

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors

Mabuhay Vinyl Corporation

We have audited the accompanying financial statements of Mabuhay Vinyl Corporation, which comprise the balance sheets as at December 31, 2008 and 2007, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mabuhay Vinyl Corporation as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

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PTR No. 1566437, January 5, 2009, Makati City

March 19, 2009

MABUHAY VINYL CORPORATION

BALANCE SHEETS

	December 31	
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱133,518,754	₱135,747,785
Trade and other receivables - net (Note 5)	390,111,057	275,217,804
Receivable from a stockholder (Note 24)	27,401,500	27,401,500
Inventories (Notes 6, 11 and 24)	245,558,512	242,321,900
Other current assets (Note 7)	70,356,675	20,381,188
Total Current Assets	866,946,498	701,070,177
Noncurrent Assets		
Available-for-sale financial assets (Note 8)	5,616,065	7,194,455
Property, plant and equipment, at cost - net (Notes 9 and 13)	800,879,278	674,730,174
Land, at appraised value (Note 9)	155,887,000	150,860,999
Other noncurrent assets (Notes 10 and 23)	4,469,446	2,935,917
Total Noncurrent Assets	966,851,789	835,721,545
TOTAL ASSETS	₱1,833,798,287	₱1,536,791,722
LIABILITIES AND EQUITY		
Current Liabilities		
Notes and trust receipts payable (Note 11)	₱213,097,435	₱100,216,231
Trade and other payables (Note 12)	103,928,659	304,119,873
Current portion of long-term debt (Note 13)	65,625,000	18,750,000
Income tax payable	-	1,743,983
Total Current Liabilities	382,651,094	424,830,087
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 13)	284,375,000	-
Customers' deposit	18,618,017	18,725,258
Deferred income tax liabilities - net (Notes 9 and 20)	30,709,958	22,672,845
Retirement benefits payable (Note 19)	10,992,488	4,294,667
Asset retirement obligation (Note 14)	770,930	685,200
Total Noncurrent Liabilities	345,466,393	46,377,970
Total Liabilities	728,117,487	471,208,057
Equity		
Capital stock (Note 15)	688,309,398	688,309,398
Capital paid in excess of par (Note 15)	176,594,308	176,594,308
Revaluation increment - net of related deferred tax (Note 9)	99,666,568	96,148,367
Reserve for fluctuation in available-for-sale financial assets (Note 8)	(464,385)	986,895
Retained earnings (Note 15)	141,574,911	103,544,697
Total Equity	1,105,680,800	1,065,583,665
TOTAL LIABILITIES AND EQUITY	₱1,833,798,287	₱1,536,791,722

See accompanying Notes to Financial Statements.

MABUHAY VINYL CORPORATION
STATEMENTS OF INCOME

	Years Ended December 31		
	2008	2007	2006
NET SALES	₱1,309,859,814	₱1,314,562,152	₱1,350,027,545
COST OF SALES (Notes 16 and 24)	966,655,351	947,907,664	1,028,534,346
GROSS PROFIT	343,204,463	366,654,488	321,493,199
Operating expenses (Note 17)	(282,210,913)	(257,854,424)	(254,062,944)
Interest and financing charges (Note 18)	(19,123,123)	(15,496,095)	(15,737,799)
Interest income (Note 18)	4,288,540	4,896,351	4,645,789
Foreign exchange gain (loss) - net (Note 12)	1,009,009	(25,023,227)	(230,011)
Tax abatement (Note 26)	-	(95,258,238)	-
Other income - net (Note 18)	4,252,371	4,113,616	10,831,482
INCOME (LOSS) BEFORE INCOME TAX	51,420,347	(17,967,529)	66,939,716
PROVISION FOR INCOME TAX (Note 20)			
Current	6,860,820	36,167,875	21,294,660
Deferred	6,529,313	(8,836,464)	(512,841)
	13,390,133	27,331,411	20,781,819
NET INCOME (LOSS)	₱38,030,214	(₱45,298,940)	₱46,157,897
BASIC/DILUTED EARNINGS (LOSS)			
PER SHARE (Note 25)	₱0.055	(₱0.066)	₱0.066

See accompanying Notes to Financial Statements.

MABUHAY VINYL CORPORATION
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	Capital Stock (Note 15)	Capital Paid in Excess of Par (Note 15)	Stocks Held In Treasury (Notes 15 and 24)	Revaluation Increment (Note 9)	Reserve for Fluctuations in Available-for-sale Financial Assets (Note 8)	Retained Earnings (Note 15)	Total
BALANCES AT DECEMBER 31, 2005	₱788,366,866	₱169,774,763	(₱83,800,340)	₱89,280,626	₱-	₱158,200,492	₱1,121,822,407
Acquisition of shares in exchange for notes receivable (Note 24)	-	-	(9,437,583)	-	-	-	(9,437,583)
Cash dividends (Note 15)	-	-	-	-	-	(34,865,470)	(34,865,470)
Income and expense recognized during the year:							
Income recognized directly in equity:							
Increase in reserve for fluctuations in available-for-sale financial assets (Note 8)	-	-	-	-	596,835	-	596,835
Effect of change in corporate income tax rate on revaluation increment (Note 20)	-	-	-	6,867,741	-	-	6,867,741
Net income for the year	-	-	-	-	-	46,157,897	46,157,897
Total income and expense for the year	-	-	-	6,867,741	596,835	46,157,897	53,622,473
BALANCES AT DECEMBER 31, 2006	788,366,866	169,774,763	(93,237,923)	96,148,367	596,835	169,492,919	1,131,141,827
Retirement of treasury shares (Note 15)	(100,057,468)	6,819,545	93,237,923	-	-	-	-
Cash dividends (Note 15)	-	-	-	-	-	(20,649,282)	(20,649,282)
Income and expense recognized during the year:							
Income recognized directly in equity -increase in reserve for available-for-sale financial asset (Note 8)	-	-	-	-	390,060	-	390,060
Net loss for the year	-	-	-	-	-	(45,298,940)	(45,298,940)
Total income and expense for the year	-	-	-	-	390,060	(45,298,940)	(44,908,880)
BALANCES AT DECEMBER 31, 2007	688,309,398	176,594,308	-	96,148,367	986,895	103,544,697	1,065,583,665
Income and expense recognized during the year:							
Income recognized directly in equity:							
Appraisal increase - net of related tax	-	-	-	3,518,201	-	-	3,518,201
Decrease in reserve for available-for-sale financial asset (Note 8)	-	-	-	-	(1,451,280)	-	(1,451,280)
Net income for the year	-	-	-	-	-	38,030,214	38,030,214
Total income and expense for the year	-	-	-	3,518,201	(1,451,280)	38,030,214	40,097,135
BALANCES AT DECEMBER 31, 2008	₱688,309,398	₱176,594,308	₱-	₱99,666,568	(₱464,385)	₱141,574,911	₱1,105,680,800

See accompanying Notes to Financial Statements.

MABUHAY VINYL CORPORATION
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	₱51,420,347	(₱17,967,529)	₱66,939,716
Adjustments for:			
Depreciation (Note 9)	101,857,601	93,139,978	88,100,462
Interest expense (Note 18)	17,804,256	15,143,371	15,214,445
Interest income	(4,288,540)	(4,896,351)	(4,645,789)
Unrealized foreign exchange loss (Note 12)	112,481	25,095,082	230,011
Dividend income	(5,978)	(60,158)	(471,503)
Gain on sale of available-for-sale financial asset (Note 18)	(1,850)	–	(3,538,420)
Loss on retirement of property and equipment	1,064,170	–	43,759
Operating income before working capital changes	167,962,487	110,454,393	161,872,681
Decrease (increase) in:			
Trade and other receivables	(114,720,545)	95,668,409	(53,809,612)
Inventories	(3,236,612)	(4,784,409)	44,298,954
Other current assets	(40,359,036)	(4,023,845)	(5,094,490)
Increase (decrease) in:			
Trust receipts payable	162,881,204	(34,337,919)	(48,349,992)
Trade and other payables	(191,289,997)	(3,915,678)	(18,607,157)
Customers' deposit	(107,241)	692,929	1,272,531
Retirement benefits payable	6,697,821	1,584,970	2,709,697
Net cash generated from (used in) operations	(12,171,919)	161,338,850	84,292,612
Income taxes paid, including creditable withholding taxes	(18,221,254)	(26,388,943)	(14,175,153)
Interest paid	(26,619,743)	(15,119,576)	(15,806,036)
Net cash flows from (used in) operations	(57,012,916)	119,830,331	54,311,423
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment (Note 9)	(229,070,875)	(99,237,530)	(17,801,086)
Proceeds from sale of:			
Available-for-sale financial asset	128,960	–	3,676,042
Property and equipment	–	129,650	1,000
Decrease (increase) in other noncurrent assets	(1,533,529)	(84,426)	1,241,047
Dividends received	5,978	60,158	471,503
Interest received	4,003,351	4,764,343	3,838,035
Net cash used in investing activities	(226,466,115)	(94,367,805)	(8,573,459)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of:			
Long-term loans	350,000,000	–	–
Short-term loans	32,000,000	68,000,000	18,000,000
Payments of:			
Long-term loans	(18,750,000)	(18,000,000)	(50,000,000)
Notes payable	(82,000,000)	(25,000,000)	(25,000,000)
Cash dividends paid	–	(19,817,078)	(31,504,288)
Net cash provided by (used in) financing activities	281,250,000	5,182,922	(88,504,288)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,229,031)	30,645,448	(42,766,324)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	135,747,785	105,102,337	147,868,661
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱133,518,754	₱135,747,785	₱105,102,337

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Mabuhay Vinyl Corporation (the Company) is listed with the Philippine Stock Exchange and engaged in the business of manufacturing and distributing basic and intermediate chemicals with a wide range of household and industrial applications, including caustic soda, hydrochloric acid, liquid chlorine and sodium hypochlorite (chlor-alkali).

