Punongbayan & Araullo

Certified Public Accountants

accounting alert

2008-01: February 5, 2008

2007 ILLUSTRATIVE SEPARATE AND CONSOLIDATED PFRS FINANCIAL STATEMENTS

This AA 2008-01 is issued to provide an illustrative set of separate financial statements (FS), including notes to FS, and a set of consolidated basic FS with selected note disclosures that are applicable only to consolidated FS (hereinafter referred to as the Illustrative FS), prepared in accordance with Philippine Financial Reporting Standards (PFRSs), for fictional manufacturing and distribution company of semiconductor products [i.e., PNA Manufacturing Corporation, "PNA" or the "Company" (for separate FS), and Granthor Holdings Philippines, Inc. and subsidiaries, "Granthor and subsidiaries" or the "Group" (for the consolidated FS with selected notes to FS)].

The Illustrative FS also include illustrative presentation and disclosures for Non-publicly Accountable Entities (NPAEs) as set out in the appendices.

The FS of PNA and Granthor and subsidiaries are presented in accordance with all appropriate PFRS, including amendments to existing standards and Philippine Interpretations issued by Financial Reporting Standards Council (FRSC) that are effective as of December 31, 2007.

Objectives of the Illustrative FS

The purpose of these Illustrative FS is to provide a practical working model for the presentation of annual FS prepared in accordance with PFRS.

Coverage of the Illustrative FS

The Illustrative FS include different areas of financial reporting which are typical not only for entities active in manufacturing and retailing but also in many other industry sectors. The Illustrative FS do not cover all potential accounting transactions that can be observed in practice. In addition, certain standards have not been addressed as they are not applicable to the FS of PNA or Granthor and subsidiaries. The Illustrative FS and disclosures, therefore, should neither be used as a substitute for studying PFRSs, nor considered as the sole tool for preparing individual FS in accordance with PFRS. Notes to FS, particularly the significant accounting policies, presented in the Illustrative FS ***should be customized to suit an entity's specific circumstances*** as there may be certain items included in the Illustrative FS disclosures that are not applicable to the entity, thus should not be copied verbatim.

For further guidance, the specific PFRS sources are indicated in the Illustrative FS on the left hand side of the document. Additional notes and explanations are shown as footnotes. In case of doubt regarding specific requirements, it is essential to make reference to the relevant standard and, where necessary, to seek appropriate technical advice. Reference should be made as well to relevant statutory requirements (i.e., SEC, PSE, BSP).

These Illustrative FS are based on PFRSs that are effective as of December 31, 2007 and include new and amended standards and Philippine Interpretations which are adopted by the FRSC and are effective for the annual periods beginning on or after January 1, 2007. The following are the standards not illustrated or considered in the preparation of the sample FS of PNA or of Granthor and subsidiaries:

PAS 11	:	Construction Contracts
PAS 20	:	Accounting for Government Grants and Disclosure of Government Assistance
PAS 26	:	Accounting and Reporting by Retirement Benefit Plans
PAS 29	:	Financial Reporting in Hyperinflationary Economies
PAS 34	:	Interim Financial Reporting
PAS 41	:	Agriculture
PFRS 2	:	Share-based Payment
PFRS 4	:	Insurance Contracts
PFRS 6	:	Exploration for and Evaluation of Mineral Resources
Phil. Int. IFRIC 5	:	Rights to Interest Arising from Decomissioning, Restoration Environmental Rehabilitation Funds
Phil. Int. IFRIC 6	:	Liabilities Arising from Participating in a Specific Market
Phil. Int. IFRIC 7	:	Applying the Restatement Approach under PAS 29
Phil. Int. IFRIC 8	:	Scope of PFRS 2
Phil. Int. IFRIC 9	:	Reassessment of Embedded Derivatives
Phil. Int. IFRIC 10	:	Interim Financial Reporting and Impairment

The manner of accounting, presentation and disclosures illustrated in the Illustrative FS should not be considered the only acceptable result of the application of PFRSs. The management is responsible for the form and content of FS as required by PFRSs and, therefore, may find other approaches to compliance that are preferable over those used in the Illustrative FS. For example, allocating line items of profit and loss to operating activities depends on what activities would normally be considered to be "operating". Therefore, this Illustrative FS should be considered as an example of one of the possible acceptable ways to achieve compliance with PFRSs.

FS Presentations and Disclosures for NPAEs

As discussed in AA 2006-01, *Recent Releases on Financial Reporting*, dated January 12, 2006, non-publicly accountable entities (NPAEs), under PAS 101, *Financial Reporting Standards for NPAEs*, have an option **not to apply any, or to apply all or some** of the new PASs and PFRSs that became effective in 2005. Relative to this, the following are the guidelines for FS presentations and disclosures for NPAEs:

I. If NPAEs opted to **adopt some** of the relevant PASs and PFRSs:

1. Use the usual wording of the auditors' report with the following revision: in the sections on Management's Responsibility for the Financial Statements and Opinion, change the reference to the financial reporting framework used as the basis of preparation of the FS from "Philippine Financial Reporting Standards" to "the financial reporting standards in the Philippines for non-publicly accountable entities as described in Note 2 to the financial statements" because the entity has not adopted PFRS in full (refer to Appendix III.D.1);

2. Modify the "Basis of Preparation" under the note on Summary of Significant Accounting Policies to indicate the basis of preparation of the financial statements of NPAEs (see Appendix III.D.2); and,

3. Apply the financial reporting standards as of December 31, 2004, plus the new PFRSs and PASs adopted. The change in accounting policies related to the new accounting standards adopted and their effects on the FS should be disclosed (see Appendix III.D.2).

II. If NPAEs opted **not to adopt** all of the relevant new PASs and PFRSs:

1. Apply the guidance in items 1 and 2 above; and,

2. Apply the financial reporting standards effective as of December 31, 2004 (for guidance, refer to the 2004 Illustrative FS of ABC Company for the sample FS disclosures).

III. If NPAEs opted to **adopt all** relevant new PASs and PFRSs

Refer to this 2007 Illustrative FS and apply the guidance presented herein.

Appendices to the Illustrative FS

Additional illustrative presentation and disclosures, as well as information on accounting standards, have been included in the attached appendices as listed below.

	Appendices
I. Alternative presentation formats	
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Additional Guidance

As mentioned earlier, the Illustrative FS are intended as mere guide in the preparation of an entity's financial statements. Hence, all accounts or disclosures that are not applicable to the entity should be deleted or reworded and accounts and disclosures not presented in the Illustrative FS that may be required considering the particular circumstances of the entity should be added.

Disclaimer

The P&A Illustrative Financial Statements are only intended to serve as a practical guide in the preparation of financial statements, and shall not be used for any other purpose. P&A assumes no responsibility or liability for any consequence arising from the use, in any manner, and for whatever purpose, of the aforesaid illustrative financial statements by any individual, company or entity.

This Accounting Alert is not a comprehensive analysis of the subject matters covered and is not intended to provide accounting, auditing or tax advice to specific entity. All relevant facts and circumstances, including the full text of the pertinent final or proposed standards, rules and regulations and other literature, need to be considered to arrive at accounting, auditing and tax decisions that relate to matters addressed in this Accounting Alert.

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Should you have any questions or should you need assistance on matters covered in this Accounting Alert, please contact the P&A engagement partner assigned to your company, or send an email to any of the following partners of the Firm:

Greg S. Navarro, Managing Partner & CEO, at Greg.Navarro@pna.ph

Jun D. Cuaresma, Head of Audit and Assurance, at Jun.Cuaresma@pna.ph

Dally B. Duque, Partner-in Charge, Technical Group, at Dally.Duque@pna.ph

Mabel E. Comedia, Partner, Technical Group, at Mabel.Comedia@pna.ph

2007 ILLUSTRATIVE FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT AUDITORS[1]

The Board of Directors
PNA Manufacturing Corporation
(A Wholly-Owned Subsidiary of
Granthor Holdings Philippines, Inc.)

123 Maganda Street[2]
Future Village, Makati City

We have audited the accompanying financial statements of PNA Manufacturing Corporation, which comprise the balance sheets as at December 31, 2007 and 2006, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' [3]*Responsibility*

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

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[1] Refer to PSA 700 (Revised) or AA2006-04 (released December 14, 2006) for guidance on the new wording for independent auditor's report. As a Firm policy, the old report title will be retained.

[2] Added when the financial statements are for submission to the SEC and BIR.

[3] Take note of the location of the apostrophe, it should be after **s**.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PNA Manufacturing Corporation as of December 31, 2007 and 2006, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO[4]

By: Gregorio S. Navarro
Partner
CPA Reg. No. 0033571
TIN 109-228-435
PTR No. 0986658, January 4, 2008, Makati City
SEC Accreditation No. 0013-AR-1
BIR AN 08-002511-2-2005 (Dec. 27, 2005 to 2008)

March 31, 2008

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4 Refer to AM 2006-001 and AM 2006-002 for guidance.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS TO ACCOMPANY INCOME TAX RETURN

The Board of Directors
PNA Manufacturing Corporation
(A Wholly-Owned Subsidiary of
Granthor Holdings Philippines, Inc.)
123 Maganda Street
Future Village, Makati City

We have audited the financial statements of PNA Manufacturing Corporation for the year ended December 31, 2007, on which we have rendered the attached report dated March 31, 2008.

In compliance with Revenue Regulations V-20, we are stating the following:

1. The taxes paid and accrued by the above Company for the year ended December 31, 2007 are shown in the Schedule of Taxes and Licenses.

2. No partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

PUNONGBAYAN & ARAULLO

By: Gregorio S. Navarro
Partner
CPA Reg. No. 0033571
TIN 109-228-435
PTR No. 0986658, January 4, 2008, Makati City
SEC Accreditation No. 0013-AR-1
BIR AN 08-002511-2-2005 (Dec. 27, 2005 to 2008)

March 31, 2008

SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

The Board of Directors
PNA Manufacturing Corporation
(A Wholly-Owned Subsidiary of
Granthor Holdings Philippines, Inc.)
123 Maganda Street
Future Village, Makati City

We have audited the financial statements of PNA Manufacturing Corporation for the year ended December 31, 2007, on which we have rendered the attached report dated March 31, 2008.

In compliance with SRC Rule 68, we are stating that the Company has 10 stockholders owning 100 or more shares each as of December 31, 2007, as disclosed in Note 25 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Gregorio S. Navarro
Partner
CPA Reg. No. 0033571
TIN 109-228-435
PTR No. 0986658, January 4, 2008, Makati City
SEC Accreditation No. 0013-AR-1
BIR AN 08-002511-2-2005 (Dec. 27, 2005 to 2008)

March 31, 2008

PAS 1.46 (a) **PNA MANUFACTURING CORPORATION**
PAS 1.46 (b) ***(A Wholly-Owned Subsidiary of Granthor Holdings Philippines, Inc.)***
PAS 1.44 **BALANCE SHEETS**
PAS 1.46 (c) **DECEMBER 31, 2007 AND 2006**
PAS 1.46 (d) ***(Amounts in Philippine Pesos)***

		Notes [1]		2007		2006
	A S S E T S [2]					
PAS 1.57	**CURRENT ASSETS**					
PAS 1.68 (i)	Cash and cash equivalents	4	**P**	**16,642,248**	P	21,012,102
PAS 1.68 (h)	Trade and other receivables - net	5		**25,653,977**		21,789,826
PAS 1.68 (d)	Financial assets at fair value through profit or loss	6		**32,210,910**		48,344,082
PAS 1.68 (g)	Inventories - net	7		**51,450,848**		60,150,316
PAS 1.69	Prepayments	8		**14,659,138**		11,160,815
PAS 1.69	Total Current Assets			**140,617,121**		162,457,141
PAS 1.70	**NON-CURRENT ASSETS**					
PAS 1.68 (h)	Trade and other receivables - net	5		**21,890,783**		23,234,052
PAS 1.68 (d)	Financial assets - net	9		**33,422,701**		34,931,355
PAS 1.68 (e)	Investments in subsidiaries and associates - net	10		**154,572,386**		152,247,636
PAS 1.68 (a)	Property, plant and equipment - net	11		**108,085,488**		100,293,414
PAS 1.68 (b)	Investment property	12		**19,516,594**		16,756,936
PAS 1.68 (c)	Intangible assets - net	13		**10,202,000**		2,050,000
PAS 1.68 (n)	Deferred tax assets - net	23		**9,349,608**		12,725,709
PAS 1.69	Total Non-current Assets			**357,039,560**		342,239,102
	NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	14		**3,550,000**		-
PAS 1.69	**TOTAL ASSETS**		**P**	**501,206,681**	P	504,696,243

[1] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

[2] The preferred format is to show the liabilities/equity section after the assets section; however, if the accounts are many, the liabilities/equity section may be presented on another page.

		Notes	2007	2006
	LIABILITIES AND EQUITY			
PAS 1.60	**CURRENT LIABILITIES**			
	Interest-bearing loans and borrowings	15	**P 14,290,000**	P 16,652,700
PAS 1.68 (j)	Trade and other payables	16	**49,088,013**	61,448,625
PAS 1.69	Due to related parties	24	**17,977,826**	29,364,993
PAS 1.68 (m)	Income tax payable		**2,314,212**	4,210,321
PAS 1.68 (k)	Provisions	17	**4,829,437**	8,511,981
PAS 1.69	Total Current Liabilities		**88,499,488**	120,188,620
PAS 1.60	**NON-CURRENT LIABILITIES**			
PAS 1.68 (l)	Interest-bearing loans and borrowings	15	**54,820,000**	57,700,000
PAS 1.68 (k)	Retirement benefit obligation	22	**16,607,013**	16,495,073
PAS 1.68 (k)	Provisions	17	**5,681,513**	6,206,683
PAS 1.69	Other non-current liabilities		**2,853,278**	3,766,067
PAS 1.69	Total Non-current Liabilities		**79,961,804**	84,167,823
PAS 1.69	Total Liabilities		**168,461,292**	204,356,443
	EQUITY [3]			
PAS 1.68 (p)	Capital stock	25	**150,000,000**	125,250,000
	Additional paid-in capital		**7,005,000**	7,005,000
	Treasury shares, at cost		**(1,000,000)**	(1,000,000)
	Revaluation reserves	25	**8,902,697**	8,985,276
PAS 1.68 (p)	Retained earnings	25	**167,837,692**	160,099,524
PAS 1.69	Total Equity		**332,745,389**	300,339,800
PAS 1.69	**TOTAL LIABILITIES AND EQUITY**		**P 501,206,681**	P 504,696,243

See Notes to Financial Statements.

[3] Major line items of equity (i.e., issued capital, reserves and retained earnings) should be presented on the face of the balance sheet. The various classes of this information, such as major items, the changes during the year and information on each class of share capital can be presented on the face of the balance sheet, or statement of changes in equity, or in the notes.

