

MABUHAY 2000 ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

	Notes	2007	2006
<u>ASSETS</u>			
Current Assets			
Cash		P11,064,779	4,282,078.00
Trade and other receivables	4	87,909,220	2,812,180.00
Notes receivable	9	50,000,000	-
Inventories	10	16,323,174	1,232,424.00
Due from stockholders	8	81,449,381	46,085.00
Advances to projects		9,167,441	7,554,044.00
Prepayments		3,137,144	198,039.00
Total Current Assets		259,051,139	16,124,850.00
Noncurrent Assets			
Property, plant and equipment, net	5	45,337,380	3,060,290.00
Deferred tax assets	15	293,075	89,245.00
Other noncurrent assets		738,113	-
Goodwill	19	30,103,896	33,175.00
Total Non-Current Assets		76,472,464	3,182,710.00
TOTAL ASSETS		P335,523,603	19,307,560.00
<u>LIABILITIES AND EQUITY</u>			
Current Liabilities			
Trade and other payables	6	P70,674,718	1,629,197.00
Current portion of long-term notes payable	7	106,376,923	7,000,000.00
Due to stockholders	8	17,441,630	796,783.00
Income tax payable		692,184	365,507.00
Total Current Liabilities		195,185,455	9,791,487.00
Noncurrent Liabilities			
Lon-term notes payable	7	13,276,122	-
Pension liability	13	383,296	254,986
Deferred tax liability	15	121,563	-
Total Noncurrent Liabilities		13,780,981	254,986
Equity			
Equity Attributable to Equity Holders of the Parent			
Capital stock	9	10,000,000	10,000,000
Deposits for future subscriptions	9	95,898,440	-
Retained earnings (deficit)		3,562,842	(739,691)
		109,461,282	9,260,309
Minority interests		17,095,885	778
Total Equity		126,557,167	9,261,087
TOTAL LIABILITIES AND EQUITY		P335,523,603	P19,307,560

See accompanying Notes to Consolidated Financial Statements.

MABUHAY 2000 ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2007 and 2006

	Notes	2007	2006
Sales		623,874,393	106,887,850
Cost of Sales	10	510,249,833	88,856,264
Gross Profit		113,624,560	18,031,586
Operating Expenses	11	99,983,473	16,909,415
Income from Operations		13,641,087	1,122,171
Other Expenses, net	14	(2,746,243)	(186,339)
Income Before Income Tax		10,894,844	935,832
Provision for Income Tax	15		
Current		4,310,888	387,776
Deferred		(82,266)	(27,233)
		4,228,622	360,543
Net Income		6,666,222	575,289
Attributable To			
Equity Holders of the Parent		4,302,533	582,136
Minority Interests		2,363,689	(6,847)
		6,666,222	575,289
Basic Per Share	18	0.43	0.06

See accompanying Notes to Consolidated Financial Statements.

MABUHAY 2000 ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007 and 2006

	Notes	2007	2006
Cash Flows from Operating Activities			
Income before income tax		10,894,844	P935,832
Adjustments for:			
Depreciation and amortization	5	2,236,735	322,195
Interest expense	7	2,862,966	-
Unrealized foreign exchange gain	14	(347,325)	-
Provision for retirement benefit costs	13	128,311	254,986
Interest income	14	(15,621)	(91,707)
Operating income before working capital changes		15,759,910	1,421,306
(Increase) in:			
Trade and other receivables		(100,280,134)	(2,802,105)
Inventories		(15,090,750)	(1,054,433)
Due from stockholders		(81,403,296)	(46,085)
Advances to projects		(1,613,397)	(7,554,044)
Prepayments		(2,939,105)	(126,194)
Increase in:			
Trade and other payables		69,236,636	153,938
Due to stockholders		16,644,847	796,783
Cash used in operations		(99,685,289)	(9,210,834)
Interest paid		(2,862,966)	-
Interest received		15,621	91,707
Income taxes paid		(3,984,212)	(30,772)
Net cash used in operating activities		(106,516,846)	(9,149,899)
Cash Flows from Investing Activities			
Additions to property and equipment	5,23	(23,533,825)	(1,909,892)
Increase in other noncurrent assets		(738,113)	-
Net cash used in investing activities		(24,271,938)	(1,909,892)
Cash Flows from Financing Activities			
Deposits for future stock subscriptions	9, 23	24,918,440	-
Proceeds from borrowings		115,653,045	7,000,000
Repayments on borrowings		(3,000,000)	(1,972,000)
Net cash provided by financing activities		137,571,485	5,028,000
Net Increase (Decrease) in Cash on Hand and in Banks		6,782,701	(6,031,791)
Cash on Hand and in Banks, December 31		4,282,078	10,313,869
Cash on Hand and in Banks, December 31		11,064,779	4,282,078.00

See accompanying Notes to Consolidated Financial Statements.