As of December 31, 2008 and 2007, the Company is 39.53% owned by Tosoh Corporation (Tosoh) and Mitsubishi Corporation (Mitsubishi), foreign corporations. The remaining equity is held by other minor stockholders.

The Company operates manufacturing plants in Assumption Heights, Buru-un, Iligan City and Laguna Technopark, Biñan, Laguna. Its main office address is 3rd Floor, Philamlife Salcedo Center, 126 L. P. Leviste Street, Salcedo Village, Makati City.

Registration with the Board of Investments (BOI)

The Company is registered with the BOI as an Expanding Domestic Producer of Caustic Soda (NaOH)/Hydrochloric Acid (HCl)/Liquid Chlorine on a pioneer status under the Omnibus Investments Code of 1987 or Executive Order (E.O.) 226. Under the terms of its registration, the Company is subject to certain BOI requirements, principally that of maintaining a base equity of at least 25%. As a registered enterprise, the Company is entitled to certain tax incentives which include, among others: (a) income tax holiday (ITH) computed using a sales base figure of ₱434.11 million for three years from February 2003; (b) additional deduction for wages of additional workers hired, provided that ITH is not simultaneously availed with deduction for wages; and c) tax credit for taxes and duties on raw materials for its export product. This ITH expired in 2006. Tax benefits from this ITH in 2006 amounted to ₱1.69 million (see Note 20).

On July 2, 2007, the BOI approved the registration of the Company as New Producer of Caustic Soda, Hydrochloric Acid, and Liquid Chlorine on a Pioneer Status also under E.O. 226. Under the terms of its registration, the Company is required to achieve certain production and sales volume from the new Ion Exchange Membrane (IEM) Bi-polar Chlor-Alkali plant. As a registered enterprise, the Company is entitled to certain tax incentives which include, among others: (a) ITH for six (6) years from June 2008 or actual start of commercial operations, whichever is earlier; (b) extension of the ITH for a maximum of two years (bonus years), subject to certain conditions; (c) for the first five (5) years from the date of registration, additional deduction from taxable income of 50% of the wages arising from additional workers hired, provided that it is not simultaneously availed with the ITH; (d) tax credit for taxes and duties on raw materials for its export product; (e) exemption from wharfage dues, any export tax, duty, imposts and fees for ten (10) years from the date of registration; and, (f) may qualify for zero-duty import of capital equipment, spare parts and accessories from the date of registration up to June 16, 2011, pursuant to E.O. 528 and its Implementing Rules and Regulations. Tax benefits from this ITH in 2008 amounted to ₱6.56 million (see Note 20).

The accompanying financial statements were approved for issue by the Board of Directors (BOD), on March 19, 2009.

2. Summary of Significant Accounting and Financial Reporting Policies

The principal accounting and financial reporting policies adopted in preparing the financial statements of the Company are as follows:

Basis of Preparation

The financial statements of the Company have been prepared using the historical cost convention, except for land which is stated at appraised value and available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

The financial statements are presented in Philippine peso (Peso), which is the Company's functional currency. Amounts are rounded to the last Peso, unless otherwise indicated.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies

The Company adopted, beginning January 1, 2008, Philippine Interpretation based on International Financial Reporting Interpretations Committee (IFRIC) 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under Philippine Accounting Standard (PAS) 19, *Employee Benefits*. Adoption of this interpretation did not have an effect on the Company's financial position and results of operations as its retirement plan continues to be in a liability position.

Future Changes in Accounting Policies

The Company will adopt the following standards and interpretations when these become effective. The Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have a significant impact on its financial statements.

Effective in 2009

- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.
- Amendments to PAS 1, *Presentation of Financial Statements*, introduce a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This amendment also prescribes additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the financial statements.
- Revised PAS 23, *Borrowing Costs*, requires capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset.
- Amendments to PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, has changes in respect of the holding companies' separate financial statements including (a) the deletion of 'cost method', making the distinction between pre-acquisition and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the

- subsidiary rather than its fair value. All dividends will be recognized in profit or loss. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.
- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*, specifies, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro-rata share of the entity's net assets; (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation; (c) all instruments in the subordinate class have identical features; (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro-rata share of the entity's net assets; and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

Effective in 2010

- Revised PFRS 3, *Business Combinations* and PAS 27, *Consolidated and Separate Financial Statements*. PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that a change in ownership interests of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss. The amendment also changes the accounting for losses incurred by the subsidiary and loss of control of a subsidiary.
- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*, addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

Improvements to PFRS

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to remove inconsistencies and to clarify wordings. There are separate transitional provisions for each standard.

- PAS 1, *Presentation of Financial Statements*, clarifies that assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.
- PAS 16, *Property, Plant and Equipment*, replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Asset*. It also clarifies that items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. PAS 7, *Statement of Cash Flows*, is also revised to require cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales to be shown as cash flows from operating activities.
- PAS 19, *Employee Benefits*, revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment. It also revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation. It further revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled. It also deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 23, *Borrowing Costs*, revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.
- PAS 36, *Impairment of Assets*, provides that when discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- PAS 38, *Intangible Assets*, provides that expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues. It also deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.
- PAS 39, *Financial Instruments: Recognition and Measurement*, provides that changes in circumstances relating to derivatives, specifically derivatives designated or de-designated as hedging instruments after initial recognition, are not reclassifications. It further removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge and requires the use of the revised effective interest rate (rather than the original effective interest rate) when remeasuring a debt instrument on the cessation of fair value hedge accounting.

The following accounting standards, interpretations and improvements to PFRS also became effective but are not expected to be relevant or applicable to the Company.

Accounting standards and interpretations

- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

Improvements to the following PFRS/PAS

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 28, *Investment in Associates*
- PAS 31, *Interest in Joint Ventures*
- PAS 40, *Investment Properties*
- PAS 41, *Agriculture*

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Financial Assets and Financial Liabilities

The Company recognizes a financial asset or financial liability in the balance sheet when it becomes a party to the contractual provision of the instrument.

Financial assets within the scope of PAS 39 are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity investments (HTM), or available-for-sale financial assets, as appropriate. Financial liabilities on the other hand are classified as either financial liabilities at FVPL or other liabilities, as appropriate. The Company determines the classification of its financial assets and financial liabilities at initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year end.

Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs, if any, are included in the initial measurement of financial assets and financial liabilities, except for financial instruments measured at FVPL. The Company recognizes a financial asset or financial liability in the balance sheet when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market prices or dealer price quotation (bid price for long positions and ask price for short positions), at the close of business on the balance sheet date. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. For investments where there is no active market, fair value is determined using generally accepted valuation techniques using inputs and assumptions based on observable market data and conditions, and reflect appropriate adjustments that market participants would make for credit and liquidity risks existing as at each of the periods indicated.

“Day 1” difference

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in the statements of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the net income or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference amount.

Financial Assets or Financial Liabilities at FVPL

Financial assets and liabilities at FVPL include financial instruments held for trading and financial instruments designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as FVPL if they are acquired for the purpose of selling and repurchasing it in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. The mark-to-market loss on the derivative is included in the income statements under “Foreign exchange gain (loss) - net” account.

Financial assets or financial liabilities are classified in this category as designated by management on initial recognition when any of the following criteria are met:

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

Financial assets or financial liabilities at FVPL are recorded in the balance sheet at fair value, with changes in fair value being recorded in the statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded when the right of payment has been established.

The Company has no financial asset at FVPL as of December 31, 2008 and 2007. The Company also has no financial liability at FVPL as of December 31, 2008. The financial liability at FVPL as of December 31, 2007 pertains to its outstanding derivatives (see Note 12 under “Liability on currency forward contracts”).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of income, under other income - net, when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet, otherwise, these are classified as noncurrent assets.

The Company has classified cash in banks and short-term placements, trade and other receivables and receivable from a stockholder as loans and receivables as of December 31, 2008 and 2007.

HTM Investments

Quoted non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in the classification. For investments carried at amortized cost, gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process. Assets under this category are classified as current assets if maturity is within twelve months from the balance sheet date and as noncurrent assets if maturity date is more than a year from the balance sheet date.

