.

3.1 Judgments

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

(a) Functional Currency

The Company has determined that its functional currency is the Philippine peso which is the currency of the primary environment in which the Company operates.

(b) Held-to-maturity Investments

The Company follows guidance on PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making the judgment, the Company evaluates its intention and ability to hold its investments in bonds up to maturity.

If the Company fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value, not amortized cost.

If the class of held-to-maturity investments is tainted, the fair value would increase by P1,200,345 with a corresponding entry in the Revaluation Reserves in the equity section of the balance sheets.

(c) Impairment of Available-for-sale Financial Assets

The Company follows the guidance of PAS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the assumptions made regarding the duration that, and extent to which, the fair value is less than its cost, the Company would incur an additional P2.3 million loss in its 2006 financial statements, represents the transfer of the total Revaluation Reserves to the statements of income.

(d) Distinction Between Investment Properties and Owner-managed Properties

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portion can be sold separately (or leased out separately under finance lease), the Company accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Company considers each property separately in making its judgment.

(e) Operating and Finance Leases

The Company has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to operations amounted to P3.8 million in 2006 and P3.3 million in 2005 (see Note 20).

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.11 and relevant disclosures are presented in Notes 16 and 26.

3.2 Estimates

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Company's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by management on its December 31, 2006 and 2005 financial statements:

(a) Determining Net Selling Prices of Inventories

In determining the net selling prices of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Company's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of computer hardware components. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

(b) Useful Life of Property, Plant and Equipment

The Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase recorded operating expenses and decrease non-current assets.

Property, plant and equipment net of accumulated depreciation, amortization and impairment losses amounted to P108.1 million and P100.3 million as of December 31, 2006 and 2005, respectively (see Note 11).

(c) Allowance for Impairment of Trade and Other Receivables

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Provisions for impairment losses on trade and other receivables amounted to about P2.0 million in 2006 and P2.2 million in 2005 (see Note 5).

(d) Valuation of Financial Assets Other than Trade and Other Receivables

The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Impairment losses on available-for-sale financial assets amounted to P3.5 million (see Notes 21.2).

(e) Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount 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 asset to be utilized.

Deferred tax assets amounted to P9.3 million and P12.7 million as of December 31, 2006 and 2005, respectively (see Note 22).

(f) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on property, plant and equipment amounted to P1.2 million and P1.1 million in 2006 and 2005, respectively (see Note 20.) while impairment losses recognized on investments in associates amounted to P3.3 million in 2006 and P7.1 million in 2005 (see Note 21.2).

(g) Retirement Benefits and Other Retirement Benefits

The determination of the Company's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation and net unrecognized actuarial gains amounted to P16.6 million and P15.9 million, respectively, in 2006 and P16.5 million and P19.5 million, respectively, in 2005 (see Note 22.2).

(h) Provision for Leased Property Restoration

Determining provision for leased property restoration requires estimation of the cost of dismantling and restoring leased properties to their original condition. The Company estimated that the total cost to be incurred at the end of the lease term is P8.5 million (see Note 17.2).

4. CASH AND CASH EQUIVALENTS

PAS 7.45

Cash and cash equivalents include the following components as of December 31:

		2006	2005
PAS 32.94 (g)(i)	Cash on hand and in banks	**P 2,885,116**	P 3,445,563
	Short-term placements	**13,757,132**	17,566,539
		P 16,642,248	P 21,012,102

PAS 32.60
PAS 32.67

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 15 to 30 days and earn effective interest ranging from 4.5% to 7.1% in 2006 and 4.2% to 6.5% in 2005.

PAS 7.48
PAS 10.19

The balances of the cash on hand and in banks as of December 31, 2006 and 2005 did not include an amount of about P2.5 million[21] which is shown as part of the non-current Trade and Other Receivables account (see Note 4). Such amount is not available for the general use of the Company in accordance with a restriction under a loan covenant (see Note 14).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

		Notes	2006	2005
PAS 32.94 (i)	Current:			
	Trade receivables	23	**P 20,696,078**	P 19,251,912
	Allowance for impairment		**(4,892,010)**	(4,385,726)
			15,804,068	14,866,186
	Due from related parties	23	**6,080,000**	1,945,985
	Loans to employees		**2,905,008**	3,935,322
	Receivable under finance lease	26.2	**756,901**	943,333
	Others		**108,000**	108,000
			P 25,653,977	P 21,789,826
	Non-current:			
	Loans to employees		**P 9,070,636**	P 10,552,881
	Security deposit		**8,552,568**	7,437,015
	Receivable under finance lease	23.1, 26.3	**3,740,090**	4,716,667
	Others	3	**2,527,489**	2,527,489
			23,890,783	25,234,052
	Allowance for impairment		**(2,000,000)**	(2,000,000)
			P 21,890,783	P 23,234,052

[21] This could also be presented in the balance sheet as restricted cash immediately after the Cash and Cash Equivalent account if the restriction is not exceeding 12 months from the balance sheet date.

A reconciliation[22] of the allowance for impairment at beginning and end of 2006 and 2005 is shown below.

	Note	2006	2005
Current:			
Balance at beginning of year		**P 4,385,726**	P 2,449,284
Impairment loss during the year	19	**2,006,284**	1,936,442
Write-off of receivables		**(1,500,000)**	-
Balance at end of year		**P 4,892,010**	P 4,385,726
Non-current:			
Balance at beginning of year		**P 2,000,000**	P 1,700,000
Impairment loss during the year	19	**-**	300,000
Balance at end of year		**P 2,000,000**	P 2,000,000

Trade receivables are usually due within 30-45 days and do not bear any interest. All trade receivables are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers.

PAS 32.60 (a)
PAS 32.67
PAS 32.76 (b)
PAS 32.85

The loans to employees are interest bearing and payable through salary deduction within three years from the grant date. The effective interest rate on loans to employees is 6.5% in 2006 and 2005.

PAS 32.60 (a)
PAS 32.67

The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

PAS 32.86
PAS 32.88

Security deposit represents the P20 million deposit made in 2002 for the lease from a third party of the Company's warehouses. The deposit is refundable at the end of the lease term in February 2012. The security deposit is carried at amortized cost using the effective interest rate of 15.0% at the inception of the lease contract. Interest income recognized in 2006 and 2005 is presented under Other Operating Income in the income statements (see Note 18.2). The fair values of the security deposit in 2006 and 2005 amount to P9,668,120 and P8,470,060, respectively. These are determined by calculating the present value of the cash flows anticipated until the end of the lease term using interest rates of 12.7% in 2006 and 13.5% in 2005. As the deposit does not have active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.

[22] SEC Rule 68.1 requires a disclosure of the allowance for doubtful accounts and reversal of allowance for doubtful accounts during the period.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following financial assets which are listed securities in:

	2006	2005
Philippines	**P 16,105,455**	P 21,754,837
Hong Kong	**9,663,273**	16,920,429
Unites States	**6,442,182**	9,668,816
	P 32,210,910	P 48,344,082

PAS 32.94 (a)

The carrying amounts of the above financial assets are classified as follows:

	2006	2005
Held-for-trading	**P 16,105,455**	P 21,754,837
Designated as at fair value through profit or loss on initial recognition	**16,105,455**	26,589,245
	P 32,210,910	P 48,344,082

PAS 32.92 (a) (b)

All amounts presented have been determined directly by reference to published price quoted in an active market.