MABUHAY 2000 ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2007 and 2006

	Equity Attributable to the Equity Holders of the Parent Company			Minority Interest	Total
	Share Capital (Note 10)	Deposits for Future Stock Subscriptions	Retained Earnings (Deficit)		
Balances at January 1, 2005	10,000,000	-	(1,623,696)	-	8,376,304
Net income for the year	-	-	301,869	-	301,869
Balances at December 31, 2005	10,000,000	-	(1,321,827)	-	8,678,173
Additions with the acquisition of IMEX	-	-	-	7,500	7,500
Additions with the acquisition of LFPVI	-	-	-	125	125
Net income for the year	-	-	582,136	(6,847)	575,289
Balances at December 31, 2006	10,000,000	-	(739,691)	778	9,261,087
Deposits for future stock subscriptions	-	95,898,440	-	-	95,898,440
Additions with the acquisition of FCAC	-	-	-	14,731,418	14,731,418
Net income for the year	-	-	4,302,533	2,363,689	6,666,222
Balances at December 31, 2007	10,000,000	95,898,440	3,562,842	17,095,885	126,557,167

See accompanying Notes to Consolidated Financial Statements.

MABUHAY 2000 ENTERPRISES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Note 1 – CORPORATE INFORMATION

Incorporation

Mabuhay 2000 Enterprises, Inc. (the Parent Company or Mabuhay) and its subsidiaries (collectively referred herein as the Group) were incorporated under the laws of the Republic of the Philippines.

The Parent Company registered with the Securities and Exchange Commission (SEC) on February 4, 1997 to carry on the business of buying, selling, distributing, marketing at wholesale, only insofar as may be permitted by law, all kinds of goods, commodities, wares and merchandise of every kind and description; and to enter into all kinds of contracts for the export, import, purchase, acquisition, sale at wholesale only and other disposition for its own account as principal or in representative capacity as manufacturer's representative, upon consignment of all kinds of goods, wares, merchandise or products, whether natural or artificial.

The details of incorporation and principal activities of the subsidiaries are as follows:

<u>Name of Subsidiary</u>	<u>Percentage of Ownership</u>	<u>Date of SEC Registration</u>	<u>Registered Address</u>	<u>Principal Activity</u>
First Class Agriculture Corporation (FCAC)	60% directly owned	June 11, 2002	Provincial Road Barangay Arenas, Arayat, Pampanga	Trading agricultural goods
Fresh & Green Harvest Agricultural Company, Inc. (F&G)	60% indirectly owned through FCAC.	June 4, 2004	Blk 176 Lot 5 Phase 3 Guagua Ext B, Madapdap Rest. Center, Mabalacat, Pampanga	Trading agricultural goods
M200 IMEX Company Inc. (IMEX)	40% directly owned	May 11, 2005	Taguig City, Metro Manila	Manufacturing <i>in pre-operating stage in 2007</i>
Lucky Fruit and Vegetable Products, Inc. (LFVPI)	98% directly owned	May 11, 2005	No.35 Gasan Street, Masambong, SFDm, Quezon City	Trading agricultural goods

Note 1 – CORPORATE INFORMATION - continued

The Parent Company's registered office address is at 7th Floor Excolta Twin Tower, Escolta Street, Binondo, Manila City and its principal place of business is at No. 35 Gasan Street, Masambong, SFDM, Quezon City.

Status of Operations*Business Acquisitions*

On January 1, 2007, FCAC declared ownership over 100% of the paid up capital of F&G by virtue of the fulfillment of the conditions for unconditional transfer of ownership from F&G incorporators to FCAC as embodied in various Deeds of Trusts previously entered between F&G incorporators and FCAC.

On January 1, 2007, the Parent Company acquired 60% of FCAC's net assets for a consideration of P50.0 million. Accordingly the Parent Company obtained power to govern over FCAC's financial reporting policies and business operations. The same acquisition resulted to indirect ownership of the Parent Company over F&G.

Amendments of the Articles of Incorporation

On November 21, 2007, the majority of the stockholders and Board of Directors (BOD) of the Company approved the following amendments in the Articles of Incorporation of the Company:

- (a) Increase in the authorized capital stock from P10.0 million to P300.0 million;
- (b) Decrease in the par value per share of capital stock from P100 to P1;
- (c) Increase in the number of directors from five to seven;
- (d) Issue 9.90 million shares out of the increase in capital stock to the existing shareholders; and
- (e) Change its primary purpose of incorporation to include manufacturing, producing and growing all kinds of goods, including but not limited to food and agricultural products.

On December 28, 2007, the Company submitted its application with the SEC, who approved the foregoing amendments in the Articles of Incorporation of the Company on January 21, 2008.

Further on January 2, 2008, the majority of the stockholders and BOD of the Company resolved to approve the following amendments to the Articles of Incorporation of the Company:

- (a) Change in the registered business name of the Company to "AgriNurture, Inc." and
- (b) Change in the registered business address of the Company to National Road, Pulilan, Bulacan, Philippines (see Note 19).

The SEC approved the aforementioned amendments in the Articles of Incorporation of the Company on February 15, 2008.

