RELEVANT NOTES TO CONSOLIDATED FINANCIAL STATEMENTS[1]

2.2 Basis of Consolidation[2]

The Company obtains and exercises control through voting rights. The Group's[3] consolidated financial statements comprise the accounts of the Company,[4] and its subsidiaries as enumerated below, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, and minority interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Company obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.[5]

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[1] These are the notes, apart from those presented in separate financial statements, which are applicable only to consolidated financial statements.

[2] This should be presented immediately after basis for preparation of financial statements.

[3] This should be consistent with the name that is used to refer to Granthor Holdings Philippines, Inc. and subsidiaries in Note 1, *Corporate Information* in a complete set of notes to financial statements.

[4] See footnote 2 for guidance.

[5] Preferably, disclosure should be made as to the date of organization and start of operations of the subsidiaries if their financial statements do not cover the full periods covered by the consolidated financial statements.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill[6] (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill represents the excess of Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost (see also Note 2.11).

(b) Transactions with Minority Interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity investments to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases of equity shares from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiary.

The subsidiaries of the Company in 2006, 2005 and 2004[7] are as follows:

	Percentage of Ownership
Electronic Components Business:	
JCC Electronics, Inc. and subsidiaries	100.0
PNA Manufacturing Corporation	100.0
ECM Electronics, Ltd.	89.5

[6] When the policy for goodwill is presented as part of the basis for consolidation, the other policy pertaining to intangibles other than goodwill should be changed. For instance, Note 2.8 in PNA notes to FS should be entitled "Other Intangibles" as goodwill itself is an intangible.

[7] Assuming no new acquisition or disposal of interest in subsidiaries during the three consecutive years, otherwise, should be modified to include any acquisition or disposal of interest in subsidiaries.

	Percentage of Ownership
Insulator Business:	
MEC Insulation, Inc. and subsidiaries	100.0
JFR & PH Technologies, Inc.	67.8
Tin&Tin Poly Tech Philippines, Inc.	50
Apparel Business:	
DBC House Corporation	100
WTEE, Inc. and subsidiaries	95
NJD Pogy Style, Inc.	58.3

Minority interests in 2006, 2005 and 2004 represent the interests not held by the Group in ECM Electronics, Ltd., JFR & PH Technologies, Inc., Tin&Tin Poly Tech Philippines, Inc., WTEE, Inc. and subsidiaries and NJD Pogy Style, Inc.

2.11 Business Combinations[8]

Business acquisitions are accounted for using the purchase method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost a business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.15)[9].

Negative goodwill which is the excess of the Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost is charged directly to income.

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.[10]

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[8] Preferably after policy on financial liabilities. See Note 2.10 in illustrative PNA FS.

[9] Cross-reference to the note pertaining to "Impairment of Non-financial Assets". See Note 2.15 in illustrative PNA FS which should be modified to replace intangible assets with goodwill and other intangible assets.

[10] Add only when applicable.

4. SEGMENT REPORTING[11]

5.1 Business Segments

For management purposes, the Group is organized into three major business segments, namely electronic component, insulation and clothing. These are also the basis of the Group in reporting its primary segment information.

(a) The electronic component segment produces capacitors, resistors, microprocessors, bare and loaded printed circuit boards, electron tubes, electronic connectors, and computer modems.

(b) The insulation segment is involved in the manufacturing of insulators up to 66kv range for pin, post, disc, transformer bushings, lightning arrestor porcelain, shackle, spool and strain insulators.

(c) The clothing segment is engaged in the production and sale of men's and women's ready-to-wear clothing, sports and leisure wear, accessories and non-textile products.

5.2 Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

5.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

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[11] Include geographical segments if applicable. Geographical segments are basically segments of the entity presented by geographical location such as Philippines, Australia, and China and the relevant categories are sales, segment assets and capital expenditures/investments.

The following tables present revenue and profit information regarding business segments of the Company for the years ended December 31, 2006, 2005 and 2004 and certain asset and liability information regarding industry segments at December 31, 2006 and 2005 (in millions).

	Electronic Components			Insulation Products			Clothing, Corporate and Other			Eliminations			Consolidated		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
TOTAL REVENUES															
Sales to external customers	**P100,150**	P100,155	P 85,127	**P 96,000**	P 88,500	P 74,690	**P 9,144**	P 12,417	P 10,500	**P -**	P -	P -	**P205,294**	P201,072	P170,317
Intersegment sales	**57**	77	35	**5**	5	2	**1**	1	1	**(63)**	(83)	(38)	-	-	-
Total revenues	**P100,207**	P100,232	P 85,162	**P 96,005**	P 88,505	P 74,692	**P 9,145**	P 12,418	P 10,501	**(P 63)**	(P 83)	(P 38)	**P205,294**	P201,072	P170,317
RESULTS															
Segment results	**P 55,820**	P 65,106	P 72,515	**P 34,974**	P 25,708	P 20,234	**P -**	P -	P -	**(P 63)**	(P 83)	(P 38)	**P 90,731**	P 90,731	P 92,711
Unallocated expenses													**(44,329)**	(35,885)	(32,509)
Income from operations													**46,402**	54,846	60,202
Finance costs							**(8,999)**	(11,110)	(10,930)				**(8,999)**	(11,110)	(10,930)
Other gains (losses) - net							**579**	1,531	1,379				**580**	(1,531)	1,379
Income before tax													**37,983**	42,205	50,651
Tax expense							**(17,914)**	(13,258)	(16,319)				**(17,914)**	(13,258)	(16,319)
Net income													**P 20,069**	P 28,947	P 34,332
Attributable to:															
Parent company's shareholders													**P 19,266**	P 27,500	P 32,959
Minority interest													**803**	1,447	1,373
Net income													**P 20,069**	P 28,947	P 34,332

Forward

	Electronic Components			Insulation Products			Clothing, Corporate and Others			Eliminations			Consolidated		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
ASSETS AND LIABILITIES															
Segment assets	**P354,650**	P340,500	P -	**P120,000**	P100,000	P -	**P 22,019**	P 53,344	P -	**P -**	P -	P -	**P496,669**	P493,844	
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	**11,313**	10,202	
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	**1,572**	9,350	
Total assets	**-**	-	-	-	-	-	-	-	-	-	-	-	**P509,554**	P513,396	
Segment liabilities	**87,450**	91,700	-	90,995	76,725	-	-	-	-	-	-	-	**P178,445**	P168,425	
Unallocated liabilities	**-**	-	-	-	-	-	-	-	-	-	-	-	**16**	36	
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	**P178,461**	P168,461	
OTHER SEGMENT INFORMATION															
Capital expenditures	**15,410**	13,000	6,500	**5,000**	7,260	10,000	**5,000**	7,260	2,038	-	-	-	**P 25,410**	P 27,521	P 18,538
Depreciation and amortization	**7,466**	6,000	2,550	**7,466**	7,000	3,500	**7,466**	5,176	9,324	-	-	-	**22,398**	18,176	15,374
Impairment losses	**13,518**	11,407	7,857		-	-	-	-	-	-	-	-	**13,518**	11,407	7,857
Other non-cash expenses (other than depreciation and amortization and impairment losses)	**2,500**	3,000	1,500	**3,500**	2,000	2,500	**4,778**	1,556	1,113	-	-	-	**10,778**	6,556	5,113