

TANDUAY DISTILLERS, INC.

*(A Wholly Owned Subsidiary of
Tanduay Holdings, Inc.)*

AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

and

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tanduay Distillers, Inc.

We have audited the accompanying financial statements of Tanduay Distillers, Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 consolidated financial statements present fairly, in all material respects, the financial position of Tanduay Distillers, Inc. and subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes

Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-A

Tax Identification No. 152-884-272

PTR No. 0015216, January 3, 2008, Makati City

March 18, 2008



COVER SHEET

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SEC Registration Number

T A N D U A Y D I S T I L L E R S , I N C .
 (A W h o l l y O w n e d S u b s i d i a r y o f
 T a n d u a y H o l d i n g s , I n c .) A N D
 S U B S I D I A R I E S

(Company's Full Name)

3 4 8 J . N e p o m u c e n o S t r e e t ,
 S a n M i g u e l D i s t r i c t , M a n i l a

(Business Address: No. Street City/Town/Province)

Nestor C. Mendones

(Contact Person)

733-9301

(Company Telephone Number)

1 2 3 1
 Month Day
 (Calendar Year)

A A C F S
 (Form Type)

Month Day
 (Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
 Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Tanduay Distillers, Inc.
348 J. Nepomuceno Street
San Miguel District, Manila

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SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-A
Tax Identification No. 152-884-272
PTR No. 0015216, January 3, 2008, Makati City

March 18, 2008



TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of Tanduay Holdings, Inc.)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2007	2006
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 14 and 19)	₱680,340,053	₱1,105,904,931
Receivables - net (Notes 5, 14 and 19)	1,218,240,462	1,288,020,472
Inventories (Notes 6 and 14)	2,997,618,341	2,738,661,779
Prepayments and other current assets (Note 7)	433,882,952	411,243,217
Total Current Assets	5,330,081,808	5,543,830,399
Noncurrent Assets		
Available-for-sale investments (Notes 8 and 19)	233,740,241	291,437,823
Property, plant and equipment (Note 9):		
At appraised values - net	3,647,043,194	2,843,896,752
At cost - net	740,953,494	536,699,833
Investment properties - at fair value (Note 10)	68,091,262	76,489,899
Goodwill (Note 3)	144,702,917	144,702,917
Deferred tax assets - net (Note 17)	14,972,125	861,548
Net retirement assets (Note 15)	19,181,042	22,697,944
Other investments and other noncurrent assets (Note 11)	61,108,076	58,958,586
Total Noncurrent Assets	4,929,792,351	3,975,745,302
TOTAL ASSETS	₱10,259,874,159	₱9,519,575,701

LIABILITIES AND EQUITY

Current Liabilities		
Accounts payable and accrued liabilities (Notes 12, 19 and 23)	₱873,011,105	₱802,293,797
Income tax payable	97,010,268	—
Current portion of long-term debt (Notes 13 and 19)	10,000,000	10,000,000
Total Current Liabilities	980,021,373	812,293,797
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 13 and 19)	4,180,000,000	4,190,000,000
Deferred tax liabilities - net (Note 17)	518,462,522	336,914,881
Total Noncurrent Liabilities	4,698,462,522	4,526,914,881
Total Liabilities	5,678,483,895	5,339,208,678

(Forward)



	December 31	
	2007	2006
Equity		
Attributable to equity holders of the parent:		
Capital stock - ₱1 par value		
Authorized - 2,000,000,000 shares		
Issued - 600,000,000 shares	₱600,000,000	₱600,000,000
Additional paid-in capital	1,212,290,309	1,212,290,309
Revaluation increment in property, plant and equipment, net of related deferred tax liability (Note 9)	1,024,099,982	598,561,005
Net changes in fair values of available-for-sale investments, net of related deferred tax liability (Note 8)	26,762,706	33,774,455
Retained earnings (Note 18)	1,538,364,962	1,544,486,060
	4,401,517,959	3,989,111,829
Minority interests	179,872,305	191,255,194
Total Equity	4,581,390,264	4,180,367,023
TOTAL LIABILITIES AND EQUITY	₱10,259,874,159	₱9,519,575,701

See accompanying Notes to Consolidated Financial Statements.



TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of Tanduay Holdings, Inc.)
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31	
	2007	2006
NET SALES (Note 14)	₱7,649,735,731	₱6,575,161,814
COST OF GOODS SOLD (Note 16)	6,053,551,021	5,115,079,722
GROSS PROFIT	1,596,184,710	1,460,082,092
Selling expenses (Note 16)	(451,874,419)	(729,768,576)
General and administrative expenses (Note 16)	(296,895,010)	(233,969,492)
Interest expense (Note 13)	(371,272,419)	(368,011,634)
Interest income (Notes 4, 5, 8 and 14)	113,760,743	117,125,656
Foreign exchange loss - net (Notes 4 and 8)	(55,730,061)	(30,294,313)
Impairment loss on property, plant and equipment of subsidiary (Note 9)	(23,192,667)	—
Gain (loss) on:		
Changes in fair value of investment properties (Note 10)	(96,637)	45,756,030
Settlement of investment of a subsidiary	—	15,208,654
Other income (expense) - net (Note 10)	3,684,548	(445,709)
INCOME BEFORE INCOME TAX	514,568,788	275,682,708
PROVISION FOR INCOME TAX (Note 17)		
Current	230,260,927	146,286,539
Deferred	(23,420,143)	(5,717,047)
	206,840,784	140,569,492
NET INCOME	₱307,728,004	₱135,113,216
Net income attributable to:		
Equity holders of the parent	₱319,110,893	₱146,735,181
Minority interests	(11,382,889)	(11,621,965)
	₱307,728,004	₱135,113,216

See accompanying Notes to Consolidated Financial Statements.



**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

See accompanying Notes to Consolidated Financial Statements.



TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of Tanduay Holdings, Inc.)
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱514,568,788	₱275,682,708
Adjustments for:		
Depreciation and amortization (Notes 9 and 16)	329,620,260	415,899,488
Interest expense	371,272,419	368,011,634
Interest income	(113,760,743)	(117,125,656)
Unrealized foreign exchange loss - net	55,730,061	30,294,313
Impairment loss on property, plant and equipment of subsidiary (Note 9)	23,192,667	—
Loss (gain) on:		
Sale of machinery	788,610	—
Changes in fair values of investment properties (Note 10)	96,637	(45,756,030)
Settlement of investment of a subsidiary	—	(15,208,654)
Operating income before working capital changes	1,181,508,699	911,797,803
Decrease (increase) in:		
Receivables	(85,123,980)	1,123,088,605
Inventories	(258,695,406)	(507,456,454)
Prepayments and other current assets	(35,768,286)	(187,902,740)
Increase (decrease) in accounts payable and accrued liabilities	(176,767,296)	273,775,228
Provision for doubtful accounts (Note 5)	13,591,465	—
Provisions for (recovery from) losses	(261,156)	1,305,685
Recovery of doubtful accounts	—	(140,000)
Retirement benefits cost (income) - net of effect of employee curtailment (Note 15)	15,286,400	(25,193,422)
Contributions to retirement fund (Note 15)	(11,769,500)	(11,481,650)
Cash generated from operations	642,000,940	1,577,793,055
Interest received	142,275,526	52,774,276
Income taxes paid, including creditable withholding and final taxes	(128,986,661)	(168,962,850)
Net cash from operating activities	655,289,805	1,461,604,481
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 9)	(693,761,006)	(528,609,737)
Proceeds from sales of machinery and equipment and investment property (Note 9)	8,415,000	—
Collection of advances to parent company (Note 14)	—	46,000,000
Advances to ultimate parent company (Notes 14 and 23)	—	(750,000,000)
Acquisition of investment properties	—	(18,094,037)
Increase in other investments and other noncurrent assets	(2,149,486)	(12,997,383)
Net cash used in investing activities	(687,495,492)	(1,263,701,157)

(Forward)



	Years Ended December 31	
	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(P371,647,100)	(P221,217,916)
Payment of loans (Note 13)	(10,000,000)	(3,650,000,000)
Availment of loans (Notes 13, 14 and 23)	—	4,200,000,000
Dividends paid (Notes 14 and 18)	—	(360,000,000)
Net cash used in financing activities	(381,647,100)	(31,217,916)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(11,712,091)	(7,449,505)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(425,564,878)	159,235,903
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,105,904,931	946,669,028
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P680,340,053	P1,105,904,931

See accompanying Notes to Consolidated Financial Statements.



TANDUAY DISTILLERS, INC.
(A Wholly Owned Subsidiary of Tanduay Holdings, Inc.)
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information and Business Operations

Tanduay Distillers, Inc. (the Company) is incorporated in the Philippines and is a wholly owned subsidiary of Tanduay Holdings, Inc. (THI). The Company's ultimate parent is Tangent Holdings Corporation (THC). The Company is primarily engaged in, operates, conducts, and maintains the business of manufacturing, compounding, bottling, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail, such finished goods as rum, spirit beverages, liquor products, and any and all equipment, materials, supplies used and/or employed in or related to the manufacture of such finished goods. The Company sells its products in the domestic market mainly through major distributors.

The Company's registered office address is 348 J. Nepomuceno Street, San Miguel District, Manila.

The consolidated financial statements of the Company and its subsidiaries (the "Group") for the years ended December 31, 2007 were authorized for issue by the Board of Directors (BOD) on March 18, 2008.

2. Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the Group's land, land improvements, buildings and building improvements, and machinery and equipment, that have been stated at appraised values, and investment properties and available-for-sale investments that have been measured at fair values. The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency, and rounded to the nearest peso except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements as of December 31 of each year of the Company and the following subsidiaries, which are all incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC):

	Percentage of Ownership
Asian Alcohol Corporation (AAC)*	93
Absolut Chemicals, Inc. (ACI)**	96

* The increase in ownership on AAC to 93% was approved by the Philippine SEC on January 10, 2008 (see Note 3).