PAS 32.94 (c)

The Company recognized the increase in value of financial assets designated as at fair value through profit or loss of P2,412,922 in 2006 and decrease in fair value of P2,562,874 in 2005, which were included in the line item Other Operating Income in the income statements (see Note 18.2).

7. INVENTORIES

PAS 1.74

Except for the portion of finished goods stated at net realizable value, inventories at the end of 2006 and 2005 were stated at cost.[23] The details of inventories are shown below.

	2006	2005
PAS 2.36 (b) Finished goods:		
At cost	**P 13,761,853**	P 17,667,984
PAS 2.36 (c) At net realizable value	**12,432,280**	15,469,089
	26,194,133	33,137,073
Work in progress	**21,456,010**	24,456,155
Raw materials	**3,300,505**	2,100,029
Materials in transit	**500,200**	457,059
	P 51,450,848	P 60,150,316

[23] It was assumed in this presentation that the rest of the inventory items are stated as cost. If all or more than one of the inventory items consist of items that are stated at cost and at net realizable value (NRV), present separate rows of items at cost and at NRV. Disclosure should also include reversal of write-down that is recognized as income in the period, if any, and the circumstances or events that led to the reversal of a write-down of inventories.

PAS 2.36 (e)
PAS 2.36 (f)
PAS 2.36 (g)

In 2006, the Company reversed P2,821,209 inventory write-down following the sale of finished goods previously covered by the write-downs in 2004. In 2005, the inventory write-down amounted to P2,232,200. No reversal of previous write-downs was recognized in 2005. The inventory write-down and reversal are included as part of Cost of Sales in the statements of income (see Note 17.1).

PAS 2.36 (h)

Raw materials amounting to P3,215,400 and P1,750,890 in 2006 and 2005, respectively, have been released under trust receipt agreements (see Note 14).

8. PREPAYMENTS

The composition of this account is shown below.

	2006	2005
Prepaid rent	**P 6,358,031**	P 6,015,190
Prepaid insurance	**3,789,000**	2,400,125
Input value-added tax (VAT)	**2,000,138**	1,440,283
Others	**2,511,969**	1,305,217
	P 14,659,138	P 11,160,815

9. NON-CURRENT FINANCIAL ASSETS

PAS 1.74

The amounts in the balance sheets comprise of the following categories of financial assets:

	2006	2005
Held-to-maturity financial assets:		
Government bonds	**P 15,000,000**	P 15,000,000
Corporate bonds	**5,360,400**	5,618,300
	20,360,400	20,618,300
Allowance for impairment	**(1,350,453)**	-
	19,009,947	20,618,300
Available-for-sale financial assets:		
Equity securities	**7,562,354**	5,562,845
Convertible corporate bonds	**3,850,400**	4,250,210
Golf club shares	**3,000,000**	4,500,000
	14,412,754	14,313,055
	P 33,422,701	P 34,931,355

PAS 32.92 (b)
PAS 32.86

Interest income recognized in 2006 and 2005 are presented as part of Other Income (Charges) in the income statements (see Note 20.2).

PAS 32.67 (a)
(b)

9.1 Held-to-maturity Investments

Government bonds consist of ten-year peso-denominated bonds issued by the Philippine government which bear fixed interest rate of 13.75% per annum and will

PAS 32.67 (a) (b)

mature on September 30, 2012.
Corporate bonds are five-year U.S. dollar-denominated bonds issued by a third party which bear fixed interest rate of 6.25% per annum and will mature on October 31, 2007. The Company's management noted that there is a measurable decrease on the estimated cash flows from these bonds due to the decline in the credit rating of the issuer. Accordingly, an impairment loss of P1,350,453 was recognized in 2006, presented as part of Other Income (Charges) in the statements of income (see Note 20.2).

PAS 32.86

The fair values of the held-to-maturity financial assets are as follows:

	2006	2005
Government bonds	**P 15,945,382**	P 15,346,432
Corporate bonds	**3,064,565**	5,632,376
	P 19,009,947	P 20,978,808

The fair values of these bonds are based on the published price quotations in active markets.

9.2 Available-for-sale Financial Assets

The reconciliation of the carrying amounts of available-for-sale financial assets are as follows:

	2006	2005
Balance at the beginning of year	**P 14,313,055**	P 14,505,938
Transfer of change in fair value to profit or loss	**2,050,154**	-
Additions	**1,200,645**	-
Impairment losses	**(3,500,000)**	-
Fair value gains (losses)	**478,297**	(142,523)
Foreign currency losses	**(129,243)**	(50,360)
	P 14,412,754	P 14,313,055

PAS 32.67 (a) (b)

Equity securities mainly consist of investment in companies listed in the Philippine Stock Exchange.

PAS 32.67 (a) (b)

Convertible corporate bonds are U.S. dollar-denominated bonds subject to floating interest rate which will mature on May 1, 2009. The effective interest rate in 2006 and 2005 is 5.4% and 6.1%, respectively. The conversion or repayment of the bonds is at the Company's discretion. Conversion ratios are yet to be determined by the issuer of the convertible bonds. Upon repayment, the Company is scheduled to receive US$90,000. The fair value of convertible bonds declined by P540,000 in 2006 and P320,567 in 2005. These losses were not considered permanent, therefore, were not transferred from equity to profit or loss.

PAS 32.67 (a) (b)
PAS 32.63
PAS 32.94 (h)

Golf club shares are proprietary membership club shares. In 2006 and 2005, the fair value of these shares declined by P1,500,000 and P800,000, respectively. The Company's management has determined in 2005 that there is objective evidence that the decline in the value of these shares is permanent. Accordingly, losses amounting to P3,500,000 representing losses in 2005 and prior years charged to equity, were recognized as impairment loss, charged to profit or loss for the current year and are presented as part Other Income (Charges) in the income statements (see Note 20.2).

PAS 32.86

The fair values of available-for-sale financial assets have been determined directly by reference to published prices in active market.

10. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES[24]

The components of the carrying values of investments in subsidiaries and associates accounted for under the cost method are as follows:

PAS 27.41 (d)

	% Interest Held	2006	2005
Subsidiaries:			
D Company	100%	**P 88,299,200**	P 88,299,200
S Company	80%	**47,993,960**	47,993,960
Associates:			
TXT Co.	40%	**20,354,376**	20,354,376
KOL, Inc.	30%	**16,875,750**	11,250,500
		173,523,286	167,898,036
Allowance for impairment		**(18,950,900)**	(15,650,400)
		P 154,572,386	P 152,247,636

PAS 27.41 (d)

The Company's subsidiaries and associates are all incorporated in the Philippines.

In June 2006, the Company made an additional investment in the shares of KOL, Inc. amounting to P5 million which increased the Company's ownership interest in the investee from 20% to 30%.

