

**Liberty Flour Mills, Inc.
and Subsidiary**

Consolidated Financial Statements
December 31, 2009 and 2008

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

COVER SHEET

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SEC Registration Number

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(Company’s Full Name)

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

Ildefonsa Q. Mercado

(Contact Person)

813-4412

(Company Telephone Number)

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Month Day
(Calendar Year)

A	A	C	F	S
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(Form Type)

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Month Day
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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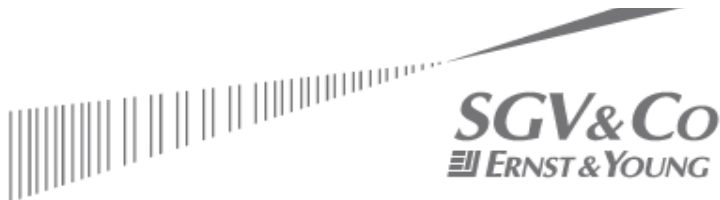
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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-2

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Liberty Flour Mills, Inc.
Liberty Building
835 Arnaiz Avenue
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Liberty Flour Mills, Inc. and Subsidiary included in this Form 17-A and have issued our report thereon dated March 24, 2010. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purposes of complying with Securities Regulation Code Rule 68.1 and SEC Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ana Lea C. Bergado
Partner
CPA Certificate No. 80470
SEC Accreditation No. 0660-A
Tax Identification No. 012-082-670
PTR No. 2087366, January 4, 2010, Makati City

March 24, 2010



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Liberty Flour Mills, Inc.
Liberty Building
835 Arnaiz Avenue
Makati City

We have audited the accompanying financial statements of Liberty Flour Mills, Inc. and Subsidiary, which comprise the consolidated balance sheets as at December 31, 2009 and 2008, and the consolidated statements of comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2009 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 Liberty Flour Mills, Inc. and Subsidiary as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

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LIBERTY FLOUR MILLS, INC.**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION**

Parent Company's unappropriated retained earnings, beginning	₱253,396,104
Less: Deferred income tax assets	27,065,564
Treasury shares	2,680
Parent Company's unappropriated retained earnings, as adjusted to available for dividend declaration, beginning	226,327,860
Add Parent Company's net income actually earned/realized during the year:	
Net income during the year closed to retained earnings	293,869,645
Benefit from deferred income tax assets during the year	(3,086,314)
	290,783,331
Less:	
Appropriations of retained earnings during the year	400,000,000
Cash dividend declaration during the year	33,981,612
	433,981,612
Total Parent Company's retained earnings available for dividend declaration, end	₱83,129,579



LIBERTY FLOUR MILLS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱240,671,605	₱15,124,539
Receivables (Note 5)	826,040,959	1,015,872,168
Financial assets at fair value through profit or loss (Note 6)	11,933,900	8,497,467
Inventories (Note 7)	376,101,078	470,930,077
Prepaid expenses and other current assets (Notes 8 and 24)	62,421,454	78,256,601
Total Current Assets	1,517,168,996	1,588,680,852
Noncurrent Assets		
Available-for-sale financial assets (Note 9)	184,823,042	206,341,519
Investment properties (Notes 10 and 13)	282,602,899	288,514,214
Property, plant and equipment (Note 11)	101,263,512	87,714,812
Accrued rent - net of current portion (Note 24)	4,090,642	4,916,699
Deferred income tax assets - net (Note 21)	30,151,878	27,065,564
Other noncurrent assets	2,746,180	3,103,410
Total Noncurrent Assets	605,678,153	617,656,218
TOTAL ASSETS	₱2,122,847,149	₱2,206,337,070
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Liabilities under trust receipts (Note 7)	₱330,542,899	₱730,091,403
Trade payables	24,554,134	41,411,482
Accrued expenses and other current liabilities (Note 12)	70,536,839	37,609,118
Short-term loan (Note 13)	—	7,000,000
Current portion of unearned rental income (Note 24)	2,808,503	4,484,713
Income tax payable	3,037,047	2,051,138
Current portion of deposits on long-term leases (Note 24)	6,418,443	1,838,676
Total Current Liabilities	437,897,865	824,486,530
Noncurrent Liabilities		
Accrued retirement benefit costs (Note 20)	87,290,968	72,035,202
Deposits on long-term leases - net of current portion (Note 24)	5,922,183	9,077,508
Unearned rental income - net of current portion (Note 24)	530,306	1,044,674
Deferred income tax liabilities - net (Note 21)	906,293	547,499
Total Noncurrent Liabilities	94,649,750	82,704,883
Total Liabilities	532,547,615	907,191,413
Stockholders' Equity		
Capital stock - ₱10 par value		
Authorized - 50 million common shares		
Issued - 40 million common shares	₱400,000,000	₱400,000,000
Retained earnings (Note 14):		
Appropriated	1,000,000,000	600,000,000
Unappropriated	191,349,908	305,793,552
Fair value changes of available-for-sale financial assets (Note 9)	(1,047,694)	(6,645,215)
	1,590,302,214	1,299,148,337
Treasury stock - at cost (268 shares)	(2,680)	(2,680)
Total Stockholders' Equity	1,590,299,534	1,299,145,657
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱2,122,847,149	₱2,206,337,070

See accompanying Notes to Consolidated Financial Statements.



LIBERTY FLOUR MILLS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Years Ended December 31		
	2009	2008	2007
REVENUE (Note 23)			
Net sales	₱1,810,844,541	₱1,984,281,220	₱1,998,033,776
Rental income	87,061,123	85,104,335	84,274,155
	1,897,905,664	2,069,385,555	2,082,307,931
COST OF SALES AND SERVICES (Note 15)			
Cost of sales	1,497,390,313	1,758,034,852	1,548,258,684
Cost of services	38,745,969	38,049,331	39,007,369
	1,536,136,282	1,796,084,183	1,587,266,053
GROSS PROFIT	361,769,382	273,301,372	495,041,878
EXPENSES (Note 17)			
Administrative	(134,682,222)	(93,985,574)	(114,069,915)
Selling	(25,573,628)	(25,413,051)	(23,936,094)
OTHER INCOME (CHARGES)			
Gain on sale of available-for-sale financial assets (Note 9)	195,599,090	–	2,293,966
Interest expense (Notes 7, 13 and 24)	(23,534,890)	(46,726,901)	(35,644,919)
Interest income (Notes 4 and 9)	11,662,316	14,040,905	13,502,707
Gain (loss) on sale of financial assets at fair value through profit and loss	6,915,652	(690,859)	(491,871)
Dividend income	652,862	516,722	1,306,905
Foreign exchange gain (loss) - net (Notes 7 and 16)	(3,369)	4,641,275	82,028,769
Others - net (Note 19)	(2,609,899)	(27,227,696)	(26,715,393)
INCOME BEFORE INCOME TAX	390,195,294	98,456,193	393,316,033
PROVISION FOR INCOME TAX (Note 21)	70,657,326	45,453,040	141,177,367
NET INCOME	319,537,968	53,003,153	252,138,666
OTHER COMPREHENSIVE INCOME			
Fair value changes of available-for-sale financial assets	5,597,521	(25,823,383)	19,171,760
Fair value changes of available-for-sale financial assets removed from equity and recognized in net income through:			
Impairment	–	6,836,264	–
Sale	–	–	(2,293,966)
	5,597,521	(18,987,119)	16,877,794
TOTAL COMPREHENSIVE INCOME	₱325,135,489	₱34,016,034	₱269,016,460
BASIC/DILUTED EARNINGS PER SHARE (Note 22)	₱7.99	₱1.33	₱6.30

See accompanying Notes to Consolidated Financial Statements.



LIBERTY FLOUR MILLS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Capital Stock	Retained Earnings (Note 14)		Fair Value Changes of Available-for- sale Financial Assets (Note 9)	Treasury Stock	Total
		Appropriated	Unappropriated			
BALANCES AT DECEMBER 31, 2006	₱400,000,000	₱400,000,000	₱300,651,063	(₱4,535,890)	(₱2,680)	₱1,096,112,493
Total comprehensive income for the year	—	—	252,138,666	16,877,794	—	269,016,460
Dividends declared during the year (Note 14)	—	—	(49,999,665)	—	—	(49,999,665)
BALANCES AT DECEMBER 31, 2007	400,000,000	400,000,000	502,790,064	12,341,904	(2,680)	1,315,129,288
Total comprehensive income for the year	—	—	53,003,153	(18,987,119)	—	34,016,034
Appropriations during the year (Note 14)	—	200,000,000	(200,000,000)	—	—	—
Dividends declared during the year (Note 14)	—	—	(49,999,665)	—	—	(49,999,665)
BALANCES AT DECEMBER 31, 2008	400,000,000	600,000,000	305,793,552	(6,645,215)	(2,680)	1,299,145,657
Total comprehensive income for the year	—	—	319,537,968	5,597,521	—	325,135,489
Appropriations during the year (Note 14)	—	400,000,000	(400,000,000)	—	—	—
Dividends declared during the year (Note 14)	—	—	(33,981,612)	—	—	(33,981,612)
BALANCES AT DECEMBER 31, 2009	₱400,000,000	₱1,000,000,000	₱191,349,908	(₱1,047,694)	(₱2,680)	₱1,590,299,534

See accompanying Notes to Consolidated Financial Statements.