PAS 1.46 (a)
PAS 1.46 (b)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

PNA MANUFACTURING CORPORATION
(A Wholly-Owned Subsidiary of Granthor Holdings Philippines, Inc.)
INCOME STATEMENTS[1]
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

		Notes [2]	2007	2006
PAS 1.81 (a)	**REVENUES**	24		
	Sale of goods		**P 181,171,539**	P 156,982,596
	Rendering of services		**19,900,506**	13,334,605
			201,072,045	170,317,201
PAS 1.88	**COST OF SALES AND SERVICES**	18		
PAS 2.36 (d)	Cost of sales		**100,110,007**	68,331,945
	Cost of services		**10,230,354**	9,274,715
			110,340,361	77,606,660
PAS 1.92	**GROSS PROFIT**		**90,731,684**	92,710,541
	OTHER OPERATING EXPENSES (INCOME)			
PAS 1.92	Other operating income	19	**(3,689,849)**	(756,538)
PAS 1.92	Selling and distribution costs	20	**23,829,851**	20,545,136
PAS 1.92	Administrative expenses	20	**19,375,487**	14,745,974
	Other operating expenses	19	**1,764,215**	1,684,621
			39,515,489	34,534,572
PAS 1.83	**OPERATING PROFIT**		**51,216,195**	58,175,969
	OTHER INCOME (CHARGES)	21		
PAS 1.81 (b)	Finance costs		**(17,966,867)**	(13,165,972)
	Finance income		**8,605,041**	7,265,263
	Other gains (losses) - net		**350,989**	(1,624,088)
			(9,010,837)	(7,524,797)
PAS 1.83	**INCOME BEFORE TAX**		**42,205,358**	50,651,172
PAS 1.81 (e)	**TAX EXPENSE**	23	**13,257,942**	16,318,782
PAS 1.81 (f)	**NET INCOME**		**P 28,947,416**	P 34,332,390

See Notes to Financial Statements.

[1] This format for statements of income illustrates an example of the "function of expense" or "cost of sales" method. See Appendix III.A.1 for the format illustrating the "nature of expense" method.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

PAS 1.46 (a)
PAS 1.46 (b)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

PNA MANUFACTURING CORPORATION

(A Wholly-Owned Subsidiary of Granthor Holdings Philippines, Inc.)

STATEMENTS OF CHANGES IN EQUITY [1]

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(Amounts in Philippine Pesos)

		Note [2]	2007	2006
	CAPITAL STOCK [3]	25		
	Balance at beginning of year		**P 125,250,000**	P 125,250,000
	Additional issuance during the year		**24,750,000**	-
	Balance at end of year		**150,000,000**	125,250,000
	ADDITIONAL PAID-IN CAPITAL		**7,005,000**	7,005,000
	TREASURY SHARES - At Cost		**(1,000,000)**	(1,000,000)
	REVALUATION RESERVES	25		
PAS 1.97 (b)	Balance at beginning of year		**8,985,276**	4,943,149
PAS 1.96 (b)	Depreciation transfer for building improvements, net of tax		**(770,752)**	(770,752)
PAS 1.96 (b)	Fair value gains, net of taxes		**688,173**	4,812,879
PAS 1.97 (b)	Balance at end of year		**8,902,697**	8,985,276
	RETAINED EARNINGS	25		
PAS 1.97 (b)	Balance at beginning of year		**160,099,524**	138,550,982
PAS 1.97 (a)	Cash dividends		**(21,980,000)**	(13,554,600)
PAS 1.96 (b)	Depreciation transfer for building improvements, net of tax		**770,752**	770,752
PAS 1.96 (a)	Net income		**28,947,416**	34,332,390
PAS 1.97 (b)	Balance at end of year		**167,837,692**	160,099,524
PAS 1.97 (b)	**TOTAL EQUITY**		**P 332,745,389**	P 300,339,800
	Net Gains Recognized Directly in Equity		**P 688,173**	P 4,812,879

See Notes to Financial Statements.

[1] Refer to Appendix III.A.2 for proposed format when there are several equity items to be presented in the Statement of Changes in Equity.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

[3] If there are only few details, show on the face of the statement the number of authorized, issued, and subscribed shares and par value.

PAS 1.46 (a) **PNA MANUFACTURING CORPORATION**
PAS 1.46 (b) ***(A Wholly-Owned Subsidiary of Granthor Holdings Philippines, Inc.)***
PAS 1.44 **CASH FLOW STATEMENTS**
PAS 1.46 (c) **FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**
PAS 1.46 (d) ***(Amounts in Philippine Pesos)***

		Notes	2007	2006
PAS 7.10	**CASH FLOWS FROM OPERATING ACTIVITIES**			
	Income before tax		P 42,205,358	P 50,651,172
	Adjustments for:			
	Depreciation and amortization	11	15,648,286	13,523,806
	Interest expense	21	11,110,130	10,929,530
	Impairment losses on financial assets	21	6,856,737	2,236,442
	Interest income	21	(5,537,873)	(4,545,194)
	Impairment losses on non-financial assets	19	4,500,500	8,228,146
	Amortization of intangible assets	13	2,528,000	1,850,000
	Gain on sale of property and equipment	19	(2,456,432)	-
	Fair value gains on financial assets at fair value through profit or loss	21	(2,412,922)	(2,562,874)
	Fair value gains on investment property	21	(1,740,342)	(1,320,436)
	Dividend income from subsidiaries	21	(1,450,000)	(1,450,000)
	Operating income before working capital changes		69,251,442	77,540,592
	Increase in trade and other receivables		(3,411,614)	(5,828,950)
	Decrease in inventories		8,699,468	12,175,195
	Decrease (increase) in prepayments		(3,498,323)	3,377,270
	Decrease in trade and other payables		(12,360,612)	(9,229,807)
	Decrease in provisions		(4,677,406)	(2,332,862)
	Increase in retirement benefit obligation		111,940	3,037,179
	Decrease in other non-current liabilities		(912,789)	(561,827)
	Cash generated from operations		53,202,106	78,176,790
PAS 7.35	Cash paid for income taxes		(12,148,504)	(17,680,950)
	Net Cash From Operating Activities		41,053,602	60,495,840
PAS 7.10	**CASH FLOWS FROM INVESTING ACTIVITIES**			
	Acquisitions of property, plant and equipment	11	(27,521,420)	(18,537,820)
	Decrease (increase) in financial assets at fair value through profit or loss		18,546,094	(13,102,776)
	Additions to intangible assets	13	(10,680,000)	-
PAS 7.39	Additions to investments in an associate	10	(5,625,250)	-
	Proceeds from sale of property, plant and equipment	11	5,337,492	-
	Acquisition of investment property	12	(4,569,316)	-
PAS 7.31	Interest received		3,164,421	1,120,381
	Decrease (increase) in available-for-sale financial assets		(2,540,972)	717,113
	Proceeds from maturity of held-to-maturity financial assets		1,515,800	6,375,232
PAS 7.31	Dividends received from subsidiaries and associate	21	1,450,000	1,450,000
	Net Cash Used in Investing Activities		(20,923,151)	(21,977,870)

Forward

		Notes	2007	2006
PAS 7.10	**CASH FLOWS FROM FINANCING ACTIVITIES**			
	Repayment of amounts due to related parties		(29,076,116)	(30,538,892)
	Proceeds from issuance of shares of stock	25	24,750,000	-
	Borrowing repayments		(5,242,700)	(28,137,566)
PAS 7.31	Interest paid		(10,640,438)	(10,513,874)
PAS 7.31	Cash dividends paid		(21,980,000)	(13,554,600)
	Additional borrowings from related parties		17,688,949	38,446,988
	Proceeds from additional borrowings		-	7,569,812
	Net Cash Used in Financing Activities		(24,500,305)	(36,728,132)
PAS 7.45	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**		(4,369,854)	1,789,838
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		21,012,102	19,222,264
	CASH AND CASH EQUIVALENTS AT END OF YEAR		P 16,642,248	P 21,012,102

PAS 7.43 **Supplemental Information on Noncash Investing and Financing Activities**

Certain transportation equipment with carrying amounts of P1.4 million and P1.6 million as of December 31, 2007 and 2006, respectively, are carried under finance leases (see Notes 11 and 27.2).

See Notes to Financial Statements.

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, 2007 AND 2006
(Amounts in Philippines Pesos)

1. CORPORATE INFORMATION

PAS 1.126 (b)
PAS 27.41 (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. The Company holds investments in certain subsidiaries and associates that are all incorporated in the Philippines and are engaged in business related to the main business of the Company.

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 Ave., Pasay City.

PAS 1.46 (c)
PAS 10.17

The financial statements of the Company for the year ended December 31, 2007 (including the comparatives for the year ended December 31, 2006) were authorized for issue by the Board of Directors on March 31, 2008.[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 matter 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. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements [6]

(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) from the pronouncements issued by the International Accounting Standards Board.

PAS 1.108(a)

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. 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.

(b) 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).

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[6] If the entity is presenting three-year financial statements for 2007, 2006 and 2005, but no longer shows in the statement of changes in equity the effects of its transition to PFRS in 2005, inclusion of a note on Transition to PFRS in 2005 is not required. However, if the Company still presents the effects of the transition to PFRS, a note disclosure should still be included. This should be placed after the Statement of Compliance, hence, as (b). Please see Appendix III.C.6.

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards [7]

(a) *Effective in 2007 that are relevant to the Company*[8]

In 2007, the Company adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 8.28

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

Discussed below are the impact on the financial statements of these new accounting standards.

(i) PAS 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Company's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 29.

(ii) PFRS 7, *Financial Instruments: Disclosures.* 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, particularly:

- a sensitivity analysis, to explain the Company's market risk exposure in regards to its financial instruments; and,

- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. All disclosures relating to financial instruments, including all comparative information, have been updated to reflect the new requirements. The new disclosures that become necessary due to the Company's adoption of PFRS 7 are presented in Note 28.[9]

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[7] Engagement teams are required to include here all the relevant new and amended PFRS or Philippine Interpretations. The complete list of the new accounting standards are shown in Appendix III.E.

[8] The Company may opt to present impact of new standards, amendments and interpretations to existing standards effective in 2006 for comparative purposes. However PAS 8.28 does not require the Company to repeat prior year disclosures relevant to change in accounting principles.

[9] Entities required to apply PFRS 7 are granted a transitional relief by the FRSC on the adoption of PFRS 7, i.e., they need not present comparative information for the new disclosures required by paragraphs 31-42 of PFRS 7, other

The first time application of these standards, amendments and interpretations has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) *Effective in 2007 but not relevant to the Company* [10]

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyper Inflationary Economies*
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

(c) *Effective Subsequent to 2007*

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2007. The following new standards are relevant to the Company [11] which the Company will apply in accordance with their transitional provisions. [12]

PAS 8.30

2008:[13]

Philippine Interpretation IFRIC 12	:	Service Concession Arrangements
Philippine Interpretation IFRIC 13	:	Customer Loyalty Programmes

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than those previously presented by the entities in compliance with PAS 30 and PAS 32. If an entity avails of that transitional relief, this paragraph should be reworded as follows:

"PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by PFRS 7 for 2007 (see Note 28)."

In this case, Note 28 will be revised to show the new disclosures for 2007 only.

[10] If certain amendments and interpretations are applicable to the Company, include them under *(a) Effective in 2007 that are Relevant to the Company*. Refer to Appendix III.B.5 for the sample discussions of these amendments and interpretations.

[11] Include only standards and amendments that are applicable to the Company.

[12] When any of the new accounting standards, amendments and interpretations is applied early (i.e., before January 1, 2008), the fact should be disclosed together with the other information required under the specific standard and/or amendments and interpretations.

[13] For sample disclosure on IFRIC 12 and 13, please see Appendix III.B.5

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2009: [14]

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 8	:	Operating Segments

Below is a discussion of the possible impact of these accounting standards.

(i) Philippine Interpretation IFRIC 14, *PAS 19* [15] *– The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Company based on the set-up of the pension trust fund, the Company determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

(ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Company will apply PAS 1 (Revised 2007) in its 2009 financial statements.

(iii) PAS 23 (Revised 2007), *Borrowing Costs* (effective from January 1, 2009). Under

[14] For sample disclosure on PFRS 8, please see Appendix III.B.5.

[15] For companies with unfunded defined benefit plans, the disclosures could be as follows:

Philippine Interpretation IFRIC 14 , *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation . . . on a consistent basis. The Company is currently evaluating the impact of this interpretation in its financial statements and has initially assessed that such may not have significant effects on the financial statements for 2008 since its defined benefit obligation is still unfunded.

the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Company has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009, as well as for prior and future periods, as the Company's current accounting policy is to capitalize all interest directly related to qualifying assets.[16]

PAS 27.41 (a)

2.3 Separate Financial Statements[17] and Investments in Subsidiaries and Associates

These financial statements are prepared as the Company's separate financial statements. As allowed under existing accounting standards, the Company has not presented consolidated financial statements because it is itself a wholly-owned subsidiary of Granthor, which presents consolidated financial statements available for public use, and its debt or equity securities are not traded in a public market[18].

PAS 27.37
PAS 39.66

The Company's investments in subsidiaries and associates are accounted for in these separate financial statements at cost,[19] 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 impairment loss is recognized in the income statement.

Any goodwill arising from the acquisition of investments in subsidiaries and associates, representing the excess of the acquisition costs over the fair value of the Company's share in the identifiable net assets of the acquired subsidiaries or associates at the date of acquisition, is included in the amount recognized as investment in subsidiaries and associates.

PAS 27.13
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

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[16] If the Company's current policy is to expense all interest at the time of incurrence, this statement should be revised accordingly, for example:

> "The Company's current accounting policy is to immediately expense all borrowing costs. Consequently, the Company has initially determined that the adoption of this new standard will result in an adjustment to the previously capitalized cost of qualifying assets and restatement of depreciation. This change in accounting policy will be accounted for retrospectively in the financial statements."

[17] 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).

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

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

entity.

PAS 28.16

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.

PAS 1.108 (b)

2.4 Financial Assets

PFRS 7.B1

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

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.

PFRS 7.B5 (c) (e)

Regular purchase and sales of financial assets are recognized on their trade date[20]. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

PAS 1.110
PAS 39.9

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

PFRS 7.B5 (a)

(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.[21] 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 if they are either held for trading or are expected to be realized within 12 months from the balance sheet date.

PFRS 7.B5(e)

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 be subsequently reclassified.

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[20] Alternatively, regular purchase and sale of financial assets may be accounted for at settlement date (see PAS 39.38).

[21] 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 PFRS 7 for derivatives should be included in the notes to financial statements.

(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.

PFRS 7.B5(f)

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any 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.

The Company's loans and receivables are presented as Trade and Other Receivables in the balance sheet.

(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 Financial Assets account in the balance sheet, except those maturing within 12 months of the balance sheet date.

PFRS 7.B5(f)

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

PFRS 7.B5 (b)

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 Financial Assets account in the balance sheet unless management intends to dispose of the investment within 12 months from the balance sheet date.

All financial assets within this category are 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.

PFRS 7.B5 (f)

Impairment losses recognized on financial assets are presented as part of Finance Costs in the income statement.

PFRS 7.27(a)
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 (such as dividend income) of the underlying net asset base of the investment.[22]

PFRS 7.B5 (e)

Non-compounding interest, dividend income 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. All income and expense relating to financial assets recognized in profit or loss are presented in the income statement line item Finance Income and Finance Costs, respectively.

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.

PAS 2.36 (a)
PAS 1.108 (a)

2.5 Inventories

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.

[22] If the fair value is determined through a specific valuation technique, disclose that fact. Refer to PFRS7.27-28 for guidance.

2.6 Property, Plant and Equipment[23]

PAS 1.110

Land and building 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 any 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.

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 subsequent accumulated depreciation (on buildings and improvements) and any accumulated impairment losses. Revalued amounts are fair market values determined in appraisals by external professional valuers unless market based factors indicate immediate impairment risk. 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)

Building and improvements	10-20 years
Machinery and equipment	5-12 years
Office furniture and 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.