The Company has no HTM investments as of December 31, 2008 and 2007.

Available-for-sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Financial assets may be designated at initial recognition as available-for-sale if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial recognition, quoted available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity under “Reserve for fluctuation in available-for-sale financial asset” until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of income. Unquoted available-for-share financial assets, on the other hand, are carried at cost, net of any impairment, until the investment is derecognized.

The Company has classified its investments in listed shares of stock and golf shares as available-for-sale investments as of December 31, 2008 and 2007 (see Note 8).

Other Financial Liabilities

Other financial liabilities include notes and trust receipts payable, trade and other payables, customers' deposit, and long-term debts. These are initially recognized at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

Customers' deposit consists of amounts received from customers as deposit for cylinder tanks used to store and transport the Company's finished goods. This noninterest-bearing deposit is refundable when the tanks are surrendered to the Company.

Gains and losses are recognized in the statement of income when the liabilities are derecognized, as well as through the amortization process.

Derivatives Financial Instruments

Freestanding Derivatives

Derivative financial instruments are recognized and measured at fair value. The method of recognizing the resulting gain or loss depends on whether or not the derivative is designated as a hedge of an identified risk and qualifies for hedge accounting treatment.

The Company uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. These derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are taken directly to the statements of income, under "Foreign exchange gain (loss)" account.

The fair value of forward currency contracts is calculated by reference to the counterparty's current forward exchange rates as of the date of the financial statements.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid or combined instrument is not recognized at FVPL.

Reassessment of Embedded Derivatives

The Company makes a reassessment on the review of embedded derivatives only if there is a change to the contract that significantly modifies the cashflows.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

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

Financial Liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Impairment of Financial Assets

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

Assets Carried at Amortized Cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. The Company reviews the age and status of the receivable and evaluates on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior, and known market factors. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Objective evidence of impairment include, but are not limited to, bankruptcy or insolvency on the part of the customer and adverse changes in the economy. The carrying amount of the asset is reduced directly when collectability of the account is remote, for example, due to the bankruptcy on the part of the customer. The Company provides an allowance when it is probable that the receivable will be collected in the future. The amount of loss shall be recognized in the statement of income under "Operating expenses." The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost

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

Available-for-sale Financial Assets

For equity investments classified as available-for-sale financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income – is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of changes in equity.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Net realizable value for finished goods, work-in-process and raw materials is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale, while net realizable value for other materials and supplies is the replacement cost. In determining the net realizable value, the Company considers any adjustment necessary for obsolescence.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation specifically for property and equipment installed/constructed on the leased properties. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

The land is stated at revalued amount based on the fair market value of the property as determined by an independent firm of appraisers as of November 16, 2006. The increase in the valuation of land, net of deferred income tax liability, is credited to "Revaluation Increment". Upon disposal, the relevant portion of the revaluation increment realized in respect of the previous valuation will be released from the revaluation increment directly to retained earnings. Decreases that offset previous increases in respect of the same property are charged against the revaluation increment; all other decreases are charged against current operations.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	10 years
Buildings and structures	10 years
Machinery and equipment	10 years
Transportation equipment	5 years
Office furniture and equipment	3-5 years

Leasehold improvements are amortized over the term of the lease or the life of the assets (average of 10 years), whichever is shorter.

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

When property, plant and equipment are sold or retired, their cost and related accumulated depreciation and any impairment in value are removed from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

Construction in progress represents plant expansion project under construction and is stated at cost, including cost of construction, machinery and equipment under installation and other related costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use. Interest costs on borrowings used to finance the construction of the project are accumulated under this account. Interest costs are capitalized until the project is completed and becomes operational. The capitalized interest is amortized over the estimated useful life of the related assets.

Asset Retirement Obligation

The Company is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease contract term. The Company recognizes the fair value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property and equipment accounts, which are being depreciated on a straight-line basis over the lower of the useful life of the related asset or the lease term.

Impairment of Non-financial Assets

The carrying values of property, plant and equipment and other non-financial assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, or when an annual impairment testing for an asset is required, and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are recognized in the statement of income.

Stocks Held in Treasury

The shares of the Company which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instrument.

Revenue

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits will flow to the Company. The following specific criteria must also be met before revenue is recognized:

Sale of goods

Revenue from sale of goods is recognized when the goods are delivered to and accepted by customers.

Interest

Revenue is recognized as the interest accrues, taking into account the effective interest yield on the asset.

Rent income

Rent income is recognized on a straight-line basis over the lease term.

Logistics and other services

Revenue is recognized when the related services are rendered.

Leases

Operating lease expense is recognized in the statement of income on a straight-line basis over the lease term.

Retirement Benefits Costs

The Company has a funded, non-contributory defined benefit retirement plan, administered by a trustee, covering its permanent employees. The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit actuarial valuation method.

This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Retirement benefits cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement.

Actuarial gains and losses are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation and 10% of the fair value of the plan assets at that date. These gains and losses are recognized over the expected average remaining working life of the employees participating in the plan. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The net retirement benefits liability recognized by the Company is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Foreign Currency Transactions and Translation

Transactions denominated in foreign currency are recorded using the exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at balance sheet date. Foreign exchange gains or losses are credited to or charged against current operations.

Income Tax

Current income tax

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward benefits of excess MCIT and unused NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income 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.

Income tax relating to items recognized directly in equity is recognized in equity and not included in the calculation of net income for the year.

Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income for the year by the weighted-average number of issued and outstanding shares of stock during the year, excluding ordinary shares purchased by the Company and held as treasury shares. The Company has no dilutive potential common shares.

Contingencies

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

Events After the Balance Sheet Date

Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

Segment Reporting

The Company is engaged in manufacturing and distributing basic and intermediate chemicals and considers such as its primary activity and only business segment.

3. Significant Accounting Judgments, Assumptions and Estimates

The preparation of the financial statements in compliance with PFRS requires management to make judgments, assumptions and estimates that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments

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

Classification of financial instruments

The Company classifies a financial instrument, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the balance sheets.

The Company determines the classification at initial recognition and reevaluates this designation at every financial reporting date. The classification of the Company's financial assets and financial liabilities is summarized in Note 22.

Operating lease commitments - Company as lessee

The Company has operating lease agreements for its depots and office. The Company has determined that the risks and rewards of ownership for the underlying properties have been retained by the respective lessor. Accordingly, the leases are accounted for as operating leases (see Note 23).

Impairment of available-for-sale financial assets

The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Company treats "significant" generally as 30% or more or "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Company believes that its available-for-sale financial assets are not impaired. Accordingly, no impairment loss was recognized in 2008 and 2007.

Contingencies

The Company is currently involved in various legal proceedings. The management, together with its legal counsel, is contesting these cases. Based on the assessment of management and its legal counsel, the Company believes it will be able to defend its position on these cases (see Note 26).

Estimates and Assumptions

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Estimated allowance for doubtful accounts

The Company maintains allowances for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The Company reviews the age and status of receivables, designed to identify accounts with objective evidence of impairment and provide the appropriate allowance for impairment. Management evaluates on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customer, the customer's payment behavior, and known market factors.

Provision for doubtful accounts amounted to ₱0.17 million and ₱0.25 million in 2008 and 2007, respectively. Receivables, net of allowance for the doubtful accounts, amounted to ₱390.11 million and ₱275.22 million as of December 31, 2008 and 2007, respectively (see Note 5).

Estimated useful lives of property, plant and equipment

The Company estimated the useful lives of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives and residual values of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets. In 2007, the Company changed the useful life of its DCP electrolysis equipment to reflect the anticipated use of the asset. The change, which has been accounted for as a change in estimate, increased depreciation expense in 2007 by ₱4.8 million. Property, plant and equipment, net of accumulated depreciation, amounted to ₱800.88 million and ₱674.73 million as of December 31, 2008 and 2007, respectively (see Note 9).

Impairment of nonfinancial asset

The Company assesses the impairment of nonfinancial assets (property, plant and equipment and land at appraised value) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs. Management believes that there was no indication of impairment on the Company's property, plant and equipment and land at appraised value. As of December 31, 2008 and 2007, the carrying value of land amounted to ₱155.89 million and ₱150.86 million as of December 31, 2008 and 2007, respectively (see Note 9).

Asset retirement obligation (ARO)

Property, plant and equipment includes the estimated cost of dismantling and restoration of depot facilities for which the Company is liable. The estimated dismantling cost was based on a recent cost to dismantle the facilities in North Harbor depot and estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using prevailing market rate at the inception of the lease for an instrument with a term similar to the term of the lease.

ARO amounted to ₱0.77 million and ₱0.69 million as of December 31, 2008 and 2007, respectively (see Note 14).

Deferred income tax assets

The Company reviews the carrying amount of deferred income taxes at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

The Company recognized deferred income tax assets amounting to ₱12.08 million and ₱18.63 million as of December 31, 2008 and 2007, respectively (see Note 20).

Financial assets and financial liabilities

The Company carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates). In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. Any change in fair value of these financial assets and financial liabilities would affect profit or loss and equity.