LIBERTY FLOUR MILLS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱390,195,294	₱98,456,193	₱393,316,033
Adjustments for:			
Gain on sale of available-for-sale financial assets	(195,575,090)	—	(2,293,966)
Depreciation and amortization (Notes 10 and 11)	29,219,473	30,402,848	31,389,723
Interest expense (Notes 7 and 13)	23,534,890	46,726,901	35,644,919
Retirement benefits cost (Note 20)	18,347,579	7,286,193	8,697,420
Interest income (Notes 4 and 9)	(11,662,316)	(14,040,905)	(13,502,707)
Loss (gain) on sale of financial assets at fair value through profit or loss	(6,915,652)	690,859	491,871
Unearned rental income	(2,190,578)	50,987	(216,108)
Unrealized loss (gain) on financial assets at fair value through profit or loss (Note 6)	(768,962)	8,301,484	2,220,414
Dividend income (Note 9)	(652,862)	(516,722)	(1,306,905)
Loss (gain) on disposal of property and equipment	(223,214)	—	10,000
Unrealized foreign exchange loss (gain) - net (Note 16)	3,369	(2,486)	(31,364,726)
Impairment loss on available-for-sale financial assets (Notes 9 and 19)	—	16,411,641	21,740,941
Operating income before working capital changes	243,311,932	193,766,993	444,826,909
Decrease (increase) in:			
Receivables	189,888,022	(127,914,844)	(73,059,803)
Inventories	94,828,999	(292,188,030)	(62,365,807)
Prepaid expenses and other current assets	(12,887,466)	17,891,476	4,786,986
Increase (decrease) in:			
Liabilities under trust receipts	(399,548,504)	261,565,084	55,015,668
Trade payables	(16,900,170)	4,652,608	1,597,130
Deposits on long-term leases	566,196	1,093,983	799,608
Accrued expense and other current liabilities	31,677,243	(17,234,874)	14,966,497
Cash generated from operations	130,936,251	41,632,396	386,567,188
Interest taxes paid, including creditable withholding taxes	(42,850,267)	(135,195,001)	(125,397,477)
Interest paid	(22,472,269)	(43,342,425)	(30,168,287)
Interest received	11,662,316	14,040,905	13,502,707
Contributions to the retirement fund	(3,091,813)	(15,190,305)	(4,970,971)
Net cash provided by (used in) operating activities	74,814,218	(138,054,430)	239,533,160
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of available-for-sale financial assets	227,375,090	6,284,953	13,861,431
Proceeds from sale of financial assets at fair value through profit or loss	70,298,306	—	31,072,876
Acquisition of financial assets at fair value through profit or loss	(66,050,125)	(10,408,095)	(39,040,227)
Acquisition of property and equipment (Note 11)	(26,058,433)	(31,902,411)	(12,152,018)
Acquisition of investment properties (Note 10)	(10,798,425)	—	(286,618)
Acquisition of available-for-sale financial assets	(4,684,002)	(1,022,501)	(187,858,910)
Dividend received	652,862	1,116,722	706,905
Increase in other noncurrent assets	357,230	—	—
Proceeds from disposal of property and equipment	223,214	—	80,000
Net cash provided by (used in) investing activities	191,315,717	(35,931,332)	(193,616,561)

(Forward)



	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	(₱32,745,125)	(₱48,628,592)	(₱50,013,498)
Payment of short-term loan	(7,000,000)	—	—
Interest paid	(204,375)	(3,384,476)	(5,476,632)
Payments of long-term debt	—	(41,176,471)	(23,529,412)
Proceeds from short-term loan	—	7,000,000	—
Deposits for future stock subscriptions	—	—	—
Net cash provided by (used in) financing activities	39,949,500	(86,189,539)	(79,019,542)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,369)	2,486	(59,388)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	225,547,066	(260,172,815)	(33,162,331)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,124,539	275,297,354	308,459,685
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱240,671,605	₱15,124,539	₱275,297,354

See accompanying Notes to Consolidated Financial Statements.



LIBERTY FLOUR MILLS, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Liberty Flour Mills, Inc. (the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 26, 1958 and is engaged primarily in the manufacture of flour, utilization of its by-products and the distribution and sales of its produce. The Parent Company's subsidiary, LFM Properties Corporation (LPC), was incorporated and registered with the SEC on December 18, 1995 and is primarily engaged in the business of leasing out real estate properties such as office spaces and condominium units. The Parent Company and LPC are collectively referred to in the consolidated financial statements as the Group.

The registered office of the Group is at Liberty Building, 835 Arnaiz Avenue, Makati City.

The consolidated financial statements were authorized for issuance by the Board of Directors (BOD) on March 24, 2010.

2. Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements were prepared on the historical cost basis, except for financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets which were measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency.

Statement of Compliance

The consolidated financial statements of the Group were prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements consist of the financial statements of the Parent Company and LPC, a 100%-owned subsidiary.

A subsidiary is consolidated from the date on which control is transferred to the Group and ceases to be consolidated from the date on which control is transferred out of the Group. Control is normally construed when the Group owns, either directly or indirectly, more than 50% of the voting rights of the investees' capital stock and is able to govern the financial and operating policies of the investees in order to benefit from their activities.

The financial statements of LPC were prepared for the same reporting year as the Parent Company using consistent accounting policies. Intercompany balances and transactions, including intercompany income and expenses and unrealized profits and losses resulting from intragroup transactions, were eliminated in full.

Adoption of New International and Revised Accounting Standards

The accounting policies adopted are consistent with those of the previous year except for the adoption of the following new Philippine Interpretations based on International Financial Reporting Interpretations Committee (IFRIC) interpretations and amendments to previously issued Philippine Accounting Standards (PAS) which became effective January 1, 2009.



The following new and amended standards and interpretation that became effective as of January 1, 2009 are relevant on the Group's consolidated financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements*
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Group has elected to present comprehensive income in a single statement.
- Amendments to PFRS 7, *Improving Disclosures About Financial Instruments*
The amendments to PFRS 7 require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. As approved by the Financial Reporting Standards Council, a transitory relief is granted with respect to the presentation of comparative information for the new disclosures about the source of inputs for fair value and liquidity disclosures. Accordingly, the Group does not need to present comparative information for the disclosures required under PFRS 7 amendments. The fair value measurement and liquidity risk disclosures are presented in Note 25.
- PFRS 8, *Operating Segments*, replaces PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of comprehensive income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party. Operating segments identified under PFRS 8 and PAS 14 are the same. PFRS 8 disclosures are shown in Note 27.

Adoption of the following new and amended standards and interpretations that became effective as of January 1, 2009 are not currently relevant to the Group and therefore have no impact to the consolidated financial statements:

- PAS 23 (Revised), *Borrowing Costs*
- PAS 32, *Financial Instruments: Presentation* and PAS 1 Amendments, *Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Cost of an Increment in a Subsidiary, Jointly controlled by Entity or Associate* and Amendments to PAS 27, *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to PFRS 2, *Share-based Payments: Vesting Conditions and Cancellations*



- Amendments to Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* and PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfer of Assets from Customers*

Improvements to PFRS

The omnibus amendments to PFRS issued in 2008 were issued primarily with a view of removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Adoption of the improvements to the following standards in 2009 did not have material impact on the Group's consolidated financial statements.

- PAS 1, *Presentation of Financial Statements*
 - Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.
- PAS 16, *Property, Plant and Equipment*
 - The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5 and PAS 36, *Impairment of Assets*.
 - Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.
- PAS 18, *Revenue*

The amendment adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

 - has primary responsibility for providing the goods or service
 - has inventory risk
 - has discretion in establishing prices
 - bears the credit risk
- PAS 19, *Employee Benefits*
 - Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
 - Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
 - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
 - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.
- PAS 36, *Impairment of Assets*
 - When discounted cash flows are used to estimate 'fair value less cost to sell', additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value-in-use'.



- PAS 39, *Financial Instruments: Recognition and Measurement*
 - Changes in circumstances relating to derivatives specifically derivatives designated or de-designated as hedging instruments after initial recognition are not reclassifications.
 - When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4, *Insurance Contracts*, this is a change in circumstance, not a reclassification.
 - Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
 - Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.
- PAS 40, *Investment Properties*
 - Revises to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time fair value can be determined or construction is complete.

The following improvements to the existing standards that were effective in 2009 are not applicable to the Group and had no impact on its consolidated financial statements:

- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 28, *Investment in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interest in Joint Ventures*
- PAS 38, *Intangible Assets*
- PAS 41, *Agriculture*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2009

The Group will adopt the following standards and interpretations when these become effective:

Effective in 2010

New and Amended PFRS and Philippine Interpretations

The following new and amended standards and interpretations that will be effective in 2010 are not expected to be relevant on the Group's consolidated financial statements.

- PFRS 3 (Revised), *Business Combinations* and PAS 27 (Revised), *Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction



with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Revised) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The Group does not expect the revised standard to have an impact on the consolidated financial statements as the Group has not entered into any business combination in the past and current year.

- *Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners*
This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Group does not expect the Interpretation to have an impact on the consolidated financial statements.
- *Amendment to PAS 39, Eligible Hedged Items*
The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.
- *Amendments to PFRS 2, Group Cash-settled Share-based Payment Transactions*
The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group as the Group has not entered into any such share-based payment transactions.

Improvements to PFRS

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to remove inconsistencies and clarify wordings. The amendments are effective for annual periods beginning January 1, 2010 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the consolidated financial statements.

- PFRS 2, *Share-based Payment*, clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.



- PFRS 8, *Operating Segment Information*, clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*, clarifies that the terms of a liability that could result, at anytime; in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*, explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*, removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either 'finance' or 'operating' in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.
- PAS 36, *Impairment of Asset*, clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*, clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedge Items*, clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken.
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*, states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.



Effective in 2012

- Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*
This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Cash and Cash Equivalents

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

Financial Instruments

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.

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

Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs, if any, are included in the initial measurement of all financial assets and financial liabilities, except for financial instruments measured at FVPL. The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, option pricing models, and other relevant valuation models.

The Group classifies its financial assets as investments at FVPL, held-to-maturity (HTM) investments, loans and receivables or AFS financial assets, as appropriate. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities, as appropriate. The classification depends on the purpose for which the financial assets were acquired or originated. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

Financial assets

The Group's financial assets consist of: a) investments at FVPL; b) loans and receivables; and c) AFS financial assets. The Group does not have financial assets classified as HTM.



a. Investments at FVPL

Investments at FVPL are financial assets that are purchased and held principally with the intention of selling or repurchasing them in the near term or are designated as investments at FVPL at initial recognition. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term.

Financial assets are designated as at FVPL 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 financial assets or recognizing gains or losses on them on a different basis;
- The financial assets are part of a group of financial assets which are managed and their performance 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.

These financial assets are subsequently measured at fair market value, based primarily on quoted market prices. Realized and unrealized gains and losses arising from changes in fair market value of investments at FVPL are recognized in statement of comprehensive income. Interest earned on debt securities is recognized as the interest accrues taking into account the effective interest rate. Dividend income on equity securities is recognized according to the terms of the contract, or when the right of payment has been established.