Approval of Financial Statements

The accompanying consolidated financial statements of the Group for the year ended December 31, 2007 were authorized and approved for issuance by its BOD on April 18, 2008.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of PreparationBasis of Measurement

The accompanying consolidated financial statements have been prepared on historical cost basis.

Statement of Compliance

The consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs) issued by the Financial Reporting Standards Council. PFRSs consist of the following:

- (a) PFRSs - correspond to International Financial Reporting Standards;
- (b) Philippine Accounting Standards (PASs) – correspond to International Accounting Standards; and
- (c) Philippine Interpretations to existing standards – correspond to Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretation Committee of the International Accounting Standards Board; these include Interpretation developed by the Philippine Interpretation Committee.

Functional and Presentation Currency

The accompanying consolidated financial statements are presented in Philippine pesos, which is the Group's functional currency.

Basis of Consolidation

The consolidated financial statements comprise the separate financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

All intra-company balances, receivables and payables, income and expenses, profits and losses resulting from intra-company transactions that are recognized in the separate financial statements of the Parent Company and its subsidiaries are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority Interest

Minority interest represents the portion of profit or loss and net assets of FCA, F&G and LFPVI not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet and consolidated statement of changes in equity, separately from parent's equity.

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Adoption of New Accounting Standards, Interpretations and Amendments to Existing Standards

The accounting policies adopted in the preparation of the Group's consolidated financial statements have been consistently applied in all years presented except as stated below.

Accounting Standard, Interpretations and Amendment Effective in 2007

The Group adopted the following relevant standard, amendment and interpretation to existing standards, which are effective for annual periods beginning on or after January 1, 2007.

PFRS 7, Financial Instruments: Disclosures - requires disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk, and market risk, and including sensitivity analysis to market risk.

The Group adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Group does not need to present comparative information for the disclosures required by paragraphs 31- 42 of PFRS 7, unless the disclosure was previously required under PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the financial statement such as contractual maturity analysis of financial liabilities and aging analysis of financial assets that are neither past due nor impaired.

Amendments to PAS 1, Presentation of Financial Statements - requires disclosures on an entity's objectives, policies and processes for managing capital; quantitative data on what the entity regards as capital; whether the entity has complied with any capital requirements and if it has not, the consequences of such non-compliance. This amendment resulted to inclusion of additional disclosures in the consolidated financial statements.

PFRIC 10, Interim Financial Reporting and Impairment - This interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, this interpretation had no impact on the financial position or performance of the Group.

The following interpretations and amendment to existing standards, which are effective for annual periods beginning on or after January 1, 2007 but are not relevant yet to the Group's operations:

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting on Hyperinflationary Economies*;
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*; and
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivative*.

Based on management's assessment, the adoption of the said interpretations to existing standards does not have any material impact on the Group's consolidated financial statements.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Future Standards, Amendment and Interpretations to Existing Standards

The following standard, amendment and interpretations to existing standards are effective subsequent to 2007 but are not yet relevant to the Group's operations:

- PFRS 8, *Operating Segment* (Effective on January 1, 2009);
- PAS 23 (Amendment), *Borrowing Cost* (Effective on January 1, 2009);
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (Effective March 1, 2007);
- Philippine Interpretation IFRIC 12, *Service Concession Agreements* (Effective January 1, 2008);
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (Effective January 1, 2008); and
- Philippine Interpretation IFRIC 14, *The Limit on a Deferred Benefit Asset, Minimum Funding Requirements and their Interaction* (Effective January 1, 2008).

Based on management's initial assessment, the adoption of said standard, amendment and interpretations to existing standard would not have any material impact on the Group's consolidated financial statements.

The Group has consistently applied the following relevant principal accounting policies:

Financial Instruments**Initial Recognition**

Financial assets and financial liabilities are recognized in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are recognized initially at fair value plus transaction costs except for those designated at fair value through profit and loss (FVPL).

Classification of Financial Instruments

The Group classifies its financial assets in the following categories: held-to-maturity (HTM) investments, available-for-sale (AFS) investments, financial assets at fair value at profit and loss (FVPL), and loans and receivables. Financial liabilities are classified as financial liabilities at FVPL and other liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, reevaluates such designation at every reporting date.

The Group does not have financial assets and liabilities designated as FVPL, HTM and AFS investments.

Determination of Fair Value

The fair value of financial instruments traded in active markets is based on their quoted market price or dealer price quotation (bid price for long positions and asking price for short positions). When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in the economic circumstances since the time of the transaction. If the financial instruments are not listed in an active market, the fair value is determined using appropriate valuation techniques which include recent arm's length market transactions, net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Assets*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest rate method. Gains and losses are recognized in consolidated statements of income when the loans and receivables are derecognized or impaired, as well as through amortization process. Unearned discount is recognized as income over the life of the loan using the effective interest method.

The Group's trade and other receivables, notes receivables, advances to related parties and advances to projects are included in this category (see Notes 4 and 8).