[23] See Appendix III.B.3 for the sample disclosure on PPE measured using cost model.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable finance cost and other direct costs (see Note 2.17). The account is not depreciated until such time that the assets are completed and available for use.

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 16.67-68, 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, including transaction costs[24] 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 or the sale of an investment property is immediately recognized in the income statement as Fair Value Gains from Investment Property under Other Gains (Losses) account.

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

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.

[24] 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.

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; and,

(iv) the intangible asset can be reliably measured.

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[25] include investment property 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 Gains (Losses) in the income statement.

2.10 Financial Liabilities

PAS 1.108 (b)

Financial liabilities include interest-bearing loans and borrowing, trade and other payables and finance lease liabilities and due to related parties, which are measured at amortized cost using the effective interest rate method.

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.

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

Interest-bearing loans and borrowings are raised for support of long-term funding of operations. They are recognized at proceeds received, net of direct issue costs.

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 27.2).

Trade payables are initially recognized 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.

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, where time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

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 Expense 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. This is generally when the customer has taken undisputed delivery of goods. [26]

(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. This is generally when the customer has approved the services that have been provided. 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.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding value-added tax (VAT) and trade discounts.

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. Except for borrowing costs attributable to qualifying assets, all finance costs are reported on an accrual basis (see Note 2.17).

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[26] If the Company provides after-sales support (either for sale of goods or rendering of services), the following disclosure should be added:

"The Company commits to extensive after-sales support in its service segment. The consideration received is allocated between the goods sold and the after-sales support based on the relative fair values of these separately identifiable components. The amount of the selling price associated with the subsequent servicing agreement is deferred and recognized as revenue over the period which the service is performed. This deferred income is included in Other Liabilities (or Other appropriate account in the balance sheet)."

2.13 Leases[27]

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 costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs 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.

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.

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[27] 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.

2.14 Functional 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[28]

PAS 1.108 (a)
PAS 1.108 (b)

The Company's investments in subsidiaries and associates, intangible assets[29], 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 evaluation of discounted cash flow. 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.

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

[29] If the Company has goodwill resulting from acquisition of other companies or segments, this should be modified to read "goodwill and other intangible assets".

PAS 1.108 (b)

2.16 Employee Benefits[30]

(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.

[30] 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.

(b) Termination Benefits

PAS 19.133
PAS 19.134
PAS 19.139

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.

(c) Profit-sharing and Bonus Plans

PAS 19.17

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.

(d) Compensated Absences

PAS 19.11

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 account at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

PFRS 23.9

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 and 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[31]

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.

[31] 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 reserves comprise 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 [32]

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. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

PAS 1.113

3.1 Critical Judgments in Applying Accounting Policies

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) Held-to-maturity Investments

The Company follows guidance of PAS 39 in 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. In such a case, the investments would therefore be measured at fair value, not amortized cost.

Had the Company sold or reclassified more than an insignificant amount of held-to-maturity investments, the fair value would increase by P1.2 million with a corresponding entry in the Revaluation Reserves in the equity section of the balance sheets (see Note 9.1).

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

The Company follows the guidance of PAS 39 in 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 flows.

[32] The following are examples of the types of disclosures that might be required in this area. The matters disclosed will be dictated by the circumstances of the individual entity, and by the significance of judgments and estimates made to the results and financial position of the entity. Instead of disclosing this information in a separate note, it may be more appropriate to include such disclosures in the relevant asset and liability notes, or as part of the relevant accounting policy disclosures.

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 2007 financial statements, representing the transfer of the total Revaluation Reserve to the statements of income (see Note 9.2).

(c) 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 generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the 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.

(d) Operating and Finance Leases

The Company has entered into various lease agreements as either a lessor or a 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.

Rental expense charged to operations amounted to P3.8 million in 2007 and P3.3 million in 2006 (see Note 20).

(e) 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 17 and 27.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

(a) Determining Net Selling Prices of Inventories

PAS 1.116

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, 2007 and 2006, 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 2007 and P2.2 million in 2006 (see Notes 5 and 21.1).

(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 and 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 in 2007 (see Notes 9.2 and 21.1).

(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 P14.7 million and P17.8 million as of December 31, 2007 and 2006, respectively (see Note 23.1).

(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 2007 and 2006, respectively (see Notes 11 and 20.) while impairment losses recognized on investments in associates amounted to P3.3 million in 2007 and P7.1 million in 2006 (see Notes 10 and 21.3).

(g) Retirement and Other 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 P17.3 million, respectively, in 2007 and P16.5 million and P19.5 million, respectively, in 2006 (see Note 22.2).

(b) Provision for Restoration of Leased Property

Determining provision for leased property restoration requires estimation of the cost of dismantling and restoring the 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:

	2007	2006
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

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 2007 and 4.2% to 6.5% in 2006.

PAS 7.48
PAS 10.19

The balances of the cash on hand and in banks as of December 31, 2007 and 2006 did not include an amount of P2.5 million[33] which is shown as part of the non-current Trade and Other Receivables account (see Note 5). Such amount is not available for the general use of the Company in accordance with a restriction under a loan covenant (see Note 15.1).

[33] 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.

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

PFRS 7.8

	Notes	2007	2006
Current:			
Trade receivables	24	**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	24	**6,080,000**	1,945,985
Loans to employees		**2,905,008**	3,935,322
Receivable under finance lease	27.3	**756,901**	934,333
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	27.3	**3,740,090**	4,725,667
Others	4	**2,527,489**	2,518,489
		23,890,783	25,234,052
Allowance for impairment		**(2,000,000)**	(2,000,000)
		P 21,890,783	P 23,234,052

PFRS 7.36

PAS 7.16

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and provisions have been recorded accordingly. The impaired trade receivables are mostly due from the small business customers.

A reconciliation[34] of the allowance for impairment at the beginning and end of 2007 and 2006 is shown below.

	Note	2007	2006
Current:			
Balance at beginning of year		**P 4,385,726**	P 2,449,284
Impairment loss during the year	21.1	**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

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

	Note	2007	2006
Non-current:			
Balance at beginning of year		**P 2,000,000**	P 1,700,000
Impairment loss during the year	21.1	**-**	300,000
Balance at end of year		**P 2,000,000**	P 2,000,000

PFRS 7.37 (a)
PFRS 7.IG28

In addition to impaired receivables, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired is as follows[35]:

	2007	2006
Not more than 3 months	**P 14,245,094**	P 13,998,478
More than 3 months but more than 6 months	**1,345,876**	2,193,490
More than 6 months but not more than one year	**1,520,024**	262,000
More than one year	**1,456,245**	-
	P 18,567,239	P 16,453,968

Trade receivables are usually due within 30 to 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 1.52

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 2007 and 2006.

PFRS 7.25
PFRS 7.29

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

Security deposit represents the P20 million deposit made in 2003 to a third party for the lease of the Company's warehouses. The deposit is refundable at the end of the lease term in February 2013. 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 2007 and 2006 is presented under Finance Income in the income statements (see Note 21.2). The fair values of the security deposit in 2007 and 2006 amount to P8.6 million and P7.4 million, 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 2007 and 13.5% in 2006. As the deposit does not have an active market, the underlying interest rates were determined by reference to the market interest rate of a comparable financial instrument.

[35] According to PFRS 7 (IG 28), the Company uses its judgment to determine an appropriate number of time bands. The time bands indicated here may not be applicable to your client.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	2007	2006
Philippines	**P 16,105,455**	P 21,751,837
Hong Kong	**9,663,273**	16,923,429
Unites States (US)	**6,442,182**	9,668,816
	P 32,210,910	P 48,344,082

PFRS 7.8

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

	2007	2006
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

PFRS 7.27 (a) (b)

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

The Company recognized the increase in value of financial assets designated as at fair value through profit or loss of P2.4 million in 2007 and P2.6 million in 2006 as part of the line item Finance Income in the income statements (see Note 21.2).

7. INVENTORIES

PAS 1.74

Except for the portion of finished goods stated at net realizable value, inventories at the end of 2007 and 2006 were stated at cost.[36] The details of inventories are shown below.

		2007	2006
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

PAS 2.36 (e)

[36] 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 (f)
PAS 2.36 (g)

In 2007, the Company reversed P2,821,209 inventory write-down following the sale of finished goods previously covered by the write-downs in 2005. In 2006, the inventory write-down amounted to P2,232,200. No reversal of previous write-downs was recognized in 2006. The inventory write-down and reversal are included as part of Cost of Sales in the income statements (see Note 18.1).

PAS 2.36 (h)

Raw materials amounting to P3,215,400 and P1,750,890 in 2007 and 2006, respectively, have been released under trust receipt agreements (see Note 15.1).

8. PREPAYMENTS

The composition of this account is shown below.

	2007	2006
Prepaid rent	**P 6,358,031**	P 6,015,190
Prepaid insurance	**3,789,000**	2,400,125
Input 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:

	2007	2006
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

Interest income recognized in 2007 and 2006 are presented as part of Finance Income in the income statements (see Note 21.2).

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 mature on September 30, 2013.

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, 2008. 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 2007, presented as part of Finance Costs in the income statements (see Note 21.1).

The fair values of the held-to-maturity financial assets at end of 2007 and 2006 are as follows:

	2007	2006
Government bonds	**P 15,945,382**	P 15,346,432
Corporate bonds	**3,064,565**	5,271,868
	P 19,009,947	P 20,618,300

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:

	2007	2006
Balance at the beginning of year	**P 14,313,055**	P 14,505,938
Additions	**2,540,972**	-
Disposals	**-**	(717,113)
Impairment losses	**(3,500,000)**	-
Fair value gains – net	**1,068,097**	619,605
Foreign currency losses	**(9,370)**	(95,375)
Balance at end of year	**P 14,412,754**	P 14,313,055

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

Convertible corporate bonds are U.S. dollar-denominated bonds subject to floating interest rate which will mature on May 1, 2010. The effective interest rate in 2007 and 2006 is 5.4% and 6.1%, respectively. The conversion or repayment of the bonds is at the Company's discretion. Upon repayment, the Company is scheduled to receive US$90,000. The fair value of convertible bonds declined by P540,000 in 2007 and P320,567 in 2006. These losses were not considered permanent, therefore, were not transferred from equity to profit or loss (see Note 25.2).

Golf club shares are proprietary membership club shares. In 2007 and 2006, the fair value of these shares declined by P1,500,000 and P800,000, respectively. The Company's management has determined in 2006 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 2006 and prior years previously charged to equity, were recognized as impairment loss, charged to profit or loss for the current year and are presented as part Finance Costs in the income statements (see Notes 21.1 and 25.2).

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

10. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES[37]

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	**2007**	2006
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% in 2007 20% in 2006	**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 39.66

In June 2007, the Company made an additional investment in the shares of KOL, Inc. amounting to P5.6 million which increased the Company's ownership interest in the investee from 20% to 30%.

The Company's management has assessed that the investment in TXT Co. may not be fully 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 2007 and P7,108,146 in 2006. These amounts are presented as part of Other Gains (Losses) in the income statements (see Note 21.3).

[37] 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

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2007 and 2006 are shown below.

PAS 16.73 (d)

	Machinery and Equipment	Building and Improvements	Office Furniture and Equipment	Transportation Equipment	Land	Construction in Progress	Total
December 31, 2007							
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 (PAS 16.73 (d))	**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**
December 31, 2006							
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 172,414,764
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 (PAS 16.73 (d))	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
January 1, 2006							
Cost or valuation	P 66,089,971	P 22,320,892	P 17,183,503	P 15,682,118	P 16,860,800	P 8,859,460	P 146,996,744
Accumulated depreciation	(33,959,687)	(5,977,888)	(9,881,010)	(5,578,959)	-	-	(55,397,544)
Accumulated impairment loss	(2,080,000)	-	-	-	-	-	(2,080,000)
Net carrying amount	P 30,050,284	P 16,343,004	P 7,302,493	P 10,103,159	P 18,860,800	P 8,859,460	P 89,519,200

A reconciliation[38] of the carrying amounts at the beginning and end of 2007 and 2006, of property, plant and equipment is shown below.

PAS 16.73 (e)

	Machinery and Equipment	Building and Improvements	Office Furniture and Equipment	Transportation Equipment	Land	Construction in Progress	Total
Balance at January 1, 2007, 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, 2007, net of accumulated depreciation and impairment (PAS 16.73 (e))	**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**
Balance at January 1, 2006, 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)
Balance at December 31, 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

[38] 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 (a-d)

The Company's land and building and improvements were last revalued on December 15, 2006 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.

PAS 16.77 (e)

If land and building and improvements were carried at the cost model, the carrying amounts would be as follows:[39]

	Building and Improvements		Land	
	2007	2006	**2007**	2006
Cost	**P 22,691,462**	P 19,491,462	**P13,660,800**	P 13,660,800
Accumulated depreciation	**(9,757,822)**	(6,242,795)	**-**	-
Net carrying amount	**P 12,933,640**	P 13,248,667	**P13,660,800**	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 capitalized borrowing costs of P0.8 million in 2007 and P3.8 million in 2006 representing the actual borrowing costs incurred on loans obtained to fund the construction project.

PAS 36.126 (a)
PAS 36.126 (b)

In 2007 and 2006, the Company recognized impairment losses of P1.2 million and P1.1 million, respectively (see Notes 19.2 and 20), 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 2007 and 2006 on a pre-tax basis. The impairment loss was charged to Administrative Expenses in the income statements.

The Company recognized gain on disposal of Office Furniture and Equipment and Transportation Equipment totaling P2.5 million in 2007 (see Note 19.1).

PAS 16.74 (a)

The amount of depreciation is allocated as follows (see Note 20):

	Note	**2007**	2006

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

PAS 17.35 (c)

Cost of sales	18.1	**P 9,985,496**	P 9,017,385
Cost of services	18.2	**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

Land and building and improvements with a total carrying value of P20 million are used as collaterals for certain interest-bearing loans and borrowings (see Note 15).

As of December 31, 2007 and 2006, the carrying amount of transportation equipment held under finance leases amount to P1.4 million and P1.6 million, respectively (see Note 15).[40]

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)[41] 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 2007 and 2006.

PAS 40.76 (b)

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

	Notes	**2007**	2006
Balance at beginning of year		**P 16,756,936**	P 15,436,500
Additions		**4,569,316**	-
Transfer to assets-held-for-sale	14	**(3,550,000)**	-
Fair value gains	21.3	**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 revalued annually at every year end at fair value determined by independent appraisers.

[40] 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.

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

13. INTANGIBLE ASSETS

PAS 38.118 (c)

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2007 and 2006 are shown below.

	Licenses and Franchises	Deferred Development Costs	Total
December 31, 2007			
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**
December 31, 2006			
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
January 1, 2006			
Cost	P 8,500,000	P 3,750,000	P 12,250,000
Accumulated amortization	(6,100,000)	(2,250,000)	(8,350,000)
Net carrying amount	P 2,400,000	P 1,500,000	P 3,900,000

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 is shown below.