As of December 31, 2009 and 2008, the Group's investments at FVPL amounting to ₱11.93 million and ₱8.50 million, respectively, consist of equity securities that are held-for-trading (see Note 6).

b. Loans and Receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization, using the effective interest rate method, of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in net income when the financial assets are derecognized or impaired or amortized.

As of December 31, 2009 and 2008, the Group's loans and receivables consist of cash in bank, cash equivalents and receivables amounting to ₱1,066.55 million and ₱1,031.00 million, respectively (Note 25).

c. AFS Financial Assets

AFS financial assets are nonderivative financial assets that are either designated in this category or do not qualify to be classified in any of the other categories. Financial assets may be designated at initial recognition as AFS if they are purchased and held indefinitely, and



may be sold in response to liquidity requirements or changes in market conditions. AFS financial assets are subsequently measured at fair market value. Unrealized gains and losses arising from changes in fair market value of AFS financial assets are reported in other comprehensive income until the financial asset is derecognized or as the financial asset is determined to be impaired.

As of December 31, 2009 and 2008, the Group's AFS financial assets, amounting to ₱184.82 million and ₱206.34 million, respectively, consist of quoted and unquoted equity and debt securities (see Note 9).

Financial liabilities

The Group's financial liabilities consist only of other financial liabilities. It does not have financial liabilities at FVPL.

Other financial liabilities pertain to financial liabilities that are neither held-for-trading nor designated at FVPL upon the inception of the financial liability. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in net income when the financial liabilities are derecognized, impaired or amortized.

As of December 31, 2009 and 2008, the Group's other financial liabilities amounting to ₱431.56 million and ₱818.98 million, respectively, consist of liabilities under trust receipts, trade payables, accrued expenses and other current liabilities, short-term loan and deposits on long-term leases (see Note 25).

Embedded derivatives

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

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic and risk 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 FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as investments at FVPL. Changes in fair values are included in net income.

The Group has no freestanding or embedded derivative as of December 31, 2009 and 2008.



Determination of fair values

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for financial assets and offer prices for financial liabilities at the close of business on the balance sheet date. For those where there is no active market, fair value is determined through transaction price which is indicative of active and regularly occurring market transactions.

Offsetting of financial instruments

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial assets that can be reliably estimated. 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 re-organization.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics, such as customer type, payment history, past-due status and term, and that group of financial assets is collectively assessed for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date.

Financial 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 impairment loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate, i.e., the effective interest rate computed at initial recognition. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery. The amount of the loss shall be recognized in net income.

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



AFS financial assets

For AFS financial assets, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in net income, is removed from other comprehensive income and recognized in net income. Impairment losses on equity investments are not reversed through the net income. Increases in fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of “Interest income” in net income. If in a subsequent year, the fair value of a debt instrument increases and that increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed through net income.

Financial assets carried at cost

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

Derecognition of Financial Instruments

Financial asset

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

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

When the Group has transferred its rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all the risk and rewards of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Group’s continuing involvement in the financial asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.



Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

When 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 net income.

Inventories

Cost of finished goods and work in process represents the costs of direct materials, direct labor and a proportion of production overhead. Inventories are valued at the lower of cost (computed using the first-in first-out method) and net realizable value (NRV). NRV is the selling price in the ordinary course of business less the costs of completion and the estimated costs necessary to make the sale.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. This account comprises prepaid rentals and insurance premiums, creditable withholding tax and other prepaid items. The prepaid rentals and insurance premiums and other prepaid items are apportioned over the period covered by the payment and charged to the appropriate accounts in net income when incurred and creditable withholding tax are deducted from income tax payable on the same year the revenue was recognized. Prepayments that are expected to be realized for no more than 12 months after the reporting period are classified as current assets, otherwise these are classified as other noncurrent assets.

Value-added Tax

Revenues, expenses, assets and liabilities are recognized net of the amount of value-added tax, except where the value-added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value-added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable

The net amount of value-added tax recoverable from or payable to, the taxation authority is included as part of Prepayments and other current assets or Output VAT and other taxes payable in the Group's consolidated balance sheet.

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 net 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 net 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.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price 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 in net income in the period 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 the property, plant and equipment.

Depreciation commences once the assets are available for use. Depreciation is computed using the straight-line method over the estimated useful lives of the assets:

	Number of Years
Mill machinery and equipment	10
Building and building equipment	10 - 20
Transportation equipment	5
Land improvements	20
Other equipment	5

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The estimated useful lives and depreciation method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

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



Construction-in-progress represents fabrication and installation of supplies related to mill machinery and other manufacturing equipment and is stated at cost. Construction-in-progress is not depreciated until such time as the relevant assets are completed and are ready for use.

Impairment of Nonfinancial Assets

The carrying values of nonfinancial assets (investment properties, property, plant and equipment and other nonfinancial assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The estimated recoverable amount of an asset is the higher of an asset's fair value and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction less costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in net income.

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.

As of December 31, 2009 and 2008, no impairment loss was recognized for the Group's nonfinancial assets.

Capital Stock

Capital stock is measured at par value for all shares issued and outstanding. When the Parent Company purchases its own capital stock (treasury shares), the consideration paid, including any attributable incremental costs, is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects is included in equity attributable to the Parent Company's equity holders.

Retained Earnings

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

Dividends Distribution

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective shareholders of the Parent Company. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date.

Basic/Diluted Earnings per Share

Basic/diluted earnings per share are computed by dividing net income for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the income for the year attributable to common stockholders by the weighted average number of shares outstanding during the year, excluding treasury shares and adjusted for the effects of all potentially dilutive common shares, if any.



Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. The Group has assessed its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and concluded that it is acting as a principal in all arrangements. Revenue is measured at the fair value of the consideration received, excluding discounts and sales tax. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of goods is recognized upon invoicing and delivery, when the significant risks and rewards of ownership of the goods have passed to the customer. Revenue from sale of goods is measured at fair value of the consideration received or receivable, excluding discounts, returns and value-added tax.

Rental Income

Rental income on leased properties under operating lease arrangements is recognized on a straight-line basis over the lease contracts. Excess of rental income recognized using the straight-line basis over the rental income based on the terms of lease contract is recognized as an asset under the account "Accrued Rent". Rentals collected but not yet earned are recognized as liability under the account "Unearned Rental Income"

Interest income

Interest income is recognized using the effective interest method.

Dividend income

Dividend income is recognized when the Group's right to receive the payment is established.

Costs and Expenses

Cost and expenses are recognized in net income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of Sales

Cost of sales is recognized as expense when the related goods are sold.

Cost of Services

Cost of services includes expenses incurred for the generation of revenue from rental income. Cost of services is expensed as incurred.

Administrative and selling expenses

Administrative expenses constitute costs of administering the business. Selling expenses are costs incurred to sell or distribute the merchandise. These expenses are expensed as incurred.

Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs include interest charges, foreign exchange differentials that qualify for capitalization and other costs incurred in connection with the borrowing of funds. Other borrowing costs are expensed as incurred.



Retirement Benefits Cost

Retirement benefits cost is 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 Group's retirement plan at the end of the previous reporting year exceed 10% of the higher of the present value of 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 that the benefits become vested. If the benefits are vested immediately following the introduction of, or changes to, the 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 from which the obligations are to be settled.

Leases

Operating lease as lessee

Leases, where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in net income on a straight-line basis over the lease term.

Operating lease as lessor

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset;
or
- (d) there is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Foreign Currency-Denominated Transactions

Transactions denominated in foreign currencies are recorded using the exchange rate prevailing at the date of the transaction. Outstanding foreign currency-denominated monetary assets and liabilities at year end are remeasured using the closing rate at balance sheet date. Exchange gains or losses resulting from exchange rate fluctuation upon actual settlement and from restatement at year end are credited to or charged in net income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.



Income Taxes

Current income 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 at the balance sheet date.

Deferred income tax

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

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

Deferred income 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 income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except when 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 income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) in effect at the balance sheet date.

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

Provisions

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 a 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 expected future cash flows at a pre-tax rate that reflects current market assessments of the time value money and, where appropriate, the risks specific to the liability where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When



the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is recognized in net income, net of reimbursement.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed in the notes to financial statements when an inflow of economic benefit is probable.

Events after Balance Sheet Date

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

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the application of policies and amounts reported in the consolidated financial statements.

In the opinion of management, the consolidated financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and such estimates will be adjusted accordingly when the effects become determinable.

Judgments

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 agreement 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 consolidated balance sheet.

Classification of building

An insignificant portion of the Group's building classified as investment property is occupied by the Group for administrative purposes. Based on the Group's judgment, such owner-occupied portion is insignificant to the whole property and therefore classified the building as investment property.

Classification of leases – Group as lessor

The Group has entered into the property leases where it has determined that the risk and rewards related to those properties are retained by the Group. As such, these lease agreements are accounted for as operating leases.

Estimates

Estimation of allowance for doubtful accounts

Provisions are made for specific and groups of accounts where objective evidence of impairment exists. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts, such as but are not limited to, the length of the Group's



relationship with the customer, the customer's payment behavior, known market factors and historical loss experiences.

The Group makes an individual assessment of financial assets that are individually significant. Then a collective assessment is done by grouping the financial assets according to its market segments. This market segment as defined by the Group is the group of debtors with similar line of business. Accordingly, these groupings would reflect the credit risk characteristics. Moreover, the historical loss experience per segment was determined for purposes of assessing the impairment for each segment.

The allowance for doubtful accounts amounted to ₱1.60 million and ₱2.07 million as of December 31, 2009 and 2008, respectively. The carrying value of receivables amounted to ₱826.04 million and ₱1,015.87 million as of December 31, 2009 and 2008, respectively (see Note 5).

Estimation of allowance for inventory obsolescence

Provisions are made for inventories specifically identified to be obsolete. The level of this allowance is evaluated by management on the basis of factors that affect the realizability of inventories. Generally, 100% allowance is provided on the inventory items which are near expiry and are not expected to be sold prior to expiration. There were no obsolete or near expiring inventories identified as of December 31, 2009 and 2008. Inventories amounted to ₱376.10 million and ₱470.93 million as of December 31, 2009 and 2008, respectively (see Note 7).