**The increase in ownership on ACI to 96% was approved by the Philippine SEC in October 2007 (see Note 3).



The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company and uses consistent accounting policies.

All intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognized in assets and liabilities are eliminated in full. However, intragroup losses that indicate impairment are recognized in the consolidated financial statements.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Subsidiary

A subsidiary is an entity which the Company holds, directly or indirectly, more than half of the issued share capital, or controls more than half of the voting power, or exercises control over the operation and management of the subsidiary.

Minority Interest

Minority interest represents the interest in a subsidiary, which is not owned, directly or indirectly through subsidiaries, by the Company. If losses applicable to the minority interest in a subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to the minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority interest's share of losses previously absorbed by the majority interest has been recovered.

Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except that on January 1, 2007, the Group adopted the following new and amended PFRS and Philippine Interpretations. The adoption of these new and revised PFRS and Interpretations did not have any effect on the financial performance or position of the Group but have resulted in changes to its policies that were previously adopted and inclusion of additional disclosures. These disclosure requirements, where applicable, have been included in the 2007 consolidated financial statements.

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures that enable users of the financial statements to evaluate the significance of an entity's financial instruments and the nature and extent of risks arising from those financial instruments. Additional disclosures required by PFRS 7 were included in the consolidated financial statements, where applicable. The Group adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group did not present comparative information for the disclosures required by paragraphs 31-42 of PFRS 7, unless the disclosures were previously required under Philippine Accounting Standard (PAS) 32, *Financial Instruments: Presentation* (see Notes 5 and 19).



- Amendment to PAS 1, *Presentation of Financial Statements, Amendment for Capital Disclosures*, requires the following additional disclosures: (a) an entity's objectives, policies and processes for managing capital; (b) quantitative data about what the entity regards as capital; (c) whether the entity has complied with any capital requirements; and (d) if it has not complied, the consequences of such noncompliance. Additional disclosures required by this amendment were included in the consolidated financial statements, where applicable (see Note 20).
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29*, provides guidance on how to apply PAS 29, *Financial Reporting in Hyperinflationary Economies* when an economy first becomes hyperinflationary, in particular the accounting for deferred tax. The adoption of this Interpretation has no impact on the Group's financial position and results of operations as it does not operate in a hyperinflationary environment.
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*, requires PFRS 2, *Share-based Payments*, to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As the Group currently does not have share-based payment transactions, and is not expecting to have share-based payments in the future, the adoption of this Interpretation has no impact on the Group's financial position and results of operations.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivatives requiring separation from the host contract, the Interpretation had no impact on the financial position or performance of the Group.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The Interpretation had no impact on the financial position or performance of the Group.

Summary of Significant Accounting and Financial Reporting Policies

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 up to three months or less from dates of acquisition, and that are subject to an insignificant risk of change in value.

Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit or loss. Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rates of interest for similar instruments with similar maturities.



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

Financial assets are classified into the following categories:

- a. Financial asset at fair value through profit or loss
- b. Loan and receivable
- c. Held-to-maturity investment
- d. Available-for-sale financial asset

All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Financial liabilities, on the other hand, are classified into the following categories:

- a. Financial liability at fair value through profit or loss
- b. Other financial liability

The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every balance sheet date.

a. *Financial assets or financial liabilities at fair value through profit or loss*

Financial assets or financial liabilities classified in this category are 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 them on a different basis, or
- The assets and liabilities are part of a group of financial assets and financial liabilities, respectively, or both financial assets and financial liabilities, which are managed and their performance is 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 and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in the consolidated statement of income. Interest earned is recorded in interest income, while dividend income is recorded in other income according to the terms of the contract, or when the right of the payment has been established. Interest incurred is recorded in interest expense.

The Group has not designated any financial asset or financial liability as at fair value through profit or loss in both 2007 and 2006.

b. *Loans and receivables*

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and



receivables are carried at amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest method. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Classified as loans and receivables are the Group's cash in bank and cash equivalents, and trade and other receivables.

c. *Held-to-maturity investments*

Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturities wherein the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are carried at cost or amortized cost in the consolidated balance sheet. Amortization is determined using the effective interest method. Assets under this category are classified as current assets if maturity is within twelve months from the balance sheet date and noncurrent assets if maturity is more than a year.

The Group has not designated any financial asset as held-to-maturity as of December 31, 2007 and 2006.

d. *Available-for-sale financial assets*

Available-for-sale financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of investments classified as available-for-sale financial assets are recognized in equity, except for the foreign exchange fluctuations on available-for-sale debt securities and the related effective interest which are taken directly to the consolidated statement of income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, 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 consolidated statement of income.

Classified as available-for-sale financial assets are the Group's investments in government bonds and club and other equity shares.

e. *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or not designated as fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations (e.g., payables, accruals) and financing activities (e.g., long-term debt).

Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.



Free Standing and Embedded Derivatives

An embedded derivative is separated from the host financial or nonfinancial contract and accounted for as derivative if all the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at fair value through profit or loss.

The Group assesses whether embedded derivatives are required to be separated from host contract when the Group first become party to the contract. Reassessment only occurs if there is change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial asset at fair value through profit or loss. Changes in the fair values are included in the consolidated statement of income.

As of December 31, 2007 and 2006, the Group has no free standing and embedded derivatives.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

- a. the rights to receive cash flows from the asset have expired;
- b. the Group 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
- c. the Group 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 Group 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 Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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 consolidated statement of income.



Impairment of Financial Assets

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

a. *Assets carried at amortized cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of 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 rates (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss, if any, is recognized in the consolidated statement of income.

The Group 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. Objective evidence includes observable data that comes to the attention of the Group about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that the borrower will enter bankruptcy or other financial reorganization. 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 the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

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 consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Loans and receivables, together with the related allowance, 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 consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

b. *Assets carried at cost*

If there is an objective evidence that an impairment loss of an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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.



c. *Available-for-sale financial assets*

If an available-for-sale financial asset is impaired, the amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in consolidated statement of income, is transferred from consolidated statement of equity to the consolidated statement of income. Reversals in respect of equity instruments classified as an available-for-sale are not recognized in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 consolidated balance sheet.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition are accounted for as follows:

- | | | |
|------------------------------------|---|--|
| Finished goods and work in process | - | direct materials, direct labor, and a proportion of manufacturing overhead costs, determined using the moving average method |
| Raw materials and supplies | - | purchase cost using the moving average method |

NRV of finished goods is selling price less the estimated costs of completion, marketing, and distribution. For raw materials and supplies, NRV is current replacement cost. In case of supplies, NRV is the estimated realizable value of the supplies when disposed of at their condition at the balance sheet date.

Inventories include items that are not being used in operations but do not qualify as assets held for sale or cannot be included in a disposal group that is classified as held for sale under PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*.

Investment in Shares of Stock

The Company's investment in the shares of stock of Domecq Asia Brands, Inc. [DABI, a joint venture with Allied Domecq Philippines, Inc. (ADPI) where the Company holds a 50% interest, see Note 11] is carried in the consolidated financial statements in accordance with PAS 31, *Interests in Joint Ventures* and PAS 27, *Consolidated and Separate Financial Statements*.

Property, Plant and Equipment

Property, plant and equipment, other than the Group's land, land improvements, buildings and building improvements, and machinery and equipment, are stated at cost less accumulated depreciation and amortization 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. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when 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 Group's land, land improvements, buildings and building improvements, and machinery and equipment are stated at revalued amounts based on a valuation performed by an independent firm of appraisers as of December 31, 2002. The increase in the valuation of these assets is credited to "Revaluation increment in property, plant and equipment, net of related deferred tax liability," in the equity section of the consolidated balance sheet and in the consolidated statement of changes in equity.

Revaluation is made every three to five years such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. For subsequent revaluations, the accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. Any resulting increase in the asset's carrying amount as a result of the revaluation is credited directly to "Revaluation increment in property, plant and equipment net of related deferred tax liability." Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same asset.

Construction in progress, included in property, plant and equipment, is stated at cost. This includes cost of construction, plant and equipment, and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Each part of an item of property, plant and equipment, with cost that is significant in relation to the total cost of the item is depreciated separately.

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

	Number of years
Land improvements	5 to 15
Buildings and building improvements	10 to 20
Machinery and equipment	5 to 20
Furniture, fixtures and office equipment	5 to 20
Transportation equipment	5
Warehouse, laboratory and other equipment	4 to 10

Leasehold improvements are amortized on a straight-line basis over the terms of the leases or the life of the assets of 10 years, whichever is shorter.



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

Depreciation of an item of property and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in compliance with PFRS 5 and the date the item is derecognized.

When assets are sold or retired, their cost and accumulated depreciation and amortization and any impairment in value are eliminated from the accounts, and any gain or loss resulting from their disposal is included in the consolidated statement of income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition or purchase accounting method. This method involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future



restructuring) of the acquired business at fair value. It also involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash generating units) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash generating unit (or group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual test of goodwill as at December 31.

Impairment of Nonfinancial Assets

The Group assesses at each balance sheet date whether there is an indication that its property, plant and equipment, goodwill and other nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset.

Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is



treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably.

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

Interest income is recognized as the interest accrues, taking into consideration the asset's effective yield.

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.

Retirement Benefits Costs

Retirement benefits costs are actuarially determined using the projected unit credit method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognized as an expense on a straight-line basis over the average period when the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The defined benefit liability 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 or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plans or reductions in the future contributions to the plan.