Financial Liabilities*Other Financial Liabilities*

This classification pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. Included in this category are the Group's trade and other payables, notes payables, and advances from related parties (see Notes 6, 7 and 8).

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

Derecognition of Financial Assets and Liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when: a) the rights to receive cash flows from the asset have expired; b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or c) the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

A financial liability is derecognized when the obligation under the liability is 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 consolidated statements of income.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of Financial Assets*Assessment of Impairment*

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. It assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 determination of impairment losses for financial assets is inherently subjective because it requires material estimates, including the amount and timing of expected recoverable future cash flows. These estimates may change significantly from time to time, depending on available information.

Evidence of Impairment

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Impairment on Assets Carried at Cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) 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 use of an allowance account. The amount of loss shall be recognized in the consolidated statements of income.

Reversal of Impairment Loss

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

Classification of Financial Instruments Between Debt and Equity

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest relating to a financial instrument or a component that is a financial liability is reported as expense.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

A financial instrument is classified as debt if it provides for a contractual obligation to: (a) deliver cash or another financial assets to another entity; or (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or (c) satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Instruments

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

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using standard cost, which approximates actual cost determined on the first-in, first-out basis.

NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group provides allowance for inventory obsolescence due to spoilage, damage, and bad quality. Provisions for inventory obsolescence is determined using specific identification at the time of physical count and based on monthly aging.

Property and Equipment

Property and equipment, except land, are initially measured at cost less any subsequent accumulated depreciation, amortization and any impairment in value. The initial cost of property and equipment consists of its purchase price, import duties, taxes and directly attributable costs of bringing the asset to its working condition for its intended use. Land is stated at cost less any impairment in value.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when the expenditure have resulted in an increase in an future economic benefits in excess of the originally assessed standard of performance of the existing asset. Expenditures for repairs and maintenance are charged to the operations during the year in they are incurred.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation and amortization and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the following property and equipment:

Delivery and transportation equipment	12 years
Machinery and equipment	12 years
Furniture, fixtures and equipment	12 years
Leasehold improvements	5 years

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Leasehold improvements are amortized over the term of the lease or estimated useful lives of the improvements, whichever is shorter.

The useful lives, residual value and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property, plant and equipment. The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statements of income.

Business Combinations and Goodwill

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

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

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

Impairment of Non-Financial Assets

At each financial reporting date, the Group reviews the carrying amounts of noncurrent assets to determine whether there is any indication of impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of the assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Any impairment loss is recognized in the consolidated statements of income of the Group.

An impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of impairment loss is credited to current operations.

Provisions and Contingencies

The Group recognizes a provision if a present obligation (legal and constructive) has arisen as a result of a past event, payment is probable and the amount can be measured reliably. The amount recognized is the best estimate of the expenditure required to settle the present obligation at balance sheet date, that is, the amount the Group would rationally pay to settle the obligation to a third party.

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

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The additional specific recognition criteria for each type of revenue is as follows:

Sale of goods

Sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, which is normally upon delivery of goods and acceptance by the customers.

Interest income

Interest income is recognized as the interest accrue, taking into account the effective yield on the asset.

Pension Benefit Costs

The amount recognized as net pension liability is the net of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan assets out of which the obligations are to be settled directly. The Group pension benefits costs are actuarially determined using the projected unit credit actuarial valuation method. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Upon introduction of a new plan or improvement of an existing plan, past service costs are recognized on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed.

Actuarial gains or losses are recognized as income or expense when the cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan. Gains or losses on the curtailment or settlement of pension benefits are recognized when the curtailment or settlement occurs.

The amount recognized as net pension liability is the net of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan assets out of which the obligations are to be settled directly. The Group does not have pension asset.

Operating Leases

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statements of income on a straight-line basis over the lease term.

Borrowing Cost

Borrowing cost of ordinary loans from local banks are recognized in the consolidated profit and loss in the period in which they are incurred.

Note 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign Exchange Transactions

The functional and presentation currency of the Group is the Philippine peso. Transactions in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the date in which the transaction took place. Foreign currency denominated monetary assets and liabilities of the Group are translated using the prevailing exchange rate as of balance sheet date. Gains or losses arising from these transactions and translation are credited or charged to income for the year.

Income Tax*Current income tax*

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

Deferred income tax

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits and NOLCO can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date.

Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income by the weighted average number of common shares outstanding during the year, with retroactive adjustments for any stock dividends declared.

Events After the Financial Reporting Date

Post year-end events up to the date of the auditors' report that provide additional information about the Group's position at financial reporting 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 the consolidated financial statements when material.

Note 3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from these estimates and assumptions used. The effect of any change in estimates will be reflected in the consolidated financial statements when they become reasonably determinable.

Determination of functional currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency is determined to be the Philippine peso. It is the currency that mainly influences the sale of goods and expenses of the Group.

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 balance sheets.