Estimation of useful lives of depreciable investment properties and property, plant and equipment

The Group reviews at each balance sheet date the estimated useful lives of investment properties and property, plant and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of depreciable investment properties and property, plant and equipment would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

There is no change in the estimated useful lives of depreciable investment properties and property, plant and equipment in 2009, 2008 and 2007.

The carrying value of investment properties amounted to ₱282.60 million and ₱288.51 million as of December 31, 2009 and 2008, respectively (see Note 10).

The carrying value of property, plant and equipment, net of accumulated depreciation and amortization of ₱262.93 million and ₱251.85 million as of December 31, 2009 and 2008, respectively, amounted to ₱101.26 million and ₱87.71 million as of December 31, 2009 and 2008, respectively (see Note 11).

Impairment of AFS financial assets

In determining the fair values of financial assets, management evaluates the presence of significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or "prolonged" requires judgment. The Group treats 'significant' generally as 20% or more and "prolonged" as greater than six months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. Any



indication of deterioration in these factors can have a negative impact on their fair value. Based on management's assessment, impairment loss on AFS financial assets amounting to ₱16.41 million and ₱21.74 million needs to be recognized in 2008 and 2007, respectively (nil in 2009). The Group has AFS debt securities where the cost still exceeds the fair value. Management has assessed that these are not yet impaired as of December 31, 2009. The carrying value of AFS financial assets amounted to ₱184.82 million and ₱206.34 million as of December 31, 2009 and 2008, respectively (see Note 9).

Impairment of nonfinancial assets

The Group determines whether there are indications of impairment of the Group's nonfinancial assets at least annually. Indications of impairment include significant change in usage, decline in the asset's fair value or underperformance relative to expected historical or projected future results. Determining the fair value of these nonfinancial assets, which includes investment properties and property, plant and equipment, requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. It requires the Group to make estimates and assumptions that can materially affect the financial statements. Future events could cause management to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial condition and financial performance. The preparation of the estimated future cash flows involves significant judgment and estimation. While management assumptions may be appropriate and reasonable, significant changes in management assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges. Management assessed that there are no impairment indicators as of December 31, 2009 and 2008. The carrying values of these assets amounted to ₱383.87 million and ₱376.22 million as of December 31, 2009 and 2008 (see Notes 10 and 11).

Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Total recognized deferred income tax assets amounted to ₱31.15 million and ₱28.87 million as of December 31, 2009 and 2008, respectively (see Note 21).

Estimation of retirement benefits obligation and cost

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates, expected return on plan assets and salary increase rates.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement liabilities. In determining the appropriate discount rate, the Group considers the interest rates in government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit obligation.

Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future period.



While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligation. The carrying value of accrued retirement benefits costs amounted to ₱87.29 million and ₱72.04 million as of December 31, 2009 and 2008, respectively (see Note 20).

Determination of fair value of financial instruments

Financial assets and financial liabilities, on initial recognition, are accounted for at fair value. The fair values of financial assets and financial liabilities, on initial recognition, are normally the transaction prices. The fair value of financial assets recognized in the consolidated balance sheets as of December 31, 2009 and 2008 amounted to ₱1,263.47 million and ₱1,245.84 million, respectively. The fair value of other financial liabilities recognized in the consolidated balance sheets as of December 31, 2009 and 2008 amounted to ₱414.97 million and ₱818.98 million, respectively (see Note 25).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	₱40,476,668	₱15,124,539
Short-term cash investments	200,194,937	—
	₱240,671,605	₱15,124,539

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term cash investments that 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.

Interest income earned on cash in banks and short-term cash investments amounted to ₱0.84 million, ₱0.93 million and ₱9.56 million in 2009, 2008 and 2007, respectively.

5. Receivables

	2009	2008
Trade receivable:		
Related parties (Note 23)	₱801,342,257	₱974,884,630
Others	1,629,320	21,124,697
Rent receivable:		
Related parties (Note 23)	397,325	497,566
Others	4,477,431	4,336,348
Advances to officers and employees	784,196	3,812,299
Others	19,010,430	13,288,670
	827,640,959	1,017,944,210
Less allowance for doubtful accounts	1,600,000	2,072,042
	₱826,040,959	₱1,015,872,168

Trade receivables arise from sale of flour and mill feeds. These are noninterest-bearing with average credit terms of 60 to 120 days.

Rent receivables arise from leasing of the Group's investment properties. These are noninterest-bearing with average credit terms of 30 days.



Movements in the allowance for doubtful accounts follow:

As of December 31, 2008:

	Trade Receivables	Rent Receivables	Total
Beginning balance	₱1,600,000	₱472,042	₱2,072,042
Write-offs	–	(472,042)	(472,042)
Ending balance	₱1,600,000	₱–	₱1,600,000

As of December 31, 2008:

	Trade Receivables	Rent Receivables	Total
Beginning balance	₱1,600,000	₱236,021	₱1,836,021
Provision for the year	–	236,021	236,021
Ending balance	₱1,600,000	₱472,042	₱2,072,042

6. Financial Assets at Fair Value through Profit or Loss

The Group's investments at FVPL as of December 31, 2009 and 2008 consist of quoted equity securities with fair value of ₱11,933,900 and ₱8,497,467, respectively.

Changes in fair values of investments at FVPL are recognized in "Other charges - net" in net income (see Note 19).

7. Inventories - at cost

	2009	2008
Wheat grains	₱341,844,365	₱347,554,012
Flour and mill feeds	18,602,166	12,935,211
Supplies	15,654,547	13,668,962
	376,101,078	374,158,185
Inventory-in-transit	–	96,771,892
	₱376,101,078	₱470,930,077

Under the terms of agreements covering trust receipts, certain inventories have been released to the Parent Company in trust for the banks. Outstanding liabilities under such trust receipts, which bear annual interest rates ranging from 6.00% to 8.25%, amounted to ₱330.54 million and ₱730.09 million as of December 31, 2009 and 2008, respectively. Interest expense recognized amounted to ₱22.47 million in 2009, ₱43.34 million in 2008 and ₱30.17 million in 2007.

8. Prepaid Expenses and Other Current Assets

	2009	2008
Store supplies	₱26,545,134	₱22,888,359
Prepaid income tax	18,161,839	47,710,509
Prepaid VAT on importation	13,643,564	–
(Forward)		



	2009	2008
Prepaid expenses	₱1,108,686	₱1,288,100
Prepaid import cost	1,387,638	—
Current portion of accrued rent (Note 24)	583,734	458,459
Advances to suppliers	517,857	5,433,053
Others	473,002	478,121
	₱62,421,454	₱78,256,601

9. Available-for-sale Financial Assets

	2009	2008
Debt instruments - quoted, at fair value	₱155,184,660	₱180,259,620
Equity instruments		
Quoted - at fair value, net of accumulated impairment loss of ₱9.96 million	4,444,059	3,875,078
Unquoted - at cost, net of accumulated impairment loss of ₱28.20 million in 2008	25,194,323	22,206,821
Total equities	28,897,279	26,081,899
Total AFS financial assets	₱184,823,042	₱206,341,519

The cost of the quoted equity instruments which are stated at fair value amounted to ₱25.57 million and ₱50.78 million as of December 31, 2009 and 2008, respectively.

In 2008, the Group determined that some of its investments in quoted shares of stock are impaired because of significant decline in fair values. Decline in fair value in 2008 and prior years amounting to ₱9.96 million was charged under “Other charges” account in the 2008 consolidated statement of comprehensive income

In 2008, the Group recognized an impairment loss on one of its investments in unquoted shares of stock amounting to ₱6.50 million because management has assessed the decline in fair value to be prolonged and significant. This is included under “Other charges” account in the 2008 consolidated statement of comprehensive income (see Note 18).

On December 18, 2009, the Group sold one of its investments in unquoted shares of stock with carrying value of ₱31.80 million for ₱227.38 million, resulting in a gain on sale of ₱195.60 million.

The Group intends to dispose the unquoted shares through sale in the future. The Group’s investment in unquoted equity shares are mostly investments coursed through a local investment house. It is the investment house who advises the Group when to sell the shares of stock when the price is favorable to the Group.

The movement of fair value changes in AFS financial assets follows:

	2009	2008
Beginning balance	(₱6,645,215)	₱12,341,904
Valuation gain (loss) taken to equity	5,597,521	(25,823,383)
Impairment loss transferred from equity to net income	—	6,836,264
Ending balance	(₱1,047,694)	(₱6,645,215)



Interest income earned on debt instruments amounted to ₱10.24 million in 2009, ₱13.11 million in 2008 and ₱3.95 million in 2007. Dividend income earned on AFS financial assets amounted to ₱0.65 million in 2009, ₱0.52 million in 2008 and ₱1.31 million in 2007.

10. Investment Properties

As of December 31, 2009:

	Land	Building and Building Equipment	Condominium Units for Lease	Total
Cost				
Beginning balances	₱24,824,783	₱385,941,133	₱10,399,120	₱421,165,036
Additions	–	10,798,425	–	10,798,425
Ending balances	24,824,783	396,739,558	10,399,120	431,963,461
Accumulated Depreciation				
Beginning balances	–	125,629,373	7,021,449	132,650,822
Depreciation	–	16,010,911	698,829	16,709,740
Ending balances	–	141,640,284	7,720,278	149,360,562
Net Book Values	₱24,824,783	₱255,099,274	₱2,678,842	₱282,602,899

As of December 31, 2008:

	Land	Building and Building Equipment	Condominium Units for Lease	Total
Cost	₱24,824,783	₱385,941,133	₱10,399,120	₱421,165,036
Accumulated Depreciation				
Beginning balances	–	109,972,853	6,322,621	116,295,474
Depreciation	–	15,656,520	698,828	16,355,348
Ending balances	–	125,629,373	7,021,449	132,650,822
Net Book Values	₱24,824,783	₱260,311,760	₱3,377,671	₱288,514,214

The fair market value of land, Liberty Center building (included under “Building and building equipment” with net book value of ₱218,361,646 and ₱231,978,420 as of December 31, 2009 and 2008, respectively) and building equipment (included under “Building and building equipment” with net book value of ₱230,429 and ₱392,641 as of December 31, 2009 and 2008) based on the report of an independent appraiser as of January 14, 2008 amounted to ₱170,775,000, ₱414,085,000 and ₱17,325,000, respectively.