If the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan, net actuarial losses of the current period and past service cost of the current period are recognized immediately to the extent that they exceed any reduction in the present value of those economic benefits. If there is no change or an increase in the present value of economic benefits, the entire net actuarial losses of the current period and past service cost of the current period are recognized immediately. Similarly, net actuarial gains of the current period after the deduction of past service cost of the current period exceeding any increase in the present value of the economic benefits stated above are



recognized immediately if the asset is measured at the aggregate of cumulative unrecognized net actuarial losses and past service cost at the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past service cost of the current period are recognized immediately.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

Operating Leases

Operating leases represent those leases under which substantially all risks and rewards of ownership of the leased assets remain with the lessors. Lease receipts (payments) under operating lease agreements are recognized as income (expense) on a straight-line basis over the term of the lease.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currencies are recorded using the exchange rate prevailing 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 taken to the consolidated statement of income.

Income Tax

Current tax

Current tax assets and liabilities for the current and 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 by the balance sheet date.

Deferred 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 tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

Deferred tax liabilities are not provided on nontaxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.



The carrying amount of deferred 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 tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax 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.

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

Income tax relating to items recognized directly in equity is recognized in the consolidated statement of changes in equity and not in the consolidated statement of income.

Provisions and Contingencies

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the effective future cash flows at a pretax rate that reflects current market assessment of the time value of money and where appropriate, the risks specific to the liability, where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

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

Future Changes in Accounting Policies

The following are the new and revised accounting standards and Philippine Interpretations that will become effective to the Group subsequent to 2007. The revised disclosures required by these standard and Interpretations will be included in the Group's consolidated financial statements when the Group adopts them at their respective effectivity dates:

- Amendment to PAS 1, *Presentation of Financial Statements* (effective for annual periods beginning on or after January 1, 2009), introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. It requires the following presentations: (a) all changes in equity arising from transactions with owners are to be presented separately from non-owner changes in equity; (b) income and expenses are to be presented in one statement (a statement of comprehensive income) or in two statements (a separate income statement and a statement of comprehensive income), separately from owner changes in equity; (c) components of other comprehensive income to be displayed in the financial statements. Additional disclosures required by this amendment will be included in the Group's consolidated financial statements when this amendment is adopted.



- Amendment to PAS 23, *Borrowing Costs* (effective for annual periods beginning on or after January 1, 2009), eliminates the option to immediately recognize borrowing cost as expense if they are directly attributable to the acquisition, construction or reproduction of a qualifying asset. The Group expects the adoption of this amendment will not have significant impact on the Group's financial position and results of operations upon its adoption in 2009 as it already capitalizes borrowing costs on its qualifying assets.
- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine SEC for purposes of issuing any class of instrument in a public market. The Group expects the adoption of this standard will not have an impact on the Group's financial position and results of operations.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent. As the Group currently does not have share-based payment transactions, and is not expecting to have such payments in the future, the Group expects the adoption of this Interpretation will not have significant impact on the Group's financial position and results of operations upon its adoption in 2008.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from entities providing public services. As the Group currently does not have service concession arrangements, and is not expecting to have such transaction in 2008, this Interpretation will not apply to the Group.
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (effective for annual reporting periods beginning on or after July 1, 2008), prescribes that loyalty awards are accounted for as a separate component of the sales transaction in which they are granted, in accordance with PAS 18, *Revenue*. Under the Interpretation, a portion of fair value of the consideration received is allocated to the loyalty award credits and is deferred until the awards are redeemed. The Interpretation also requires that an entity must apply judgment in determining the appropriate method of measuring award credits and the other components of the sale. As the Group currently does not offer loyalty awards to customers, and is not expecting to have such transaction upon its adoption in 2009, the Group expects the adoption of this Interpretation will not have an impact on the Group's financial position and results of operations.
- Philippine Interpretation IFRIC 14, *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual reporting periods beginning on or after January 1, 2008), provides that the asset ceiling test under PAS 19, *Employee Benefits*, limits the measurement of the net pension asset in respect of a defined benefit plan at the



balance sheet date to the total of 1) any cumulative unrecognized net actuarial losses and past service costs and 2) the present value of any economic benefits that will be “available to the employer” in the form of refunds from the plan or reduction in future contributions to the plan. The Interpretation specifies that so long as refunds from the plan will be realizable at some point during the life of the plan or at a final settlement, they will be considered to be “available to the employer” at the balance sheet date, regardless of whether or not the entity intends to settle the plan. The Interpretation further clarifies that the entity controls the asset only if there is an unconditional right to the refund. The Interpretation also prescribes how the following are determined: 1) economic benefits available as a reduction in future contributions, 2) how the availability of reductions in future contributions is affected by a minimum funding requirement and 3) when a minimum funding requirement may give rise to a liability. The Group is still evaluating the effect of this Interpretation.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to exercise judgments, make estimates and use assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

Determination of the Company's functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the sale of goods and the cost of manufacturing and selling the same.

Classification of financial instruments

The Group 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 Group's consolidated balance sheet.

The Group has determined that its investments in United States dollar (US\$) denominated bonds and other equity investments amounting to ₱233.7 million and ₱291.4 million as of December 31, 2007 and 2006, respectively (see Note 8), qualify as financial assets classified as available-for-sale.

Determination of net realizable value of inventories

The Group's estimates of the net realizable values of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events



occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. The Group's inventories as of December 31, 2007 and 2006 amounting to ₱3.0 billion and ₱2.7 billion, respectively, are stated at lower of cost and net realizable value (see Note 6).

Impairment of available-for-sale financial assets

The computation for the impairment of available-for-sale financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of available-for-sale equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Group's investments.

As of December 31, 2007 and 2006, the aggregate carrying value of the Group's available-for-sale financial assets amounted to ₱233.7 million and ₱291.4 million, respectively, on which no impairment loss has been recognized (see Note 8).

Impairment of nonfinancial assets

The Group assesses at each balance sheet date whether there is any indication that a nonfinancial asset may be impaired. If such indication exists, the entity shall estimate the recoverable amount of the asset, which is the higher of an asset's fair value less costs to sell and its value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows. There were no indicators that the total carrying value of the Group's property, plant and equipment amounting to ₱4.4 billion and ₱3.4 billion as of December 31, 2007 and 2006, respectively, are impaired (see Note 9).

Valuation of positive goodwill and measurement of negative goodwill

The determination of the amount of any goodwill arising from business combination involves estimation of the fair value of net assets acquired. Such estimation utilizes both external and internal information that are known at the time of acquisition. Thus, while the amounts used in determining fair values are only provisional, they may still be subject to adjustment within the year after the date of business combination.

The acquisition of ACI resulted in a goodwill amounting to ₱144.7 million that is recorded under noncurrent assets in the consolidated balance sheet. On the other hand, the acquisition of AAC resulted in a negative goodwill amounting to ₱279.4 million which is recorded as income in the 2005 consolidated statement of income (see Note 3). In 2007, management has determined that the fair values of the net assets used in the computation of the positive and negative goodwill arising from the acquisitions of ACI and AAC, respectively, in 2005, are reasonable, thus no adjustment has been made on either the net assets or the related positive and negative goodwill recognized in 2005.



Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at December 31, 2007 and 2006 was ₱144.7 million. There was no impairment indicator on such goodwill as at those dates.

Valuation of property, plant and equipment under revaluation basis

The Group's land and land improvements, buildings and building improvements, and machinery and equipment are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated depreciation and amortization and accumulated impairment losses. The valuations of property, plant and equipment are performed by professionally qualified appraisers. Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at balance sheet date.

The resulting increase in the valuation of these assets based on the 2007 and 2002 valuation amounting to ₱460.3 million and ₱821.1 million, respectively is presented as "Revaluation increment in property, plant and equipment, net of the related deferred tax liability" and the portion transferred to retained earnings from their realization are presented, in the equity section of the consolidated balance sheets and in the consolidated statements of changes in equity.

Recognition of deferred tax assets

The Group reviews the carrying amounts at each balance sheet date and reduces the amount of deferred 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 tax assets to be utilized. More details are provided in Note 17.

Valuation of investment properties

The Group's investment properties are carried at fair value, with changes in fair values recorded in the consolidated statement of income in the year in which the fair value changes arise. The valuations of investment properties are performed by professionally qualified appraisers. Total carrying value of investment properties as of December 31, 2007 and 2006 amounted to ₱68.1 million and ₱76.5 million, respectively (Note 10).

Estimates

Estimation of allowance for doubtful accounts

The allowance for doubtful accounts relating to trade receivables is estimated based on two methods. The amounts calculated using each of these methods are combined to determine the total amount provided. First, specific accounts are evaluated based on information that certain customers may be unable to meet their financial obligations. In these cases, judgment is used, based on the best available facts and circumstances, including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors, to record specific reserves against amounts due to reduce receivable amounts expected to be collected. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated. Second, a collective assessment of historical collection, write-off, experience and customer payment terms is



determined. The amount and timing of recorded expenses for any period could therefore differ based on the judgments or estimates made. An increase in the Group's allowance for doubtful accounts would increase its recorded general and administrative expenses and decrease its current assets.

The carrying value of receivables as of December 31, 2007 and 2006 amounted to ₱1.2 billion and ₱1.3 billion, respectively. The allowance for doubtful accounts as of December 31, 2007 and 2006 amounted to ₱29.3 million and ₱15.7 million (see Note 5).

Estimation of useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on internal technical evaluation and experience with similar assets. Estimated lives of property, plant and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of the assets. The carrying amount of property, plant and equipment as of December 31, 2007 and 2006 amounted to ₱4.4 billion and ₱3.4 billion, respectively (see Note 9).

In 2007, the Group changed the estimated useful lives of some of its depreciable assets categorized as follows:

	Original Estimated Useful Lives	New Estimated Useful Lives
Land improvements	10	15
Buildings and building improvements	10	20
Machinery and equipment	10	15

As a result of the change in estimated useful lives, the Group recognized reduction in its depreciation expense charged to cost of sales amounting to ₱52.3 million (Note 16).