PAS 39.66

The Company's management has assessed that the investment in TXT Co. may not be recoverable due to the downturn in the business prospects of this associate. Accordingly, an impairment loss was recognized based on the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. The impairment loss charged to profit or loss amounted to P3,300,500 in 2006 and P7,108,146 in 2005. These amounts are presented as part of Other Income (Charges) in the income statements (see Note 20.2).

[24] See Appendix for sample disclosure if the FS presented are not separate FS (i.e., consolidated or investor's financial statements are presented).

11. PROPERTY, PLANT AND EQUIPMENT

PAS 1.75(a)

A reconciliation[25] of the carrying amounts at the beginning and end of 2006 and 2005, and the gross carrying amounts and accumulated depreciation of property, plant and equipment is shown below.

	Machinery and Equipment	Building and Improvement	Office Furniture and Equipment	Transportation Equipment	Land	Construction in Progress	Total
PAS 16.73 (e) Balance at January 1, 2006, net of accumulated depreciation and impairment	P 34,658,378	P 19,813,274	P 6,852,143	P 8,763,499	P 19,290,800	P 10,915,320	P 100,293,414
Additions	11,700,000	3,200,000	5,700,000	2,865,597	-	4,055,823	27,521,420
Disposals	-	-	(1,450,100)	(1,430,960)	-	-	(2,881,060)
Depreciation charges for the year	(5,927,946)	(4,700,800)	(2,750,250)	(2,269,290)	-	-	(15,648,286)
Impairment loss	(1,200,000)	-	-	-	-	-	(1,200,000)
Balance at December 31, 2006, net of accumulated depreciation and impairment	**P 39,230,432**	**P 18,312,474**	**P 8,351,793**	**P 7,928,846**	**P 19,290,800**	**P 14,971,143**	**P 108,085,488**
PAS 16.73 (d) December 31, 2006							
Cost or valuation	P 87,090,471	P 32,641,962	P 25,533,503	P 20,408,305	P 19,290,800	P 14,971,143	P 199,936,184
Accumulated depreciation	(43,460,039)	(14,329,488)	(17,181,710)	(12,479,459)	-	-	(87,450,696)
Accumulated impairment loss	(4,400,000)	-	-	-	-	-	(4,400,000)
Net carrying amount	**P 39,230,432**	**P 18,312,474**	**P 8,351,793**	**P 7,928,846**	**P 19,290,800**	**P 14,971,143**	**P 108,085,488**
PAS 16.73 (e) Balance at January 1, 2005, net of accumulated depreciation and impairment	P 30,050,284	P 16,343,004	P 7,302,493	P 10,103,159	P 16,860,800	P 8,859,460	P 89,519,200
Additions	9,300,500	2,670,870	2,650,000	1,860,590	-	2,055,860	18,537,820
Revaluations	-	4,450,200	-	-	2,430,000	-	6,880,200
Depreciation charges for the year	(3,572,406)	(3,650,800)	(3,100,350)	(3,200,250)	-	-	(13,523,806)
Impairment loss	(1,120,000)	-	-	-	-	-	(1,120,000)
PAS 16.73 (d) Balance at December 31, 2005, net of accumulated depreciation and impairment	P 34,658,378	P 19,813,274	P 6,852,143	P 8,763,499	P 19,290,800	P 10,915,320	P 100,293,414
December 31, 2005							
Cost or valuation	P 75,390,471	P 29,441,962	P 19,833,503	P 17,542,708	P 19,290,800	P 10,915,320	P 172,414764
Accumulated depreciation	(37,532,093)	(9,628,688)	(12,981,360)	(8,779,209)	-	-	(68,921,350)
Accumulated impairment loss	(3,200,000)	-	-	-	-	-	(3,200,000)
Net carrying amount	P 34,658,378	P 19,813,274	P 6,852,143	P 8,763,499	P 19,290,800	P 10,915,320	P 100,293,414

PAS 16.77 (a-d)

The Company's land and building and improvements were last revalued on December 15, 2005 by independent appraisers. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The revaluation surplus net of applicable deferred income taxes is presented as part of the Revaluation Reserves account in the equity section of the balance sheets.

[25] PAS 16 requires the disclosure, for each class of property, plant and equipment, of a reconciliation showing the gross carrying amounts and accumulated depreciation (and impairment, if any) of property, plant and equipment at the beginning and at the end of the year and the changes during the year.

PAS 16.77 (e)

If land and building and improvements were measured at the cost model, the carrying amounts would be as follows:[26]

	Building and Improvements		Land	
	2006	2005	**2006**	2005
Cost	**P 22,691,462**	P 19,491,462	**P 13,660,800**	P 13,660,800
Accumulated depreciation	**(9,757,822)**	(6,242,795)	**-**	-
Net carrying amount	**P 12,933,640**	P 13,248,677	**P 13,660,800**	P 13,660,800

PAS 16.74 (b)

Construction in progress in prior years pertains to accumulated costs incurred on the new building being constructed as part of the Company's expansion program, including borrowing costs capitalized during the period of about P0.8 million in 2006 and P3.8 million in 2005, representing the actual borrowing costs incurred on loans obtained to fund the construction project.

PAS 36.126 (a)
PAS 36.126 (b)

In 2006 and 2005, the Company recognized impairment losses of P1.2 million and P1.1 million, respectively, (see Note 19) to write-down to recoverable amount certain assets following the reorganization within the electronics segment. The recoverable amount was based on value in use and was determined at the cash-generating unit level. In determining the value in use for the cash-generating unit, the cash flows were discounted at a nominal rate of 12.1% in 2006 and 2005 on a pre-tax basis. The impairment loss was charged to Administrative Expenses in the income statements.

The amount of depreciation is allocated as follows (see Note 19):

	2006	2005
Cost of sales	**P 9,985,496**	P 9,017,385
Cost of services	**452,575**	305,120
Selling and distribution costs	**3,126,129**	2,520,781
Administrative expenses	**2,084,086**	1,680,520
	P 15,648,286	P 13,523,806

PAS 16.74 (a)

Land and building and improvements with a total carrying value of about P20 million are used as collaterals for certain interest-bearing loans and borrowings (see Note 14).

PAS 17.35 (c)

As of December 31, 2006 and 2005, the carrying amount of transportation equipment held under finance leases amount to P1.4 million and P1.6 million, respectively (see Note 14).[27]

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[26] Present this analysis only for PPE items stated at revalued amount (fair value).

[27] PAS 17 requires, among others, the disclosure of the net carrying amount for each class of asset under a finance lease as at the balance sheet date.

12. INVESTMENT PROPERTY

PAS 40.75 (f)

The Company's investment property includes several pieces of land which are owned for investment purposes only. No income or loss (other than fair value gains)[28] or direct operating expenses were recognized during the reporting periods presented. Real estate tax amounting to P185,000 for each year was recognized as a related expense in 2006 and 2005.