	Licenses and Franchises	Deferred Development Costs	Total
Balance at January 1, 2007, net of accumulated amortization	P 1,300,000	P 750,000	P 2,050,000
PAS 38.118 (e) 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, 2007, net of accumulated amortization	**P 4,952,000**	**P 5,250,000**	**P 10,202,000**
Balance at January 1, 2006, net of accumulated amortization	P 2,400,000	P 1,500,000	P 3,900,000
PAS 38.126 Amortization expense for the year	(1,100,000)	(750,000)	(1,850,000)
Balance at December 31, 2006, net of accumulated amortization	P 1,300,000	P 750,000	P 2,050,000

In addition to development costs capitalized, the Company expensed P563,000 and P540,000 in 2007 and 2006, respectively, research and development costs incurred during those years.

In 2007, the Company entered into a purchase agreement to update its business process software used for administration and control. The minimum contractual commitments resulting from this agreement is P4,220,000 which is payable in 2008. No other contractual commitments were entered into in 2007 and 2006.

PAS36.130

Intangible assets are subject to annual impairment testing and whenever there is an indication of impairment. No impairment losses were recognized in 2007 and 2006 as the carrying values of the intangible assets are lower than their recoverable amounts.

AS 38.118 (d)
PAS 36.126 (a)
(b)

The amount of amortization charges were allocated as follows (see Note 20):

	2007	2006
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 2008.

15. INTEREST-BEARING LOANS AND BORROWINGS[42]

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

	Notes	**2007**	2006
Current:			
Bank loans		**P 10,000,000**	P 10,000,000
Acceptances payable and liabilities under trust receipts	7	**3,000,000**	4,000,000
Obligations under finance leases	27.2	**180,000**	180,000
Others		**1,110,000**	2,472,700
		P 14,290,000	P 16,652,700

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

	Notes	2007	2006
Non-current:			
Bank loans	4	**P 53,600,000**	P 56,300,000
Obligations under finance leases	11, 27.2	**1,220,000**	1,400,000
		P 54,820,000	P 57,700,000

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.

The long-term debt represents the US$760,000 loan obtained by the Company in December 2004 from a local bank. The debt is payable up to 2009 and bears interest at an annual average rate of 9% in 2007 and 8% in 2006. On December 29, 2005, the Company obtained an additional loan from the same bank amounting to US$240 million. The new loan, which is payable up to 2012, bears interest at 10% per annum.

The finance lease liability has an effective interest rate of 8.75%, which is equal to the rate in the lease contract. Lease payments are made on a monthly basis (see Note 27.2).

The fair values of the long-term[43] financial liabilities are as follows:

	2007	2006
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

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

Certain Company assets are used as collaterals for the secured short-term bank loans and the long-term debt (see Notes 4, 7 and 11). In addition, the long-term bank loans require the Company to maintain a debt-to-equity ratio of at least 1:1, which is monitored on a quarterly basis (see Note 29).

[43] 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.

16. TRADE AND OTHER PAYABLES

This account consists of:

PAS 1.60

	Note	2007	2006
Trade payables	24.2	**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

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 22).

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[44]:

PAS 37.84

	Product Warranty	**Leased Property Restoration**	**Total**
Balance at January 1, 2007	P 11,105,649	P 3,613,015	P 14,718,664
Additional provisions	6,130,500	469,692	6,600,192
Amounts used	(9,057,252)	-	(9,057,252)
Unused amount reversed	(1,750,654)	-	(1,750,654)
Balance at December 31, 2007	**P 6,428,243**	**P 4,082,707**	**P 10,510,950**
December 31, 2007			
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**

[44] 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, 2006	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)
Reversal of unused amount	(1,256,452)	-	(1,256,452)
Balance at December 31, 2006	P 11,105,649	P 3,613,015	P 14,718,664
December 31, 2006			
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 2013. 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. Finance costs related to the unwinding of the discount amounts to P0.5 million and P0.4 million in 2007 and 2006, respectively, and is shown as part of Finance Costs (see Note 21.1).

18. COST OF SALES AND COST OF SERVICES[45]

18.1 Cost of Sales

The details of cost of sales are shown below.

	Notes	2007	2006
Finished goods at beginning of year		**P 33,137,073**	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		**37,363,584**	14,020,077
Direct labor	22	**34,385,100**	20,438,854
Manufacturing overhead	11, 22	**19,618,714**	21,240,760
Raw materials at end of year	7	**(3,300,505)**	(2,100,029)
Work-in-process at end of year	7	**(21,456,010)**	(24,456,155)
		93,167,067	61,389,404
Finished goods at end of year	7	**(26,194,133)**	(33,137,073)
		P 100,110,007	P 68,331,945

18.2 Cost of Services

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

	Notes	2007	2006
Salaries and employee benefits	22	**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	11	**452,575**	305,120
Rental		**200,378**	180,120
Miscellaneous		**54,269**	75,725
		P 10,230,354	P 9,274,715

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

19. OTHER OPERATING INCOME AND EXPENSES

Presented below are the details of these accounts:

19.1 Other Operating Income

	Note	2007	2006
Gain on sale of property and equipment	11	**P 2,456,432**	P -
Rentals		**634,346**	134,234
Others		**599,071**	622,304
		P 3,689,849	P 756,538

19.2 Other Operating Expenses

	Note	2007	2006
Loss on impairment of property, plant and equipment	11	**P 1,200,000**	P 1,120,000
Others		**564,215**	564,621
		P 1,764,215	P 1,684,621

PAS 1.93

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2007	2006
Salaries and employee benefits	22.1	**P 56,868,438**	P 40,745,265
Raw materials and other consumables		**38,189,134**	29,544,476
Depreciation and amortization	11, 13	**18,176,286**	15,373,806
Outside services		**12,133,696**	7,171,333
Changes in inventories of finished goods and work-in-process		**9,943,085**	6,001,702
Management fees	24.2	**7,000,800**	4,975,811
Rentals	27.1	**3,771,709**	3,335,610
Taxes and licenses		**1,990,780**	1,956,788
Communications		**1,709,151**	1,609,154
Impairment losses on property, plant and equipment	11, 19.2	**1,200,000**	1,120,000
Transportation and travel		**804,142**	1,554,976
Miscellaneous		**3,522,693**	1,193,470
		P 155,309,914	P 114,582,391

These expenses are classified in the income statements as follows:

	Notes	2007	2006
Cost of sales	18.1	**P 100,110,007**	P 68,331,945
Cost of services	18.2	**10,230,354**	9,274,715
Selling and distribution costs		**23,829,851**	20,545,136
Administrative expenses		**19,375,487**	14,745,974
Other operating expenses	19.2	**1,764,215**	1,684,621
		P 155,309,914	P 114,582,391

21. OTHER INCOME (CHARGES)

21.1 Finance Costs[46]

The breakdown of this account is as follows:

	Notes	2007	2006
Interest expense resulting from:			
Bank loans and other borrowings	15	**P 10,204,530**	P 10,057,718
Provisions	17.2	**469,692**	415,656
Obligations under finance leases	15	**435,908**	456,156
Impairment losses on financial assets:			
Available-for-sale financial assets	9	**3,500,000**	-
Trade and other receivables	5	**2,006,284**	2,236,442
Held-to-maturity investments	9.1	**1,350,453**	-
		P 17,966,867	P 13,165,972

[46] Finance cost includes all interest expenses, other expenses and losses related to financial instruments (including foreign exchange losses).

21.2 Finance Income[47]

	Notes	2007	2006
Fair value gains – financial assets at fair value through profit or loss	6	**P 2,412,922**	P 2,562,874
Interest income from:			
Held-to-maturity investments	9	**1,257,900**	2,454,768
Short-term placements	4	**2,277,345**	469,995
Security deposits	5	**1,115,552**	970,045
Available-for-sale financial assets	9	**652,879**	548,231
Cash in banks	4	**234,197**	102,155
Foreign currency gains – net		**654,246**	157,195
		P 8,605,041	P 7,265,263

21.3 Other Gains (Losses)

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

	Notes	2007	2006
Other losses:			
Impairment on investments in associates	10	**(P 3,300,500)**	(P 7,108,146)
Other gains:			
Fair value gains from investment property	12	**1,740,342**	1,320,436
Dividends from subsidiaries[48]		**1,450,000**	1,450,000
Others		**461,147**	2,713,622
		3,651,489	5,484,058
		P 350,989	(P 1,624,088)

[47] Finance income includes all interest income, revenues and gains related to financial instruments.

[48] Dividends received from financial assets should be presented as part of finance income.

22. EMPLOYEE BENEFITS

PAS 1.93

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits (see Note 20) are presented below.

	2007	2006
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)

22.2 Employee Retirement Benefit Obligation

PAS 19 120 A(d)

The Company maintains a wholly-funded[49], 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:

	2007	2006
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

[49] 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.

PAS 19 120 A(c)

The movements in the present value of the retirement benefit obligation[50] recognized in the books are as follows:

	2007	2006
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.

	2007	2006
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

PAS 19.120 A(j)(k)

The plan assets consist of the following:

	2007	2006
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 P2.4 million in 2007 and P3.2 million in 2006.

PAS 19.120 A(g)

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

[50] 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.

	2007	2006
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:

	Notes	2007	2006
Cost of sales	18.1	P 5,383,053	P 4,883,852
Cost of services	18.2	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.

	2007	2006	2005	2004	2003
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)

PAS 19.120A (q)

The Company expects to pay P3.5 million in contributions to retirement benefit plans in 2008.

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

	2007	2006
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.[51]

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.[52]

23. TAXES [53]

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

	2007	2006
Reported in income statements		
Current tax expense:		
Regular corporate income tax (RCIT) at 35%	**P 9,672,789**	P 17,756,653
Final tax at 20% and 7.5%	**579,606**	461,665
	10,252,395	18,218,318
Deferred tax expense (income) – Deferred tax relating to origination and reversal of temporary differences	**3,005,547**	(1,899,536)
	P 13,257,942	P 16,318,782
Reported in the statements of changes in equity		
Deferred tax relating to origination and reversal of temporary differences	**P 370,554**	P 2,591,551

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

[52] See the previous footnote.

[53] For companies presenting three-year financial statements, the note on Recent Tax Regulations should still be included. See Appendix III.C.6.

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

	2007	2006
Tax on pretax income at 35%	**P 14,771,875**	P 17,727,910
Adjustment for income subjected to lower tax rates	**(1,912,782)**	(682,382)
Tax effects of:		
Non-taxable income	**(2,918,983)**	(4,161,792)
Non-deductible expenses	**1,456,664**	379,447
Impairment loss on investment in an associate	**1,155,175**	2,487,851
Non-deductible interest expense	**705,993**	567,748
Tax expense reported in the income statements	**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 Changes in Equity**	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Deferred tax assets:						
Retirement benefits	P 5,812,455	P 5,773,276	(P 39,179)	P 435,024	P -	P -
Changes in provisions	3,678,833	5,818,444	2,139,611	(79,944)	-	-
Impairment losses on trade and other receivables	2,412,204	2,235,004	(177,200)	(715,661)	-	-
Impairment losses on property, plant and equipment	1,540,000	1,120,000	(420,000)	(358,400)	-	-
Write-down of inventories to net realizable value	781,270	1,617,091	835,821	(714,304)	-	-
Impairment losses on long-term financial assets	472,659	-	(472,659)	-	-	-
Deferred tax liabilities:						
Revaluation reserve of property, plant and equipment	(3,853,092)	(4,268,113)	(415,021)	(415,021)	-	2,408,070
Changes in fair value of investment property	(575,056)	(30,365)	544,691	422,540	-	-
Undepreciated restoration costs of leased property	(525,840)	(560,896)	(35,056)	(80,128)	-	-
Unrealized foreign currency (gains) or losses	(328,158)	716,381	1,044,539	(393,642)	-	-
Changes in fair values of long-term financial assets	(65,667)	304,887	-	-	370,554	183,481
Deferred Tax Expense (Income)			**P 3,005,547**	**(P 1,899,536)**	**P 370,554**	**P 2,591,551**
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 2007 and 2006 as the RCIT was higher than MCIT in both years.[54]

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[54] 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).

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[55]:

PAS 24.17, 22

24.1 Sales of Good and Services

	Amount of Transactions		Outstanding Balances	
	2007	2006	**2007**	2006
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
PAS 24.21	**P48,369,075**	P32,544,190	**P 8,599,105**	P 8,302,988

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%.

PAS 24.17

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 5).

24.2 Purchases of Goods and Services

	Amount of Transactions		Outstanding Balances	
	2007	2006	**2007**	2006
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
PAS 24.21	**P47,939,236**	P38,540,869	**P 8,011,949**	P 5,358,451

Goods are purchased on the basis of the price lists in force with non-related parties. The related outstanding payables for goods purchased in 2007 and 2006 are presented as part of Trade and Other Payables account in the balance sheets (see Note 16).

Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20%

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

to 30%. The related outstanding payables for services obtained in 2007 and 2006 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:

	2007	2006
Advances from parent company:		
Balance at beginning of year	**P 15,495,316**	P 11,642,351
Additions	**10,119,451**	26,750,090
Repayments	**(13,897,456)**	(22,897,125)
Balance at end of year	**P 5,167,311**	P 15,495,316
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
Total advances from related parties:		
Balance at beginning of year	**P 29,364,993**	P 21,456,897
Additions	**17,688,949**	38,446,988
Repayments	**(29,076,116)**	(30,538,892)
Balance at end of year	**P 17,977,826**	P 29,364,993

PAS 24.16
PAS 24.17

24.4 Key Management Personnel Compensations[56]

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

	2007	2006
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

PAS 37.86
PAS 39
(Amendment)

24.5 Commitment and Contingencies

The Company has guaranteed the loan obtained by its subsidiary from a local bank amounting to P28 million in 2007, repayable in 2008, and P35 million in 2006, repayable in 2007. The Company did not record the fair value of the guarantee liability

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

of P528,000 in 2007 and P485,345 in 2006 because of the short duration of the contracts and the low probability of the subsidiary's default in paying its borrowings.

25. EQUITY

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

25.1 Capital Stock

Capital stock consists of:

PAS 1.76 (a) (iv)
PAS 1.76 (a) (ii)
PAS 1.76 (a) (i)

	Shares		Amount	
	2007	2006	**2007**	2006
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
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, 2007 and 2006, the Company has 10 stockholders owning 100 or more shares each of the Company's capital stock.[57]

[57] 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.

25.2 Revaluation Reserves

The reconciliation of Revaluation Reserves is as follows:

	Property, Plant and Equipment	Fair Value Reserves on Available-for-sale Financial Assets	Related Deferred Tax	Total
Balance as of January 1, 2007	P 14,694,607	(P 871,105)	(P 4,838,226)	P 8,985,276
Fair value gains (net of foreign currency losses)	-	1,058,727	(370,554)	688,173
Depreciation transfer, building and improvements	(1,185,773)	-	415,021	(770,752)
Balance as of December 31, 2007	**P 13,508,834**	**P 187,622**	**(P 4,793,759)**	**P 8,902,697**
Balance as of January 1, 2006	P 9,000,180	(P 1,395,335)	(P 2,661,696)	P 4,943,149
Fair value gains (net of foreign currency losses)	6,880,200	524,230	(2,591,551)	4,812,879
Depreciation transfer, building and improvements	(1,185,773)	-	415,021	(770,752)
Balance as of December 31, 2006	P 14,694,607	(P 871,105)	(P 4,838,226)	P 8,985,276

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, 2007 and P1.14 per common share (or a total of P13,554,600) on June 30, 2006, payable to stockholders of record as of July 15, 2007 and 2006, 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, 2007 and 2006 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 [58]

On January 28, 2008, 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

[58] 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.

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 2008.