Estimation of retirement benefits cost

The Group's retirement benefits cost is actuarially computed. This entails using certain assumptions with respect to salary increases, rate of return of plan assets and discount rates (see Note 15). Net retirement assets as of December 31, 2007 and 2006 amounted to ₱19.2 million and ₱22.7 million, respectively.

Provisions

The Group provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Group. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information. No provisions have been recorded as of December 31, 2007 and 2006.



3. Business Combinations

Acquisition of Asian Alcohol Corporation (AAC)

On June 30, 2005, the Company acquired 90% of the voting shares of AAC, a domestic corporation primarily involved in the manufacture of refined and/or denatured alcohol and in the production of fodder yeast, and in the marketing, selling and distribution of such liquids or products. AAC's principal place of business is Pulupandan, Negros Occidental.

The fair values of the identifiable assets and liabilities of AAC as at the date of acquisition are as follows:

	Recognized on acquisition	Carrying value
ASSETS		
Cash	₱386,028,545	₱386,028,545
Receivables	156,767,157	156,767,157
Inventories	512,593,663	512,593,663
Prepayments	8,377,229	8,377,229
Investments in shares of stock	460,269	460,269
Property, plant and equipment	969,025,006	910,913,600
Deferred tax assets	—	4,055,439
	2,033,251,869	1,979,195,902
LIABILITIES		
Bank loan	100,000,000	100,000,000
Accounts payable and accrued expenses	309,092,970	309,092,970
Deferred tax liabilities - net	12,920,426	—
	422,013,396	409,092,970
Fair value of net assets	1,611,238,473	₱1,570,102,932
Ownership interest	90%	
Fair value of net assets acquired	1,450,114,626	
Negative goodwill arising from combination	(279,423,824)	
Total cost of business combination	₱1,170,690,802	

The excess of the Company's interest in the fair value of AAC's identifiable net assets over acquisition cost is accounted for as a negative goodwill that is recognized immediately in the consolidated statement of income.

Acquisition of Absolut Chemicals, Incorporated (ACI)

Also on June 30, 2005, the Company acquired 90% of the voting shares of ACI, a domestic corporation engaged in manufacturing, importing, exporting, buying, selling or otherwise deal in chemicals, at wholesale and retail and any and all equipment, materials, supplies used or employed on or related to the manufacture of such finished goods.



The fair values of the identifiable assets and liabilities of ACI at the date of acquisition are as follows:

	Recognized on acquisition	Carrying value
ASSETS		
Cash and cash equivalents	₱136,780,887	₱136,780,887
Receivables and other advances	46,632,561	46,632,561
Inventories	174,395,052	174,395,052
Prepaid expenses and other current assets	17,978,834	17,978,834
Property, plant and equipment	309,862,658	115,600,781
Investment properties	920,455	920,455
	<u>686,570,447</u>	<u>492,308,570</u>
LIABILITIES		
Accounts payable and accrued expenses	154,399,836	154,399,836
Due to affiliates	3,627,565	3,627,565
Deferred tax liabilities - net	64,112,426	—
	<u>222,139,827</u>	<u>158,027,401</u>
Fair value of net assets	464,430,620	<u>₱334,281,169</u>
Ownership interest	90%	
Fair value of net assets acquired	417,987,558	
Goodwill arising from combination	144,702,917	
Total cost of business combination	<u>₱562,690,475</u>	

The Company recognized as an asset the goodwill acquired in the business combination with ACI.

Equity Restructuring of AAC and ACI

In December 2006, TDI converted certain advances to AAC and ACI, amounting to ₱200.0 million and ₱185.0 million, respectively, to additional investments in the shares of stock of the subsidiaries. Accordingly, AAC and ACI converted their advances from TDI of the same amounts to deposits for future stock subscriptions.

In 2007, AAC and ACI have undertaken equity restructuring. Deposits for future stock subscription aggregating to ₱385.0 million were converted to capital stock of AAC and ACI, thereby, resulting in increase in ownership by TDI over AAC and ACI. The following details the changes in percentages of ownership on these subsidiaries:

	Before equity restructuring	After equity restructuring
AAC	90%	93%
ACI	90%	96%

In October 2007, the Philippine SEC approved ACI's equity restructuring. On the other hand, the increase in authorized capital stock of AAC was approved by the Philippine SEC on January 10, 2008. For purposes of consolidation as of December 31, 2007, the Company's ownership over AAC and ACI was 93% and 96%, respectively.



4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2007	2006
Cash	₱480,340,053	₱202,430,549
Short-term investments	200,000,000	903,474,382
	₱680,340,053	₱1,105,904,931

Cash in banks earn interest at bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

The Group's US\$-denominated cash and cash equivalents amounted to ₱56.4 million and ₱71.4 million, as of December 31, 2007 and 2006, respectively. The exchange rates of the Philippine peso to US dollar are ₱41.28 and ₱49.03 as of December 31, 2007 and 2006, respectively.

5. Receivables

Receivables consist of:

	2007	2006
Trade (Notes 14 and 24)	₱439,120,488	₱306,992,650
Advances to suppliers	167,608,079	145,386,524
Advances to an affiliate and others (Note 14)	640,781,408	851,319,346
	1,247,509,975	1,303,698,520
Less allowance for doubtful accounts	29,269,513	15,678,048
	₱1,218,240,462	₱1,288,020,472

- a. Advances to an affiliate and others in 2006 include the advances to THI of ₱750.0 million in relation to THI's acquisition in 2006 of 100% of the shares of stock Unimark Investments (SPV-AMC) Corporation (Unimark) (see Note 14).

In 2007, dividends declared by the Company due to THI amounting to ₱360.0 million were set off against the Company's advances to and interest receivable from THI amounting to ₱272.6 million and ₱87.4 million, respectively. Also, the Company collected advances amounting to ₱4.0 million in 2007.

- b. As a customer of the Manila Electric Company (Meralco), the Group expects to receive a refund for some of its previous billings under Phase IV of Meralco's refund scheme. In 2005, the approval of Meralco's amended refund scheme by the Energy Regulatory Commission indicates that the amount and timing of the receipt of the refund became certain.

Under the Meralco refund scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Group intends to recover the refund through a fixed monthly credit-to-bill with cash option, starting in 2006 up to 2010. In 2005, the Group recognized a receivable from Meralco amounting to ₱5.5 million and income from the refund of ₱4.4 million (included in "Other income"), net of unearned interest income of



₱1.1 million (included in “Advances to an affiliate and others”). The receivable was discounted using an effective interest rate of 11%. The Group recognized interest income of ₱0.3 million relating to the receivable in 2007 and 2006.

c. Movements in allowance for doubtful accounts in 2007 and 2006 are as follows:

	Trade		Advances to Suppliers		Others		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Balance at beginning of year	₱1,048,882	₱1,048,882	₱12,100,040	₱12,240,040	₱2,529,126	₱2,529,126	₱15,678,048	₱15,818,048
Provisions during the year	--	--	13,591,465	--	--	--	13,591,465	--
Accounts written off	--	--	--	--	--	--	--	--
Recovery during the year	--	--	--	(140,000)	--	--	--	(140,000)
Balance at end of year	₱1,048,882	₱1,048,882	₱25,691,505	₱12,100,040	₱2,529,126	₱2,529,126	₱29,269,513	₱15,678,048
Individually impaired	₱1,048,882	₱1,048,882	₱25,691,505	₱12,100,040	₱2,500,319	₱2,500,319	₱29,240,706	₱15,649,241
Collectively impaired	--	--	--	--	28,807	28,807	28,807	28,807
Total	₱1,048,882	₱1,048,882	₱25,691,505	₱12,100,040	₱2,529,126	₱2,529,126	₱29,269,513	₱15,678,048
Gross amounts of loans individually determined to be impaired, before deducting any individual assessed impairment allowance	₱1,048,882	₱1,048,882	₱25,691,505	₱12,100,040	₱2,500,319	₱2,500,319	₱29,240,706	₱15,649,241

6. Inventories

Inventories consist of:

	2007	2006
Finished goods - at cost	₱75,069,659	₱111,741,961
Work in process - at cost	456,689,754	491,896,979
Raw materials - at cost (Note 14)	1,475,033,798	1,357,122,042
Supplies:		
At cost	829,953,094	636,300,547
At NRV	160,872,036	141,600,250
	2,997,618,341	2,738,661,779

The allowance for obsolescence on supplies amounted to ₱6.9 million and ₱7.1 million as of December 31, 2007 and 2006, respectively. Raw materials and supplies include materials and supplies of the Company that are no longer used in operations amounting to ₱0.9 million and ₱0.2 million as of December 31, 2007 and 2006, respectively.

7. Prepayments and Other Current Assets

Prepayments and other current assets consist of:

	2007	2006
Prepaid:		
Importation charges	₱254,058,385	₱207,029,037
Excise tax	45,145,744	19,016,071
Input value-added tax (VAT)	101,851,229	119,459,436
Creditable withholding taxes and others	32,827,594	65,738,673
	₱433,882,952	₱411,243,217



Prepaid importation charges pertain to prepaid charges on imported machinery and equipment in line with the Company's expansion program. Input VAT in 2007 and 2006 primarily pertains to input VAT on the Company's construction in progress (see Note 9).