The Group cannot reliably determine the fair value of the other investment properties consisting of land with book value of ₱15,086,983 as of December 31, 2009 and December 31, 2008, building and building equipment with net book value of ₱36,507,199 and ₱27,940,699 as of December 31, 2009 and 2008, respectively and condominium units with net book value of ₱2,678,842 and ₱3,377,671 as of December 31, 2009 and 2008, respectively, since comparable market transactions are infrequent and alternative reliable estimates of fair value are not available.

Management believes that the fair value of the investment properties is higher than the carrying amounts as of December 31, 2009 and 2008.



12. Accrued Expenses and Other Current Liabilities

	2009	2008
Management bonus	₱35,264,357	₱5,369,792
Output VAT	12,992,728	3,117,212
Customers and tenants deposits	6,044,253	5,094,391
Repairs	4,910,714	—
Dividends payable	3,467,646	2,231,159
Freight and customs duties	2,709,033	8,716,756
Withholding tax, HDMF and SSS payable	1,229,699	867,874
Utilities	719,687	4,872,838
Labor and overhead	215,995	2,966,555
Others	2,982,727	4,372,541
	₱70,536,839	₱37,609,118

Management bonus, which is equivalent to 12% of net income, is given to the Parent Company's directors and officers.

13. Short-term Loan

On October 22, 2008, LPC obtained a short-term loan from a local bank. Outstanding balance as of December 31, 2008 amounting to ₱7.00 million was fully settled on April 3, 2009. The loan bears interest rates ranging from 8.5% to 8.75% in 2008. Interest expense related to this loan amounted to ₱204,375 in 2009 and ₱979,980 in 2008.

14. Retained Earnings

Dividend Declarations

- On August 26, 2009 and October 28, 2009, the BOD declared cash dividends of 3.49546% or ₱0.349546 per share and 5% or ₱0.50 per share, totaling ₱33.98 million to stockholders of record as of September 11, 2009 and December 11, 2009, respectively.
- On April 30, 2008, the BOD declared cash dividends of 12.5% or ₱1.25 per share, totaling ₱49.99 million to stockholders of record as of May 15, 2008.
- On February 28, 2007 and October 24, 2007, the BOD declared cash dividends of 7.5% or ₱0.75 per share and 5% or ₱0.50 per share, totaling ₱49.9 million to stockholders of record as of April 16, 2007 and November 20, 2007, respectively

Appropriation of Retained Earnings

- On December 21, 2009, the BOD approved the appropriation of additional ₱400.00 million out of the unappropriated retained earnings as of December 31, 2009, in light of the Group's plan for expansion of its business operations.
- On March 26, 2008, the BOD approved the appropriation of additional ₱200.00 million out of the unappropriated retained earnings as of December 31, 2007 in light of the Group's plan for expansion of its business operations.
- On January 25, 2006 and January 26, 2005, the BOD approved the Group's plan for expansion of its business operations which is estimated at ₱400.00 million and ₱200.00 million, respectively, as of those dates. Accordingly, the amount was appropriated out of the Group's unappropriated retained earnings.



The balance of unappropriated retained earnings includes ₱4,347,200 which is available only for stock dividend declaration. This amount pertains to the difference between the par value of the shares issued by LPC to the Parent Company and the cost of the Parent Company's investment in the two merged subsidiaries in 2005, in accordance with the Articles and Plan of Merger as approved by the SEC, where LPC is the surviving entity.

15. Cost of Sales and Services

Cost of Sales:

	2009	2008	2007
Materials used	₱1,388,322,912	₱1,643,525,464	₱1,427,229,039
Direct labor	43,124,031	48,998,473	47,830,385
Overhead:			
Utilities	40,331,473	45,934,694	51,776,149
Depreciation and amortization	8,919,739	9,291,667	10,888,815
Repairs and maintenance	10,165,302	4,231,083	4,985,438
Other factory overhead	6,526,856	6,053,471	5,548,858
	₱1,497,390,313	₱1,758,034,852	₱1,548,258,684

Cost of Services:

	2009	2008	2007
Depreciation and amortization	₱16,042,083	₱16,145,241	₱16,413,711
Communication, light and water	3,429,610	3,390,615	2,798,932
Real estate tax	7,476,362	7,476,362	7,488,239
Outside services	6,759,406	6,212,494	6,676,127
Repairs and maintenance	3,736,402	3,467,052	4,282,968
Insurance and others	1,302,106	1,357,567	1,347,392
	₱38,745,969	₱38,049,331	₱39,007,369

16. Foreign Exchange Gain (Loss) - net

Foreign exchange gains in 2008 and 2007 arise mainly from United States (US) dollar-denominated liabilities on importation of wheat. Starting 2008, the liabilities under trust receipts related to importation of wheat are denominated in Peso.

The breakdown of net foreign exchange gains (losses), as to realized and unrealized for purposes of determining the amount subject to income tax, follows:

	2009	2008	2007
Realized	₱—	₱4,638,789	₱50,664,043
Unrealized	(3,369)	2,486	31,364,726
	(₱3,369)	₱4,641,275	₱82,028,769



17. Expenses

Administrative:

	2009	2008	2007
Salaries and wages (Note 18)	₱26,681,050	₱26,340,590	₱28,676,897
Employee benefits (Notes 18 and 20)	43,109,116	34,562,311	33,344,567
Director's and officers' bonus	35,264,357	5,369,792	29,192,911
Taxes and licenses	6,552,179	8,265,683	6,569,844
Outside services	3,857,287	4,073,121	2,648,732
Depreciation and amortization	2,844,000	2,266,832	2,515,963
Insurance	1,397,563	1,512,513	1,499,605
Travel and representation	1,954,408	1,149,828	1,079,404
Office supplies	1,125,529	1,109,554	1,111,958
Repairs and maintenance	988,691	986,678	984,115
Communication, light and water	955,991	942,960	882,327
Membership and subscription	785,455	490,452	710,446
Per diem	469,160	465,546	441,600
Donations and contribution	864,534	417,726	664,001
Representation	88,952	377,397	354,292
Others	7,743,950	5,654,591	3,393,253
	₱134,682,222	₱93,985,574	₱114,069,915

Selling:

	2009	2008	2007
Promotional marketing expenses (Note 23)	₱22,723,533	₱20,300,000	₱20,000,000
Depreciation and amortization	1,413,652	2,699,108	1,571,234
Freight	1,217,663	1,999,388	1,943,287
Commission	218,780	414,555	421,573
	₱25,573,628	₱25,413,051	₱23,936,094

18. Personnel Costs

	2009	2008	2007
Salaries and wages	₱26,681,050	₱26,340,590	₱28,676,897
Retirement benefits costs (Note 20)	18,347,579	7,286,193	8,697,420
Others	24,761,537	27,276,118	24,647,147
	₱69,790,166	₱60,902,901	₱62,021,464s



19. Other Charges

	2009	2008	2007
Unrealized loss on financial assets at FVPL (Note 6)	₱—	(₱8,301,484)	(₱2,220,414)
Impairment loss on unquoted equity AFS financial assets (Note 9)	—	(16,411,641)	(21,740,941)
Loss on disposal of property and equipment	—	—	(10,000)
Other expenses	(4,532,921)	(2,514,571)	(2,744,038)
Total other charges	(4,532,921)	(27,227,696)	(26,715,393)
Unrealized gain on financial assets at FVPL (Note 6)	768,962	—	—
Gain on disposal of property and equipment	223,214	—	—
Other income	930,846	—	—
Total other income	1,923,022	—	—
Net	(₱2,609,899)	(₱27,227,696)	(₱26,715,393)

20. Retirement Benefits Costs

The Parent Company has a formal tax-qualified, non-contributory defined benefit retirement plan covering its regular employees. Retirement benefits costs recognized in net income under “Administrative expenses - Employee benefits” amounted to ₱18.35 million, ₱7.29 million in 2008 and ₱8.70 million in 2007.

Under the terms of the Collective Bargaining Agreement (CBA), the Parent Company is required to pay its regular employees retirement benefits of 30 days for every year of credited service upon reaching the compulsory retirement age of 65. Optional retirement is allowed for an employee who reaches the age of 50 and has completed 20 years of credited service to the Parent Company. Likewise, an employee who completes 20 years of credited service may opt to retire subject to the Parent Company’s approval. Further, as approved by the BOD in its meeting on July 26, 2000, an employee who has worked for the Parent Company for at least 15 years and those who will join his or her family abroad may avail of optional retirement.

Below are the details of the accrued retirement benefits and costs recognized in the consolidated financial statements:

Retirement benefits costs recognized in net income:

	2009	2008	2007
Current service cost	₱2,511,115	₱3,161,914	₱2,471,851
Interest cost	16,032,971	5,588,639	7,411,839
Expected return on plan assets	(196,507)	(1,177,235)	(756,756)
Net actuarial gain recognized	—	(287,125)	(429,514)
Retirement benefits costs	₱18,347,579	₱7,286,193	₱8,697,420
Actual return on plan assets	₱2,702,417	₱1,789,253	₱5,342,786



Reconciliation of the assets and liabilities recognized in the consolidated balance sheets

	2009	2008
Present value of defined benefit obligations	₱93,148,658	₱73,209,915
Fair value of plan assets	5,926,540	3,275,122
Unfunded obligation	87,222,118	69,934,793
Unrecognized actuarial net gains	68,850	2,100,409
Accrued retirement benefits costs	₱87,290,968	₱72,035,202

Movements of accrued retirement benefits costs recognized in the consolidated balance sheets

	2009	2008
Beginning balance	₱72,035,202	₱79,939,314
Retirement benefits costs for the year	18,347,579	7,286,193
Contributions during the year	(3,091,813)	(15,190,305)
Ending balance	₱87,290,968	₱72,035,202

Changes in the present value of defined benefit obligation

	2009	2008
Beginning balance	₱73,209,915	₱82,917,499
Current service cost	2,511,115	3,161,914
Interest cost	16,032,971	5,588,639
Benefits paid	(3,142,812)	(24,841,366)
Actuarial loss	4,537,469	6,383,229
Ending balance	₱93,148,658	₱73,209,915

Changes in the fair value of plan assets

	2009	2008
Beginning balance	₱3,275,122	₱14,715,436
Contributions during the year	3,091,813	15,190,305
Expected return on plan assets	196,507	1,177,235
Actuarial gain (loss)	2,505,910	(2,966,488)
Benefits paid	(3,142,812)	(24,841,366)
Ending balance	₱5,926,540	₱3,275,122

Major categories of plan assets as a percentage of fair value of plan assets

	2009	2008
Cash in bank	16.00%	23.00%
Receivables	6.00%	4.00%
Investments in shares of stock	78.00%	73.00%
	100.00%	100.00%



The latest actuarial valuation of the plan is as of December 31, 2009. The principal actuarial assumptions used to determine retirement benefits costs as of January 1 are as follows:

	2009	2008
Annual rates:		
Discount rate	21.90%	6.74%
Expected rate of return on plan assets	6.00%	8.00%
Future salary increases	3.50%	3.50%

Discount rate used to determine the present value of defined benefit obligation as of December 31, 2009 was 9.75%.