PAS 40.76 (b)

The changes to the carrying amounts presented in the balance sheet can be summarized as follows as of December 31:

	2006	2005
Balance at beginning of year	**P 16,756,936**	P 15,436,500
Additions	**1,019,316**	-
Fair value gains (see Note 20.2)	**1,740,342**	1,320,436
Balance at end of year	**P 19,516,594**	P 16,756,936

PAS 40.76 (d) (e)

Investment property is valued annually at the end of the year at fair value, comprising market value determined by independent appraisers.

13. INTANGIBLE ASSETS

A reconciliation of the carrying amounts at the beginning and end of 2006 and 2005 and the gross carrying amounts and accumulated amortization of intangible assets is shown below.

	Licenses and Franchises	**Deferred Development Costs**	**Total**
PAS 38.118 (e) Balance at January 1, 2006, net of accumulated amortization	P 1,300,000	P 750,000	P 2,050,000
Additions	5,280,000	5,400,000	10,680,000
Amortization expense for the year	(1,628,000)	(900,000)	(2,528,000)
Balance at December 31, 2006, net of accumulated amortization	**P 4,952,000**	**P 5,250,000**	**P 10,202,000**
PAS 38.118 (c) December 31, 2006:			
Cost	P 13,780,000	P 9,150,000	P 22,930,000
Accumulated amortization	(8,828,000)	(3,900,000)	(12,728,000)
Net carrying amount	**P 4,952,000**	**P 5,250,000**	**P 10,202,000**

[28] Disclose amount of income earned from investment property, if there's any.

	Licenses and Franchises	Deferred Development Costs	Total
Balance at January 1, 2005, net of accumulated amortization	P 2,400,000	P 1,500,000	P 3,900,000
Amortization expense for the year	(1,100,000)	(750,000)	(1,850,000)
Balance at December 31, 2005, net of accumulated amortization	P 1,300,000	P 750,000	P 2,050,000
PAS 38.118 (e) December 31, 2005:			
Cost	P 8,500,000	P 3,750,000	P 12,250,000
Accumulated amortization	(7,200,000)	(3,000,000)	(10,200,000)
Net carrying amount	P 1,300,000	P 750,000	P 2,050,000

PAS 38.118 (c)

In addition to development costs capitalized, the Company expensed P563,000 and P540,000 in 2006 and 2005, respectively, research and development costs incurred during those years.

PAS 38.126

During the year, the Company also entered into a purchase agreement to update its business process software used by the Company for administration and control. The minimum contractual commitments resulting from this agreement is P4,220,000 which is payable in 2007. No contractual commitments were entered into in 2006 and 2005.

PAS 38.122 (e)

Intangible assets are subject to annual impairment testing and whenever there is an indication of impairment. No impairment losses were recognized in 2006 and 2005 as the carrying values of the intangible assets are lower than their recoverable amounts.

PAS36.130

The amount of amortization charges were allocated as follows (see Note 19):

		2006	2005
AS 38.118 (d) PAS 36.126 (a) (b)	Selling and distribution costs	**P 1,516,800**	P 1,110,000
	Administrative expenses	**1,011,200**	740,000
		P 2,528,000	P 1,850,000

PFRS 5.41

14. ASSETS HELD-FOR-SALE

Assets held for sale consist of items of property and equipment of a business unit that the Company has discontinued. The Company expects to sell these assets in 2007.

15. INTEREST-BEARING LOANS AND BORROWINGS[29]

The short-term and long-term interest-bearing loans and borrowings were as follows:

	Notes	2006	2005
Current:			
Bank loans		**P 10,000,000**	P 10,000,000
Acceptances payable and liabilities under trust receipts	6	**3,000,000**	4,000,000
Obligations under finance leases	27	**180,000**	180,000
Others		**1,110,100**	2,472,700
		P 14,290,000	P 16,652,700
Non-current:			
Bank loans	4	**P 53,600,000**	P 56,300,000
Obligations under finance leases	27	**1,220,000**	1,400,000
		P 54,820,000	P 57,700,000

PAS 32.60 (a)
PAS 32 67 (a)

The bank loans represent secured and unsecured loans from a local commercial bank. The loans bear annual interest rates ranging from 10.75% to 16.5% in both years, subject to monthly repricing.

PAS 32.86

The long-term debt represents the US$760,000 loan obtained by the Company in December 2003 from a local bank. The debt is payable up to 2008 and bears interest at an annual average rate of 9% in 2006 and 8% in 2005. On December 29, 2004, the Company obtained an additional loan from the same bank amounting to US$240 million. The new loan, which is payable up to 2011, bears interest at 10% per annum.

The finance lease liability has an effective interest rate of 8.75%, which is equal to the rate implicit in the lease. Lease payments are made on a monthly basis (see Note 26.2).

PAS 32.92 (a)
PAS 32.92 (b)

The fair values of the long-term[30] financial liabilities are as follows:

	2006	2005
Bank loans	**P 56,420,540**	P 56,120,031
Obligations under finance leases	**1,110,100**	1,382,700
	P 57,530,640	P 57,502,731

[29] Separately disclose/indicate if interest-bearing loans and borrowings include items denominated in foreign currency.

[30] The fair value of short-term financial liabilities need not be determined individually if the carrying amount is a reasonable approximation of the fair values.

The fair values of long-term financial liabilities have been determined by calculating their present values at the balance sheet date using fixed effective market interest rates available to the Company. No fair value changes have been included in profit or loss for the period as financial liabilities are carried at amortized cost in the balance sheet.

Certain Company assets and property are used as collaterals for the secured short-term bank loans and the long-term debt (see Notes 3, 6 and 10).

16. TRADE AND OTHER PAYABLES

This account consists of:

PAS 1.60

	Note	2006	2005
Trade payables	24	**P 38,657,586**	P 40,661,477
Accrued expenses		**9,242,886**	15,542,050
Others		**1,187,541**	5,245,098
		P 49,088,013	P 61,448,625

PAS 32.88

Accrued expenses include the current portion of the Company's obligations to its current and former employees that are expected to be settled within 12 months from the balance sheet date. These liabilities arise mainly from accrued holiday entitlement at the balance sheet date and pension payments (see also Note 21).

The fair values of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be reasonable approximation of their fair values.

17. PROVISIONS

PAS 1.75 (d)

The changes in each class of provisions during the year are as follows[31]:

PAS 37.84

	Product Warranty	Leased Property Restoration	Total
Balance at January 1, 2006	P 11,105,649	P 3,613,015	P 14,718,664
Additional provisions	6,730,500	469,692	7,200,192
Amounts used	(9,057,252)	-	(9,057,252)
Unused amount reversed	(1,750,654)	-	(1,750,654)
Balance at December 31, 2006	**P 6,428,243**	**P 4,082,707**	**P 10,510,950**
December 31, 2006			
Current	P 4,829,437	P -	P 4,829,437
Non-current	1,598,806	4,082,707	5,681,513
	P 6,428,243	**P 4,082,707**	**P 10,510,950**

[31] PAS 37 requires disclosure, for each class of provisions, of the carrying amount at the beginning and end of year and the changes during the year.