Determination of fair value of financial instruments

The Group carries certain financial assets and liabilities at fair value, which requires use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

The fair value of financial assets and liabilities as of December 31, 2007 amounted to P239.59 million and P207.76 million, respectively (see Note 16).

Estimation of useful lives and residual value of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease noncurrent assets.

The carrying value of property and equipment, net of accumulated depreciation and amortization expense, amounted to P45.32 million and P3.06 million as of December 31, 2007 and 2006, respectively (see Note 5).

Note 3 – SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS - continued

Asset impairment

The Group determines whether its property and equipment is impaired at least annually. In determining the fair value of property and equipment, the Group relies on the determination of an independent firm of appraisers, which involves significant assumptions and estimates. 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 results of operations. While management believes that the assumptions made are appropriate and reasonable, significant changes in assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS. No Impairment losses were recognized on property and equipment as of December 31, 2007 and 2006 (see Notes 5).

Estimation of liability for retirement benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 13 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated liability for retirement benefits amounted to P0.40 million and P0.30 million as of December 31, 2007 and 2006, respectively (see Note 13).

Recognition of deferred income tax assets

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

Total deferred income tax assets amounted to P0.29 million and P0.08 million as of December 31, 2007 and 2006, respectively (see Note 15).

Note 4 – TRADE AND OTHER RECEIVABLES

This account consists of:

	<u>2007</u>	<u>2006</u>
Trade receivables	P84,403,164	P2,624,974
Other receivables	3,506,056	187,206
	<u>P87,909,220</u>	<u>P2,812,180</u>

Trade receivables are normally due within 15 – 30 days and do not bear any interest. All trade receivables are subject to credit risk exposure.

A portion of the Group's trade receivables amounting to P21,557,505 as of December 31, 2007 was assigned to secure the loans obtained by the Group from a contract (see Note 8).

The Group did not provide for any allowance for doubtful accounts since the Group believes that the entire amount is collectible.

Note 5 – PROPERTY AND EQUIPMENT, Net

The details of the Group's property and equipment, net are as follows:

	Land	Building	Machinery and Equipment	Delivery and Transportation Equipment	Construction in Progress	Furniture, Fixture and Equipment	Leasehold Improvements	Total
Cost								
At January 1, 2007	P 2,417,000	P 2,939,835	P 3,063,676	P 5,782,164	P-	P 1,698,028	P 2,278,360	P 18,179,063
Additions	-	-	24,188,668	3,508,150	5,489,311	1,043,043	526,470	34,755,642
Disposals	-	-	-	(403,983)	-	-	-	(403,983)
At December 31, 2007	<u>2,417,000</u>	<u>2,939,835</u>	<u>27,252,344</u>	<u>8,886,331</u>	<u>5,489,311</u>	<u>2,741,071</u>	<u>2,804,830</u>	<u>52,530,722</u>
Accumulated Depreciation and Amortization								
At January 1, 2007		195,990	1,045,629	851,391	-	814,095	2,119,401	5,026,506
Depreciation and amortization expense		195,990	688,902	989,325	-	276,596	85,922	2,236,735
Disposals		-	-	(69,899)	-	-	-	(69,899)
At December 31, 2007	<u>-</u>	<u>391,980</u>	<u>1,734,531</u>	<u>1,770,817</u>	<u>-</u>	<u>1,090,691</u>	<u>2,205,323</u>	<u>7,193,342</u>
Net Book Value								
At December 31, 2007	<u>P2,417,000</u>	<u>P2,547,855</u>	<u>P25,517,813</u>	<u>P7,115,514</u>	<u>P5,489,311</u>	<u>P1,650,380</u>	<u>P599,507</u>	<u>P45,337,380</u>
Net Book Value								
At December 31, 2006	<u>P-</u>	<u>P-</u>	<u>P356,135</u>	<u>P2,337,676</u>	<u>P-</u>	<u>P207,520</u>	<u>P158,959</u>	<u>P3,060,290</u>

Some of the Group's machinery and transportation equipment with net book value amounting to P21,549,799 as of December 31, 2007 were mortgaged to secure the loan obtained by the Parent Company from a local bank (see Note 8).

Management reviewed the carrying value of the property and equipment as of December 31, 2007 for any impairment. Based on its evaluation, there were no indications that these assets are impaired.

Note 6 – TRADE AND OTHER PAYABLES

	2007	2006
Trade payables	P55,075,325	P 1,100,000
Accrued expenses	12,936,797	-
Customers' deposit	1,092,145	-
Others	1,570,451	529,197
	<u>P70,674,718</u>	<u>P 1,629,197</u>

Trade payables are usually due within 30 days and do not bear any interest.

Note 7 – NOTES PAYABLE

The amount represents outstanding balances of loans obtained from banks and other financing institution for its working capital requirements.