The management does not expect to contribute to the plan in 2010.

The amounts for the current and previous annual periods of the present value of defined benefit obligation, fair value of plan assets, deficit in the plan and any experience adjustments are as follows:

	2009	2008	2007	2006
Present value of funded defined benefit obligation	₱93,148,658	₱73,209,915	₱82,917,499	₱72,807,846
Fair value of plan assets	5,926,540	3,275,122	14,715,436	9,459,448
Deficit	87,222,118	69,934,793	68,202,063	63,348,398
Experience adjustments on defined benefit obligation - loss (gain)	(7,074,672)	14,555,566	5,283,732	—
Experience adjustments on plan assets - gain (loss)	2,505,910	(2,996,488)	4,586,030	—

21. Income Taxes

- a. The components of the provision for income tax are as follows:

	2009	2008	2007
Current:			
RCIT	₱56,652,337	₱52,569,736	₱136,903,079
Capital gains tax	16,732,509	—	—
	73,384,846	52,569,736	₱136,903,079
Deferred	(2,727,520)	(7,116,696)	4,274,288
	₱70,657,326	₱45,453,040	₱141,177,367

- b. The reconciliation of the provision for income tax computed at the statutory income tax rates with the provision for income tax as shown in the consolidated statements of comprehensive income is as follows:

	2009	2008	2007
Income tax at statutory income tax rates	₱117,058,588	₱34,459,667	₱137,660,611
Additions to (reductions in) income tax resulting from:			
Gain on sale of AFS financial assets	(41,947,218)	—	(802,888)
(Forward)			



	2009	2008	2007
Interest and dividend income subjected to final tax	(₱3,519,776)	(₱4,916,798)	(₱5,111,937)
Unrealized loss (gain) on financial assets at FVPL	(2,879,176)	2,905,519	777,145
Nondeductible expenses	1,371,116	2,678,871	2,443,624
Loss on sale of FVPL financial assets	573,791	241,801	172,155
Impairment loss on AFS financial assets	—	5,744,074	7,609,329
Temporary difference recognized in current year for which no deferred income tax was recognized in prior years	—	—	(1,726,525)
Effect of change in income tax rates	—	4,339,906	155,853
	₱70,657,326	₱45,453,040	₱141,177,367

- c. The components of the Group's deferred income tax assets and liabilities are as follows:

	2009	2008
Deferred income tax assets on:		
Accrued retirement liability	₱25,151,066	₱21,610,561
Unamortized past service cost	4,519,801	4,975,003
Unearned rental income	1,001,642	1,658,816
Allowance for doubtful accounts	480,000	621,612
Unrealized foreign exchange loss	1,252	—
	31,153,761	28,865,992
Deferred income tax liabilities on:		
Accrued rent	1,402,312	734,634
Unamortized discount on long-term deposit	505,864	1,612,547
Unrealized foreign exchange gain	—	746
	1,908,176	2,347,927
Net deferred income tax assets	₱29,245,585	₱26,518,065

Net deferred income tax assets and liabilities presented in the consolidated balance sheets on a net basis by entity are as follows:

	2009	2008
Net deferred tax assets (Parent Company)	₱30,151,878	₱27,065,564
Net deferred tax liabilities (LPC)	906,293	547,499

- d. Republic Act (RA) No. 9337 or the Expanded-Value Added Tax (E-VAT) Act of 2005 which took effect on November 1, 2005 provided for the change in RCIT rate from 35% to 30% starting January 1, 2009. The unallowable deduction for interest expense was likewise changed from 42% of the interest income subjected final tax to 33% starting January 1, 2009.



22. Basic/Diluted Earnings per Share

The computation of basic/diluted earnings per share is as follows:

	2009	2008	2008
Net income	₱319,537,968	₱53,003,153	₱252,138,666
Divided by weighted average	39,999,732	39,999,732	39,999,732
Basic/diluted earnings per share	₱7.99	₱1.33	₱6.30

The Group does not have dilutive potential common shares as of December 31, 2009, 2008 and 2007. Therefore, the basic and diluted earnings per share are the same as of those dates.

23. Related Party Transactions

Related party relationship exists when the party has the ability to control directly or indirectly, through one or more intermediaries or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management, personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

- a. The following are the transactions with its related parties for each of the years and their account balance as of December 31:

Related Party	Relationship		Sales	Rental Income	Promotional and Marketing Expenses (Note 17)	Amounts Owed by Related Parties
Parity Values, Inc.	Stockholder	2009	₱1,359,259,322	₱1,108,608	₱18,973,215	₱411,730,151
		2008	1,358,104,683	1,108,608	17,000,000	534,633,297
		2007	1,394,020,656	1,108,608	17,000,000	435,672,278
Trade Demands Corporation	Under common control	2009	173,951,601	—	—	303,927,330
		2008	275,415,392	—	—	347,420,340
		2007	252,515,909	—	—	300,975,106
Liberty Commodities Corporation	Under common control	2009	263,144,707	1,991,316	3,750,000	86,082,101
		2008	317,825,572	2,044,068	3,000,000	93,328,559
		2007	351,497,211	2,044,068	3,000,000	125,031,535
		2009	₱1,796,355,630	₱3,099,924	₱22,723,215	₱801,739,582
		2008	₱1,951,345,647	₱3,152,676	₱20,000,000	₱975,382,196
		2007	₱1,998,033,776	₱3,152,676	₱20,000,000	₱861,678,919

Promotional and marketing expenses are subsidy paid outright in cash to related parties for the Parent Company's support in its advertising and promotional activities.

Outstanding balances of the intercompany receivables at year-end are unsecured, interest-free and settlement occurs in cash. There have been no guarantees received for any related party receivables. There is no impairment on receivables relating to amounts owed by related parties in 2009, 2008 and 2007.

- b. The key management personnel compensation is as follows:

	2009	2008	2007
Short-term employee benefits	₱12,800,000	₱18,770,566	₱26,118,282
Post-employment benefits	4,535,666	13,252,821	535,746
	₱17,335,666	₱32,023,387	₱26,654,028



24. Operating Leases

The Group leases out office spaces on its investment properties under various operating leases.

Under the lease contracts, the lessees are required to pay security deposits and advance rental. These are shown under “Deposits on long-term leases” account in the consolidated balance sheets, and are recorded at their present values which amounted to ₱12,340,626 and ₱10,916,184 as of December 31, 2009 and 2008, respectively. Accretion of interest, included in interest expense in net income amounted to ₱858,246, ₱979,980, and ₱986,688 in 2009, 2008 and 2007, respectively.

Advance rental, shown under “Unearned rental income” account in the consolidated balance sheets, amounted to ₱3,338,809 and ₱5,529,387 as of December 31, 2009 and 2008, respectively.

Accrued rent, which represents the excess of rental income, recognized using the straight-line method over the rental income based on the terms of the lease agreements, amounted to ₱4,674,376 and ₱5,375,158 as of December 31, 2009 and 2008, respectively.

The future minimum lease receivables under non-cancellable leases on its investment properties are as follows:

	2009	2008
Within one year	₱75,169,529	₱72,343,149
After one year but not more than five years	79,618,408	101,284,251
More than five years	20,339,162	–
	₱175,127,099	₱173,627,400

25. Financial Instruments and Financial Risk Management Objectives and Policies

The Group’s financial instruments consist of cash and cash equivalents, FVPL and AFS financial assets. The main purpose of these financial instruments is to fund the Group’s operations. The other financial assets and liabilities arising directly from its operations are trade receivables and payables.

The main risks arising from the Group’s financial instruments are credit risk, market risk and liquidity risk. The Group’s exposure to foreign currency risk is minimal as this only relates to the Group’s foreign currency-denominated cash in banks and lease commitments. The BOD reviews and approves policies for managing each of these risks.

Credit Risk

Credit risk represents the loss that the Group would incur if the counterparty failed to perform under its contractual obligations. The Group has established controls and procedures in its credit policy to determine and monitor the credit worthiness of customers and counterparties. The Group is operating under a sound credit-granting process over its distributors. Credit monitoring process involves a weekly check over collections based on a benchmark. The Group is not exposed to any credit concentration risks.

The Group’s trade receivables are concentrated with its three distributors which account for 99% of the total trade receivables as of December 31, 2009 and 2008. The Group has been transacting business with these distributors for a long time and has not encountered any credit issue with them. While there is delay in collection of some trade receivables, those classified under “Past



due but not impaired”, the Group is in close coordination with the distributor to bring their accounts to current. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, financial assets at FVPL and AFS financial assets, the Group’s exposure to credit risk arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. There are no collaterals or other credit enhancements held over these assets.