	Product Warranty	Leased Property Restoration	Total
Balance at January 1, 2005	P 13,438,511	P 3,197,359	P 16,635,870
Additional provisions	4,379,620	415,656	4,795,276
Amounts used	(5,456,030)	-	(5,456,030)
Unused amount reversed	(1,256,452)	-	(1,256,452)
Balance at December 31, 2005	P 11,105,649	P 3,613,015	P 14,718,664
December 31, 2005			
Current	P 8,511,981	P -	P 8,511,981
Non-current	2,593,668	3,613,015	6,206,683
	P 11,105,649	P 3,613,015	P 14,718,664

17.1 Product Warranty

A provision is recognized for expected warranty claims on products sold during the last three years, based on the Company's past experience of the level of repairs and returns. It is expected that a significant portion of the provision will be incurred in 2007.

17.2 Leased Property Restoration

The Company leases warehouses from a third party. The lease agreement requires the Company to restore the warehouse to its original state at the end of the lease term in 2012. A provision was recognized for the present value of the costs to be incurred for the restoration of the leased warehouses. The total estimated cost to be incurred at the end of lease term is P8.5 million.

18. COST OF SALES AND COST OF SERVICES[32]

18.1 Cost of Sales

The details of cost of sales are shown below.

	2006	2005
Finished goods at beginning of year	**P 44,167,996**	P 40,079,614
Cost of goods manufactured		
Raw materials at beginning year	**2,100,029**	4,559,225
Work-in-process at beginning year	**24,456,155**	27,686,672
Net purchases during the year	**34,543,161**	25,051,000
Direct labor	**34,385,100**	20,438,854
Manufacturing overhead	**19,618,714**	21,240,760
Raw materials at end of year	**(3,300,505)**	(2,100,029)
Work-in-process at end of year	**(21,456,010)**	(24,456,155)
	90,337,644	69,577,665
Finished goods at end of year	**(34,404,633)**	(44,167,996)
	P 100,110,007	P 68,331,945

[32] BIR requires disclosure of the breakdown of cost of sales and services in the notes to FS.

18.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

		2006		2005
Salaries, wages and benefits	**P**	**6,952,007**	P	6,512,500
Materials, supplies and facilities		**1,771,025**		1,447,125
Outside services		**800,100**		754,125
Depreciation		**452,575**		305,120
Rental		**200,378**		180,120
Others		**54,269**		75,725
	P	**10,230,354**	P	9,274,715

19. OTHER OPERATING INCOME AND EXPENSES [33]

Presented below are the details of these accounts:

19.1 Other Operating Income

PAS 21.52 (a)

	Notes		2006		2005
Fair value gains – financial assets at fair value through profit or loss	5	**P**	**2,412,922**	P	2,562,874
Interest income from short-term placements	3		**1,219,920**		469,995
Security deposits	4		**1,115,552**		970,045
Foreign currency gains – net[34]			**654,246**		157,195
Interest income from cash in bank	3		**234,197**		102,155
		P	**5,636,837**	P	4,262,264

PAS 32.94 (h) (i)

19.2 Other Operating Expenses

	Note		2006		2005
Impairment losses on trade and receivables	4	**P**	**2,006,284**	P	2,236,442
Others			**599,071**		622,304
		P	**2,605,355**	P	2,858,746

[33] The requirement under PAS 32.94(h) is to disclose material income, expense and gains and losses arising from financial assets and financial liabilities. The amounts shown above may not appear to be material but presented merely for purposes of illustrating the required disclosure.

[34] Pertaining to foreign currency gains arising from translation of accounts directly related to operations such as trade receivables and payables.

PAS 1.93

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2006	2005
Salaries and employee benefits	21	**P 56,868,438**	P 40,745,265
Raw materials and other consumables		**38,189,134**	29,544,476
Depreciation and amortization	10, 12	**18,176,286**	15,373,806
Changes in inventories of finished goods and work-in-process		**9,943,085**	6,001,702
Outside services		**8,369,481**	4,486,712
Management fees	23.2	**7,000,800**	4,975,811
Rentals	26.1	**3,771,709**	3,335,610
Impairment losses on trade and other receivables	4	**2,006,284**	2,236,442
Taxes and licenses		**1,990,780**	1,956,788
Communications		**1,709,151**	1,609,154
Impairment losses on property, plant and equipment	10	**1,200,000**	1,120,000
Transportation and travel		**804,142**	1,554,976
Others		**1,832,844**	1,436,932
		P 151,862,134	P 114,377,674

These expenses are classified in the income statements as follows:

	Notes	2006	2005
Cost of sales	18	**P 100,110,007**	P 68,331,945
Cost of services	18	**10,230,354**	9,274,715
Selling and distribution costs		**23,829,851**	20,545,136
Administrative expenses		**15,086,567**	13,367,132
Other operating expenses		**2,605,355**	2,858,746
		P 151,862,134	P 114,377,674

21. OTHER INCOME (CHARGES)

21.1 Finance Costs

The breakdown of this account is as follows:

	Notes	2006	2005
Interest expense resulting from:			
Bank loans and borrowings	14	**P 10,204,530**	10,057,718
Provisions	16	**469,692**	415,657
Liabilities under a finance lease	14	**435,908**	456,155
		P 11,110,130	P 10,929,530

21.2 Other Gains (Losses)

The Other Gains (Losses) - net consists of the following:

	Notes	2006	2005
Other losses:			
Impairment losses on:			
Available-for-sale financial assets	8	**(P 3,500,000)**	P -
Investments in associates	9	**(3,300,500)**	(7,108,146)
Held-to-maturity investments	8	**(1,350,453)**	-
		(8,150,953)	(7,108,146)
Other gains:			
Interest income resulting from:			
Held-to-maturity investments	8	**2,315,325**	2,454,768
Available-for-sale financial assets	8	**652,879**	548,231
		2,968,204	3,002,999
Fair value gains from investment property	11	**1,740,342**	1,320,436
Dividends	9	**1,450,000**	1,450,000
Foreign currency gains		**254,863**	105,876
Others		**206,284**	2,607,746
		6,619,693	8,487,057
		(P 1,531,260)	P 1,378,911

22. EMPLOYEE BENEFITS

PAS 1.93

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits (see Note 19) are presented below.

	2006	2005
Salaries and wages	**P 41,033,484**	P 26,470,330
Retirement – defined benefit plan	**8,766,105**	9,767,702
Social security costs	**2,623,874**	1,647,873
Compensated absences	**1,885,896**	1,025,823
Bonuses	**1,421,711**	1,018,632
Short-term medical benefits	**1,137,368**	814,905
	P 56,868,438	P 40,745,265

PAS 19.120 (b)

PAS 19 120 A(d)

22.2 Employee Retirement Benefit Obligation

The Company maintains a wholly funded[35], tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

PAS 19.120 (c)

The amounts of retirement benefit obligation recognized in the balance sheets are determined as follows:

	2006	2005
Present value of the obligation	**P 50,584,956**	P 40,953,099
Fair value of plan assets	**(51,276,260)**	(43,956,344)
Excess of plan assets	**(691,304)**	(3,003,245)
Unrecognized actuarial gains	**17,298,317**	19,498,318
	P 16,607,013	P 16,495,073

PAS 19 120 A(c)

The movements in present value of the retirement benefit obligation[36] recognized in the books are as follows:

	2006	2005
Balance at beginning of year	**P 40,953,099**	P 28,177,359
Current service cost and interest cost	**13,619,396**	12,871,757
Actuarial (gains) losses	**(2,000,000)**	1,100,000
Benefits paid by the plan	**(1,987,539)**	(1,196,017)
Balance at end of year	**P 50,584,956**	P 40,953,099

PAS 19.120 A(e)

The movement in the fair value of plan assets is presented below.