The fair value of the available-for-sale financial assets with available market prices was determined based on quoted bid prices. Any significant change in the selling price of the available for sale financial assets may impact the financial statements. Available-for-sale financial assets amounted to ₱5.62 million and ₱7.19 million as of December 31, 2008 and 2007, respectively (see Note 8).

Estimated allowance for inventory obsolescence

Adequate provision for inventory obsolescence is made by management. The amount of estimate made by management is based on a number of factors such as age and status of inventories and the Company's experience.

Inventories, net of allowance for obsolescence, amounted to ₱245.56 million and ₱242.32 million as of December 31, 2008 and 2007, respectively (see Note 6).

Retirement benefits

The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 19 to the financial statements and include among others, discount rates, salary increase rates and expected rate of return on plan assets. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Company's unrecognized net actuarial losses amounted to ₱4.74 million and ₱23.88 million as of December 31, 2008 and 2007, respectively. The retirement benefits payable amounted to ₱10.99 million and ₱4.29 million as of December 31, 2008 and 2007, respectively (see Note 19).

Fair value of land

The land is stated at revalued amount based on the fair market value of the property as determined by an independent firm of appraiser as of December 23, 2008. It was previously appraised on November 16, 2006. The valuation was made on the basis of the fair market value determined by referring to the character and utility of the property, comparable property which has been sold recently, and zoning and current land usage in the locality where the property was located. Management believes that basis of the fair market value is reasonable. As of December 31, 2008 and 2007, the cost of land was ₱13.51 million. The related appraisal increase amounted to ₱142.38 million and ₱137.35 as of December 31, 2008 and 2007, respectively (see Note 9).

4. Cash and Cash Equivalents

	2008	2007
Cash on hand and in banks	₱67,953,574	₱44,204,323
Short-term placements	65,565,180	91,543,462
	₱133,518,754	₱135,747,785

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months. These placements earn interest at the respective short-term placement rates.

As of December 31, the Company has US dollar (US\$) cash on hand and in banks as follows:

	2008	2007
Cash on hand and in banks	US\$20,925	US\$21,273
Closing exchange rate	47.52	41.28
Amount in Peso	₱994,356	₱878,149

5. Trade and Other Receivables

	2008	2007
Trade:		
Private	₱353,601,445	₱273,415,945
Government	17,565,386	9,540,640
	371,166,831	282,956,585
Others	28,074,328	1,216,354
	399,241,159	284,172,939
Less allowance for doubtful accounts	9,130,102	8,955,135
	₱390,111,057	₱275,217,804

The allowance for doubtful accounts relates to Trade receivables - Private. No allowance has been provided on Trade receivables - Government or on Other receivables. Movements in the allowance for doubtful accounts follow:

	2008	2007
Balance at beginning of year	P8,955,135	P8,703,502
Charges	174,967	251,633
Balance at end of year	P9,130,102	P8,955,135

Trade receivables are noninterest-bearing and are generally on 30-60 days' terms.

6. Inventories

	2008	2007
At cost:		
Finished goods (Note 16)	P143,569,099	P143,101,283
Work-in-process (Note 16)	6,757,739	17,432,395
Raw materials (Notes 11 and 24)	56,452,675	36,692,798
Prepaid expenses supplies	33,282,804	39,599,229
	240,062,317	236,825,705
At net realizable value -		
Other materials and supplies	5,496,195	5,496,195
	P245,558,512	P242,321,900

Allowance for inventory obsolescence as of December 31, 2008 and 2007 amounted to P2.40 million.

7. Other Current Assets

	2008	2007
Input tax	P60,026,611	P11,312,178
Creditable withholding taxes	9,616,451	-
Prepaid expenses and others	713,613	9,069,010
	P70,356,675	P20,381,188

Short-term placement amounting to P0.51 million as of December 31, 2008 is held as collateral by a local bank as part of an agreement requiring a performance guaranty with a certain customer. This is included as part of "Prepaid expenses and others".

8. Available-for-sale Financial Assets

	2008	2007
Quoted equity instruments:		
Listed companies	P225,065	P1,823,455
Golf shares	390,000	370,000
	615,065	2,193,455
Unquoted equity instruments	5,001,000	5,001,000
	P5,616,065	P7,194,455

The investment in unquoted equity instruments consists of investments in preferred redeemable non-convertible non-voting shares of Tosoh Polyvin Corporation (TPC) amounting to P5.0 million and 10% of TPC's authorized capital stock equivalent to 23,600 common shares. The redemption of TPC is not mandatory. The Company's intention is to hold these shares until they are redeemed.

The following table presents the movements in Reserve for fluctuation in available-for-sale financial assets:

	2008	2007
Balance at beginning of year	P986,895	P596,835
Disposal for the year	(582,170)	-
Mark-to-market gain (loss) for the year	(869,110)	390,060
Balance at end of year	(P464,385)	P986,895

9. Property, Plant and Equipment

a. Property, plant and equipment at cost consist of:

	2008							Total
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture & Equipment	Leasehold Improvements	Construction in Progress	
Cost								
January 1	P19,646,942	P199,994,138	P1,078,099,552	P74,248,745	P29,830,471	P4,191,008	P289,465,848	P1,695,476,704
Additions	-	5,726,996	6,770,593	4,551,780	708,267	57,142	211,256,097	229,070,875
Disposals / retirement	-	-	(199,004,090)	(4,020,062)	-	-	-	(203,024,152)
Reclassification	10,153,157	27,685,586	458,068,910	-	2,496,525	-	(498,404,178)	-
December 31 (Forward)	29,800,099	233,406,720	1,343,934,965	74,780,463	33,035,263	4,248,150	2,317,767	1,721,523,427

2008								
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Accumulated Depreciation								
January 1	15,421,322	141,580,484	789,211,104	45,956,662	27,040,259	1,536,699	–	1,020,746,530
Depreciation	1,398,492	15,896,597	76,433,121	6,461,614	1,241,304	426,473	–	101,857,601
Disposals/retirement	–	–	(197,939,920)	(4,020,062)	–	–	–	(201,959,982)
December 31	16,819,814	157,477,081	667,704,305	48,398,214	28,281,563	1,963,172	–	920,644,149
Net Book Value	₱12,980,285	₱75,929,639	₱676,230,660	₱26,382,249	₱4,753,700	₱2,284,978	₱2,317,767	₱800,879,278

2007								
	Land Improvements	Buildings and Structures	Machinery and Equipment	Transportation Equipment	Office Furniture & Equipment	Leasehold Improvements	Construction in Progress	Total
Cost								
January 1	₱19,559,799	₱210,592,857	₱1,070,460,803	₱82,862,035	₱31,050,588	₱4,976,174	₱5,010,131	₱1,424,512,387
Additions	87,143	3,390,053	26,421,607	548,799	992,028	–	287,477,340	318,916,970
Disposals/retirement	–	(15,508,642)	(19,983,852)	(9,162,089)	(2,512,904)	(785,166)	–	(47,952,653)
Reclassification	–	1,519,870	1,200,994	–	300,759	–	(3,021,623)	–
December 31	19,646,942	199,994,138	1,078,099,552	74,248,745	29,830,471	4,191,008	289,465,848	1,695,476,704
Accumulated Depreciation								
January 1	14,419,116	141,238,063	742,172,906	47,496,184	28,267,495	1,835,791	–	975,429,555
Depreciation	1,002,206	15,239,152	67,633,961	7,492,917	1,285,668	486,074	–	93,139,978
Disposals/retirement	–	(15,508,642)	(19,983,852)	(9,032,439)	(2,512,904)	(785,166)	–	(47,823,003)
Reclassification	–	611,911	(611,911)	–	–	–	–	–
December 31	15,421,322	141,580,484	789,211,104	45,956,662	27,040,259	1,536,699	–	1,020,746,530
Net Book Value	₱4,225,620	₱58,413,654	₱288,888,448	₱28,292,083	₱2,790,212	₱2,654,309	₱289,465,848	₱674,730,174

In December 2006, the Company entered into an agreement to construct its second IEM plant (IEM 2 project) for a total contracted amount of JPY690 million, of which JPY69 million was paid in February 2007. In accordance with the agreement, the Company opened an irrevocable letter of credit in favor of the supplier for the remaining balance. To enable the Company to fix the Peso cost of the contract, the Company entered into currency forward contracts for the balance of JPY621 million (see Notes 12 and 22).

Based on the report of the supplier and the terms of the agreement, the Company also recognized in 2007 construction in progress totaling ₱219.68 million and the corresponding liability of ₱201.04 million. As of December 31, 2008, this liability has been settled along with the liability on foreign currency forward contracts (see Note 12).

Interest on the loan specifically obtained to finance the construction of the IEM 2 plant was capitalized. This amounted to ₱13.75 million in 2008 (see Note 13). The IEM 2 plant became operational in August 2008.