PAS 1.60
PAS 1.52

27. COMMITMENTS AND CONTINGENCIES [59]

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: [60]

	2007	2006
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

Total rentals from these operating leases amounted to P2.0 million in 2007 and 2006, of which the major portion was charged to Cost of Sales (see Note 18.1).

27.2 Finance Lease Commitments – Company as Lessee [61]

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:

	2007		2006	
	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)	-

[59] 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.

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

[61] 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.

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 15).

27.3 Finance Lease – Company as Lessor

PAS 17.35 (a)
PAS 17.35 (d)

On December 29, 2006, 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:

	2007		2006	
	Future MLPR	**PV of NMLPR**	Future MLPR	PV of NMLPR
Within one year	**P 940,000**	**P 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 5).

27.4 Legal Claims

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

Ongoing litigation against the Company relates 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, 2007 and 2006.

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, 2007 and 2006, 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, 2007 and 2006, the Company has unused letters of credit amounting to P30.0 million and P35.0 million, respectively.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES [62, 63]

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.

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 Sensitivity

IFRS 7.33 (a)

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in US dollars and Japanese yen. The Company also holds US dollar-denominated cash and cash equivalents. Further, the Company has a US dollar loan from a local bank which has been used to fund the purchase of certain fixed assets (see Note 15).

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

IFRS 7.33 (b)

	2007		2006	
	US Dollar	**Japanese Yen**	US Dollar	Japanese yen
Financial assets	**P XX,XXX**	**PXXX,XXX**	P XX,XXX	PXXX,XXX
Financial liabilities	**X,XXX**	**XX,XXX**	XX,XXX	X,XXX
Short-term exposure	**PXXX,XXX**	**PXXX,XXX**	PXXX,XXX	P XXX,XXX
Financial assets	**P XX,XXX**	**PXXX,XXX**	P XX,XXX	PXXX,XXX
Financial liabilities	**X,XXX**	**XX,XXX**	XX,XXX	X,XXX
Long-term exposure	**PXXX,XXX**	**PXXX,XXX**	PXXX,XXX	P XXX,XXX

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[62] Refer to footnote 10.

[63] The sample disclosures presented in this note are for the guidance of the engagement teams only. The actual disclosures should consider the particular circumstances of the Company.

The following table (in thousand Philippine pesos) illustrates the sensitivity of the net result for the year and equity in regards to the Company's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate and Japanese yen – Philippine peso exchange rate. It assumes a +/- X% change and +/-X% change of the Philippine peso/US dollar exchange rate for the years ended December 31, 2007 and 2006, respectively, and A +/- X% change and +/- X% change of the Philippine peso/Japanese yen exchange rate for the years ended December 31, 2007 and 2006, respectively. These percentages have been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each balance sheet date.

If the Philippine peso had strengthened against the US dollar and Japanese yen, then this would have the following impact:

	2007			2006		
	US Dollar	**Japanese Yen**	**Total**	US Dollar	Japanese Yen	Total
Net result for the year	**P XX,XXX**	**P XX,XXX**	**P XX,XXX**	P XX,XXX	P XX,XXX	P XX,XXX
Equity	**XXX,XXX**	**XX,XXX**	**XXX,XXX**	XXX,XXX	XX,XXX	XXX,XXX

If the Philippine peso had weakened against the US dollar and Japanese yen, then this would have the following impact:

	2007			2006		
	US Dollar	**Japanese Yen**	**Total**	US Dollar	Japanese Yen	Total
Net result for the year	**P XX,XXX**	**P XX,XXX**	**P XX,XXX**	P XX,XXX	P XX,XXX	P XX,XXX
Equity	**XXX,XXX**	**XX,XXX**	**XXX,XXX**	XXX,XXX	XX,XXX	XXX,XXX

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

28.2 Interest Rate Sensitivity

PFRS 7.33(a), (b)

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At December 31, 2007 and 2006, the Company is exposed to changes in market interest rates through its bank borrowings and cash and cash equivalents, which are subject to variable interest rates (see Notes 4 and 15). All other financial assets and liabilities have fixed rates.

PFRS 7.40(b)

The following table illustrates the sensitivity of the net result for the year and equity to a reasonably possible change in interest rates of +X% and –X% in 2007 and +X% and –X% in 2006, with effect from the beginning of the years. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Company's financial instruments held at each balance sheet date. All other variables are held constant.

PFRS 1.46(d)

PFRS7.40(a)

	2007		2006	
	+X%	**-X%**	+X%	-X%
Net result for the year	**P XX,XXX**	**P XX,XXX**	P XX,XXX	PXXX,XXX
Equity	**XXX,XXX**	**XXX,XXX**	X,XXX,XXX	XXX,XXX

28.3 Credit Risk

PAS 7.33(a)
PAS 7.36(a)

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), as summarized below:

PAS 7.34(a)

	Notes	2007	2006
Cash and cash equivalents	4	**P 16,642,248**	P 21,012,102
Trade and other receivables – net	5	**47,544,760**	45,023,878
Financial assets at fair value through profit and loss	6	**32,210,910**	48,344,082
Held-to-maturity financial assets	9	**19,009,947**	20,618,300
Available-for-sale financial assets	9	**14,412,754**	14,313,055
		P 129,820,619	P 149,311,417

PAS 7.33(b)
PAS 7.36(b)

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Company's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

PAS 7.36(b)(c)

The table below shows the credit quality by class of financial assets as of December 31, 2007. [64]

	Neither Past Due nor Specifically Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents	P XX,XXX	P -	P -	P -	P XX,XXX
Trade and other receivables	XX,XXX	XXX,XXX	XX,XXX	XX,XXX	XXX,XXX
Financial assets at fair value through profit and loss	XX,XXX	XX,XXX	-	XX,XXX	XXX,XXX
Held-to-maturity financial assets	X,XXX	XX,XXX	-	XXX	XX,XXX
Available-for-sale financial assets	XXX,XXX	XXX,XXX	XX,XXX	XXX,XXX	XXX,XXX
	P XXX,XXX	PXXX,XXX	P XX,XXX	PXXX,XXX	PXXX,XXX

This compares with the credit quality be class of financial assets as of December 31, 2006.

	Neither Past Due nor Specifically Impaired			Past Due or Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade		
Cash and cash equivalents	P XX,XXX	P -	P -	P -	P XX,XXX
Trade and other receivables	XX,XXX	XXX,XXX	XX,XXX	XX,XXX	XXX,XXX
Financial assets at fair value through profit and loss	XX,XXX	XX,XXX	-	XX,XXX	XXX,XXX
Held-to-maturity financial assets	X,XXX	XX,XXX	-	XXX	XX,XXX
Available-for-sale financial assets	XXX,XXX	XXX,XXX	XX,XXX	XXX,XXX	XXX,XXX
	P XXX,XXX	PXXX,XXX	P XX,XXX	PXXX,XXX	PXXX,XXX

None of the financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

28.4 Liquidity Risk

PFRS 7.33(a), (b)
PFRS 7.39(b)

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

[64] For companies with smaller number of customers and/or simpler credit quality assessment, the following paragraph may replace the tabular presentation of credit quality. Please note, however, that the credit quality of other material financial assets should also be disclosed.

"Based on historical default rates, 80% of the balance of receivables, which are not impaired or past due, relates to customers that have a good track record with the Company."

PFRS 7.IG31(c), (d)

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

PFRS 7.34(a)

As at December 31, 2007, the Company's financial liabilities have contractual maturities which are presented below:

PFRS 7.39(a)
PFRS 7.B11

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P XX,XXX	PXXX,XXX	P XX,XXX	PXXX,XXX
Trade and other payables	XXX,XXX	XXX,XXX	-	-
Due to related parties	XXX,XXX	XXX,XXX	-	-
Income tax payable	XX,XXX	-	-	-
Other liabilities	X,XXX	XX,XXX	XX,XXX	X,XXX
	PXXX,XXX	PXXX,XXX	PXXX,XXX	P XXX,XXX

PFRS 7.34(a)
PAS 1.36

This compares to the maturity of the Company's financial liabilities in the previous reporting period as follows:

PFRS 7.39 (a)
PFRS 7.B11

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P XX,XXX	PXXX,XXX	P XX,XXX	PXXX,XXX
Trade and other payables	XXX,XXX	XXX,XXX	-	-
Due to related parties	XXX,XXX	XXX,XXX	-	-
Income tax payable	XX,XXX	-	-	-
Other liabilities	X,XXX	XX,XXX	XX,XXX	X,XXX
	PXXX,XXX	PXXX,XXX	PXXX,XXX	P XXX,XXX

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet dates.

28.5 Other Market Price Risk

PFRS 7.33(a)

The Company's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at fair value through profit or loss and available-for-sale financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

PFRS 7.40(a), (b)

The observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's net income and equity as of December 31, 2007 are summarized as follows:

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Income	Equity	Net Income	Equity
Equity securities listed in:						
Philippines	+X.XX%	-X.XX%	P XX,XXX	P XXX,XXX	(P XXX,XXX)	(P XX,XXX)
Hong Kong	+X.XX%	-X.XX%	XXX,XXX	X,XXX	(XX,XXX)	(X,XXX)
United States	+X.XX%	-X.XX%	XX,XXX	XX,XXX	(X,XXX)	(XX,XXX)
Convertible corporate bonds	+X.XX%	-X.XX%	-	XXX,XXX	-	(XXX,XXX)
Golf club shares	+X.XX%	-XX.XX%	-	XX,XXX	-	(X,XXX)
			P XXX,XXX	P XXX,XXX	(P XXX,XXX)	(PXXX,XXX)

This compares with the following volatility rates and impact on net income and equity as of December 31, 2006:

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Income	Equity	Net Income	Equity
Equity securities listed in:						
Philippines	+X.XX%	-X.XX%	P XX,XXX	P XXX,XXX	(P XXX,XXX)	(P XX,XXX)
Hong Kong	+X.XX%	-X.XX%	XXX,XXX	X,XXX	(XX,XXX)	(X,XXX)
United States	+X.XX%	-X.XX%	XX,XXX	XX,XXX	(X,XXX)	(XX,XXX)
Convertible corporate bonds	+X.XX%	-X.XX%	-	XXX,XXX	-	(XXX,XXX)
Golf club shares	+X.XX%	-XX.XX%	-	XX,XXX	-	(X,XXX)
			P XXX,XXX	P XXX,XXX	(P XXX,XXX)	(PXXX,XXX)

PFRS 7.33(b)

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Company's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Company's favor.

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES [65]

PAS 1.124A

The Company's capital management objectives are:

- To ensure the Company's ability to continue as a going concern; and,
- To provide an adequate return to shareholders

by pricing products and services commensurately with the level of risk.

PAS 1.124B (a) (i)

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarized as follows:

PAS 1.124B (a) (ii)

The Company's goal in capital management is to maintain a debt-to-equity structure ratio of 1:1 to 1:2 on a monthly basis. This is in line with the Company's covenants resulting from its bank loans (see Note 15).

[65] The sample disclosures presented in this note are for the guidance of the engagement teams only. The actual disclosures should consider the particular circumstances of the Company.

PAS 1.124B (a) (iii)

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

PAS 1.124B (c)

	2007	2006
Total liabilities	**P 168,461,292**	P 204,356,442
Total equity	**332,745,389**	300,339,801
Debt-to-equity ratio	**1 : 1.51**	1 : 1.68

PAS 1.124B (d)

The Company has complied with its covenant obligations, including maintaining the required debt-to-equity ratio for both years. The ratio-reduction in 2007 is the result of the net liability repayment in 2007 and the increase in equity due to additional stock issuance and 2007 net income.[66]

[66] In case there has been a covenant violation (even if during the interim period), such violation should be disclosed and the result of such violation.

PAS 1.46 (a)
PAS 1.46 (b)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

PNA MANUFACTURING CORPORATION
(A Wholly Owned Subsidiary of Granthor Holdings Philippines, Inc.)
INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

		Notes	2007	2006
PAS 1.81 (a)	**REVENUES**			
	Sale of goods		**P 181,171,539**	P 156,982,596
	Rendering of services		**19,900,506**	13,334,605
	Others	18	**5,636,837**	4,262,264
			206,708,882	174,579,465
PAS 1.91	**COSTS AND OPERATING EXPENSES**			
	Salaries and employee benefits	21	**56,868,438**	40,745,265
	Raw materials and other consumables		**38,189,134**	29,544,476
	Depreciation and amoritzation		**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	**7,000,800**	4,975,811
	Rentals	27	**3,771,709**	3,335,610
	Impairment losses	5, 9, 11	**3,206,284**	3,356,442
	Taxes and licenses		**1,990,780**	1,956,788
	Communications		**1,709,151**	1,609,154
	Transportation and travel		**804,142**	1,554,976
	Others		**1,832,844**	1,436,932
			151,862,134	114,377,674
PAS 1.83	**OPERATING PROFIT**		**54,846,748**	60,201,791
	OTHER INCOME (CHARGES)			
PAS 1.81 (b)	Finance costs	20	**(11,110,130)**	(10,929,530)
	Other losses (gains) - net	20	**(1,531,260)**	1,378,911
			(12,641,390)	(9,550,619)
PAS 1.83	**INCOME BEFORE TAX**		**42,205,358**	50,651,172
PAS 1.81 (e)	**TAX EXPENSE**	22	**13,257,942**	16,318,782
PAS 1.81 (f)	**NET INCOME**		**P 28,947,416**	P 34,332,390

See Notes to Financial Statements.

[1] These statements of income format illustrates an example of the "nature of expense" method (PAS 1.91).

PNA MANUFACTURING CORPORATION
(A Wholly Owned Subsidiary of Granthor Holdings Philippines, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	Capital Stock [1]	Additional Paid-in Capital	Treasury Shares	Revalaution Reserves	Retained Earnings	Total Equity
Balance at January 1, 2006		P 125,250,000	P 7,005,000	(P 1,000,000)	P 4,978,723	P 138,515,409	P 274,749,132
Fair value gains, net of tax:							
Land, building and improvements	11	-	-	-	4,678,536	-	4,678,536
Available-for-sale financial asset	9	-	-	-	134,343	-	134,343
Depreciation transfer, building and improvements		-	-	-	(806,326)	806,326	-
Net income directly recognized in equity		-	-	-	4,006,553	806,326	4,812,879
Net income for the year		-	-	-	-	34,332,390	34,332,390
Total income recognized in 2006		-	-	-	4,006,553	35,138,716	39,145,269
Cash dividends	25	-	-	-	-	(13,554,600)	(13,554,600)
		-	-	-	4,006,553	21,584,116	25,590,669
Balance at December 31, 2006		**P 125,250,000**	**P 7,005,000**	**(P 1,000,000)**	**P 8,985,276**	**P 160,099,525**	**P 300,339,801**
Balance at January 1, 2007		P 125,250,000	P 7,005,000	(P 1,000,000)	P 8,985,276	P 160,099,525	P 300,339,801
Fair value gains on available-for-sale financial asset, net of tax	9	-	-	-	688,173	-	688,173
Depreciation transfer, building and improvements		-	-	-	(770,752)	770,752	-
Net income directly recognized in equity		-	-	-	(82,579)	770,752	688,173
Net income for the year		-	-	-	-	28,947,416	28,947,416
Total income recognized in 2007		-	-	-	(82,579)	29,718,168	29,635,589
Additional issuance of shares of stock	25	24,750,000	-	-	-	-	24,750,000
Cash dividends	25	-	-	-	-	(21,980,000)	(21,980,000)
		24,750,000	-	-	(82,579)	7,738,168	32,405,589
Balance at December 31, 2007		**P 150,000,000**	**P 7,005,000**	**(P 1,000,000)**	**P 8,902,697**	**P 167,837,693**	**P 332,745,390**

See Notes to Financial Statements.