	2006	2005
Balance at beginning of year	**P 43,956,344**	P 31,044,246
Contributions paid into the plan	**1,654,164**	9,758,705
Benefits paid by the plan	**(1,987,539)**	(1,196,017)
Actuarial gains	**3,257,657**	1,245,355
Expected return on plan assets	**4,395,634**	3,104,055
Balance at end of year	**P 51,276,260**	P 43,956,344

[35] The amendment to PAS 19 requires the disclosure of an analysis of defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly unfunded. Since the above entity maintains only a wholly funded plan, an analysis is not presented but disclosure of the fact that it maintains a wholly funded plan is made.

[36] If applicable, include in the disclosure the benefits paid by the plan (settlements). It was assumed in the above example that there were no settlements made from the plan in both years.

PAS 19.120 A(j)(k)

The plan assets consist of the following:

	2006	2005
Equity securities	**P 20,869,370**	P 18,450,220
Government bonds	**20,156,890**	15,256,124
Property occupied by an associate	**10,250,000**	10,250,000
	P 51,276,260	P 43,956,344

PAS 19.120 A(m)

Actual returns on plan assets were P2.41 million in 2006 and P3.16 million in 2005.

PAS 19.120 A(g)

The amounts of retirement benefits expense recognized in the income statements are as follows:

	2006	2005
Current service costs	**P 7,885,962**	P 7,168,561
Interest costs	**5,733,434**	5,703,196
Expected return on plan assets	**(4,395,634)**	(3,104,055)
Net actuarial gains recognized during the year	**(457,657)**	-
	P 8,766,105	P 9,767,702

PAS 19.120 A(g)

The amounts of retirement benefits expense are allocated as follows:

	2006	2005
Cost of sales	**P 5,383,053**	P 4,883,852
Cost of services	**1,353,221**	1,953,540
Other operating expenses	**2,029,831**	2,930,310
	P 8,766,105	P 9,767,702

PAS 19.120A (q)(i)(ii)

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and excess or deficit in the plan (in thousand Philippine pesos) as well as experienced adjustments arising on plan assets and liabilities.

	2006	2005	2004	2003	2002
Present value of the obligation	P 50,585	P 40,953	P 28,177	P 32,025	P 24,018
Fair value of the plan assets	51,276	43,956	31,044	28,395	22,716
Deficit (excess) in the plan	(P 691)	(P 3,003)	(P 2,867)	P 3,630	P 1,302
Experience adjustments arising on plan liabilities	P 112	(P 13)	P 85	(P 32)	P 24
Experience adjustments arising on plan assets	20	34	54	27	(2)

[37] This is used for purposes of illustration only. The entity should use what is indicated in its actuarial valuation report.

PAS 19.120A
(q)

The Company expects to pay P3.5 million in contributions to retirement benefit plans in 2007.

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

	2006	2005
Discount rates	**7%**	12%
Expected rate of return on plan assets	**10%**	10%
Expected rate of salary increases	**8%**	8%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the age of 65 is 18 for males and 20 for females.[37]

The overall expected long-term rate of return on assets is 10%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.[38]

23. TAXES

23.1 Current and Deferred Taxes

The components of tax expense as reported in income statements and statements of changes in equity :

	2006	2005
Reported in income statement		
Current tax expense:		
Regular corporate income tax (RCIT) at 35%	**P 9,526,669**	P 17,756,653
Final tax at 20% and 7.5%	**579,606**	461,665
	10,106,275	18,218,318
Deferred tax expense (income):		
Deferred tax relating to origination and reversal of temporary differences	**3,151,667**	(598,557)
Deferred tax resulting from increase in tax rate	**-**	(1,300,979)
	3,151,667	(1,899,536)
	P 13,257,942	P 16,318,782

[38] See footnote 37.

	2006	2005
Reported in statement of changes in equity		
Deferred tax relating to origination and reversal of temporary differences	**P 224,434**	P 2,359,109
Deferred tax resulting from increase in tax rate	**-**	(434,311)
	P 224,434	P 1,924,798

A reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense reported in the income statements is as follows:

	2006	2005
Tax on pretax income (at 35% in 2006 and at 35% and 32% in 2005)	**P 14,771,875**	P 16,461,631
Adjustment for income subjected to lower tax rates	**(1,912,782)**	(682,382)
Tax effects of:		
Increase in deferred tax asset due to change in tax rate	**-**	(1,300,979)
Non-taxable income	**(2,918,983)**	(1,594,534)
Non-deductible interest expense	**705,993**	567,748
Impairment loss on investment in an associate	**2,226,463**	2,487,851
Non-deductible expenses	**385,376**	379,447
Tax expense reported in income statement	**P 13,257,942**	P 16,318,782

PAS 12.81 (g)

The net deferred tax assets relate to the following as of December 31:

	Balance Sheets		Statements of Income		Statements of Equity	
	2006	2005	2006	2005	2006	2005
Deferred tax assets:						
Retirement benefits	P 7,419,204	P 7,294,652	(P 124,553)	P 435,024	P -	P -
Changes in provisions	3,678,833	5,818,444	2,139,611	(494,965)	-	-
Impairment losses on trade and other receivables	2,412,204	2,043,432	(368,771)	(715,661)	-	-
Impairment losses on long-term financial assets	472,659	-	(472,659)	-	-	-
Impairment losses on property, plant and equipment	1,540,000	1,024,000	(516,000)	(358,400)	-	-
Write-down of inventories to net realizable value	781,270	1,617,091	835,821	(714,304)	-	-
Deferred tax liabilities:						
Revaluation reserve of property, plant and equipment	(3,853,092)	(3,902,274)	-	-	(49,183)	1,822,217
Changes in fair value of investment property	(1,946,272)	(1,222,540)	648,733	422,540	75,000	-
Undepreciated restoration costs of leased property	(525,840)	(560,896)	(35,056)	(80,128)	-	-
Unrealized foreign currency (gains) or losses	(328,158)	716,382	1,044,540	(393,640)	-	-
Changes in fair values of long-term financial assets	(301,198)	(102,581)	-	-	198,617	102,581
Deferred Tax Expense (Income)			**P 3,151,667**	**(P 1,899,536)**	**P 224,434**	**P 1,924,798**
Net Deferred Tax Assets	**P 9,349,608**	**P 12,725,709**				

The Company is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations. No MCIT was reported in 2006 and 2005 as the RCIT was higher than MCIT in both years.[39]

23.2 Recent Tax Regulation

RA 9337

On May 24, 2005, Republic Act No. 9337 (RA 9337), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and become effective beginning on November 1, 2005. The following are the major changes brought about by RA 9337 that are relevant to the Company:

(a) RCIT rate is increased from 32% to 35% starting on November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning on January 1, 2009;

(b) 10% VAT rate is increased to 12% effective on February 1, 2006;

(c) 12% VAT rate is now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

(d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and,

(e) Creditable input VAT is capped at a maximum of 70% of output VAT per quarter which is effective until the third quarter of 2006 (this cap was removed effective for quarters ending on December 31, 2006 and onwards).