- b. Land at appraised value as of December 31 consists of:

	2008	2007
Cost	₱13,506,189	₱13,506,189
Appraisal increase	142,380,811	137,354,810
	₱155,887,000	₱150,860,999

The Company's parcels of land are stated at revalued amount based on the appraisal report of an independent appraisal company. The valuation was made on the basis of the fair market value determined by referring to the character and utility of the property, comparable property which has been sold recently and zoning and current land usage in the locality where the properties are located. Based on the appraisal report as of December 23, 2008, the Company recognized additional appraisal increase of ₱5.03 million during the year. The accumulated appraisal increase, included in the equity section of the balance sheets as "Revaluation increment - net of related deferred tax", amounted to ₱99.67 million and ₱96.15 million as of December 31, 2008 and 2007, respectively.

10. Other Noncurrent Assets

	2008	2007
Security and rental deposits (Note 23)	₱2,839,384	₱2,629,380
Others	1,630,062	306,537
	₱4,469,446	₱2,935,917

11. Notes and Trust Receipts Payable

	2008	2007
Notes payable	₱18,000,000	₱68,000,000
Trust receipts payable	195,097,435	32,216,231
	₱213,097,435	₱100,216,231

Notes payable represent short-term notes payable to a local bank, subject to average interest rate of 8.02% in 2008 and 8.31% in 2007 (see Note 18).

Trust receipts payable represents short-term borrowings from a local bank to finance inventory importations. Trust receipts bear average annual interest rate of 7.72% in 2008 and 8.37% in 2007 (see Note 18). The amount of trust receipts is secured by the underlying inventories.

12. Trade and Other Payables

	2008	2007
Trade payables	₱24,581,242	₱30,729,107
Liability on currency forward contracts (Notes 9 and 22)	–	43,947,756
Dividends payable	5,777,199	5,777,199
Accrued expenses and other payables (Note 9)	73,570,218	223,665,811
	₱103,928,659	₱304,119,873

Accrued expenses and other payables in 2007 mainly include the liability on the purchase of equipment of ₱201.04 million and accruals for interests, manufacturing and other operating expenses, and other taxes payable. The unrealized foreign exchange gain arising from translation of foreign currency denominated payables outstanding as of December 31, 2007 at year-end closing rate amounted to ₱18.64 million. As of December 31, 2008 the ₱201.04 million liability on the purchase of equipment has been settled (see Note 9).

The ₱43.95 million liability on currency forward contracts in 2007 represents the fair value adjustments on the deliverable currency forward contracts outstanding as of December 31, 2007 with notional amounts of JPY621 million and EUR0.17 million, which matured in 2008. The average contracted forward rate for the JPY621 million forward contracts was ₱0.436 per JPY1, while that of the EUR0.17 million forward contract was US\$1.46 per EUR1. Net fair value losses related to these contracts amounting to ₱44.18 million were recognized during the year and are presented as part of foreign exchange loss in the 2007 statement of income.

Fair Value Changes on Derivatives

The net movements in fair value changes of the Company's derivative instruments in 2007 are as follows:

	2008	2007
Beginning balance	₱43,947,756	₱–
Net changes in fair value of derivatives not designated as accounting hedges	(7,600,854)	44,177,754
Fair value of settled forward contract	(36,346,902)	(229,998)
Balance at end of year	₱–	₱43,947,756

13. Long-term Debt

- a. On January 25, 2008, the Company entered into a medium term loan with a local bank amounting to ₱350.0 million to finance the construction of the IEM 2 plant in Iligan. The first drawdown of ₱250.0 million was made on January 31, 2008, with a fixed interest rate of 6.6% per annum. Another drawdown was made on March 7, 2008 for ₱100 million, with fixed interest rate of 7.497% per annum. The interest expense recognized under Interest and financing charges amounted to ₱7.53 million (see Note 18), while interest capitalized as part of the cost of the IEM 2 plant amounted to ₱13.75 million (see Note 9). The loans provide for late payment penalty of 2% per month of delay or a fraction thereof. The loan has a maximum term of five (5) years from the initial drawdown date, inclusive of a grace period of 12 months, and is payable in 16 equal quarterly payments. The Company has the option to prepay the loan, wholly or partially, without penalty, subject to certain conditions.

The loan is secured by the Company's Mortgage Trust Indenture (MTI) covering certain items of its properties and assets. The Company is required to deliver additional security to the MTI (in form and substance acceptable to the bank) in the event the properties subject of the loan document shall diminish in value below a collateral cover as defined in the loan document. The loan is subject to certain negative covenants with respect to the following, among others: (1) merger, consolidation and other material changes in the Company's direct or indirect ownership, corporate set up or management, (2) making or permitting any material and adverse change in the character of its business, (3) creating, incurring, assuming or permitting to suffer to exist any mortgage, charge, pledge lien or other encumbrance or security interest, (4) maintenance of debt-to-equity ratio and current ratio of 1.5:1.0, (5) declaring or paying cash dividends to such extent that will increase its debt to equity ratio beyond 0.5:1.0, and (6) maintenance of interest cover and debt service cover of 1:1.

As of December 31, 2008, the carrying value of the properties covered under the MTI amounted to ₱620.26 million.

- b. The long-term debt in 2007 represents a five-year term note payable to a local bank. Proceeds of the loan were used to partially finance the construction of the first IEM plant and related machinery and equipment. The loan bears interest of 8.50% fixed for the first 92 days and the three-month MART 1 rate plus a spread of 2.25% thereafter. Average interest rate in 2007 and 2006 is 7% and 8%, respectively. The interest expense was recognized under Interest and financing charges (see Note 18). Payment of principal has a grace period of one year. Thereafter, it is payable in 16 equal quarterly installments of ₱6.25 million starting October 21, 2004 until final maturity in July 2008. The loan is secured by the Company's properties (land, machinery, equipment and furniture) in Iligan. The carrying value of these properties amounted to ₱169.16 million as of December 31, 2007. As of December 31, 2008, this loan was fully settled.
- c. As of December 31, 2008 and 2007, the Company has unused credit lines amounting to ₱305.09 million and ₱278.96 million, respectively.

14. Asset Retirement Obligation

	2008	2007
Balance at beginning of year	₱685,200	₱609,168
Accretion for the year (Note 18)	85,730	76,032
Balance at end of year	₱770,930	₱685,200

15. Equity

Capital Stock

As of December 31, 2006, the Company's authorized capital stock consisted of 1.2 billion common shares with par value of ₱1 per share. On December 28, 2007, the SEC approved the reduction of the Company's authorized capital stock from 1.2 billion common shares to 1,099,942,532 common shares with par value of ₱1 per share. To effect the foregoing, the Company retired its 100,057,468 treasury shares, with par value of ₱1 per share. The excess of the par value over the cost of the treasury shares amounting to ₱6.8 million was credited to "Capital paid in excess of par."

The Company's issued and outstanding common stock as of December 31, 2008 and 2007 consist of 688,309,398 shares at par value of ₱1 per share. The number of equity holders as of the same dates was 2,689 and 2,715, respectively.

Retained Earnings

The Company declared dividends of ₱0.03 and ₱0.05 per share in 2007 and 2006, respectively. There were no dividends declared in 2008.

16. Cost of Sales

	2008	2007	2006
Finished goods inventory, January 1	₱143,101,283	₱135,112,209	₱178,463,375
Raw materials used	731,373,532	745,518,541	782,830,746
Direct labor	22,583,985	27,638,120	23,953,355
Manufacturing overhead:			
Depreciation (Note 9)	77,514,486	67,599,871	61,219,362
Supervision and indirect labor	49,909,430	44,344,219	38,893,829
Repairs and maintenance	36,521,371	42,677,554	38,311,885
Supplies and facilities	13,229,958	15,477,686	15,110,512
Taxes and licenses	10,481,544	10,144,511	9,577,803
Rental, light, janitorial and security	10,203,649	9,380,780	10,295,959
Others	4,630,556	5,468,778	4,278,622
Total manufacturing cost	956,448,511	968,250,060	984,472,073
Decrease (increase) in work in process inventory	10,674,656	(12,353,322)	711,107
Cost of goods manufactured	967,123,167	955,896,738	985,183,180
Total goods available for sale	1,110,224,450	1,091,008,947	1,163,646,555
Finished goods inventory, December 31	(143,569,099)	(143,101,283)	(135,112,209)
	₱966,655,351	₱947,907,664	₱1,028,534,346

17. Operating Expenses

	2008	2007	2006
Shipping and delivery	₱168,623,040	₱152,907,182	₱143,830,467
Salaries and wages (Note 24)	25,758,123	22,427,473	22,060,083
Depreciation (Note 9)	24,343,115	25,540,107	26,881,100
Rent, light and water	13,012,651	12,345,029	12,361,788
Retirement benefits (Note 19)	10,068,991	8,423,697	7,509,697
Employee benefits	10,045,065	7,429,590	8,210,377
Repairs and maintenance	5,867,528	3,849,438	6,263,082
Taxes and licenses	4,923,936	5,308,569	5,340,606
Professional fees	4,405,160	3,747,387	5,414,475
Transportation and travel	2,385,803	2,727,646	2,648,676
Insurance	2,007,704	2,350,782	2,434,803
Entertainment, amusement and recreation	1,927,569	1,448,954	1,692,490
Communication	1,816,209	1,908,907	2,210,187
Supplies	1,637,150	2,092,788	2,166,620
Others (Note 5)	5,388,869	5,346,875	5,038,493
	₱282,210,913	₱257,854,424	₱254,062,944

Professional fees include remuneration of some members of the BOD amounting to ₱0.96 million, ₱1.37 million and ₱1.44 million in 2008, 2007 and 2006, respectively.