[1] [illegible]

PAS 1.46 (a)
PAS 1.46 (b)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

PNA MANUFACTURING CORPORATION
(A Wholly Owned Subsidiary of Granthor Holdings Philippines, Inc.)
STATEMENTS OF RECOGNIZED INCOME AND EXPENSES [1]
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

		Notes [2]	2007	2006
PFRS 7.20(a)(ii)	**AVAILABLE-FOR-SALE SECURITIES**			
	Recognized at equity		**P 478,297**	(P 142,523)
	Transferred to income statement	9	**340,021**	-
PAS 1.96(b)	**REVALUATION OF PROPERTY, PLANT**			
PAS 16.77(f)	**AND EQUIPMENT**	11	**-**	6,880,200
	DEFERRED TAX RELATING TO ITEMS CHARGED OR CREDITED TO EQUITY		**(130,145)**	(1,924,798)
	NET INCOME RECOGNIZED DIRECTLY IN EQUITY		**688,173**	4,812,879
PAS 1.96(b)	**NET INCOME FOR THE YEAR**		**28,947,416**	34,332,390
PAS 1.96 (c)	**TOTAL RECOGNIZED INCOME AND EXPENSE FOR THE YEAR**		**P 29,635,589**	P 39,145,269

See Notes to Financial Statements.

[1] This statement is mandatory if an entity charges directly to equity any of its actuarial gains and losses arising from the revaluation of defined benefit obligations. This statement should be presented in lieu of the Statement of Changes in Equity.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

[3] Other items that should be included in this statement are:
- Cash flow hedging gains and losses
- Actuarial gains and losses
- Currency translation - on consolidation of financial statements of foreign subsidiary

ADDITIONAL DISCLOSURES FOR COMPANIES THAT DERIVE INCOME FROM CONSTRUCTION CONTRACTS[1]

BALANCE SHEETS (Extract)

		Notes	2007	2006
PAS 1.51	**CURRENT ASSETS**			
PAS 1.68(h)	Trade and other receivables	5	**31,552,647**	31,762,516
PAS 1.51	**CURRENT LIABILITIES**			
PAS 1.68(j)	Trade and other payables	12	**16,994,219**	20,214,043

INCOME STATEMENTS (Extract)

		Notes	2007	2006
PAS 11.39(a)	**CONTRACT REVENUE**	15	**P386,068,474**	P366,028,504
PAS 1.68(h)	**CONTRACT COSTS**	16	**368,129,489**	323,264,548
PAS 1.51	**GROSS PROFIT**		**17,938,985**	42,763,956
PAS 1.68(j)	**OPERATING EXPENSES**			
	Selling and marketing costs	17	**1,467,335**	1,235,158
	Administrative expenses	17	**398,112**	598,112
	Other operating expenses	17	**34,215**	58,215

[1] A construction contract is defined in PAS 11.13 as a contract specifically negotiated for the construction of an asset.

Notes – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.6 Construction Contracts

PAS 11.39 (b-c)

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recovered.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

PAS 11.31

The Company uses the percentage of completion method to determine the appropriate amount to recognize as revenue in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Company presents as an asset (under Trade and Other Receivables) the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are presented as trade and other receivables under the Trade and Other Receivables account.

The Company presents as a liability (under Trade and Other Payables) the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

Note 5 – TRADE AND OTHER RECEIVABLES

This account consists of the following:

	2007	2006
Construction contract receivables:		
Billed	**P 15,480,504**	P 19,393,434
Retention	**2,405,000**	6,254,000
Unbilled	**224,000**	134,030
	18,109,504	25,781,464
Allowance for impairment	**(1,245,648)**	(1,000,000)
	16,863,856	24,781,464
Advances to:		
Suppliers and subcontractors	**6,423,567**	4,325,321
Officers and employees	**2,467,312**	1,567,432
Others	**43,567**	544,325
Other receivables	**5,754,345**	543,674
	P 31,552,647	P 31,762,516

Note 12 – TRADE AND OTHER PAYABLES

This account consists of the following:

		2007	2006
	Trade payables	**P 10,980,004**	P 9,390,456
	Accrued expenses	**2,000,000**	8,200,000
PAS 11.40(b)	Advances received for contract work	**214,000**	131,000
	Amounts due to related parties	**220,000**	119,000
PAS 11.42(b)	Amounts due to customers for contract work:		
	Progress billings in excess of recognized revenues	**3,580,215**	-
	Provision for estimated contract losses	**-**	2,373,587
		P 16,994,219	P 20,214,043

Note 15 – CONTRACT REVENUE

The details of this account are as follows:

		2007	2006
PAS 11.39(a)	Revenues from:		
	Completed contracts	**P 335,262,614**	P 269,436,175
	Contracts-in-progress	**50,805,860**	96,592,329
		P 386,068,474	P 366,028,504

PAS 11.40 Contracts-in-progress as of balance sheet dates and the balance of related accounts follow: [2]

		Note	**2007**	2006
PAS 11.40(a)	Contract costs incurred and recognized profit (less recognized losses) to date		**P 50,805,860**	P 94,218,742
PAS 11.40(b)	Advances received	12	**214,000**	131,000
PAS 11.40(c)	Retention receivables	5	**5,503,854**	8,905,392

[2] These disclosures are required for all contract-in-progress (i.e., excluding finished or completed contracts). Hence, retention receivables and advances from customers, as presented here, may not be the same as the amounts those under Trade and Other Receivables. Please refer to PAS 11 for computations of the amounts disclosed.

ADDITIONAL DISCLOSURES FOR COMPANIES THAT DERIVE INCOME FROM SALE OF AGRICULTURE PRODUCTS[1]

BALANCE SHEETS (Extract)

		Notes	2007	2006
PAS 1.51	**CURRENT ASSETS**			
PAS 1.68(g)	Inventories	6	**22,605,865**	26,899,398
PAS 1.51	**NON-CURRENT ASSETS**			
PAS 1.68(a)	Property and equipment	11	**18,698,154**	19,845,632
PAS 41.39	Biological assets	12	**12,569,123**	9,587,456

INCOME STATEMENTS (Extract)

	2007	2006
REVENUES		
Fair value of milk produced	**32,698,123**	28,698,154
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets	**8,389,756**	5,389,784

[1] Agriculture activity is defined under PAS 28.5 as the management by an enterprise of the biological transformation of biological assets for sale into agricultural produce or into additional biological assets.

Note 1 – COMPANY INFORMATION

D&M Company is engaged in milk production for supply to various customers. As of December 31, 2007, the Company held 419 cows able to produce milk (mature assets) and 137 heifers that are being raised to produce milk in the future (immature assets). The Company produced 157,584 kg of milk with a fair value, net of estimated point-of-sale costs, of P518,240 (that is determined at the time of milking) in the year ended December 31, 2007.

Notes 2 – ACCOUNTING POLICIES

Livestock and Milk

PAS 1.110 (b-c)

PAS 41.47

Livestock are measured at their fair value less estimated point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and generic merit. Milk is initially measured at its fair value less estimated point-of-sale costs at the time of milking. The fair value of milk is determined based on market prices in the local area.

Note 12 – BIOLOGICAL ASSETS

	2007	2006
Balance at beginning of the year	**P2,960,000**	P3,457,000
Increases due to purchases	**2,625,000**	1,535,000
Gain arising from changes in fair value less estimated point-of-sale costs attributable to physical changes [2]	**153,000**	144,000
Gain arising from changes in fair value less estimated point-of-sale costs attributable to price changes[3]	**240,000**	258,000
Decreases due to sales	**(1,318,000)**	(2,434,000)
Balance at end of the year	**P 4,660,000**	P 2,960,000

[2] Separating the increase in fair value less estimated point-of-sale costs between the portion attributable to physical changes and the portion attributable to price changes is encouraged but not required by PAS 40.

[3] See footnote 2 above.

ADDITIONAL DISCLOSURES FOR COMPANIES THAT CARRY PROPERTY, PLANT AND EQUIPMENT – At Cost

Notes – ACCOUNTING POLICIES

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

(a) Statement of Compliance with Philippine Financial Reporting Standards (PFRS)

PAS 1.14

The financial statements of PNA Manufacturing Corporation have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). . . .

These financial statements have been prepared on the historical cost basis. The measurement basis is more fully described in the accompanying accounting policies that follow.

2.6 Property, Plant and Equipment

PAS 1.110
PAS 16.73 (a)

Property, plant and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses.

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.

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 and 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 x[1]).

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

[1] Cross reference to the policy on impairment of non-financial assets.

ADDITIONAL DISCLOSURES FOR INVESTMENTS IN JOINT VENTURES AND ASSOCIATES - AT EQUITY[1]

BALANCE SHEETS (Extract)

		Notes	2007	2006
PAS 1.51	**NON-CURRENT ASSETS**			
PAS 1.68(d)	Long-term financial assets	9	**33,422,701**	34,931,355
PAS 1.68(e)	Investments in associates	10	**37,230,120**	31,604,876

INCOME STATEMENTS (Extract)

		Notes	2007	2006
PAS 1.83	**OPERATING PROFIT**		**54,846,748**	60,201,791
	OTHER INCOME (CHARGES)			
PAS 1.81 (b)	Finance costs		**(11,110,130)**	(10,929,530)
PAS 1.81 (c)	Equity in net earnings of associates	10	**18,865,644**	(12,654,456)

[1] See PAS 28.13 for guidance on when to account for Investments in Associates at equity.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PAS 1.110

2.7 Investments in Associates and Joint Ventures[2]

Joint ventures are entities whose economic activities are controlled jointly by the Company and by other venturers independent of the Company (joint venturers). Joint ventures are accounted for using proportionate consolidation.

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. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investments in associates. Goodwill is the excess of the acquisition cost over the fair value of the Company's chare of the identifiable net assets of the investee at the date of acquisition.

All subsequent changes to the ownership interest in the equity of the associates are recognized in the Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the associates are credited or charged against the Equity in Net Earnings (Losses) of Associates account in the Company's income statement. Items that have been directly recognized in the associates' equity are recognized in equity of the Company. Distributions received from the associates are accounted for as a reduction of the carrying value of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

PAS 28.22
PAS 28.26

Unrealized gains on transactions between the Company and its associates and joint venturers are eliminated to the extent of the Company's interest in the associates and joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset acquired from the transaction with the associate.

[2] The investor shall apply the requirements of PAS 39 to determine whether any impairment loss should be recognized on its investments. If there is an indication of imapairment, the entities carrying amount of the investment (including goodwill) shall be tested for impairment under PAS 36.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Company.

Note 11 - INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

11.1 Jointly Controlled Entities

Halftime Ltd. is the only jointly controlled entity of the Company. Its financial statements have been incorporated into the Company's consolidated financial statements using proportionate consolidation. The aggregate amounts relating to Halftime Ltd. that have been included in the consolidated financial statements are as follows:

	2007	2006
Current assets	**P13,456,543**	P 10,335,245
Non-current assets	**34,453,658**	33,245,098
	P 47,910,201	P 43,580,343
Current liabilities	**P 5,346,409**	P 5,439,650
Non-current liabilities	**5,235,308**	4,678,498
	P 10,581,717	P 10,118,148
Income	**P25,987,489**	P 23,548,098
Expenses	**20,545,908**	19,543,598
	P 5,41,581	P 4,005,500

11.2 Investment in Associates

The components of the carrying amount of investments in associates accounted for under the equity method are as follows:

	% Interest Held	**2007**	2006
Acquisition costs:			
Trio Company	40%	**P23,500,000**	P 23,500,000
Zire, Inc.	30%	**15,000,000**	11,250,000
Tungs Ltd.	25%	**5,000,00**	5,000,000
		43,500,000	39,750,000

	2007	2006
Equity in net earnings:		
Balance at beginning of year	**P 4,755,720**	P 12,156,220
Equity in net earnings (losses)	**6,870,950**	(5,900,500)
Dividends received	**(1,500,000)**	(1,500,000)
PAS 28.38(d) Balance at end of year	**10,126,670**	4,755,720
	P48,626,670	P 39,505,720

PAS 28.37(a)

All of the above associates are incorporated in the Philippines whose shares of stock are not listed in the stock exchange and, hence, the fair value of its shares cannot be determined reliably.

In June 2007, the Company made an additional investment in shares of Zire, Inc. amounting to P3,750,000 which increased the Company's ownership interest in the investee from 25% to 30%.

The balance of the equity in net earnings of P10.1 million and P4.8 million as of December 31, 2007 and 2006, respectively, which is lodged in the Company's retained earnings as of those dates is not available for declaration as dividends by the Company.[3]

PAS 28.37(b)

The Company's share[4] in the results of operations of associates and in their assets and liabilities (including goodwill) are as follows:

	Assets	**Liabilities**	**Revenues**	**Income (Loss)**
2007:				
Trio Company	P 40,654,154	P 24,587,963	P 30,548,123	P 6,354,124
Zire, Inc.	33,564,981	10,569,456	8,546,789	(1,356,897)
Tungs Ltd.	25,549,781	15,894,827	14,598,789	1,873,723
	P 99,768,916	**P 51,052,246**	**P 53,693,701**	**P 6,870,950**
2006:				
Trio Company	P 47,659,234	P 32,584,965	P 20,548,123	P 2,356,344
Zire, Inc.	23,564,952	10,546,328	5,546,723	(5,356,897)
Tungs Ltd.	28,549,541	17,136,714	8,554,419	(2,899,947)
	P99,773,727	**P60,268,007**	**P34,649,265**	**(P5,900,500)**

[3] Consolidated subsidiaries' income included in consolidated retained earnings is also not available for dividend declaration.

[4] Alternatively, the Company may present the gross amount of the assets and liabilities (excluding goodwill) of associates.

The carrying amount of goodwill as of December 31, 2007 and 2006 included in the carrying value of Investments in Associates amounted to P3.5 million in both years.

OTHER NEW STANDARDS AND INTERPRETATIONS

Effective in 2007

The descriptions of the impact of the adoption of PFRS 7 and the complementary amendment to PAS 1 have been incorporated in the illustrative notes to financial statements (II.E).

Sample disclosure for the other standards effective in 2007 are presented below.

(i) Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies*. This Philippine Interpretation clarifies the PAS 29 requirement that financial statement items be stated in terms of the measuring unit current at the balance sheet date and the accounting treatment for opening deferred tax items in its restated financial statements. Since the Company has not identified the existence of hyperinflation in the economy of its functional currency, management assessed that adoption of this Philippine Interpretation has no impact on the Company's financial statements.

(ii) Philippine Interpretation IFRIC 8, *Scope of PFRS 2*. This Philippine interpretation provides guidance on transactions where an entity cannot identify specifically some or all of the goods or services received in consideration for issuing the entity's own equity instruments. Since the Company does not issue its own equity instruments in exchange for goods or services, management assessed that adoption of this new Philippine Interpretation has no impact on the Company's financial statements.

(iii) Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*. This standard clarifies the assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company has not reassessed its embedded derivatives nor has it modified the related host contracts. Accordingly, adoption of this Philippine Interpretation has no impact on the Company's financial statements.