The maximum exposure to credit risk as of December 31, 2009 and 2008 without taking into account any collateral held or other credit enhancements is as follows:

	2009	2008
Loans and receivables:		
Cash and cash equivalents	₱240,658,105	₱15,124,539
Receivables:		
Trade receivables:		
Related parties	801,342,257	974,884,630
Third parties	29,320	19,524,697
Rent receivables:		
Related parties	397,325	497,566
Third parties	4,477,431	3,864,306
Advances to officers and employees	784,196	3,812,299
Others	19,010,430	13,288,670
	826,040,959	1,015,872,168
	1,066,699,064	1,030,996,707
Financial assets at FVPL	11,933,900	8,497,467
AFS financial assets:		
Debt instruments	155,184,660	180,259,620
Quoted equity instruments	4,444,059	3,875,078
Unquoted equity instruments	25,194,323	22,206,821
	184,823,042	206,341,519
	₱1,263,456,006	₱1,245,835,693

The following table summarizes the credit quality of the Group’s financial assets per category as of December 31, 2009 and 2008:

As of December 31, 2009:

	Neither past due nor impaired			Past due but not impaired	Past due and impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Loans and receivables:						
Cash in banks and cash equivalents	₱240,658,105	₱—	₱—	₱—	₱—	₱240,658,105
Receivables						
Trade receivables						
Related parties	410,000,076	121,924,069	53,613,840	215,804,272	—	801,342,257
Third parties	—	29,320	—	—	1,600,000	1,629,320
Rent receivables						
Related parties	—	397,325	—	—	—	397,325
Third parties	2,989,517	—	1,182,363	305,551	—	4,477,431
Advances to officers and employees	106,331	677,865	—	—	—	784,196
Other receivables	9,209,093	3,776,081	—	6,025,256	—	19,010,430
Financial assets at FVPL	8,532,800	3,401,100	—	—	—	11,933,900
AFS financial assets						
Debt instruments	—	155,184,660	—	—	—	155,184,660
Quoted equity instruments	—	4,444,059	—	—	—	4,444,059
Unquoted equity instruments	—	25,194,323	—	—	—	25,194,323
	₱671,495,922	₱315,028,802	₱54,796,203	₱222,135,079	₱1,600,000	₱1,265,056,006



As of December 31, 2008:

	Neither past due nor impaired			Past due but not impaired	Past due and impaired	Total
	High Grade	Standard Grade	Substandard Grade			
Loans and receivables:						
Cash in banks and cash equivalents	₱15,124,539	₱—	₱—	₱—	₱—	₱ 15,124,539
Receivables						
Trade receivables						
Related parties	627,464,290	122,172,416	41,400,348	183,847,576	—	974,884,630
Third parties	—	16,064,009	—	3,460,688	1,600,000	21,124,697
Rent receivables						
Related parties	—	497,566	—	—	—	497,566
Third parties	2,415,406	—	1,315,358	133,542	472,042	4,336,348
Advances to officers and						
Employees	2,977,495	834,804	—	—	—	3,812,299
Other receivables	7,187,015	861,650	—	5,240,005	—	13,288,670
Financial assets at FVPL	6,880,867	1,616,600	—	—	—	8,497,467
AFS financial assets						
Debt instruments	—	180,259,620	—	—	—	180,259,620
Quoted equity instruments	—	3,875,078	—	—	—	3,875,078
Unquoted equity instruments	—	22,206,821	—	—	—	22,206,821
	₱662,049,612	₱348,388,564	₱42,715,706	₱192,681,811	₱2,072,042	₱1,247,907,735

The credit quality of the financial assets was determined as follows:

“High Grade”

This includes cash and cash equivalents to counterparties with good credit or bank standing, thus credit risk is minimal. This normally includes large prime financial institutions, companies and government agencies. For receivables, this consists of counterparties with no history of default on the agreed contract terms.

“Standard Grade”

This includes FVPL and AFS financial assets that are not classified as “High Grade”. For receivables, this consists of counterparties with little history of default on the agreed contract terms.

“Substandard Grade”

This includes receivables that consist of counterparties with history of default on the agreed contract terms.

The table below summarizes the aging analysis of past due but not impaired financial assets of the Group as of December 31, 2009 and 2008:

As of December 31, 2009:

	<30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total
Loans and receivables						
Trade receivables - related parties	₱—	₱—	₱—	₱—	₱215,804,272	₱215,804,272
Trade receivables - third parties	—	—	—	—	—	—
Rent receivables - third parties	—	67,931	89,317	27,670	120,633	305,551
Other receivables	—	31,050	—	1,790	5,992,416	6,025,256
	₱—	₱98,981	₱89,317	₱29,460	₱221,917,321	₱221,135,079



As of December 31, 2008:

	<30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total
Loans and receivables						
Trade receivables - related parties	P=	P=	P=	P=	P183,847,576	P183,847,576
Trade receivables - third parties	—	110,022	141,136	3,209,530	—	3,460,688
Rent receivables - third parties	—	81,767	37,351	14,424	—	133,542
Other receivables	—	48,150	8,759	5,183,096	—	5,240,005
	P=	P239,939	P187,246	P8,407,050	P183,847,576	P192,681,811

Market Risk

Market risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stock. The Company's market risk policy requires to manage such risk by setting and monitoring the investment's movement in the trade market.

Equity Price Risk

Equity price risk is the risk that the value of a financial instrument will fluctuate because of changes in market prices. The Company is exposed to equity price risk because of investments in quoted equity securities, which are classified in the balance sheets as AFS financial assets.

The effect on equity as a result of a change in fair value of equity instruments held as AFS as of December 31, 2009 and 2008 due to a reasonably possible change in equity indices, with all other variables held constant, P0.06 million in both years.

Interest Rate Risk

Interest rate risk is the risk that the value of financial instrument will fluctuate because of changes in market interest rate. The Company's fixed rate financial assets are exposed to such risk.

The effect on equity as a result of an increase or decrease in interest rates by 100 basis points on debt instruments held as AFS as of December 31, 2009 and December 31, 2008, with all other variables held constant, is P0.98 million and P1.17 million as of December 31, 2009 and 2008, respectively. The impact on the Group's equity excludes the impact on transactions affecting the consolidated statements of income, if any.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to pay its obligations when they fall due under normal and stress circumstances. The Group manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Group's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The tables below summarize the maturity profile of financial assets that can be used by the Group to manage its liquidity risks as of December 31, 2009 and the maturity profile of the Group's other financial liabilities as of December 31, 2009 and 2008:

As of December 31, 2009:

	On demand	Less than 3 months	3 to 12 months	More than 12 months	Total
Financial assets:					
Cash and cash equivalents	P240,658,105	P=	P=	P=	P240,658,105
(Forward)					



	On demand	Less than 3 months	3 to 12 months	More than 12 months	Total
Related parties	₱410,000,076	₱157,941,866	₱233,400,315	₱—	₱801,342,257
Third party	29,320	—	—	1,600,000	1,629,320
Rent receivables:					
Related parties	397,325	—	—	—	397,325
Third party	4,171,880	157,248	148,303	—	4,477,431
Officers and employees	784,196	—	—	—	784,196
Other receivables	12,985,173	31,050	5,994,207	—	19,010,430
	₱669,026,075	₱158,130,164	₱239,542,825	₱1,600,000	₱1,068,299,064
Financial liabilities					
Liabilities under trust receipts	₱877,251	₱189,991,216	₱139,674,432	—	₱330,542,899
Trade payables	24,554,134	—	—	—	24,554,134
Accruals for management bonus	35,264,357	—	—	—	35,264,357
Customers and tenants deposits	—	—	6,044,252	—	6,044,252
Deposits on long term leases	—	6,418,443	—	5,922,183	12,340,626
Accruals for utilities expense	719,687	—	—	—	719,687
Accruals for freight and customs duties	1,816,867	—	—	—	1,816,867
Accruals for labor and overhead expense	215,995	—	—	—	215,995
Dividends payable	3,467,646	—	—	—	3,467,646
	₱66,915,937	₱196,409,659	₱151,640,867	5,922,183	₱414,966,463

As of December 31, 2008:

	On demand	Less than 3 months	3 to 12 months	More than 12 months	Total
Financial liabilities:					
Liabilities under trust receipts	₱263,287,314	₱103,809,615	₱362,994,474	₱—	₱730,091,403
Short-term loan	7,306,250	—	—	—	7,306,250
Accounts payable	41,411,482	—	—	—	41,411,482
Accruals for management bonus	5,369,792	—	—	—	5,369,792
Customers and tenants deposits	—	—	5,094,391	—	₱5,094,391
Deposits on long term leases	—	—	2,658,237	10,706,727	13,364,964
Accruals for utilities expense	—	4,872,838	—	—	4,872,838
Accruals for freight and customs duties	—	8,716,756	—	—	8,716,756
Accruals for labor and overhead expense	2,966,555	—	—	—	2,966,555
Dividends payable	2,231,159	—	—	—	2,231,159
	₱322,572,552	₱117,399,209	₱370,747,102	₱10,706,727	₱821,425,590

Fair Value

Comparisons by category of carrying and fair values of the Group's financial instruments that are carried in the financial statements are as follows:

	Carrying Value		Fair Value	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Financial Assets:				
Loans and receivables:				
Cash and cash equivalents	₱240,658,105	₱15,124,539	₱240,658,105	₱15,124,539
Receivables	826,040,959	1,015,872,168	826,040,959	1,015,872,168
	1,066,699,064	1,030,996,707	1,066,699,064	1,030,996,707

(Forward)



	Carrying Value		Fair Value	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Financial assets at FVPL	₱11,933,900	₱8,497,467	₱11,933,900	₱8,497,467
AFS financial assets	184,823,042	206,341,519	184,823,042	206,341,519
	₱1,263,456,006	₱1,245,835,693	₱1,263,456,006	₱1,245,835,693
Other Financial Liabilities:				
Liabilities under trust receipts	₱330,542,899	₱730,091,403	₱330,542,899	₱730,091,403
Trade payables	24,554,134	41,411,482	24,554,134	41,411,482
Accruals for management bonus	35,264,357	5,369,792	35,264,357	5,369,792
Accruals for utilities expense	719,687	4,872,838	719,687	4,872,838
Accruals for freight and custom duties	1,816,867	8,716,756	1,816,867	8,716,756
Accruals for labor and overhead expense	215,995	2,966,555	215,995	2,966,555
Customer and tenants deposit	6,044,252	5,094,391	6,044,252	5,094,391
Dividends payable	3,467,646	2,231,159	3,467,646	2,231,159
Short-term debt	—	7,306,250	—	7,306,250
Deposits on long-term leases	12,340,626	10,916,184	14,255,208	11,557,478
	₱414,966,463	₱818,976,810	₱416,881,045	₱819,618,104

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

Financial assets at FVPL

The fair value of the quoted shares of stock is based on quoted market price.