18. Other Income and Expenses

Interest Expense

The interest expense, presented as part of "Interest and financing charges" in the statements of income, was incurred on:

	2008	2007	2006
Long term debt (Note 13)	₱8,647,526	₱1,952,629	₱4,412,830
Notes and trust receipts payable (Note 11)	9,071,000	6,511,064	10,734,161
Tax abatement (Note 26)	–	6,603,646	–
Accretion of ARO (Note 14)	85,730	76,032	67,454
	₱17,804,256	₱15,143,371	₱15,214,445

Interest Income

The interest income was earned from cash and cash equivalents.

Other Income

	2008	2007	2006
Rent (Note 24)	₱1,236,055	₱–	₱1,640,000
Scrap sales - net	986,999	2,078,627	2,155,305
Logistics and other service income	326,227	285,110	548,793
Gain on sale of available-for-sale financial assets	1,850	–	3,538,420
Others - net	1,701,240	1,749,879	2,948,964
	₱4,252,371	₱4,113,616	₱10,831,482

The Company follows the specific identification method in determining the cost of available-for-sale financial assets sold.

19. Retirement Plan

The Company has a funded, non-contributory defined benefit retirement plan providing for death and retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducted the actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula, taking into account the service rendered and compensation of covered employees as of valuation date. The latest actuarial valuation made for the plan was as of December 31, 2008.

The following tables summarize the components of net retirement expense recognized in the statements of income and the funding status and amounts recognized in the balance sheets.

The components of retirement expense which were charged to operations are as follows:

	2008	2007	2006
Current service cost	₱6,189,953	₱5,460,961	₱4,242,121
Interest cost on benefit obligation	9,286,832	7,931,068	8,933,769
Expected return on plan assets	(6,269,822)	(5,528,442)	(6,987,182)
Net actuarial loss	728,972	427,054	97,942
Past service cost	133,056	133,056	1,223,047
	₱10,068,991	₱8,423,697	₱7,509,697

The details of the retirement benefits payable are as follows:

	2008	2007
Benefit obligation	₱109,086,144	₱132,669,032
Plan assets	93,356,246	104,497,025
	15,729,898	28,172,007
Unrecognized net actuarial losses	(4,737,410)	(23,877,340)
	₱10,992,488	₱4,294,667

Changes in the present value of retirement benefit obligation are as follows:

	2008	2007
Present value of obligation at beginning of year	₱132,669,032	₱113,300,972
Current service cost	6,189,953	5,460,961
Interest cost on benefit obligation	9,286,832	7,931,068
Benefits paid	(16,799,162)	(3,215,827)
Actuarial loss (gain) on obligation:		
Experience adjustments	(3,953,303)	(4,873,697)
Change in assumptions	(18,307,208)	14,065,555
Present value of obligation at end of year	₱109,086,144	₱132,669,032

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

	2008	2007
Fair value of plan assets at beginning of year	₱104,497,025	₱92,140,693
Expected return on plan assets	6,269,822	5,528,442
Contributions	3,371,170	6,838,727
Benefits paid	(16,799,162)	(3,215,827)
Actuarial gain (loss) on plan assets	(3,982,609)	3,204,990
Fair value of plan assets at end of year	₱93,356,246	₱104,497,025

Actual return on plan assets is as follows:

	2008	2007	2006
Expected return on plan assets	₱6,269,822	₱5,528,442	₱6,987,182
Actuarial gain (loss) on plan assets	(3,982,609)	3,204,990	17,129,035
	₱2,287,213	₱8,733,432	₱24,116,217

The major categories of the net plan assets are as follows:

	2008	2007
Cash and cash equivalents	₱444,055	₱3,282,624
Loans receivables	3,609,977	4,216,284
Interest and dividends receivables	2,334,838	2,258,312
Investments in:		
Government securities	75,955,668	86,435,922
Bonds	14,939,033	8,435,645
Accounts payable, accrued trust fees and others	(3,927,325)	(131,762)
	₱93,356,246	₱104,497,025

The Company expects to contribute ₱4.0 million in 2009.

The assumptions used to determine retirement benefits obligation for the Company's retirement plan for the year ended December 31 are as follows:

	2008	2007	2006
Discount rate at end of year	9.05%	7%	7%
Salary increase rate	7%	6%	6%
Expected rate of return on plan assets	6%	6%	10%

The expected rates of return on plan assets were based on a reputable fund trustee's indicative yield rate for a risk portfolio similar to that of the fund with consideration of the fund's past performance.

Relevant amounts for the current and previous three periods are as follows:

	2008	2007	2006	2005
Present value of obligation	₱109,086,144	₱132,669,032	₱113,300,972	₱81,216,081
Fair value of plan assets	93,356,246	104,497,025	92,140,693	69,871,823
Deficit	15,729,898	28,172,007	21,160,279	11,344,258
Experience adjustment	(3,953,303)	(4,873,697)	4,014,000	(7,695,450)

20. Income Taxes

a. The current provision for income tax consist of the following:

	2008	2007	2006
Regular corporate income tax	₱-	₱35,208,331	₱19,901,888
Minimum corporate income tax	6,003,683	-	-
Final tax	857,137	959,544	1,392,772
	₱6,860,820	₱36,167,875	₱21,294,660

b. The components of the net deferred income tax liabilities are as follows:

	2008	2007
Deferred income tax liabilities:		
Revaluation increment	₱42,714,243	₱41,206,443
Capitalized asset retirement costs	74,842	97,870
	42,789,085	41,304,313
Deferred income tax assets:		
Retirement benefits payable and unamortized past service cost	5,308,546	4,162,734
Allowance for doubtful accounts	2,739,031	3,134,298
Excess of MCIT over RCIT	1,809,285	-
Accrued leases	1,237,286	1,471,390
Allowance for inventory obsolescence	719,955	839,947
Asset retirement obligation	231,279	239,820
Unrealized foreign exchange loss - net	33,745	8,783,279
	12,079,127	18,631,468
Net deferred income tax liabilities	₱30,709,958	₱22,672,845

The deferred income tax liability on revaluation increment was adjusted to reflect the change in applicable corporate income tax rate from 35% to 30% resulting to a decrease of ₱6.87 million in 2006.

c. The excess MCIT of ₱1.81 million incurred in 2008 may be used as a deduction against the RCIT payable until 2011.

d. A reconciliation of income tax computed at the statutory income tax rate to the provision for income tax reflected in the statements of income is as follows:

	2008	2007	2006
Income tax at statutory rate	₱17,997,121	(₱6,288,635)	₱23,428,901
Increase (decrease) in provision for income tax resulting from:			
Income tax holiday (Note 1)	(6,562,366)	-	(1,693,286)
Change in corporate income tax rate	1,364,034	335,134	-
Unallowable portion of interest expense and other nondeductible expenses	1,237,935	719,763	682,931
Interest income subjected to final tax	(643,852)	(754,179)	(784,518)
Dividend income	(2,092)	(21,055)	(165,026)
Gain on sale of available-for-sale financial assets	(647)	-	(687,183)
Tax abatement (Note 26)	-	33,340,383	-
	₱13,390,133	₱27,331,411	₱20,781,819

e. Republic Act No. (RA) 9337 or the Expanded Value-Added Tax (E-VAT) Act of 2005, which became effective on November 1, 2005, provided for, among others, (1) a corporate income tax rate of 35% for three years starting November 1, 2005 and 30% starting on January 1, 2009 and thereafter, and (2) the unallowable deduction for interest expense of 42% of interest income subject to final tax up to December 31, 2008 and 33% effective January 1, 2009.

On July 7, 2008, RA 9504, which amended the provision of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the optional standard deduction (OSD). Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount

not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availing of the OSD is irrevocable for the taxable year for which the return is made.

21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables, trust receipts payable, bank loans (short-term and long-term) and cash and short-term placements. The main purpose of these financial instruments is to finance the Company's operating requirements. The other financial assets and financial liabilities arising directly from its operations are trade receivables and payables. The Company did not engage in any trading of financial instruments.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The BOD reviews and approves the policies for managing each of these risks and they are summarized below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

This relates to the floating interest rate on the long term obligations of the Company. Prior approval is secured from the BOD regarding the terms of the loan. The Company has limited its floating interest rate loan to the five-year term note described in Note 13b, with an outstanding balance of ₱18.75 million as of December 31, 2007. The interest rate on this term note is subject to quarterly adjustment. As of December 31, 2008, this loan was fully settled.