8. Available-for-Sale Investments

Available-for-sale investments consist of:

	2007	2006
Government bonds	₱213,279,972	₱278,477,554
Manila Golf and Country Club, Inc. (MGCCI) club share	20,000,000	12,500,000
Shares of stock - others	460,269	460,269
	₱233,740,241	₱291,437,823

- a. Investments in US\$-denominated government bonds are carried at fair value (after recognizing in the consolidated statement of income the effective interest amortization and foreign exchange restatement) with cumulative gains as of December 31, 2007 and 2006 of ₱26.8 million and ₱32.9 million, respectively, being recognized as a separate component of equity. The fair values of these securities are based on their quoted prices that are readily and regularly available from the investment trustee. Those prices are indicative of actual and regularly occurring market transactions on an arm's length basis.

Interest earned from these investments amounted to ₱22.3 million in 2007 and ₱24.5 million in 2006, of which ₱7.2 million and ₱8.5 million remained as receivable as of December 31, 2007 and 2006, respectively.

The cost of these investments amounted to ₱287.7 million. These bonds will mature between 2027 and 2034.

- b. The investment in club share of MGCCI is carried at fair value with cumulative gains as of December 31, 2007 of ₱7.7 million (net of deferred tax liability of ₱84,000) being recognized directly in equity. The fair values of the investment as of December 31, 2007 and 2006 are based on the quoted price of the share.

The cost of this investment amounted to ₱11.5 million.

- c. Below presents the rollforward of unrealized gain (loss) on changes in fair value of available-for-sale investments:

	2007	2006
Beginning of the year	₱33,774,455	₱19,678,038
Changes during the year	(7,011,749)	14,096,417
End of the year	₱26,762,706	₱33,774,455



9. Property, Plant and Equipment

Property, plant and equipment consist of:

December 31, 2007

	January 1, 2007	Additions	Disposals/ Retirements	Reclassifications	December 31, 2007
At Appraised Values:					
Appraised Values					
Land	₱960,779,140	₱95,292,091	₱-	₱-	₱1,056,071,231
Land improvements, buildings and building improvements	1,003,367,665	494,008,494	-	17,322,358	1,514,698,517
Machinery and equipment	2,087,862,521	294,433,801	-	201,137,647	2,583,433,969
	4,052,009,326	883,734,386	-	218,460,005	5,154,203,717
Accumulated Depreciation and Impairment Loss					
Land improvements, buildings and building improvements	(549,500,249)	(35,234,959)	-	-	(584,735,208)
Machinery and equipment	(658,612,325)	(263,812,990)	-	-	(922,425,315)
	(1,208,112,574)	(299,047,949)	-	-	(1,507,160,523)
Net Book Value	₱2,843,896,752	₱584,686,437	₱-	₱218,460,005	₱3,647,043,194
At Cost:					
Cost					
Furniture, fixtures and office equipment	₱54,827,717	₱6,174,189	₱-	₱-	₱61,001,906
Transportation equipment	216,376,888	38,419,270	(1,819,182)	-	252,976,976
Warehouse, laboratory and other equipment	98,017,242	50,517,518	-	-	148,534,760
Leasehold improvements	13,362,240	-	-	-	13,362,240
	382,584,087	95,110,977	(1,819,182)	-	475,875,882
Accumulated Depreciation and Amortization					
Furniture, fixtures and office equipment	(35,387,488)	(5,370,294)	-	-	(40,757,782)
Transportation equipment	(115,790,495)	(31,361,837)	1,819,178	-	(145,333,154)
Warehouse, laboratory and other equipment	(74,952,883)	(16,028,211)	-	-	(90,981,094)
Leasehold improvements	(8,590,443)	(1,004,636)	-	-	(9,595,079)
	(234,721,309)	(53,764,978)	1,819,178	-	(286,667,109)
Net Book Value	147,862,778	41,345,999	(4)	-	189,208,773
Construction in progress	388,837,055	381,367,671	-	(218,460,005)	551,744,721
Total	₱536,699,833	₱422,713,670	(₱4)	(₱218,460,005)	₱740,953,494

December 31, 2006

	January 1, 2006	Additions	Disposals/ Retirements	Reclassifications	December 31, 2006
At Appraised Values:					
Appraised Values					
Land	₱960,779,140	₱-	₱-	₱-	₱960,779,140
Land improvements, buildings and building improvements	966,694,784	2,883,486	-	33,789,395	1,003,367,665
Machinery and equipment	1,855,450,864	232,411,657	-	-	2,087,862,521
	3,782,924,788	235,295,143	-	33,789,395	4,052,009,326

(Forward)



	January 1, 2006	Additions	Disposals/ Retirements	Reclassifications	December 31, 2006
Accumulated Depreciation					
Land improvements, buildings and building improvements	(P419,264,314)	(P130,235,935)	P-	P-	(P549,500,249)
Machinery and equipment	(414,357,690)	(244,254,635)	-	-	(658,612,325)
	(833,622,004)	(374,490,570)	-	-	(1,208,112,574)
Net Book Value	P2,949,302,784	(P139,195,427)	P-	P33,789,395	P2,843,896,752
At Cost:					
Cost					
Furniture, fixtures and office equipment	P50,855,070	P3,972,647	P-	P-	P54,827,717
Transportation equipment	140,101,121	76,325,767	(50,000)	-	216,376,888
Warehouse, laboratory and other equipment	93,391,513	2,853,002	-	1,772,727	98,017,242
Leasehold improvements	13,362,240	-	-	-	13,362,240
	297,709,944	83,151,416	(50,000)	1,772,727	382,584,087
Accumulated Depreciation and Amortization					
Furniture, fixtures and office equipment	(30,933,565)	(4,453,923)	-	-	(35,387,488)
Transportation equipment	(89,751,920)	(26,088,574)	49,999	-	(115,790,495)
Warehouse, laboratory and other equipment	(65,223,673)	(9,729,210)	-	-	(74,952,883)
Leasehold improvements	(7,453,232)	(1,137,211)	-	-	(8,590,443)
	(193,362,390)	(41,408,918)	49,999	-	(234,721,309)
Net Book Value	104,347,554	41,742,498	(1)	1,772,727	147,862,778
Construction in progress	214,235,999	210,163,178	-	(35,562,122)	388,837,055
Total	P318,583,553	P251,905,676	(P1)	(P33,789,395)	P536,699,833

As mentioned in Note 2, in 2002, the Company's land, land improvements, buildings and building improvements, and machinery and equipment are stated at revalued amounts based on a valuation as of December 31, 2002. Accordingly, the cost and their related accumulated depreciation were reclassified from "At Cost" to "At Appraised Values." The resulting increase in the valuation of these assets amounting to P821.1 million is presented under the "Revaluation increment in property, plant and equipment, net of the related deferred tax liability" and the portion transferred to retained earnings resulting from their realization, in the equity section of the consolidated balance sheets and in the consolidated statements of changes in equity.

The Group revalued again its land, land improvements, buildings and building improvements and machinery and equipment based on a valuation made by independent appraisers in December 2007. The revaluation resulted in an increase in revaluation increment as follows:

	TDI	AAC	Total
Appraisal increase	P567,573,027	P115,969,823	P683,542,850
Reversal of appraisal increase in 2002	(25,395,300)	-	(25,395,300)
Net appraisal increase	542,177,727	115,969,823	658,147,550
Deferred income tax liability recognized	(162,653,319)	(35,187,245)	(197,840,564)
Revaluation increment	P379,524,408	P80,782,578	P460,306,986

The Group recognized an impairment loss amounting to P23,192,667 in 2007 as a result of revaluation of ACI's land, land improvements, building and building improvements and machinery and equipment.



If land, land improvements, buildings and building improvements, and machinery and equipment were carried at cost less accumulated depreciation, the amounts would be as follows:

	2007			2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	₱209,377,388	₱-	₱209,377,388	₱199,937,988	₱-	₱199,937,988
Land improvements, buildings and building improvements	921,992,147	(503,633,593)	418,358,554	905,606,545	(455,967,385)	449,639,160
Machinery and equipment	2,893,382,766	(1,561,400,159)	1,331,982,607	2,475,160,927	(1,143,178,320)	1,331,982,607
Total	₱4,024,752,301	(₱2,065,033,752)	₱1,959,718,549	₱3,580,705,460	(₱1,599,145,705)	₱1,981,559,755

10. Investment Properties

Movements of the Group's investment properties are as follows:

	2007	2006
Beginning of year	₱76,489,899	₱12,639,832
Disposal	(8,302,000)	—
Change in fair values	(96,637)	45,756,030
Acquisition during the year	—	18,094,037
End of year	₱68,091,262	₱76,489,899

The Company's investment properties consist of land and condominium units that are being leased out to others, and are carried at fair value. Rent income derived from the rental of these assets amounted to ₱3.1 million in both 2007 and 2006, included under "Other income" in the consolidated statements of income.

In 2007, the Company sold its land and a condominium unit classified as investment property for ₱7.1 million. The Company recognized loss on sale amounting to ₱1.2 million.

The fair values as of December 31, 2007 and 2006 were determined by an independent firm of appraisers based on market values as of those dates.

11. Other Investments and Other Noncurrent Assets

Other investment and other noncurrent assets consist of:

	2007	2006
Nonperforming loans	₱28,186,037	₱28,186,037
Investment in shares of stock of DABI - net	23,667,124	23,667,124
Various deposits and others	9,254,915	7,105,425
	₱61,108,076	₱58,958,586

- Nonperforming loans pertain to non-performing loans acquired by AAC in settlement of its investment with a local affiliated bank (see Note 15). Gain recognized from the settlement amounted to ₱15.2 million in 2006.



- b. Investment in shares of stock of DABI is net of impairment losses amounting to ₱1.3 million as of December 31, 2007 and 2006.

On February 26, 2003, the BOD of DABI approved a resolution to cease DABI's business operations effective March 1, 2003. Consequently, DABI's Guerrero brand was transferred to the Company while its Don Pedro brand was transferred to ADPI. The Company now has full ownership and control over the marketing, sales, and distribution of the Guerrero brand.