(iv) Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*. This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period. As required by this Philippine Interpretation, the Company did not reverse the impairment loss recognized on March 31, 2007 on its goodwill and its equity investment in Z Company amounting to P10.5 million and P4.3 million, respectively, even if conditions as of December 31, 2007 indicates that only P3.5 million and P2.4 million, respectively, of the original amount is impaired.

Effective in 2006

The following standards were effective in 2006. If the Company opted to present the accounting standards adopted in 2006, the following should be incorporated in the financial statements.

2007:

. . . . .

2006:

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 Arrangement	:	Determination Whether an Contains a Lease

. . . . .

(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. Since 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 the Company's 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 guarantee liability of P528,000 in 2007 and P485,345 in 2006 because of the short duration of the contracts (see Note 24.5) and the low probability of the subsidiary's default in paying its borrowings guaranteed by the Company (see Note 24.5).

(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 assessment, the adoption of Philippine Interpretation IFRIC 4 has no significant impact on the Company's operations because there were no outstanding arrangements that were identified to be a lease or contains a lease.

Effective Subsequent to 2007

The descriptions of the following standards have been incorporated in the illustrative notes to financial statements (II.E):

- PAS 23, *Borrowing Costs*
- Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- PAS 1 (Revised 2007), *Presentation of Financial Statements*

Sample disclosures for the other standards effective subsequent to 2007 are presented below.

(i) PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Group's financial statements.

(ii) Philippine Interpretation IFRIC 11, *PFRS 2: Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007). This standard addresses the issue relating to an entity's obligation to provide its employees, as well as other third parties, with its own equity instrument or the equity instrument of its shareholder (parent company). The Company's parent is obligated to provide the Company's employees with its (parent company's) equity shares and such transaction is accounted for as equity settled in the consolidated financial statements of the parent. Under this Philippine Interpretation, the Company is required to measure the services received from the employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognized in the Company's equity as a contribution from the parent.[1]

(iii) Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008). This Philippine Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements.[2] The Company upgrades, maintains and operates a stretch of public road under an agreement with the Department of Public Works and Highways (DPWH). The Company allocates the revenues it receives from toll fees based on the relative fair values of the services rendered. Accordingly, management assesses that adoption of this interpretation will not result in material changes in the Company's financial statements.

(iv) Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after July 1, 2008). This new Philippine Interpretation explains how entities that grant loyalty award credits to customers should account for their obligations to provide free or discounted goods or services to customers who redeem their award credits. As the Company does not give loyalty award credits to its customers, management has initially assessed that adoption of this new standard will not result in material changes to the Company's financial statements.

Please refer to III.E for a complete list of standards effective in 2007 and subsequently.

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[1] Please refer to IFRIC 11 for additional details on the impact of this interpretation.
[2] Please refer to IFRIC 12 for the scope and issues covered by this interpretation.

REPORT OF INDEPENDENT AUDITORS[1]

The Board of Directors
Granthor Holdings Philippines, Inc.
and Subsidiaries

90 Amihan Street[2]
Somewhere There Ave., Pasay City

Report on the Financial Statements [3]

We have audited the accompanying consolidated financial statements of Granthor Holdings Philippines, Inc. and subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three[4] years in the period ended December 31, 2007, and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' [5] *Responsibility*

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

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[1] Refer to PSA 700 (Revised) or AA2006-04 (released December 14, 2006) for guidance on the new wording for independent auditor's report. As a Firm policy, the old report titles will be retained.

[2] Added when the financial statements is for submission to the SEC and BIR.

[3] Include this heading only if the audit report also includes "Report on Other Legal and Regulatory Requirements"

[4] Refer to SEC Rule 68.1(b.)(iii) for guidance.

[5] Take note of the location of the apostrophe, it should be after **s**.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Granthor Holdings Philippines, Inc. and subsidiaries as of December 31, 2007 and 2006, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements[6]

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary Schedules A to I (see table of contents) of the Group as at December 31, 2007 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO[7]

By: Gregorio S. Navarro
Partner
CPA Reg. No. 0033571
TIN 109-228-435
PTR No. 0267680, January 2, 2007, Makati City
SEC Accreditation No. 0013-AR-1
BIR AN 08-002511-2-2005 (Dec. 27, 2005 to 2008)

March 31, 2008

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[6] Refer to PSA 700 or AA2006-04 for guidance.

[7] Refer to AM 2006-001 for guidance.

PAS 1.46 (a)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

GRANTHOR HOLDINGS PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS[1]
DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

		Notes[2]	2007	2006
	A S S E T S			
PAS 1.57	**CURRENT ASSETS**			
PAS 1.68 (i)	Cash and cash equivalents	4	**P 18,763,552**	P 16,642,248
PAS 1.68 (h)	Trade and other receivables - net	5	**23,889,859**	37,843,152
PAS 1.68 (d)	Financial assets at fair value through profit or loss	6	**33,322,021**	32,210,910
PAS 1.68 (g)	Inventories - net	7	**52,561,959**	51,450,848
PAS 1.69	Prepayments	8	**15,770,249**	14,659,138
PAS 1.69	Total Current Assets		**144,307,640**	152,806,296
PAS 1.70	**NON-CURRENT ASSETS**			
PAS 1.68 (h)	Trade and other receivables - net	5	**41,991,701**	31,890,783
PAS 1.68 (d)	Financial assets - net	9	**94,533,812**	93,422,701
PAS 1.68 (a)	Property, plant and equipment - net	11	**169,196,599**	168,085,488
PAS 1.68 (b)	Investment property	12	**45,200,091**	44,088,980
PAS 1.68 (c)	Intangible assets - net	13	**11,313,111**	10,202,000
PAS 1.68 (n)	Deferred tax assets - net	23	**1,571,830**	9,349,608
PAS 1.69	Total Non-current Assets		**363,807,144**	357,039,560
	NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	14	**3,550,000**	3,550,000
PAS 1.69	**TOTAL ASSETS**		**P 511,664,785**	P 513,395,856

[1] For banks, the BSP requires the side-by-side presentation of consolidated FS and separate FS of the parent company.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

-2-

		Notes	2007	2006
	LIABILITIES AND EQUITY			
PAS 1.60	**CURRENT LIABILITIES**			
	Interest-bearing loans and borrowings	15	P **15,401,111**	P 14,290,000
PAS 1.68 (j)	Trade and other payables	16	**50,199,124**	49,088,013
PAS 1.69	Due to related parties	24	**19,088,937**	17,977,826
PAS 1.68 (m)	Income tax payable		**3,425,323**	2,314,212
PAS 1.68 (k)	Provisions	17	**5,940,548**	4,829,437
PAS 1.69	Total Current Liabilities		**94,055,043**	88,499,488
PAS 1.57	**NON-CURRENT LIABILITIES**			
PAS 1.68 (l)	Interest-bearing loans and borrowings	15	**55,931,111**	54,820,000
PAS 1.68 (k)	Retirement benefit obligation	22	**17,718,124**	16,607,013
PAS 1.68 (k)	Provisions	17	**6,792,624**	5,681,513
PAS 1.69	Other non-current liabilities		**3,964,388**	2,853,277
PAS 1.69	Total Non-current Liabilities		**84,406,247**	79,961,803
PAS 1.69	Total Liabilities		**178,461,290**	168,461,291
	EQUITY [2]			
	Equity attributable to parent			
PAS 1.68 (p)	Capital stock	25	**150,000,000**	150,000,000
	Additional paid-in capital		**7,005,000**	7,005,000
	Treasury shares, at cost		(**1,000,000**)	(1,000,000)
	Revaluation reserves	2, 25	**23,879,536**	23,912,538
PAS 1.68 (p)	Retained earnings	2, 25	**136,059,000**	148,559,816
	Total equity attributable to shareholders of the parent company		**315,943,535**	328,477,354
	Minority interest		**17,259,959**	16,457,211
PAS 1.69	Total Equity	2	**333,203,495**	344,934,565
PAS 1.69	**TOTAL LIABILITIES AND EQUITY**		**P 511,664,785**	P 513,395,856

See Notes to Consolidated Financial Statements.

[2] Major line items of equity (i.e., issued capital, reserves and retained earnings) should be presented on the face of the balance sheet. The various classes of this information, such as major items, the changes during the year and information on each class of share capital can be presented on the face of the balance sheet, statement of changes in equity, or in the notes.

PAS 1.46 (a)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

GRANTHOR HOLDINGS PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS[1]
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

		Notes[2]	2007	2006	2005
PAS 1.81 (a)	**REVENUES**				
	Sale of goods		P 183,282,650	P 181,171,539	P 156,982,596
	Rendering of services		22,011,617	19,900,506	13,334,605
			205,294,267	201,072,045	170,317,201
PAS 1.88	**COST OF SALES AND SERVICES**				
PAS 2.36 (d)	Cost of sales	18	102,221,118	100,110,007	68,331,945
	Cost of services	18	12,341,465	10,230,354	9,274,715
			114,562,583	110,340,361	77,606,660
PAS 1.92	**GROSS PROFIT**		90,731,684	90,731,684	92,710,541
	OTHER OPERATING EXPENSES (INCOME)				
PAS 1.92	Other operating income	19	(3,525,726)	(5,636,837)	(4,262,264)
PAS 1.92	Selling and distribution costs	20	25,940,962	23,829,851	20,545,136
PAS 1.92	Administrative expenses	20	17,197,678	15,086,567	13,367,132
PAS 1.92	Other operating expenses	19, 20	4,716,466	2,605,355	2,858,746
			44,329,380	35,884,936	32,508,750
PAS 1.83	**OPERATING PROFIT**		46,402,304	54,846,748	60,201,791
	OTHER INCOME (CHARGES)				
PAS 1.81 (b)	Finance costs	21	(8,999,019)	(11,110,130)	(10,929,530)
	Other gains (losses) - net	21	579,851	(1,531,260)	1,378,911
			(8,419,168)	(12,641,390)	(9,550,619)
PAS 1.83	**INCOME BEFORE TAX**		37,983,136	42,205,358	50,651,172
PAS 1.81 (e)	**TAX EXPENSE**	23	17,914,441	13,257,942	16,318,782
PAS 1.81 (f)	**NET INCOME**	2	P 20,068,695	P 28,947,416	P 34,332,390
	Attributable to:				
	Parent company's shareholders		P 19,265,947	P 27,500,045	P 32,959,094
	Minority interest		802,748	1,447,371	1,373,296
			P 20,068,695	P 28,947,416	P 34,332,390
	Basic Earnings per Share	25	P 13	P 20	P 26

See Notes to Consolidated Financial Statements.

[1] This format for statements of income illustrates an example of the "function of expense" or "cost of sales" method. See Appendix III.A.1 for the format illustrating the "nature of expense" method.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

PAS 1.46 (a)
PAS 1.44
PAS 1.46 (c)
PAS 1.46 (d)

GRANTHOR HOLDINGS PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY[1]
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

PAS ref.		Notes[2]	2007	2006	2005
	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY				
	CAPITAL STOCK[3]	25			
	Balance at beginning of year		**P 125,250,000**	P 125,250,000	P 125,250,000
	Additional issuance during the year		**24,750,000**	24,750,000	-
	Balance at end of year		**150,000,000**	150,000,000	125,250,000
	ADDITIONAL PAID-IN CAPITAL		**7,005,000**	7,005,000	7,005,000
	TREASURY SHARES - At Cost		**(1,000,000)**	(1,000,000)	(1,000,000)
	REVALUATION RESERVES	25			
PAS 1.97 (b)	Balance at beginning of year	2	**23,912,538**	23,995,117	19,988,564
PAS 1.96 (b)	Depreciation transfer for building improvements, net of tax		**(770,752)**	(770,752)	(806,326)
PAS 1.96 (b)	Fair value gains, net of taxes		**737,750**	688,173	4,812,879
PAS 1.97 (b)	Balance at end of year		**23,879,536**	23,912,538	23,995,117
	RETAINED EARNINGS	25			
PAS 1.97 (b)	Balance at beginning of year	2	**148,559,816**	158,726,230	138,515,409
PAS 1.97 (a)	Cash dividends	25	**(32,537,516)**	(38,437,211)	(13,554,600)
PAS 1.96 (b)	Depreciation transfer for building improvements, net of tax		**770,752**	770,752	806,326
PAS 1.96 (a)	Net income		**19,265,947**	27,500,045	32,959,094
PAS 1.97 (b)	Balance at end of year		**136,059,000**	148,559,816	158,726,230
	Total Equity Attributable to Shareholders of the Parent		**315,943,535**	328,477,354	313,976,346
	MINORITY INTEREST				
	Balance at beginning of year		**16,457,211**	15,009,841	12,536,545
	Additions		**-**	-	1,100,000
	Share in net income		**802,748**	1,447,371	1,373,296
	Balance at end of year		**17,259,959**	16,457,211	15,009,841
PAS 1.97 (b)	**TOTAL EQUITY**	2	**P 333,203,495**	P 344,934,565	P 328,986,187
	Net Gain (Loss) Recognized Directly in Equity		**P 737,750**	P 688,173	P 4,812,879

See Notes to Consolidated Financial Statements.

[1] Refer to Appendix III.A..2 for proposed format when there are several equity items to be presented in the Statement of Changes in Equity.

[2] Indicate only the main note. Reference to other accounts or disclosures should be done within the notes to FS.

[3] If there are only few details, show on the face of the statement the number of authorized, issued, and subscribed shares and par value.