The following table shows the effect on income before income tax for the year ended December 31, 2007 due to a reasonably possible change in Philippine Dealing and Exchange Corporation (formerly MART 1) rate (through the impact of floating rate loan). There is no other impact on equity other than those affecting income.

Increase (decrease) in rate	Effect on income before income tax
+1%	(₱273,958)
-1%	273,958

The sensitivity analysis takes into account historical movement in MART 1 rates in 2007. The Company assumes parallel upward and downward effect on income due to a reasonably possible change in interest rates.

As the Company's outstanding debt as of December 31, 2008 bears fixed interest rate (see Note 13a), it has no exposure to cash flow and fair value interest rate risk as of December 31, 2008.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows from the Company's foreign-currency denominated assets or liabilities may fluctuate due to changes in foreign exchange rates.

The Company's exposure to foreign currency risk primarily arises from importation of finished goods and raw material and equipment. Purchases of finished goods and raw material are subject to an open account from foreign suppliers and is settled immediately through a peso trust receipts financing from a local bank once all the documentation requirements are complete. The Company also enters into currency forward contracts to manage the currency risks.

The foreign currency-denominated financial assets and financial liabilities of the Company are as follows:

As of December 31, 2008

Currency	Account	Asset (Liability)	
		Foreign Currency	Peso Equivalent
US\$	Cash and trade receivables	US\$47,907	₱2,276,541

As of December 31, 2007

Currency	Account	Asset (Liability)	
		Foreign Currency	Peso Equivalent
US\$	Cash and trade receivables	US\$25,061	₱1,034,518
JPY	Accounts payable (Note 12)	(JPY552,000,000)	(201,038,400)
JPY	Liability on currency forward contracts (Note 12)	(₱43,947,756)	(43,947,756)
Net			(₱243,951,638)

The following table shows the effect on income before income tax for the year ended due to a reasonably possible change in foreign currency rates. There is no other impact on the Company's equity other than those affecting income.

December 31, 2008

Currency	Increase (decrease) in rate	Effect on income before tax
US\$	+7%	₱220,179
	-7%	(₱220,179)

December 31, 2007

Currency	Increase (decrease) in rate	Effect on loss before tax
US\$	+7%	₱72,416
JPY	+1%	(59,835)
Net Total		₱12,581
US\$	-7%	(₱72,416)
JPY	-1%	(573,180)
Net Total		(₱645,596)

The sensitivity analysis takes into account historical movements of Peso in every US\$1 and JPY1 foreign exchange rates. The Company assumes parallel upward and downward effect on income due to a reasonably possible change in these foreign exchange rates.

Credit risk

Credit risk arises because the counterparty may fail to perform its obligations.

The Company is not exposed to concentrations of credit risk. The Company does not have any customer that accounts for more than 10% of their total revenues. It is the Company's policy to require all customers, who wish to trade on credit terms, to comply with and undergo the credit verification process. This process emphasizes on the customer's character and capacity and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized.

The Company deals only with legitimate and duly accredited parties.

The table below shows the maximum credit exposure of the Company as of December 31, 2008 and 2007.

	2008	2007
Cash in banks	₱67,058,574	₱43,309,323
Short-term placements	65,565,180	91,543,462
Trade receivables:		
Private	344,471,343	264,460,810
Government	17,565,386	9,540,640
Non-trade receivables	28,074,328	1,216,354
	390,111,057	275,217,804
Receivable from a stockholder	27,401,500	27,401,500
Note and other receivables	306,537	306,537
Total	₱550,442,848	₱437,778,626

The table below shows the credit quality of financial assets and an aging analysis of past due accounts as of December 31, 2008 and 2007.

December 31, 2008

	Neither past due nor impaired			Past Due but not Impaired			Gross Impaired Receivables	Allowance for Doubtful Accounts	Total
	High Grade	Standard Grade	Substandard Grade	Over 30 days	Over 60 day	Over 90 day			
Cash in banks	₱67,058,574	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱67,058,574
Short-term placements	65,565,180	-	-	-	-	-	-	-	65,565,180
	132,623,754	-	-	-	-	-	-	-	132,623,754
Trade receivables									
Private	107,083,063	147,234,771	6,391,098	37,499,038	16,498,357	29,765,016	9,130,102	(9,130,102)	344,471,343
Government	10,944,946	437,711	-	2,730,452	2,673,678	778,599	-	-	17,565,386
Non-trade receivables	28,074,328	-	-	-	-	-	-	-	28,074,328
	146,102,337	147,672,482	6,391,098	40,229,490	19,172,035	30,543,615	9,130,102	(9,130,102)	390,111,057
Receivable from a stockholder (Note 24)	-	-	-	-	-	27,401,500	-	-	27,401,500
Note and other receivable	306,537	-	-	-	-	-	-	-	306,537
Total	₱279,032,628	₱147,672,482	₱6,391,098	₱40,229,490	₱19,172,035	₱57,945,115	₱9,130,102	(₱9,130,102)	₱550,442,848

December 31, 2007

	Neither past due nor impaired			Past Due but not Impaired			Gross Impaired Receivables	Allowance For Doubtful Accounts	Total
	High Grade	Standard Grade	Substandard Grade	Over 30 days	Over 60 days	Over 90 days			
Cash in banks	₱43,309,323	₱-	₱-	₱-	₱-	₱-	₱-	₱-	₱43,309,323
Short-term placements	91,543,462	-	-	-	-	-	-	-	91,543,462
	134,852,785	-	-	-	-	-	-	-	134,852,785
Trade receivables									
Private	₱77,826,236	₱48,324,845	₱2,250,183	₱87,065,507	₱26,039,194	₱22,650,779	₱9,259,201	(₱8,955,135)	₱264,460,810
Government	3,111,355	496,684	-	3,886,992	1,283,264	762,345	-	-	9,540,640
Non-trade receivables	1,216,354	-	-	-	-	-	-	-	1,216,354
	82,153,945	48,821,529	2,250,183	90,952,499	27,322,458	23,413,124	9,259,201	(8,955,135)	275,217,804
Receivable from a stockholder (Note 24)	-	-	-	-	-	27,401,500	-	-	27,401,500
Note and other receivable	306,537	-	-	-	-	-	-	-	306,537
Total	₱217,313,267	₱48,821,529	₱2,250,183	₱90,952,499	₱27,322,458	₱50,814,624	₱9,259,201	(₱8,955,135)	₱437,778,626

High and standard grade receivables consist of receivables from customers and other parties with good credit standing with the Company and with a history of no or little delay in payments. Substandard grade receivables, on the other hand, are receivables from customers with a history of delayed payments. The Company constantly monitors the receivables from these customers in order to identify any potential adverse changes in the credit quality. Money market placements are limited to banks duly approved by the BOD. The allowance for doubtful accounts is provided for those receivables that have been identified as individually impaired.

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with financial instruments. Such risk may result from inadequate market depth, disruption or refinancing problems.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and purchase contracts. Short-term loans availed for operating requirements usually mature within one year while loans through trust receipts mature within 180 days.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2008 and 2007 based on contractual undiscounted payments (principal and interest):

December 31, 2008

	On-demand	<6 months	<1 year	<2 years	Total
Note and trust receipts payable	₱-	₱213,097,435	₱-	₱-	₱213,097,435
Trade and other payables	30,540,786	73,387,873	-	-	103,928,659
Long-term debt (including current portion)	-	51,454,726	54,865,230	318,970,531	425,290,487
Customers deposit	18,618,017	-	-	-	18,618,017

December 31, 2007

	On-demand	<6 months	<1 year	<2 years	Total
Note and trust receipts payable	₱-	₱100,456,173	₱-	₱-	₱100,456,173
Trade and other payables	22,627,412	281,492,461	-	-	304,119,873
Long-term debt (including current portion)	-	12,773,734	6,351,383	-	19,125,117
Customers deposit	18,725,258	-	-	-	18,725,258

Capital Management

The primary objective of the Company's capital management is to ensure profitability by maintaining high capital turn-over ratio in order to support its business and maximize utilization of capital.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company is not subject to externally imposed capital requirements.

The Company monitors capital using capital turn-over ratio (Net sales/Capital employed). The Company's objective is to keep the capital turn-over ratio not lower than 1:1.