Pursuant to the Termination of Joint Venture Agreement signed by the Company and ADPI on September 15, 2003, the parties terminated the Joint Venture Agreement effective March 1, 2003. DABI shall be dissolved and liquidated, and the parties agree to take all corporate actions necessary to dissolve DABI, wind up its affairs and distribute its assets in an orderly fashion. The parties have yet to decide on the date of liquidation.

12. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of:

	2007	2006
Accounts payable:		
Trade	₱369,496,997	₱454,684,503
Related parties (Note 15)	245,779,246	73,693,087
Nontrade (Note 23)	21,438,291	8,982,894
VAT and other taxes payable	36,025,815	70,614,910
Accrued and other liabilities	200,270,756	194,318,403
	₱873,011,105	₱802,293,797

13. Long-term Debt

On February 10, 2006, the Company availed of a ₱4.2 billion syndicated loan from a consortium of banks for the purpose of financing its general corporate funding requirements, including plant expansion, and servicing its existing short-term obligations. The loan is payable in 9 semi-annual installments of ₱5.0 million starting on February 15, 2007, and a final payment of ₱4.155 billion on August 15, 2011. The loan carries an annual interest that is fixed at the 5-year MART1 rate as of February 13, 2006 plus 1% spread.

The Group paid a total of ₱10.0 million on February 15 and August 15, 2007.

The loan provides for certain negative covenants on the part of the Company such as:

- The Company shall not create or suffer to exist any lien, security interest or other charge or encumbrance.
- The Company shall not make any material and adverse change in the present nature of its business taken as a whole.
- The Company shall not enter into any merger or consolidation, except where the Company is the surviving corporation.



- iv. There shall be no significant change in the Company's present management or change in the majority ownership and control of its capital stock.
- v. The Company shall not sell, lease, or transfer all or a substantial portion of its assets other than in the ordinary course of its business.
- vi. The Company shall not make any loans or advances to its directors, officers, and stockholders, except in the ordinary course of business.

As of December 31, 2007, the amounts payable on the long-term debt are as follows:

Year ended December 31	Amount in millions
2008	₱10
2009	10
2010	10
2011	4,160
	₱4,190

14. Related Party Transactions

The Group, in the normal course of business, has the following significant transactions with related parties:

Asia Brewery, Incorporated (ABI), affiliate

- Purchases of bottles and other materials amounting to ₱878.2 million in 2007 and ₱528.7 million in 2006; and sale of cullets and other materials amounting to ₱63.7 million and ₱16.5 million in 2007 and 2006, respectively.

Fortune Tobacco Corporation (FTC), affiliate

- Sales amounting to ₱32.7 million in 2006.

Allied Banking Corporation (ABC), local affiliated bank

- The Group has outstanding Philippine peso and US\$-denominated short-term investments as well as current and savings deposits, which bear interest based on prevailing market rates.
- AAC has an investment in ABC amounting to ₱104.6 million in 2006. This investment was settled by ABC toward the end of 2006 through cash payment of ₱73.5 million and various assets including non-performing loans of ₱28.2 million and certain investment properties worth ₱18.1 million (see Notes 10 and 11).
- The Company has a long-term debt amounting to ₱199.5 million and ₱200.0 million included in the syndicated loan as of December 31, 2007 and 2006, respectively (see Note 13).

THI, parent company, and THC, ultimate parent company

- In February 2006, prior to the acquisition by THI of Unimark (now a wholly owned subsidiary of THI), the Company advanced ₱750.0 million to THC which bears interest at 9.8% per annum. On September 13, 2006, THI acquired Unimark for ₱800.0 million on account, by



recognizing such liability to the previous owners of Unimark of the same amount. Subsequently in September 2006, THI assumed THC's liability of the Company amounting to ₱750.0 million in exchange for THC's assumption of THI's liability to the previous stockholders of Unimark. In 2006, the Company recognized interest income amounting to ₱65.0 million relating to these advances which were still uncollected as of December 31, 2007.

- The Company made advances to THI amounting to ₱50.0 million in 2006 to finance THI's operations. THI paid back ₱4.0 million and ₱46.0 million of these advances in 2007 and 2006, respectively.

As of December 31, 2007 and 2006, the consolidated balance sheets include the following account balances resulting from the foregoing transactions with related parties:

	2007	2006
Cash and cash equivalents - ABC	₱592,881,029	₱1,063,148,441
Trade receivables from and advances to:		
ABI	₱127,917,894	₱21,444,071
THI	—	754,000,000
FTC	—	13,671,187
	₱127,917,894	₱789,115,258
Accounts payable:		
ABI	₱127,259,674	₱53,693,087
DABI	20,000,000	20,000,000
	₱147,259,674	₱73,693,087
Long-term debt - ABC	₱199,523,810	₱200,000,000

Compensation of key management personnel of the Group is summarized as follows:

	2007	2006
Short-term employee benefits	₱7,021,278	₱17,356,550
Retirement and medical benefits	5,653,000	462,377
Total compensation paid to key management personnel	₱12,674,278	₱17,818,927

15. Retirement Benefits

The Company and AAC have funded, noncontributory defined benefit retirement plans, administered by a trustee, covering all of its permanent employees. ACI, on the other hand, has an unfunded, contributory defined benefit retirement plan covering all of its regular full-time employees. The following tables summarize the components of the net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets:



The details of the net benefits cost (income) are as follows:

	2007	2006
Current service cost	₱8,963,035	₱6,456,904
Interest cost on benefits obligation	9,157,530	10,230,199
Effect of curtailment (Note 24)	—	(50,734,364)
Effect of retirement asset ceiling	5,938,347	20,082,568
Expected return on plan assets	(10,666,026)	(11,645,834)
Net actuarial loss recognized during the year	1,893,514	417,105
	₱15,286,400	(₱25,193,422)
Portions recognized in:		
Cost of goods sold	₱13,231,440	(₱15,005,135)
Selling expenses	375,917	(2,388,077)
General and administrative expenses	1,679,043	(7,800,210)
	₱15,286,400	(₱25,193,422)

The details of net retirement benefit asset are as follows:

	2007	2006
Defined benefit obligation	₱111,775,628	₱128,077,098
Fair value of plan assets	(135,704,209)	(128,261,625)
	(23,928,581)	(184,527)
Unrecognized net actuarial losses before effect of retirement asset ceiling	(21,273,377)	(42,595,985)
Effect of retirement asset ceiling	26,020,916	20,082,568
Unrecognized net actuarial gains (losses)	4,747,539	(22,513,417)
Net retirement benefit asset	(₱19,181,042)	(₱22,697,944)

The breakdown of net retirement asset of the Group is as follows:

	2007	2006
Benefit liability:		
AAC	₱9,511,025	₱8,636,837
ACI	3,182,419	3,212,710
	12,693,444	11,849,547
Benefit asset - the Company	(31,874,486)	(34,547,491)
Net retirement asset	(₱19,181,042)	(₱22,697,944)

Changes in present value of defined benefit obligation are as follows:

	2007	2006
Defined benefit obligation, January 1	₱128,077,098	₱146,269,859
Current service cost	8,963,035	6,456,904
Interest cost	9,157,530	10,230,199
Benefits paid*	(14,981,261)	(9,623,022)
Effect of curtailment (Note 24)	—	(50,734,364)
Actuarial loss (gain) on defined benefit obligation	(19,440,774)	25,477,522
Defined benefit obligation, December 31	₱111,775,628	₱128,077,098

* Includes payments made by ACI, taken out of its working capital in 2007 and 2006.



Changes in fair value of plan assets are as follows:

	2007	2006
Fair value of plan assets, January 1	₱128,261,625	₱114,028,712
Expected return on plan assets	10,666,026	11,645,834
Contributions to the plan	11,769,500	11,481,650
Benefits paid	(14,981,261)	(9,623,022)
Actuarial gain (loss) on plan assets	(11,681)	728,451
Fair value of plan assets, December 31	₱135,704,209	₱128,261,625
Actual return on plan assets	₱10,654,345	₱10,385,443

The major categories of the plan assets as a percentage of the fair value of total net plan assets are as follows:

	2007	2006
Cash and cash equivalents	76.81	40.62
Investments in securities	22.65	58.34
Receivables and others	0.99	1.15
Payables	(0.45)	(0.11)
Net assets	100.00	100.00

The Group expects to contribute ₱4.7 million to its defined benefit pension plan in 2008.

The overall expected return on the plan assets is determined based on the market prices prevailing at the date applicable to the period over which the obligation is to be settled.

The principal assumptions used in determining retirement benefits costs for the Group's plans are as follows:

	December 31,	January 1,	
	2007	2007	2006
Number of employees	674	856	1,052
Discount rate per annum	7% to 10%	12% to 14 %	12% to 14%
Expected annual rate of return on plan assets	10%	8% to 12 %	8% to 12%
Future annual increase in salary	4% to 7%	5% to 10 %	5% to 10%

Discount rates used as of December 31, 2007 are based on the interpolated MART1 government bond rates with term consisted with the plan obligations.

Amounts for the current and previous year are as follows:

	2007	2006	2005
Defined benefit obligation	₱111,775,628	₱128,077,098	₱146,269,859
Plan assets	135,704,209	128,261,625	114,028,712
Deficit (Surplus)	(23,928,581)	(184,527)	32,241,147
Experience adjustment on plan liabilities	6,533,464	4,753,420	—
Experience adjustment on plan assets	—	3,188,511	—



16. Cost of Goods Sold, Selling Expenses and General and Administrative Expenses

Cost of goods sold, selling expenses and general and administrative expenses consist of:

	2007	2006
Materials used and changes in inventories	₱4,758,789,761	₱4,093,510,747
Occupancy (Note 22)	422,554,616	196,387,096
Advertising and promotions	332,586,791	278,010,309
Depreciation and amortization (Note 9)	329,620,260	415,899,488
Personnel (Note 15)	315,971,924	240,347,376
Gasoline and oil	183,943,779	164,543,100
Repairs and maintenance	126,729,247	112,566,082
Freight and handling	63,376,603	345,912,201
Management and professional fees	50,502,656	51,323,370
Taxes and licenses	48,783,609	55,993,320
Others	169,461,204	124,324,701
	₱6,802,320,450	₱6,078,817,790

Entertainment, amusement and recreation expenses (included in "Others") amounted to ₱1.8 million in 2007 and ₱1.9 million in 2006.