RR No. 2-2007

24. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, wholly owned subsidiaries, associates, the Company's key management and others as described below.

The following are the transactions with related parties[40]:

PAS 24.17, 22

24.1 Sales of Good and Services

	Amount of Transactions		Outstanding Balances	
	2006	2005	**2006**	2005
Sale of goods:				
Subsidiaries	**P23,024,416**	P15,171,911	**P 3,852,505**	P 5,291,293
Associates	**9,524,623**	5,698,125	**1,235,841**	500,365
Rendering of services:				
Subsidiaries – lease of equipment	**12,568,247**	9,125,456	**2,587,213**	1,987,456
Associate – administrative services	**3,251,789**	2,548,698	**923,546**	523,874
	P48,369,075	P32,441,190	**P 8,599,105**	P 8,300,988

[39] If the entity has MCIT/NOLCO, present breakdown per layer (see AAR 2005-3 for details on presentation and disclosure in accordance with PAS 12).

[40] Management should disclose that related party transactions were made on an arms length basis only when such terms can be substantiates (PAS 24.21)

PAS 24.21

Goods are sold on the basis of the price lists in force with non-related parties. Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20% to 30%.

The outstanding receivables from sales of goods and services are presented as part of Trade Receivables under the current Trade and Other Receivables account in the balance sheets (see Note 4).

PAS 24.17

24.2 Purchases of Goods and Services

	Amount of Transactions		Outstanding Balances	
	2006	2005	**2006**	2005
Purchases of goods:				
Subsidiary	**P33,424,213**	P25,571,932	**P 4,852,565**	P 2,291,243
Associates	**7,514,223**	6,993,126	**235,841**	1,543,334
Purchases of services:				
Parent - management services	**4,200,480**	3,585,487	**1,754,126**	914,324
Key management personnel services	**2,800,320**	2,390,324	**1,169,417**	609,550
	P47,939,236	**P38,540,869**	**P 8,011,949**	**P 5,358,451**

PAS 24.21

Goods are purchased on the basis of the price lists in force with non-related parties. The related outstanding payables for goods purchased in 2006 and 2005 are presented as part of Trade and Other Payables account in the balance sheets (see Note15).

Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20% to 30%. The related outstanding payables for services obtained in 2006 and 2005 are presented in the Due to Related Parties account in the balance sheets.

PAS 24.17

24.3 Advances from Related Parties

The Company obtains advances from its parent company and its subsidiaries for working capital purposes. The advances are non-interest bearing and repayable within 12 months. The breakdown of advances are as follows:

	2006	2005
Advances from parent company:		
Balance at beginning of year	**P 12,495,316**	P 21,823,454
Additions	**6,569,451**	13,568,987
Repayments	**(13,897,456)**	(22,897,125)
Balance at end of year	**P 5,167,311**	P 12,495,316
Advances from subsidiaries:		
Balance at beginning of year	**P 13,869,677**	P 9,814,546
Additions	**7,569,498**	11,696,898
Repayments	**(15,178,660)**	(7,641,767)
Balance at end of year	**P 6,260,515**	P 13,869,677

[41] If the Company provides share-based payment compensations to employee, disclose relevant expenses for the periods presented.

	2006	2005
Total advances from related parties:		
Balance at beginning of year	**P 26,364,993**	P 31,638,000
Additions	**20,688,949**	28,265,885
Repayments	**(29,076,116)**	(30,538,892)
Balance at end of year	**P 17,977,826**	P 29,364,993

24.4 Key Management Personnel Compensations[41]

PAS 24.16
PAS 24.17

The compensation of key management personnel is broken down as follows:

	2006	2005
Short-term benefits	**P 10,365,041**	P 9,901,621
Post-employment benefits	**3,861,758**	2,451,029
Termination benefits	**833,622**	559,321
Other long-term benefits	**781,759**	451,029
	P 15,842,180	P 13,363,000

24.5 Commitment and Contingencies

PAS 37.86
PAS 39
(Amendment)

The Company has guaranteed the loan obtained by its subsidiary from a local bank amounting to P28 million in 2006, repayable in 2007 and P35 million in 2005, repayable in 2006.

25. EQUITY

PAS 1.76 (a)
(iii)
PAS 1.76 (a)
(v)

25.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2006	2005	**2006**	2005
PAS 1.76 (a) (iv) PAS 1.76 (a) (ii) PAS 1.76 (a) (i)				
Preferred – 10% cumulative, non-participating , convertible into common shares – P100 par value				
Authorized, issued and outstanding	**100,000**	100,000	**P 10,000,000**	P 10,000,000
Common shares – P10 par value				
Authorized – 35,000,000 shares				
Issued:				
Balance at beginning of year	**10,000,000**	10,000,000	**100,000,000**	100,000,000
Issued during the year	**4,000,000**	-	**40,000,000**	-
Balance at end of year	**14,000,000**	10,000,000	**140,000,000**	100,000,000

Forward

	Shares		Amount	
	2006	2005	**2006**	2005
Subscribed:				
Balance at beginning of year	**1,900,000**	1,900,000	**19,000,000**	19,000,000
Issued during the year	**(1,900,000)**	-	**(19,000,000)**	-
Balance at end of year	**-**	1,900,000	**-**	19,000,000
Subscriptions receivable:				
Balance at beginning of year			**(3,750,000)**	(3,750,000)
Collections during the year			**3,750,000**	-
Balance at end of year			**-**	(3,750,000)
			P150,000,000	P125,250,000

Each preferred share is convertible to ten common shares at the option of the Company.

As of December 31, 2006 and 2005, the Company has 10 stockholders owning more than 100 shares each of the Company's capital stock.[42]

25.2 Revaluation Reserves

The reconciliation of Revaluation Reserves is as follows:

	Fair Value Reserves on			
	Property, Plant and Equipment	**Available-for-Sale**	**Related Deferred Tax**	**Total**
Balance as of January 1, 2006	P14,694,607	(P 829,476)	(P 4,879,855)	P 8,985,276
Fair value gains	-	1,252,629	(130,145)	1,122,484
Effects of change in tax rate	-	-	-	(434,311)
Depreciation transfer, building and improvements	(1,185,773)	-	415,021	(770,752)
Balance as of December 31, 2006	**P13,508,834**	**P 423,153**	**(P5,029,290)**	**P 8,902,697**
Balance as of January 1, 2005	P 9,000,180	(P 686,953)	(P 3,334,504)	P 4,978,723
Fair value gains	6,880,200	(142,523)	(1,924,798)	4,812,879
Depreciation transfer, building and improvements	(1,185,773)	-	379,447	(806,326)
Balance as of December 31, 2005	P14,694,607	(P 829,476)	(P 4,879,855)	P 8,985,276

[42] As a Firm policy, we should include this information in the note disclosure on capital stock of corporations filing under SRC Rule 68 as the Firm is required to issue a supplemental opinion on such information.