	2007	2006
<i>Banks</i>		
Banco De Oro	P 74,750,000	P–
Bank of the Philippine Islands (BPI)	19,351,556	–
Land Bank of the Philippines (LBP)	10,000,000	7,000,000
Rizal Commercial Banking Corporation (RCBC)	3,383,387	–
		–
<i>Financing institution</i>		
Orix Metro Leasing Finance Corporation (ORIX)	12,168,102	
	119,653,045	P7,000,000
Less: Noncurrent portion	13,276,122	–
	P106,376,923	P7,000,000

The more important provisions of the loan agreements of the Group with lenders are follows:

Lenders	Annual Interest Rate		Term of the Loan	Security
	2007	2006		
Banco De Oro	8.5%	–	1 year	None
LBP*	8.75%	8.75%-11.5%	6 months	Receivables of Parent Company
BPI	9.5% to 10.5%	–	6 months	Receivables of Parent Company and land and building of FCAC
RCBC	9.5% to 24%	–	1 month to 3 years	Transportation equipment of Parent Company
ORIX**	floating rate	–	3 years	Machinery and equipment of Parent Company

* Subject to quarterly repricing at the prevailing market interest rates.

** Equivalent to PDEX rate of 9.16% or an average one-year rate plus 7.63% annum, and is subject to annual repricing.

Interest expense on bank loan charged to finance cost during the year amounted to P1.93 million and P1.65 million, as of the years ended December 31, 2007 and 2006, respectively.

Note 8 – RELATED PARTY TRANSACTIONS

Below are the details of all intra-company balances, receivables and payables, income and expenses, profits and losses resulting from intra-company transactions that are recognized in the separate financial statements of the Parent Company and its subsidiaries, which are eliminated in full in the accompanying consolidated financial statements.

a. Credit Accommodations of Parent Company and FCA

On December 27, 2007, the Group was granted credit accommodations by Banco de Oro – EPCI, Inc. amounting to P15.0 million, which is to be shared between the Parent Company and its subsidiary, FCAC. In relation to this, the Parent Company and FCAC have entered into a suretyship agreement with the bank to act as sureties of each other. As of December 31, 2007, FCAC has entered into several loan agreements with the bank amounting to P74.75 million. The loans are secured with the assignment of the receivables of FCAC and with the suretyship mentioned above. The Company, being a surety, jointly and severally and irrevocably:

- (i) Secures the due and full payment and performance of the obligations incurred by FCAC and;
- (ii) Undertakes with the bank that upon nonpayment or nonperformance of FCAC when the obligation falls due, shall without need for any notice, demand or any other act or deed, immediately be liable and pay as if the principal obligor.

As a surety, the Group also pledged, as security for the full and due payment and performance of the obligation, all its moneys and other properties.

b. Advances to and from Employees and Officers

Advances to officers amounted to P0.09 million and P1.65 million as of December 31, 2007 and 2006, respectively. These advances were subjected to 5% interest rate and are currently due and demandable. On the other hand, advances from officers amounted to P1.10 million as of December 31, 2007. These advances were subjected to 5% interest and are currently due and demandable and included in the “Other Payable” account which is shown as part of the consolidated “Trade and Other Payable” account in the balance sheets.

c. Due to and from Stockholders

Due to and from stockholders are interest free and settlement can be made through cash payment, offsetting or assignment of stockholders’ assets to the Parent Company. Due from stockholders for the year ended December 31, 2007 and 2006 amounted to P81.4 million and P0.46 million, respectively. Due to stockholders amounted to P17.4 million and P0.8 million for the years ended December 31, 2007 and 2006.

d. Compensation of key management personnel

Compensation of key management personnel of the Group amounted to P6.45 million and P9.39 million as of December 31, 2007 and 2006.

Note 8 – RELATED PARTY TRANSACTIONS - continued

FCAC and F&G

On December 29, 2007, a Memorandum of Agreement was executed by and among the Company and FCAC.

The agreement provides for the Company's acquisition of 60% equity interest in FCAC and infusing new capital in the latter to develop and expand the business. Upon signing of the agreement, the Company shall issue partial payment of P5.0 million as initial downpayment and another P5.0 million to be paid in cash or letter of credit. Balance for the remaining net worth, approximately P40.0 million estimated as of signing (appraised value of total assets minus the total liabilities), will be paid on or before November 7, 2007.

Note 9 – EQUITY

The capital stock of the Parent Company consists only of common stock. All shares are equally eligible to receive dividends and repayment of capital and each share is entitled to one vote at the shareholders' meeting.

On January 21, 2008, the SEC approved the increase in authorized capital stock of the Parent Company from P10.0 million to P300.0 and a corresponding decrease in the par value per share from P100 to P1 per share. In addition, the Parent Company was also authorized to issue 9.90 million shares out of the increase in the authorized capital stock in favor of the existing shareholders (see Note 19).

The subscriptions to the P290.0 million increase in authorized capital stock amounting to P95.89 million were classified as "Deposits for future stock subscriptions" account in the balance sheet, the components of which are as follows:

- a.) A secured notes receivable assigned by a major stockholder to the Company on December 27, 2007 amounting to P50.0 million which is based on the consideration given by the stockholder to the seller;
- b.) Machinery and equipment amounting to P20.98 million; and
- c.) Cash amounting to 24.91 million.