AFS financial assets

The fair value of the quoted debt instruments and equities is based on quoted market price. Unquoted shares of stock are carried and presented at cost less impairment since their fair values cannot be reliably determined.

Deposits on long-term leases

The fair value of deposits on long-term leases is based on the present value of expected future cash flows discounted at the applicable rates for similar types of financial instruments. Discount rates used range from 4.30% to 5.78% as of December 31, 2009 and 5.64% to 6.86% as of December 31, 2008.

Other financial assets and financial liabilities

Due to the short-term nature of other financial assets and financial liabilities, the fair value of cash and cash equivalents, receivables, liabilities under trust receipts, accounts payable and accrued expenses and other current liabilities approximate the carrying amount as of balance sheet date.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2);
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

As of December 31, 2009 and 2008, the fair value of financial assets at FVPL and investments in quoted debt instruments and shares of stock is the quoted market bid price at the close of business under Level 1.



26. Capital Management Policies

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, specifically, current ratio, return on sales, return on assets, return on equity, debt ratio, equity ratio and debt-to-equity ratio, in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group 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 during the years ended December 31, 2009 and 2008.

The Group monitors capital by having a daily monitoring of receipts and collections, regular release of disbursements to suppliers, monthly cash flow report preparation and monthly review of capital expenditure requirements. The Group strives to earn a minimum return on equity double the annual inflation rate.

The following table summarizes the total capital considered by the Group as of December 31, 2009 and 2008:

	2009	2008
Capital stock	₱400,000,000	₱400,000,000
Retained earnings	1,191,349,908	905,793,552
Treasury stock	(2,680)	(2,680)
	₱1,591,347,228	₱1,305,790,872

The Group is not subject to any externally imposed capital requirements.

27. Segment Information

The Group's operating business are organized and managed separately according to industry. The industry segments where the Group operates are as follows:

- a. Manufacturing and selling activities - manufacturing of flour, utilization of its by-products and the distribution and sales of its produce; and
- b. Leasing activities - leasing of office and commercial units.

The Group has only one geographical segment.

Segment assets include the operating assets used by the segment and consist principally of cash and cash equivalents, receivables, inventories, investment properties, property, plant and equipment and other assets. Segment liabilities include all operating liabilities and consists principally of trade payables, accrued expenses and other liabilities.



The following tables regarding business segments present assets and liabilities as of December 31, 2009 and 2008 and revenue and profit information for each of the three years in the period ended December 31, 2009.

2009:

	Manufacturing and selling	Leasing	Consolidated
Revenue			
Sales to external customers	₱1,810,844,541	₱87,061,123	₱1,897,905,664
Cost and expenses	1,649,952,707	46,439,426	1,696,392,133
Operating profit	160,891,834	40,621,697	201,513,531
Interest income	10,811,651	850,665	11,662,316
Interest expense	(22,472,269)	(1,062,621)	(23,534,890)
Other income	197,944,029	5,992,537	203,936,566
Other charges	(4,312,272)	930,043	(3,382,229)
Provision for income tax	(62,292,344)	(8,364,982)	(70,657,326)
Net income	₱280,570,629	₱38,967,339	₱319,537,968
Other Information			
Segment assets	₱1,754,719,429	₱337,975,842	₱2,092,695,271
Deferred tax assets	30,151,878	–	30,151,878
Total assets	₱1,784,871,307	₱337,975,842	₱2,122,847,149
Segment liabilities	₱510,895,365	₱20,646,833	₱531,542,198
Deferred tax liabilities	–	906,293	906,293
Total liabilities	₱510,895,365	₱21,553,126	₱532,448,491
Segment additions to property and equipment and investment properties	₱25,815,113	₱243,321	₱26,058,434
Depreciation and amortization	12,181,923	327,811	12,509,734
Non-cash income (expense) other than depreciation and amortization	1,784,500	(1,015,538)	768,962

2008:

	Manufacturing and selling	Leasing	Consolidated
Revenue			
Sales to external customers	₱1,984,281,220	₱85,104,335	₱2,069,385,555
Cost and expenses	1,869,643,767	45,839,041	1,915,482,808
Operating profit	114,637,453	39,265,294	153,902,747
Interest income	13,339,157	701,748	14,040,905
Interest expense	(43,342,425)	(3,384,476)	(46,726,901)
Other income	5,099,088	759,996	5,859,084
Other charges	(21,268,899)	(7,350,743)	(28,619,642)
Provision for income tax	(36,348,384)	(9,104,656)	(45,453,040)
Net income	₱32,115,990	₱20,887,163	₱53,003,153
Other Information			
Segment assets	₱1,859,791,778	₱319,479,728	₱2,179,271,506
Deferred tax assets	27,065,564	–	27,065,564
Total assets	₱1,886,857,342	₱319,479,728	₱2,206,337,070

(Forward)



	Manufacturing and selling	Leasing	Consolidated
Segment liabilities	₱878,867,759	₱27,776,155	₱906,643,914
Deferred tax liabilities	–	547,499	547,499
Total liabilities	₱878,867,759	₱28,323,654	₱907,191,413
Segment additions to property and equipment and investment properties	₱30,656,607	₱1,245,804	₱31,902,411
Depreciation and amortization	13,629,854	16,772,994	30,402,848
Non-cash expenses other than depreciation and amortization	18,053,241	6,895,905	24,949,146

2007:

	Manufacturing and selling	Leasing	Consolidated
Revenue			
Sales to external customers	₱1,998,033,776	₱84,274,155	₱2,082,307,931
Cost and expenses	(1,678,059,869)	(47,212,193)	(1,725,272,062)
Operating profit	319,973,907	37,061,962	357,035,869
Interest income	12,897,794	604,913	13,502,707
Interest expense	(30,168,287)	(5,476,632)	(35,644,919)
Other income	85,064,441	1,492,082	86,556,523
Other charges	(25,705,677)	(2,428,470)	(28,134,147)
Provision for income tax	(134,719,620)	(6,457,747)	(141,177,367)
Net income	₱227,342,558	₱24,796,108	₱252,138,666
Other Information			
Segment assets	₱1,682,669,811	₱345,213,759	₱2,027,883,570
Deferred tax assets	19,580,747	–	19,580,747
Total assets	₱1,702,250,558	₱345,213,759	₱2,047,464,317
Segment liabilities	₱672,547,163	₱59,608,489	₱732,155,652
Deferred tax liabilities	–	179,378	179,378
Total liabilities	₱672,547,163	₱59,787,867	₱732,335,030
Segment additions to property and equipment and investment properties	₱21,152,018	₱286,618	₱21,438,636
Depreciation and amortization	15,021,213	16,368,510	31,389,723
Non-cash expenses other than depreciation and amortization	22,310,141	2,153,085	24,463,226



11. Property, Plant and Equipment

As of December 31, 2009:

	Mill Machinery and Equipment	Building and Building Equipment	Transportation Equipment	Land and Land Improvements	Leasehold Improvements	Other Equipment	Construction in Progress	Total
Cost								
Beginning balances	₱185,269,026	₱84,472,531	₱31,339,772	₱5,683,026	₱839,842	₱21,378,897	₱10,585,402	₱339,568,496
Additions	2,357,143	8,772,593	1,097,200	13,054,552	—	776,946	—	26,058,434
Reclassification	—	10,585,402	—	—	—	—	(10,585,402)	—
Disposals	—	—	(1,059,091)	—	—	(377,411)	—	(1,436,502)
Ending balances	187,626,169	103,830,526	31,377,881	18,737,578	839,842	21,778,432	—	364,190,428
Accumulated Depreciation and Amortization								
Beginning balances	153,414,556	49,731,934	25,271,745	4,217,697	514,522	18,703,230	—	251,853,684
Depreciation and amortization	6,111,583	3,680,144	1,320,009	452,593	79,609	865,796	—	12,509,734
Disposals	—	—	(1,059,091)	—	—	(377,411)	—	(1,436,502)
Ending balances	159,526,139	53,412,078	25,532,663	4,670,290	594,131	19,191,615	—	262,926,916
Net Book Values	₱28,100,030	₱50,418,448	₱5,845,218	₱14,067,288	₱245,711	₱2,586,817	₱—	₱101,263,512

As of December 31, 2008:

	Mill Machinery and Equipment	Building and Building Equipment	Transportation Equipment	Land and Land Improvements	Leasehold Improvements	Other Equipment	Construction in Progress	Total
Cost								
Beginning balances	₱180,577,229	₱70,782,310	₱30,989,772	₱4,433,026	₱839,842	₱19,561,407	₱1,020,987	₱308,204,573
Additions	3,426,879	13,690,221	350,000	1,250,000	—	1,847,817	11,337,494	31,902,411
Reclassification	1,264,918	—	—	—	—	—	(1,264,918)	—
Adjustment	—	—	—	—	—	—	(508,161)	(508,161)
Disposals	—	—	—	—	—	(30,327)	—	(30,327)
Ending balances	185,269,026	84,472,531	31,339,772	5,683,026	839,842	21,378,897	10,585,402	339,568,496
Accumulated Depreciation and Amortization								
Beginning balances	146,463,938	45,642,944	23,742,521	3,991,224	434,914	17,775,603	—	238,051,144
Depreciation and amortization	6,950,618	4,088,990	1,529,224	226,473	79,608	957,954	—	13,832,867
Disposals	—	—	—	—	—	(30,327)	—	(30,327)
Ending balances	153,414,556	49,731,934	25,271,745	4,217,697	514,522	18,703,230	—	251,853,684
Net Book Values	₱31,854,470	₱34,740,597	₱6,068,027	₱1,465,329	₱325,320	₱2,675,667	₱10,585,402	₱87,714,812

The aggregate cost of fully depreciated property, plant and equipment that are still being used in operations amounted to ₱7.43 million and ₱6.13 million as of December 31, 2009 and 2008, respectively.