25.3 Retained Earnings

The Board of Directors approved the declaration of cash dividends of P1.57 per common share (or a total of P21,980,000) on June 30, 2006 and P1.14 per common share (or a total of P13,554,600) on June 30, 2005, payable to stockholders of record as of July 15, 2006 and 2005, respectively. The dividends were paid within their respective year of declaration and approval.

The aggregate amount of cumulative preferred dividends in arrears as of December 31, 2006 and 2005 amounted to P5 million and P4 million, respectively, or P5 per share and P4 per share, respectively.

PAS 10.21

26. EVENTS AFTER THE BALANCE SHEET DATE[43]

On January 28, 2007, the Company's distribution warehouse was severely damaged by fire. Loss of inventory was limited, but there was and continues to be, a significant disruption in the flow of distribution. It is possible that insurance proceeds may fall short of costs of rebuilding and loss of inventories but the amount of the loss cannot be determined at this time. Any loss will be taken up in 2007.

PAS 1.60
PAS 1.52

27. COMMITMENTS AND CONTINGENCIES[44]

The following are the significant commitments and contingencies involving the Company:

27.1 Operating Lease Commitments – Company as Lessee

PAS 17.35 (a)
PAS 17.35 (d)

The Company is a lessee under non-cancellable operating leases covering certain warehouse and offices. The leases have terms ranging from four to ten years, with renewal options, and include annual escalation rates of 10%. The future minimum rentals payable under these non-cancellable operating leases as of December 31 are as follows:[45]

	2006	2005
Within one year	**P 1,815,000**	P 1,815,000
After one year but not more than five years	**4,362,171**	6,177,171
More than five years	**4,635,254**	6,450,254
	P 10,812,425	P 14,442,425

[43] PAS 10 requires that when non-adjusting events after the balance sheet date are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions, an enterprise should disclose the following information for each significant category of non-adjusting event after the balance sheet date: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

[44] PAS 37, the disclosure for each class of contingent liability should include a brief description of the nature of the contingent liability and, where applicable: (a) an estimate of its financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of reimbursement.

[45] PAS 17, *Leases*, requires the disclosure of information on future minimum rental payable for more than five years.

Total rentals from these operating leases amounted to P2.0 million in 2006 and 2005, of which the major portion was charged to Cost of Sales (see Note 19).

27.2 Finance Lease Commitments – Company as Lessee[46]

PAS 17.35 (c)
PAS 17.35 (b)

The Company has finance leases covering certain transportation equipment with terms ranging from three to six years. The leases provide options to purchase the transportation equipment at the end of the lease terms. Future minimum lease payments (MLP) under the finance leases together with the present value (PV) of the net minimum lease payments (NMLP) are as follows:

	2006		2005	
	Future MLP	**PV of NMLP**	Future MLP	PV of NMLP
Within one year	**P 190,000**	**160,000**	P 210,000	P 180,000
After one year but not more than five years	**1,000,000**	**810,000**	1,034,000	900,000
More than five years	**557,000**	**430,000**	700,000	500,000
Total MLP	**1,747,000**	**1,400,000**	1,944,000	1,580,000
Amounts representing finance charges	**(347,000)**	**-**	(364,000)	-
Present value of minimum lease payments	**P 1,400,000**	**P 1,400,000**	P 1,580,000	P 1,580,000

The liabilities relating to the finance leases are shown as part of Interest-bearing Loans and Borrowings (see Note 14).

27.3 Finance Lease – Company as Lessor

PAS 17.35 (a)
PAS 17.35 (d)

On December 29, 2005, the Company entered into a finance lease covering certain specialized equipment with a lease term of six years. Future minimum lease payments receivable (MLPR) under this finance lease together with the PV of net minimum lease payments receivable (NMLPR) are as follows:

	2006		2005	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 940,000**	**756,991**	P 1,108,901	P 943,333
After one year but not more than five years	**3,390,000**	**2,910,000**	3,990,091	3,773,332
More than five years	**957,000**	**830,000**	1,209,019	943,335
Total MLP	**5,287,000**	**4,496,991**	6,308,011	5,660,000
Amounts representing finance charges	**(790,009)**	**-**	(648,011)	-
Present value of minimum lease payments	**P 4,496,991**	**P 4,496,991**	P 5,660,000	P 5,660,000

The net investment relating to this finance lease is presented as Receivable under Finance Lease (current and non-current) (see Note 4).

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[46] PAS 17, *Leases,* requires reconciliation between the total of minimum lease payments at the balance sheet date, and their present value. In addition, an enterprise should disclose the total of the minimum lease payments at the balance sheet date, their present value, for each of the periods disclosed above.

27.4 Legal Claims

PAS 1.105(d)
(i) 33
PAS 37.89
PAS 37.91
PAS 37.92

Litigation is in process against the Company relating to a dispute with a competitor who alleges that the Company has infringed patents and seeks damages amounting to P50.0 million. The legal counsel has advised that it is probable that the Company will not be found liable. Hence, no provision for the claim has been made in the financial statements as of December 31, 2006 and 2005.

PAS 37.86

Various warranty and legal claims were brought against the Company during the year. Management considers these claims to be unjustified and the probability that they will require settlement at the Company's expense to be remote. This evaluation has been backed up by external independent legal advice.

PAS 37.92

None of these contingencies are discussed here in detail so as not to seriously prejudice the Company's position in the related disputes.

27.5 Capital Commitments

As of December 31, 2006 and 2005, the Company has commitments of about P8.0 million and P10.5 million, respectively, for the acquisition of new plant and machinery.

27.6 Others

As of December 31, 2006 and 2005, the Company has unused letters of credit amounting to P30.0 million and P35.0 million, respectively.

The Philippines continues to experience economic difficulties relating to currency fluctuations, volatile stock markets and slowdown in growth. Management is of the opinion that losses, if any, from these events and conditions will not have material effects on the Company's financial statements.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

PAS 1.105
(d)(ii)

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with its parent company, in close cooperation with the Board of Directors, and focuses on actively securing the Company's short- to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

PAS 32.56

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below.

28.1 Foreign Currency Risk

PAS 32.76 (a)
PAS 32.76 (b)
PAS 32.79

The Company has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

PAS 32.56

28.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Company's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk. The Company has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

28.3 Cash Flow and Fair Value Interest Rate Risks

Cash flow and fair value interest rate risks are managed by means of derivative financial instruments, where necessary, to ensure short- to medium-term liquidity. Currently, the Company has no financial liabilities with floating interest rates.