PAS 1.46 (a)
IAS 1.44
IAS 1.46 (c)
IAS 1.46 (d)

GRANTHOR HOLDINGS PHILIPPINES, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

		Notes	2007	2006	2005
IAS 7.10	**CASH FLOWS FROM OPERATING ACTIVITIES**				
	Income before tax		P 37,983,136	P 42,205,358	P 50,651,172
	Adjustments for:				
	Depreciation and amortization	11	17,759,397	15,648,286	13,523,806
	Impairment losses	21	13,518,501	11,407,390	7,856,842
	Interest expense	21	13,221,241	11,110,130	10,929,530
	Interest income	21	(3,426,762)	(5,537,873)	(4,545,194)
	Changes in fair values	21	6,264,375	4,153,264	3,883,310
	Amortization of intangible assets	13	4,639,111	2,528,000	1,850,000
	Unrealized foreign currency losses	21	4,514,397	2,403,286	1,230,125
	Dividend income	21	661,111	(1,450,000)	(1,450,000)
	Losses (gains) on disposals of property and equipment	19	6,127,049	(206,284)	-
	Operating income before working capital changes		101,261,556	82,261,557	83,929,591
	Increase in trade and other receivables		(2,520,882)	(2,520,882)	(6,069,149)
	Decrease (increase) in inventories		10,810,579	8,699,468	(7,020,652)
	Decrease (increase) in prepayments		(1,387,212)	(3,498,323)	211,596
	Decrease in trade and other payables		(10,249,501)	(12,360,612)	(2,085,833)
	Increase (decrease) in other non-current liabilities		3,198,322	1,087,211	(3,875,290)
	Increase in retirement benefit obligations		2,223,051	111,940	8,996
	Decrease in provisions		449,712	(1,661,399)	(1,917,206)
	Cash generated from operations		103,785,625	72,118,960	63,182,053
IAS 7.31	Interest paid		(3,411,861)	(1,300,750)	(3,930,013)
IAS 7.35	Cash paid for income taxes		(13,371,957)	(15,483,068)	(18,000,303)
	Net Cash From Operating Activities		87,001,807	55,335,142	41,251,737
IAS 7.10	**CASH FLOWS FROM INVESTING ACTIVITIES**				
	Acquisitions of property, plant and equipment	11	(25,410,309)	(27,521,420)	(18,537,820)
	Increase in financial assets at fair value through profit or loss		17,487,283	15,376,172	(4,356,098)
	Additions to intangible assets	13	(8,568,889)	(10,680,000)	-
	Additions to investments in an associate	10	(2,888,889)	(5,000,000)	-
	Acquisition of investment property	12	(3,130,427)	(1,019,316)	-
	Proceeds from sale of property, plant and equipment	11	5,198,455	3,087,344	-
	Dividends received from subsidiaries and associate	21	3,561,111	1,450,000	1,450,000
	Interest received		3,565,228	1,454,117	572,150
IAS 7.31	Acquisitions of available-for-sale financial assets		(3,311,756)	(1,200,645)	-
	Collections of receivable from a finance lease		3,274,120	1,163,009	1,500,689
	Net Cash Used in Investing Activities		(10,224,073)	(22,890,739)	(19,371,079)

Forward

		Notes	2007	2006	2005
IAS 7.10	**CASH FLOWS FROM FINANCING ACTIVITIES**				
	Borrowing repayments		**(52,517,717)**	(24,647,090)	(16,533,025)
	Repayment of amounts due to related parties		**(26,965,005)**	(29,076,116)	(30,538,892)
	Proceeds from issuance of shares of stock	25	**-**	24,750,000	-
	Cash dividends paid		**(19,868,212)**	(21,980,000)	(13,554,600)
	Proceeds from additional borrowings		**-**	-	14,569,812
	Additional borrowings from related parties		**24,694,504**	14,138,949	25,265,885
	Net Cash Used in Financing Activities		**(74,656,430)**	(36,814,257)	(20,790,820)
IAS 7.45	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**		**2,121,304**	(4,369,854)	1,089,838
	CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**16,642,248**	21,012,102	19,922,264
	CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 18,763,552**	P 16,642,248	P 21,012,102

Supplemental Information on Noncash Investing Activity

Certain transportation equipment with carrying amounts of P1.4 million and P1.6 million as of December 31, 2005 and 2004, respectively, are carried under finance leases (see Notes 11 and 27).

See Notes to Consolidated Financial Statements.

RELEVANT NOTES TO CONSOLIDATED FINANCIAL STATEMENTS[1]

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 of Financial Statements [2]

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

[2] If the Company or Group still prefers to present the effects of its transition to PFRS in 2005 in the statements of changes in equity, the note on Transition to PFRS in 2005 may be presented as follows (see also footnote 6 to the Notes to FS of PNA):

(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."

2.3 Basis of Consolidation[3]

The Company obtains and exercises control through voting rights. The Group's[4] consolidated financial statements comprise the accounts of the Company,[5] 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 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.

[3] This should be presented immediately after basis for preparation of financial statements. In cases where the Group has interest in joint ventures, the relevant notes relating to Interest in Joint Ventures should be included.

[4] 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.

[5] See footnote 2 for guidance.

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.[6]

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[7] (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.

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[6] 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.

[7] 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.

The subsidiaries of the Company in 2007, 2006 and 2005[8] 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%
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 2007, 2006 and 2005 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[9]

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

Goodwill[10] 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 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)[11].

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[8] 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.

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

[10] If there is no business combination but the Company acquired goodwill through other means (e.g., purchase of a business segment), a separate accounting policy on goodwill should be included in the disclosures on accounting policies.

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.[12]

2.14 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

Items included in the financial statements of the Group 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.

(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.

(a) Translation of Financial Statements of a Foreign Subsidiary

The operating results and financial position of Forex Company, which are measured using the U.S. dollar, its functional currency, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

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[11] 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.

[12] Add only when applicable.

(ii) Income and expenses for each income statement are translated at the monthly[13] average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in Forex Company is taken to equity under Revaluation Reserves. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statements as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

4. SEGMENT REPORTING[14]

4.1 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.

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[13] The translation of income statement accounts should depend on the practice of the Company (e.g., translated at monthly or annual average rate) but should be in accordance with PAS 21.

[14] 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.

4.2 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.

4.3 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.

25. BASIC EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	2007	2006	2005
Net income attributable to parent company's shareholders	**P 19,265,947**	P 27,500,045	P 32,959,094
Divided by weighted average number of outstanding common shares	**1,500,000**	1,376,250	1,252,500
Earnings per share	**P 13**	P 20	P 26

Diluted earnings per share were not determined since the Company does not have dilutive shares as of December 31, 2007 and 2006.

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 thousands).

	Electronic Components			Insulation Products			Clothing, Corporate and Other			Eliminations			Consolidated		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
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							**(P 8,999)**	(P 11,110)	(P 10,930)				**(8,999)**	(11,110)	(10,930)
Other gains (losses) - net							**580**	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

	Electronic Components			Insulation Products			Clothing, Corporate and Others			Eliminations			Consolidated		
	2007	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005	**2007**	2006	2005
ASSETS AND LIABILITIES															
Segment assets	**P355,761**	P340,500	P -	**P120,000**	P100,000	P -	**P 22,019**	P 53,344	P -	**P -**	P -	P -	**P498,780**	P493,844	
Intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	**11,313**	10,202	
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	**1,572**	9,350	
Total assets	**-**	-	-	-	-	-	-	-	-	-	-	-	**P511,665**	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

REPORT OF INDEPENDENT AUDITORS[1]
(For NPAEs)[2]

The Board of Directors
Small Business, Inc.

8 Just Around the Corner,
Little Town, Makati City[3]

We have audited the accompanying financial statements of Small Business, Inc., which comprise the balance sheets as at December 31, 2007 and 2006, and the income statements, statements of changes in equity and cash flow statements for the years then ended, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for non-publicly accountable entities as described in Note 2 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors'[4]*Responsibility*

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

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[1] Refer to PSA 700 or AA2006-04 (released December 14, 2006) for guidance on the new wording for independent auditor's report. As a Firm policy, the old report titles will be retained.

[2] Note that there is no difference between an auditor's report on financial statements where PFRSs have been fully adopted and on financial statements prepared following the provisions of PAS 101 which is for NPAEs except for the description of the financial reporting framework, see footnote 5.

[3] Added when the financial statements is for submission to the SEC and BIR.

[4] Take note of the location of the apostrophe, it should be after **s**.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Small Business, Inc. as of December 31, 2006 and 2005, and of its financial performance and its cash flows for the years then ended in accordance with the financial reporting standards in the Philippines for non-publicly accountable entities described in Note 2 to the financial statements. [5]

PUNONGBAYAN & ARAULLO[6]

By: Gregorio S. Navarro
Partner
CPA Reg. No. 0033571
TIN 109-228-435
PTR No. 0267680, January 2, 2007, Makati City
Partner SEC Accreditation No. 0013-A
BIR AN 08-002511-2-2005 (Dec. 27, 2005 to 2008)

March 31, 2008

[5] In this case, the phrase "generally accepted accounting principles in the Philippines" should be used instead of "Philippine Financial Reporting Standards" as the Company has not fully complied with PFRS. Additional guidance will be provided by the Technical Group on this regard.

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation

PAS 1.14

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

The Company has qualified as an NPAE under PAS 101 and it has opted to apply the applicable financial reporting standards effective as of December 31, 2004, and some of the PASs and PFRSs that became effective in 2005, which are relevant to the Company.[2]

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

[2] If the entity does not apply any of the accounting standards that became effective after 2004, this paragraph may be reworded as follows:

> "The Company has qualified as an NPAE under PAS 101 and it has opted not to apply any PFRSs that became effective subsequent to 2004. Accordingly, the applicable financial reporting standards effective as of December 31, 2004 were applied in the preparation of the financial statements for the years ended December 31, 2007 and 2006.

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

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

Management is required to make judgments, estimates and assumptions in the preparation of financial statements. Although these estimates and assumptions are based on management's best knowledge of current events and actions, actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on a continuing basis and any revisions to accounting estimates are recognized prospectively. [3]

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

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

SUMMARY OF PFRS, AMENDMENTS AND PHILIPPINE INTERPRETATIONS

The following table summarizes all the standards and interpretations issued by the IASB and its committees and that are approved by the FRSC. The company and the audit team should identify which of these standards, amendments and interpretations have an impact on the company and prepare the corresponding disclosures.

No.	Title	Effective as of
PAS 1	Presentation of Financial Statements	January 1, 2005
PAS 2	Inventories	January 1, 2005
PAS 7	Cash Flow Statements	January 1, 2005
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	January 1, 2005
PAS 10	Events After the Balance Sheet Date	January 1, 2005
PAS 11	Construction Contracts	January 1, 2005
PAS 12	Income Taxes	January 1, 2005
PAS 14	Segment Reporting	January 1, 2005
PAS 16	Property, Plant and Equipment	January 1, 2005
PAS 17	Leases	January 1, 2005
PAS 18	Revenue	January 1, 2005
PAS 19	Employee Benefits	January 1, 2005
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	January 1, 2005
PAS 21	The Effects of Changes in Foreign Exchange Rates	January 1, 2005
PAS 23	Borrowing Costs	January 1, 2005
PAS 24	Related Party Disclosures	January 1, 2005
PAS 26	Accounting and Reporting by Retirement Benefit Plans	January 1, 2005
PAS 27	Consolidated and Separate Financial Statements	January 1, 2005
PAS 28	Investments in Associates	January 1, 2005
PAS 29	Financial Reporting in Hyperinflationary Economies	January 1, 2005
PAS 30	Disclosures in the Financial Statements of Banks and Similar Institutions	January 1, 2005
PAS 31	Interest in Joint Ventures	January 1, 2005
PAS 32	Financial Instruments: Disclosure and Presentation	January 1, 2005
PAS 33	Earnings per Share	January 1, 2005
PAS 34	Interim Financial Reporting	January 1, 2005
PAS 36	Impairment of Assets	January 1, 2005
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	January 1, 2005

No.	**Title**	**Effective as of**
PAS 38	Intangible Assets	January 1, 2005
PAS 39	Financial Instruments: Recognition and Measurement Including Amendments for *Transition and Initial Recognition of Financial Assets and Financial Liabilities*	January 1, 2005
PAS 40	Investment Property	January 1, 2005
PAS 41	Agriculture	January 1, 2005
PAS 101	Financial Reporting Standards for Non-publicly Accountable Entities	January 1, 2005
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	January 1, 2005
PFRS 2	Share-based Payment	January 1, 2005
PFRS 3	Business Combinations	January 1, 2005
PFRS 4	Insurance Contracts	January 1, 2005
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	January 1, 2005
Interpretation SIC 7	Introduction of the Euro	January 1, 2005
Interpretation SIC 10	Government Assistance – No Specific Relation to Operating Activities	January 1, 2005
Interpretation SIC 12	Consolidation – Special Purpose Entities Including Amendment for *Scope of SIC 12*	January 1, 2005
Interpretation SIC 13	Jointly Controlled Entities – Non-monetary Contributions by Ventures	January 1, 2005
Interpretation SIC 15	Operating Leases – Incentives	January 1, 2005
Interpretation SIC 21	Income Taxes – Recovery of Revalued Non-depreciable Assets	January 1, 2005
Interpretation SIC 25	Income Taxes – Changes in Tax Status of an Enterprise or its Shareholders	January 1, 2005
Interpretation SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	January 1, 2005
Interpretation SIC 29	Disclosure – Service Concession Arrangements	January 1, 2005
Interpretation SIC 31	Revenue – Barter Transactions Involving Advertising Services	January 1, 2005
Interpretation SIC 32	Intangible Assets – Web Site Costs	January 1, 2005
Interpretation IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	January 1, 2005
Interpretation IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments	January 1, 2005

No.	Title	Effective as of
Calendar Year 2006		
Interpretation IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	December 1, 2005
PAS 19 (Amendment)	Employee Benefits Amendment for *Actuarial Gains and Losses, Group Plans and Disclosures*	January 1, 2006
PAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for *Cash Flow Hedge of Forecast Intragroup Transactions*	January 1, 2006
PAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for *Fair Value Option*	January 1, 2006
PAS 39 (Amendment)	Financial Instruments: Recognition and Measurement Amendment for *Financial Guarantee Contracts*	January 1, 2006
PFRS 1 (Amendment)	First-time Adoption of Philippine Financial Reporting Standards – Amendment Relating to *PFRS 6*	January 1, 2006 +
PFRS 4 (Amendment)	Insurance Contracts Amendment for *Financial Guarantee Contracts*	January 1, 2006
PFRS 6	Exploration for and Evaluation of Mineral Assets	January 1, 2006
Interpretation IFRIC 4	Determining Whether an Arrangement Contains a Lease	January 1, 2006
Interpretation IFRIC 5	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	January 1, 2006
Calendar Year 2007		
Interpretation IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies	March 1, 2006
Interpretation IFRIC 8	Scope of IFRS 2	May 1, 2006
Interpretation IFRIC 9	Reassessment of Embedded Derivatives	June 1, 2006
Interpretation IFRIC 10	Interim Financial Reporting and Impairment	November 1, 2006
PAS 1 (Amendment)	Presentation of Financial Statements Amendment for *Capital Disclosures*	January 1, 2007
PFRS 7	Financial Instruments: Disclosures	January 1, 2007

No.	Title	Effective as of
Calendar Year 2008		
Interpretation IFRIC 11	PFRS 2: Group and Treasury Share Transactions	March 1, 2007 **
Interpretation IFRIC 12	Service Concession Arrangements	January 1, 2008 **
Interpretation IFRIC 13	Customer Loyalty Programmes	January 1, 2008 ** ++
Interpretation IFRIC 14	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	January 1, 2008 **
Calendar Year 2009		
PAS 1 (Amendment)	Presentation of Financial Statements *Comprehensive Revision Including Requiring a Statement of Comprehensive Income*	January 1, 2009 ** +
PAS 23	Borrowing Costs	January 1, 2007 ** +
PFRS 8	Operating Segments	January 1, 2009 **

** These standards, amendments and interpretations are still for approval of the Board of Accountancy and Professional Regulations Commission.
+ These standards are not yet included in the list of standards presented in the PICPA website.
++ Based on www.iasplus.com, the effectivity date of this interpretation is July 1, 2008. However based on the PICPA website (www.picpa.com.ph), this interpretation is effective on or after January 1, 2008.

In addition to the above standards, amendments and interpretations, the FRSC also issued the following Philippine Interpretations to clarify some issues on the implementation and application of PFRS.

No.	Standard Clarified	Title
Q&A 2006-01	PAS 18, Appendix, paragraph 9	Revenue recognition for sales of property units under pre-completion contracts
Q&A 2006-02	PAS 27.10(d)	Clarification of criteria for exemption from presenting consolidated financial statements
Q&A 2007-01	PAS 1.103(a)	Basis of preparation of financial statements if an entity has not applied PFRSs in full
Q&A 2007-02	PAS 20.24, 20.37 and PAS 39.43	Accounting for government loans with low interest rates
Q&A 2007-03	PAS 40.27	Valuation of bank real and other properties acquired (ROPA)

No.	Standard Clarified	Title
Q&A 2007-04	PAS 101.7	Application criteria for a qualifying NPAE