	2008	2007
Net sales	₱1,309,859,814	₱1,314,562,152
Capital employed	1,455,680,800	1,084,333,665
Capital turnover ratio	0.9:1	1.2:1

As of December 31, the Company's capital employed comprise the following:

	2008	2007
Capital stock	₱688,309,398	₱688,309,398
Capital paid in excess of par	176,594,308	176,594,308
Revaluation increment - net of related deferred taxes	99,666,568	96,148,367
Reserve for fluctuation in available-for-sale financial assets	(464,385)	986,895
Retained earnings	141,574,911	103,544,697
Long-term debt, including current portion	350,000,000	18,750,000
Capital employed	₱1,455,680,800	₱1,084,333,665

22. Financial Instruments

Fair Value

The following table sets forth the carrying values and estimated fair values of the financial assets and financial liabilities presented per class and category as of December 31, 2008 and 2007:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash in banks	₱67,058,574	₱67,058,574	₱43,309,323	₱43,309,323
Loans and receivables				
Cash equivalents	65,565,180	65,565,180	91,543,462	91,543,462
Trade and other receivables - net				
Private	344,471,343	344,471,343	264,460,810	264,460,810
Government	17,565,386	17,565,386	9,540,640	9,540,640
Non-Trade	28,074,328	28,074,328	1,216,354	1,216,354
Receivable from a stockholder	27,401,500	27,401,500	27,401,500	27,401,500
Note and other receivable	306,537	306,537	306,537	306,537
	483,384,274	483,384,274	394,469,303	394,469,303
Available-for-sale financial assets				
Quoted	₱615,065	₱615,065	₱2,193,455	₱2,193,455
Unquoted	5,001,000	5,001,000	5,001,000	5,001,000
	5,616,065	5,616,065	7,194,455	7,194,455
	₱556,058,913	₱556,058,913	₱444,973,081	₱444,973,081
Financial Liabilities				
Liabilities at FVPL				
Liability on forward contracts (Forward)	₱-	₱-	₱43,947,756	₱43,947,756

	2008 Carrying Value	Fair Value	2007 Carrying Value	Fair Value
Other Liabilities				
Notes payable	18,000,000	18,000,000	68,000,000	68,000,000
Trust receipts payable	195,097,435	195,097,435	32,216,231	32,216,231
Trade payables	24,581,242	24,581,242	30,729,107	30,729,107
Dividends payable	5,777,199	5,777,199	5,777,199	5,777,199
Accrued expenses and other payables	73,570,218	73,570,218	223,665,811	223,665,811
Long-term debt (including current portion)	350,000,000	304,111,636	18,750,000	18,750,000
Customers' deposits	18,618,017	18,618,017	18,725,258	18,725,258
	₱685,644,111	₱639,755,747	₱441,811,362	₱441,811,362

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Short-term financial instruments

Due to the short-term nature of the transactions, the carrying value of cash and cash equivalents, trade and other receivables, receivable from a stockholder, note receivable, notes and trust receipts payable, trade payables, dividend payable and accrued expenses and other payables approximate their fair values.

Available-for-sale financial assets

The fair values of publicly traded instruments and similar investments are based on quoted bid prices. The fair value of unquoted available-for-sale equity securities cannot reasonably be determined, thus, these are carried at cost, subject to impairment.

Long-term debt

The fair value of the long-term debt outstanding as of December 31, 2007 approximates its carrying value due to the quarterly repricing of the instrument. The fair value of long-term debt outstanding as of December 31, 2008 is calculated by discounting the future cash flows at the prevailing interest rates as of yearend for instruments with similar maturities.

Customers' deposit

The fair value of the customers deposit is not determinable because there is no reasonable basis as to the timing of the return of the cylinders by the customers and the refund of the deposits to customers.

Liability on forward contracts

The fair value of forward currency contracts is calculated by reference to the counterparty's current forward exchange rates as of the date of the financial statements.

23. Leases

The Company has various operating lease agreements covering its office spaces, parking slots, warehouse, storage tanks, piping system, pumps, and bulk storage and handling facilities for a period of three to 15 years and expiring on various dates up to 2018. These leases are renewable upon mutual agreement of the parties and subject to escalation rate of 2.5% to 10% annually.

The covering agreements of these leases require the Company to pay certain amounts of security and rental deposits, which are included under "Other noncurrent assets" in the balance sheets.

Lease expense on the foregoing lease agreements amounted to ₱7.95 million in 2008, 2007 and 2006.

Future minimum rental commitments under the above agreements follow:

	2008	2007
Not later than one year	₱10,623,125	₱6,404,947
Later than one year and not later than five years	32,114,787	23,465,557
Later than five years	18,187,926	15,661,546
	₱60,925,838	₱45,532,050

24. Related Party Transactions

- The Company purchases inventories from Mitsubishi based on agreed commercial terms and conditions. Total purchases from Mitsubishi amounted to ₱406.81 million, ₱353.75 million, and ₱350.70 million in 2008, 2007 and 2006, respectively. As of December 31, 2008 and 2007, the Company has no outstanding trade payable to Mitsubishi.
- The Company also had an agreement with Mitsubishi for the lease of one of the Company's storage tanks. The lease is for a period of one year, renewable upon agreement between the parties. The agreement ended in August 2006 and was not renewed. The rent income amounted to ₱1.64 million in 2006.
- In 2003, the Company extended loans to MAHEC totaling ₱100.0 million. The loans are subject to interest equivalent to prevailing annual money market placement rate plus 1% and are secured by MAHEC's ₱100.0 million worth of shares in the Company's capital stock. MAHEC was unable to pay the principal and interest which were due and payable in May and June 2004.

On January 28, 2005, the Company and MAHEC entered into an agreement whereby MAHEC assigned, transferred and conveyed to the Company, by way of Dacion en Pago, 64,007,468 shares of stock of the Company as full payment of MAHEC's loans amounting to ₱70.41 million, inclusive of interest.

On the same date, the Company and MAHEC executed a memorandum of agreement (MOA) with irrevocable special power of attorney and proxy. Among others, the MOA provides that:

- i. MAHEC names, constitutes and appoints the Company and/or its president as its attorney-in-fact with full and absolute power to execute a deed of assignment and/or similar document transferring and conveying, in favor of the Company, MAHEC's 36,000,000 shares of stock of the Company in payment of MAHEC's loan obligations to the Company amounting to ₱39.42 million, inclusive of interest.
- ii. Pending the transfer of the 36,000,000 shares to the Company, the parties agree that any income/dividend accruing thereto shall be applied to MAHEC's loan obligations. For this purpose, MAHEC assigns, in favor of the Company, whatever income/dividend that will accrue on the subject shares during the intervening period.
- iii. Upon the transfer of the 36,000,000 shares to the Company, the obligation of MAHEC shall be extinguished.
- iv. All taxes and fees in connection with the transfer of ownership of the subject shares of stock in favor of the Company shall be for the account of MAHEC.

On December 14, 2006, the Company and MAHEC executed a Dacion en Pago whereby MAHEC assigned, transferred and conveyed its rights, interests and participation to 9,000,000 shares in favor of the Company as full payment of MAHEC's loans and interest amounting to ₱9.40 million. The 9,000,000 shares were converted to treasury shares as of December 31, 2006.

Dividends accruing to the 27,000,000 shares totaling ₱0.81 million in 2007 and to the 36,000,000 shares totaling ₱1.80 million in 2006 were applied against the receivable from MAHEC. In 2008, there was no dividend accrued for these shares.

As of December 31, 2008, the 27,000,000 shares have not been transferred to the Company. Accordingly, the receivable from MAHEC amounting to ₱27.4 million remained outstanding.

- d. The compensation of key management personnel follows:

	2008	2007	2006
Short-term employee benefits	₱8,138,486	₱9,614,622	₱10,559,256
Retirement benefits (Note 19)	631,700	768,827	735,700
	₱8,770,186	₱10,383,449	₱11,294,956

There are no agreements between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

25. Earnings (Loss) Per Share

	2008	2007	2006
Net income (loss) (a)	₱38,030,214	(₱45,298,940)	₱46,157,897
Weighted average number of shares outstanding (Note 15) (b)	688,309,398	688,309,398	696,934,398
Earnings (loss) per share (a/b)	₱0.055	(₱0.066)	₱0.066

The weighted average number of shares outstanding in 2006 was computed considering the acquisition of 9,000,000 additional treasury shares in exchange for notes receivables (see Note 24).

26. Contingencies

Tax abatement

The Company had a tax assessment issued by the BIR for alleged deficiency withholding taxes on interest incurred on borrowings (₱454.39 million) and deficiency income taxes (₱322.61 million) for years 1988 and 1989, resulting from disallowance of interest expense for failure to withhold taxes.

The management, together with its legal counsel, vigorously contested the case and believed that it will be able to defend its position and obtain a favorable decision on the issues raised by the BIR. However, the subject case has long been pending with the BIR and in various courts, delaying and hampering most of the Company's major decisions anchored on the resolution/result of the case. Furthermore, the Company deemed it prudent to assure the shareholders that the Company can move forward and achieve its objectives to the fullest without any risk of being hampered by a pending case.

In this light and without necessarily admitting any tax liability, the Company decided to avail of the BIR's One-Time Administrative Abatement Program pursuant to the provisions of Section 204(B) of the National Internal Revenue Code as implemented by Revenue Regulations 15-2006 and 03-2007, which prescribe the guidelines for the availment of one-time administrative abatement of penalties, interest and surcharges on delinquent accounts and assessments.

In 2007, the Company paid the sum of ₱101.86 million, including interest of ₱6.60 million. The ₱95.26 million, representing the tax assessment is presented as "Tax abatement" while the ₱6.60 million is presented as part of "Interest and financing charges" in the 2007 statement of income.

Other legal cases

The Company, in the normal course of business, is involved in various labor and other legal cases either as the defendant or plaintiff. The Company believes that the outcome of these cases will not have a material effect on the financial statements.