Note 10 – COST OF SALES

	<u>2007</u>	<u>2006</u>
Inventories, January 1	P1,232,424	P177,991
Purchases	525,340,583	89,910,697
Total merchandise available for sale	526,573,007	90,088,688
Inventories, December 31	(16,323,174)	(1,232,424)
	<u>P510,249,833</u>	<u>P88,856,264</u>

Note 11 – OPERATING EXPENSES

	<u>2007</u>	<u>2006</u>
Salaries, wages and other employee benefits	P44,123,274	P1,373,128
Deliveries	19,539,618	8,752,946
Advertising and promotion	4,274,346	-
Separation pay	3,651,841	-
Transportation and travel	3,437,769	1,179,365
Taxes and licenses	2,749,489	-
Commission	1,828,886	-
Repairs and maintenance	2,572,532	-
Communications, light and water	2,292,150	-
Depreciation and amortization (Note 5)	2,236,736	-
SSS, Philhealth and Pag-ibig contributions	2,209,333	-
Representation and entertainment	1,955,145	-
Professional fees	1,158,668	-
Rent	1,511,315	-
Office supplies	1,035,853	-
Security services	647,867	-
Retirement benefit costs (Note 13)	128,310	-
Others	4,630,341	5,603,976
	<u>P99,983,473</u>	<u>P16,909,415</u>

Note 13 – RETIREMENT BENEFITS COST

The Group does not have a formal retirement plan for its employees. The most recent actuarial valuation of the Parent Company's retirement plan was performed by an independent actuary on October 9, 2007. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

Movement in the net pension liability recognized in the Parent Company and Group's consolidated balance sheets were as follows:

	<u>2007</u>	<u>2006</u>
Net pension liability, January 1	P254,986	P177,176
Retirement expense	128,310	77,810
	<u>P383,296</u>	<u>P254,986</u>

Note 13 – RETIREMENT BENEFITS COST - continued

Reconciliation of the present value of defined benefit obligations were as follows:

	<u>2007</u>	<u>2006</u>
Present value of obligation, January 1	P626,347	P285,156
Current service cost	42,261	42,261
Interest cost	68,898	31,367
Actuarial loss on obligation	<u>-</u>	<u>267,563</u>
Present value of obligation, December 31	<u>P737,506</u>	<u>P626,347</u>

Total expense recognized in the Parent Company and Group's consolidated statements of income in respect of this defined benefit plan were as follows (see Note 12):

	<u>2007</u>	<u>2006</u>
Current service cost	P42,261	P42,261
Interest cost	68,898	31,367
Net actuarial loss	<u>17,151</u>	<u>4,182</u>
	<u>P128,310</u>	<u>P77,810</u>

The amount included in the present value of obligation arising from the Parent Company and Group's obligations in respect of its defined benefit retirement benefit plan is as follows:

	<u>2007</u>	<u>2006</u>
Present value of defined benefit obligations	P737,506	P626,347
Unrecognized actuarial losses	<u>(354,210)</u>	<u>(371,361)</u>
	<u>P383,296</u>	<u>P254,986</u>

The key actuarial assumptions used as at the balance sheet date:

	<u>2007</u>	<u>2006</u>
Discount rate	11.00%	11.00%
Salary increase rate	5.00%	5.00%
Average remaining working life of plan members	18 years	19 years

Note 14 – OTHER INCOME, net

	<u>2007</u>	<u>2006</u>
Bank charges and interest expense	(P3,737,078)	(P 823,524)
Realized foreign exchange gain, net	300,830	545,478
Interest income	15,621	91,707
Others	674,384	-
	<u>(P2,746,243)</u>	<u>(P186,339)</u>

Others pertain to income from commission on sale of other products and other miscellaneous income.

Note 15 – INCOME TAXES

- a.) The Group's deferred tax assets and deferred tax liability are as follows:

	<u>2007</u>	<u>2006</u>
Deferred Tax Assets:		
Deductible temporary difference on:		
Pension liability of the Company	P 134,154	P89,245
MCIT	158,921	
	<u>P 293,075</u>	<u>P89,245</u>
Deferred Tax Liability:		
Unrealized foreign exchange gain – net of the Company	<u>P121,564</u>	<u>P-</u>

- b.) As of December 31, 2007, the Company's MCIT amounted to P0.15 million, can be applied against future regular income tax due until December 31, 2010.
- c.) The reconciliation between the provision for income tax computed at statutory rate and the Group's actual income tax expense is shown below:

	<u>2007</u>	<u>2006</u>
Net income (loss) before income tax	<u>P11,098,687</u>	<u>P1,038,865</u>
Provision for income tax computed at the statutory tax rate of 35%	P3,884,540	P363,603
Tax effects of:		
Nondeductible expenses	350,000	-
Interest income subjected to final tax	(11,136)	(3,060)
Nondeductible interest expense	5,218	-
Provision for income tax	<u>P4,228,622</u>	<u>P360,543</u>