17. Income Taxes

a. The Company's deferred tax assets and liabilities as of December 31 are as follows:

	2007	2006
Deferred tax assets on:		
Unrealized foreign exchange loss - net	₱33,982,626	₱16,863,020
Unrealized gain on sale of property to subsidiary	20,516,734	5,186,708
Net changes in fair values of available-for-sale investments	6,572,864	—
Allowance for doubtful accounts	5,477,234	5,477,235
Unamortized past service cost	5,338,484	5,940,054
Deferred interest income	151,960	251,399
	72,039,902	33,718,416
Deferred tax liabilities on:		
Revaluation increment in property, plant and equipment of a subsidiary	(247,009,374)	(263,775,893)
Excess of fair values over carrying values of property, plant and equipment of acquired subsidiaries	(65,414,087)	(69,622,162)
Borrowing cost capitalized as plant, property and equipment (Note 12)	(27,750,114)	(13,690,082)
Unrealized loss on ending inventories purchased from subsidiaries	(25,601,494)	(11,087,411)

(Forward)



	2007	2006
Retirement assets	(P11,156,070)	(P12,091,621)
Net changes in fair values of available-for-sale investments (Note 7)	—	(95,000)
Net changes in fair values of investment properties	(50,278)	(271,128)
	(376,981,417)	(370,633,297)
Net deferred tax liabilities	(P304,941,515)	(P336,914,881)

b. AAC's net deferred tax assets are as follows:

	2007	2006
Deferred tax assets on:		
Impairment loss on property, plant and equipment (Note 12)	P8,117,433	P—
Allowances for:		
Doubtful accounts	4,070,735	8,642
Net accrued retirement benefits payable	3,328,858	3,898,027
Inventory obsolescence	170,713	170,713
NOLCO	—	14,852,358
MCIT	—	282,577
	15,687,739	19,212,317
Deferred tax liabilities on net changes in fair value of investment properties and gain on settlement of investment	(18,350,769)	(18,350,769)
Net deferred tax assets (liabilities)	(P2,663,030)	P861,548

c. ACI's deductible temporary differences, unused tax credits from the excess MCIT and unused NOLCO, for which no deferred tax assets were recognized in the Group's consolidated balance sheets as of December 31 are as follows:

	2007	2006
Deductible temporary differences on:		
Allowance for losses	P6,286,360	P6,547,516
Accrued retirement benefits cost	3,182,419	3,212,710
NOLCO	329,132,876	282,595,491

ACI's deferred tax liability amounting to P35.2 million pertains to the deferred tax liability on revaluation of its property, plant and equipment in 2007. This adjustment was booked only in the consolidated financial statements. ACI's policy is to carry its property, plant and equipment at cost, thus, no revaluation is being adjusted on its stand alone financial statements.

As of December 31, 2007, ACI's NOLCO that can be claimed as deduction from future taxable income are as follows:

Incurred in Year Ended December 31	Available Until Year Ending December 31	NOLCO	Tax Effect
2005	2008	P138,546,214	P48,491,175
2006	2009	120,507,799	42,177,730
2007	2010	70,078,863	24,527,602
		P329,132,876	P115,196,507



NOLCO incurred in 2004 amounting to ₱23.5 million with tax effect of ₱8.2 million expired in 2007.

- d. A reconciliation of the Group's provision for income tax computed based on income before income tax at the statutory tax rates to the provision for income tax shown in the consolidated statements of income is as follows:

	2007	2006
Provision for income tax at the statutory tax rate	₱180,099,076	₱96,488,948
Adjustments resulting from tax effects of:		
Deductible temporary differences and NOLCO unused in current year for which no deferred tax assets were recognized, net of MCIT that expired during the year	24,436,198	42,687,522
Nondeductible interest expense	4,523,176	3,873,006
Interest income subjected to final tax and others	(2,217,666)	(2,479,984)
Provision for income tax	₱206,840,784	₱140,569,492

Provision for income tax - current consists of:

	2007	2006
Regular income tax	₱224,167,517	₱141,505,443
Final tax	6,093,410	4,781,096
	₱230,260,927	₱146,286,539

- e. On November 31, 2006, the President signed into law Republic Act (RA) No. 9361 which amends Section 110 (B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter, exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters. The Department of Finance through the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 2-2007 to implement provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361 except VAT returns covering taxable quarters ending earlier than December 2006.

On January 31, 2006, the President, upon the recommendation of the Secretary of Finance, approved the 2% increase in VAT rate effective on February 1, 2006.

18. Retained Earnings and Dividends

- a. In March 2007, the Company's BOD approved and authorized the declaration of cash dividends in the amount of ₱0.6 per share (totaling ₱360.0 million) in favor of THI (see Notes 14 and 23).
- b. On January 16, 2006, the Company declared cash dividends of ₱0.6 per share (totaling to ₱360.0 million) in favor of THI, and approved the immediate payment thereof.



19. Financial Instruments

Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of available-for-sale investments, long-term debt, receivables, and cash and cash equivalents. The main purpose of these financial instruments is to ensure adequacy of funds for the Group's operations. Excess funds are invested in securities with a view to liquidate these to meet various operational requirements when needed. The Group has various other financial assets and financial liabilities such as receivables and payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The Group does not actively enter into hedging transactions.

The Group's financial risk management strategies are handled on a group-wide basis, side by side with those of the other related companies within the Group. The Group's management and the BODs of the various companies comprising the Group review and approve policies for managing these risks. Management closely monitors the funds and financial transactions of the Group. Funds are normally deposited with affiliated banks, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's interest rate and credit risks.

The main risks arising from the Group's financial instruments are bond price risk, prepayment risk, foreign currency risk, credit risk and liquidity risk. The major policies for managing these risks are summarized as follows:

Bond price risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its investment in bonds classified as available for sale. The prices of these bonds are quoted and are publicly available. Coupon rates of the bonds range from 8% to 10%.

A sensitivity analysis to a reasonable possible change in the interest rates would show the potential increase or decrease in equity. After taking into account the effect of taxes, equity as of December 31, 2007 would decrease by ₱7.1 million and increase by ₱1.4 million, if the interest rate for the period had been 100 basis points (bps) higher and lower, respectively.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its counterparties redeem or request redemption of the instrument earlier or later than expected, such as its investment in government and corporate bonds classified as available-for-sale, when interest rates fall.

The effect on income before tax for one year and on equity, assuming that all of the Group's investment in government bonds will be early redeemed at the beginning of the year, with all other variables held constant, would be ₱18.9 million.

Foreign currency risk

The Group's foreign currency risk relates to its US\$-denominated cash and available-for-sale investments (see Note 8). Management closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risks associated with the financial instruments. The Group currently does not enter into derivative transactions to hedge its currency exposure.



The Group's significant US\$-denominated financial assets as of December 31, 2007 are as follows:

	In US\$	Philippine peso equivalent
Cash in banks and time deposits	\$1,366,008	₱56,388,796
Investments in government bonds	5,166,666	213,279,972
Total foreign currency denominated assets	\$6,532,674	₱269,668,768

The Group recognized foreign exchange losses of ₱55.7 million and ₱30.3 million for the years ended December 31, 2007 and 2006, respectively, arising from the translation of these US\$-denominated financial assets. The exchange rates of the Philippine peso to US\$ as of December 31, 2007 and 2006 used in translating US\$-denominated financial assets are ₱41.28 million and ₱49.03 million, respectively.

Shown below is the impact on the Group's income before income tax of reasonably possible changes in exchange rate of the US\$ against the Philippine peso.

December 31, 2007:

Movement in US\$-Philippine peso exchange rates	Net effect in income before income tax	
	Increase	Decrease
7.27 %	(₱15,604,763)	₱15,604,763

There is no other impact on the Group's equity other than those already affecting the profit and loss.

Credit and concentration risks

The Group's credit risk encompasses issuer risk on receivables, investment securities and on cash in banks and time deposits. The Group manages its credit risk by transacting with counterparties of good financial condition and selecting investment grade securities. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers that wish to trade on credit terms are subjected to credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The Group limits bulk of its alcoholic beverage sales to four trusted parties with sales to them comprising about 98% of total alcoholic beverage sales each year. Management closely monitors the fund and financial condition of the Group. Funds are normally deposited with affiliated banks, and financial transactions are normally dealt with related parties. These strategies, to an extent, mitigate the Group's counterparty risk.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheet. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure for 2007
Cash in banks and time deposits, excluding cash on hand	₱678,523,053
Trade receivables	439,120,488
Other receivables	640,781,408
(Forward)	



	Gross maximum exposure for 2007
Available-for-sale investments:	
Government bonds	P213,279,972
Club and other equity shares	20,460,269
Total	P1,992,165,190

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit quality ratings. Standard grade accounts consist of receivables from its distributors with good financial condition and with relatively low defaults. Substandard grade accounts on the other hand, are receivables from other counterparties with history of defaulted payments. The Group did not regard any financial asset as high grade in view of the erratic cash flows or uncertainty associated with the financial instruments.

The table below shows the credit quality of financial assets and an aging analysis of past due but not impaired accounts as of December 31, 2007:

	Neither past due nor impaired		Past due but not impaired			Impaired Financial Assets	Total
	Standard Grade	Substandard Grade	Over 30 Days	Over 60 Days	Over 90 Days		
Cash in bank and time deposits*	P678,523,053	P-	P-	P-	P-	P-	P678,523,053
Trade receivables	261,521,509	-	18,470,179	83,319,567	74,760,351	1,048,882	439,120,488
Other receivables	61,048,964	69,005	-	-	577,134,313	2,529,126	640,781,408
Investments in:							
Government bonds	213,279,972	-	-	-	-	-	213,279,972
Club and other equity shares	20,460,269	-	-	-	-	-	20,460,269
Total	P1,234,833,767	P69,005	P18,470,179	P83,319,567	P651,894,664	P3,578,008	P1,992,165,190

* Excludes cash on hand amounting to P1.8 million as of December 31, 2007.

Impairment assessment

The main consideration for impairment assessment includes whether there are known difficulties in the cash flow of the counterparties. The Group assesses impairment in 2 ways: individually and collectively.

First, the Group determines allowance for each significant receivable on an individual basis. Among the items that the Group considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving trade receivable and other accounts of defaulted counterparties.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is not yet objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect their collectibility. Accounts subjected to collective impairment analysis pertain to other receivables.



The Group did not recognize any impairment loss on its financial assets in 2007.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The Group addresses liquidity concerns primarily through cash flows from operations and borrowings from banks and related parties.

The following table shows the maturity profile (undiscounted amounts of principal and related interest) of the Group's financial liabilities as of December 31, 2007:

	<1 year	>1-<2 yrs	>2-<3 yrs	>3-<4 yrs	>4-<5 yrs	>5 yrs	Total
Accounts payable and accrued liabilities	P836,985,290	P--	P--	P--	P--	P--	P836,985,290
Long-term debt	415,207,625	414,239,965	413,272,305	4,562,304,645	--	--	5,805,024,540
	P1,252,192,915	P414,239,965	P413,272,305	P4,562,304,645	P--	P--	P6,642,009,830

Categories of Financial Instruments:

December 31, 2007

	Cash	Loans and receivables	Available-for-sale investments	Other financial liabilities	Total
<i>Financial Assets</i>					
Cash on hand	₱1,817,000	P--	P--	P--	₱1,817,000
Cash in banks and time deposits	--	678,523,053	--	--	678,523,053
Trade receivables	--	438,071,606	--	--	438,071,606
Other receivables	--	638,252,282	--	--	638,252,282
Investments in:					
Government bonds	--	--	213,279,972	--	213,279,972
Club and other equity shares	--	--	20,460,269	--	20,460,269
	₱1,817,000	₱1,754,846,941	₱233,740,241	P--	₱1,990,404,182
<i>Financial Liabilities</i>					
Long-term debt	P--	P--	P--	₱4,190,000,000	₱4,190,000,000
Accounts payable and accrued liabilities:					
Trade payables	--	--	--	369,496,997	369,496,997
Related parties	--	--	--	245,779,246	245,779,246
Non-trade payables	--	--	--	21,438,291	21,438,291
Accrued and other liabilities	--	--	--	200,270,756	200,270,756
	P--	P--	P--	₱5,026,985,290	₱5,026,985,290

Fair Values

The following is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are reflected in the consolidated financial statements as of December 31:

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>Financial assets:</i>				
Cash on hand	₱1,817,000	₱1,817,000	₱817,000	₱817,000
Cash in banks and time deposits	678,523,053	678,523,053	1,105,087,931	1,105,087,931
Trade receivables	438,071,606	438,071,606	306,992,650	306,992,650
Other receivables	638,252,282	638,252,282	851,319,346	851,319,346
(Forward)				



	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale investments in:				
Government bonds	₱213,279,972	₱213,279,972	₱278,477,554	₱278,477,554
Club and other equity shares	20,460,269	20,460,269	12,960,269	12,960,269
	₱1,990,404,182	₱1,990,404,182	₱2,555,654,750	₱2,555,654,750
<i>Financial liabilities:</i>				
Accounts payable and accrued liabilities:				
Trade payables	₱369,496,997	₱369,496,997	₱454,684,503	₱454,684,503
Related parties	245,779,246	245,779,246	73,693,087	73,693,087
Non-trade payables	21,438,291	21,438,291	8,892,894	8,892,894
Accrued and other liabilities	200,270,756	200,270,756	194,318,404	194,318,404
Long-term debt	4,190,000,000	4,580,749,613	4,200,000,000	4,860,916,047
	₱5,026,985,290	₱5,417,734,903	₱4,931,588,888	₱5,592,504,935

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade receivables, other receivables and accounts payable and accrued liabilities. The carrying amounts of these instruments approximate fair values due to their short-term maturities.

Available-for-sale investments. Fair values of investment in government bonds and club share are based on the quoted market prices of the investments.

Long-term debt. The fair values are based on the expected cash flows on the instruments, discounted using the prevailing interest rate of 7% and 8% at December 31, 2007 and 2006, respectively, for comparable instruments in the market. These rates were obtained from *Bangko Sentral ng Pilipinas*, representing bank average lending rates in 2007 and 2006.

20. Capital Management

The main thrust of the Group's capital management policy is to ensure that the Group complies with externally imposed capital requirements, maintains a good credit standing and a sound capital ratio to be able to support its business and maximize the value of its shareholders equity. The Company is required to maintain a maximum debt-to-equity ratio of 1.75:1 by its bank creditors.

The Group's dividend declaration depends on the availability of earnings and operating requirements. The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes in 2007.

The Group considers its total equity as its capital. The Group monitors its use of capital and the Group's capital adequacy by using leverage ratios, specifically, debt ratio (total debt/total equity and total debt) and debt to equity ratio (total debt/total equity). Included as debt are the Group's total liabilities.



The table below shows the leverage ratios of the Group as of December 31:

	2007	2006
Total liabilities	₱5,678,483,895	₱5,339,208,678
Total equity	4,581,390,264	4,180,367,023
Total liabilities and equity	₱10,259,874,159	₱9,519,575,701
Debt ratio	0.55:1	0.56:1
Debt-to-equity ratio	1.24:1	1.28:1

21. Segment Information

The Group manufactures and sells only one product line. Its operating business is not organized nor managed by geographical segment.

22. Lease Commitment

The Company has an operating lease contract covering one of its warehouses, for 15 years up to February 28, 2014, renewable at the option of the lessor.

Future minimum rentals payable under the lease contract as of December 31, 2007 and 2006 follows:

	2007	2006
Within one year	₱9,954,660	₱9,954,660
After one year but not more than five years	39,818,640	39,818,640
After more than five years	19,909,320	21,568,430
	₱69,682,620	₱71,341,730

23. Notes to Consolidated Statements of Cash Flows

- The Company set off dividends declared amounting to ₱360.0 million against the advances to and interest receivable from THI amounting to ₱272.6 million in 2007 and ₱87.4 million in 2006 (see Notes 14 and 18).
- Financing activities* - advances to THC set off against dividends due to THC amounting to ₱316.2 million (see Note 14) in 2006.

24. Others

- In the ordinary course of business, the Group is contingently liable for lawsuits and claims which are either under pending decisions by the courts or are still being contested, the outcomes of which are not presently determinable. In the opinion of the Group's management and legal counsel, the eventual liability under these lawsuits and claims, if any, would not have a material or adverse effect on the Group's financial position and results of operations. Hence, no provision has been made as of December 31, 2007.



- b. In relation to the Group's continuous expansion program as manifested in its business combinations (see Note 3) and the on-going construction of its new plant (see Note 9), the Group terminated a total of 195 employees in 2006.

c. Clean Development Mechanism (CDM) Project

On June 30, 2006, the Department of Environmental and Natural Resources approved the implementation of a greenhouse gas (GHG) reducing project at ACI's plant in Lian, Batangas. The project is a joint undertaking between the Company (through ACI) and Mitsubishi Corporation (MC) and involves the construction of a waste water treatment digester and methane gas collector in accordance with the CDM of the 1997 Kyoto Protocol. The CDM allows developing countries to host emission reduction project and sell their reduction credit or Certified Emission Reduction (CER) to industrialized countries to help the latter meet their target of 5% below existing 1990 levels in the commitment period from 2008-2012.

By October 1, 2006, it became the biggest CDM registered project in the country thus far, and the first for the manufacturing sector.

On November 27, 2007, ACI and MC executed the CDM Project Agreement (the Agreement) which provides for the following, among others:

- ACI and MC (the Parties) acknowledge and agree that they are each entering into the Agreement in exchange for, and in reliance upon, each other party's entry into an agreement to provide funding for the construction of a biogas digester for the purchase and sale of CERs from the project to MC and the payment by MC in advance therefore in accordance with certain Certified Emission Reductions Purchase Agreement (ERPA) dated as of date of the Agreement.
- The Parties agree to seek a seven-year crediting period to be renewed twice, adding up to a total crediting period of 21 years. Crediting period is the period in which the GHG reductions are verified and certified for the purpose of issuance of CERs and which shall commence after the first emission reductions are generated by the project.
- MC agrees to provide to ACI the basic design and operational parameters of the system; provided that MC shall not be deemed to have provided any representation warranty or other guarantee regarding the feasibility, operation or performance of such design or any system based on such design.

As of March 18, 2008, the system has not yet been commissioned.

- d. On March 26, 2007, the Company and its major distributors signed the revised distributorship agreements providing that delivery costs, i.e., freight and handling charges, will be advanced by the Company, subject to reimbursement by the distributors, effective from signing of the revised agreements. Total costs advanced in 2007 by the Company to the distributors, amounting to ₱341.0 million, were recognized as Trade receivables in the 2007 consolidated balance sheet.