Note 15 – INCOME TAXES - continued

d.) New Tax Laws**R.A. 9337**

Republic Act (RA) No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- i. Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- ii. Grant of authority to the Philippine President to increase the 10% VAT rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions. VAT rate increased to 12% effective February 1, 2006;
- iii. Revised invoicing and reporting requirements for VAT;
- iv. Expanded scope of transactions subject to VAT; and
- v. Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

R.R. 12-2007

Under National Internal Revenue Code, MCIT of 2% of the gross income as of the end of the taxable year is imposed beginning the fourth taxable year immediately following the registration of the Parent Company and subsidiaries with Bureau of Internal Revenue (BIR).

The MCIT puts a floor limit to the income tax payable. In the event the income tax due computed under the regular tax rate of 35% on net taxable income becomes lower than 2% of gross income, the MCIT of 2% of gross income shall be the income tax due. Any excess of the MCIT over the regular income tax shall be carried forward and credited against the regular income tax for the three immediately succeeding taxable years.

On October 17, 2007, however the BIR issued Revenue Regulation (RR) No. 12-2007 which amends certain provisions of RR No. 9-98 relative to the due date within which to pay the MCIT imposed on domestic and resident foreign corporations pursuant to Sections 27(E) and 28(A) of the Tax Code, as amended.

Accordingly, MCIT shall be computed at the time of filing the quarterly corporate income tax so that if MCIT is higher than the quarterly normal income tax, then MCIT becomes the tax due for the quarter. In the payment of said quarterly MCIT, any excess MCIT from the previous year/s shall not be allowed to be credited. However, any expanded withholding tax, quarterly income tax payments under the normal income tax and MCIT paid in the previous taxable quarter/s are allowed to be applied against the quarterly MCIT due.

The quarterly MCIT paid in the quarterly ITR shall be credited against the normal income tax at year-end should the normal income tax due becomes higher than the computed annual MCIT. However, should the computed annual MCIT due becomes higher than the annual normal income tax due, only the quarterly MCIT payments of the current taxable quarters, the quarterly normal income tax payments in the quarters of the current taxable year, the expanded withholding taxes in the current year and excess expanded withholding taxes in the prior year may be credited against the annual MCIT due. Any excess MCIT from the previous year/s shall not be allowed to be credited as this can only be applied against normal income tax.

Note 16 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities are exposed to a variety of financial risks, which include credit risk, liquidity risk and interest risk. Management ensures that it has sound policies and strategies in place to minimize potential adverse effects of these risks on the Group's financial performance.

Risk Management Structure

Board of Directors

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Financial Risk Management Objectives and Policies

The Group is exposed to variety of financial risks, which result from its operating, financing and investing activities. The Group's principal financial instruments comprise of cash, trade receivables and payables, notes receivables and payables and due to and from related parties. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables, and other payables, which arise directly from operations.

Financial risk management by the Group is coordinated with its Parent Company, in close cooperation with management of the subsidiaries. Group policies and guidelines cover credit risk, market risk and liquidity risk. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Group's results and financial position. The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principles.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group trade only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets, such as cash in bank, other and notes receivables, the Group's exposure to credit risk arises from default of other counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Note 16 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Aging analysis of financial assets as of December 31, 2007 are as follows:

	Neither impaired nor past due on the reporting date		Past due but not yet impaired			Impaired
	Carrying amount	Current	1 day to 60 days	61 days to 90 days	91 days to 120 days	More than 120 days
Cash	P11,064,779	P11,064,779	P-	P-	P-	P-
Trade receivables and other receivables (see note 4)	87,909,220	75,695,452	6,533,366	196,172	5,484,230	-
Notes receivable	50,000,000	50,000,000	-	-	-	-
Due from related parties (see Note 8)	81,449,381	81,449,381	-	-	-	-
Advances to projects	9,167,441	9,167,441	-	-	-	-
	P239,590,821	P227,377,053	P6,533,366	P196,172	P5,484,230	P-

As of December 31, 2007, the Group does not have past due accounts which are impaired. The trade receivables and other receivables, notes receivables and advances are expected to be settled within one year from the balance sheet date.

The credit quality of the Group's financial asset, that neither past due nor impaired is considered to be of good quality and expected to collectible without incurring any losses.

Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to meet its financial obligations as they fall due. The Group seeks to manage its liquid funds through cash planning. The Group uses historical figures and experiences and forecasts from its collections and disbursements. Also, the Group has a policy of regularly monitoring its cash position to ensure that maturing liabilities will be adequately made.

The Group's approach to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed. In addition, the Group continually supports the short-term funding and financing requirements of the subsidiaries.

Note 16 - FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

The following are the contractual maturities of financial liabilities at December 31, 2007 based on contractual undiscounted payments.

	Carrying amount	Due and demandable on reporting date	Neither due nor demandable Impaired		
		Current	1 day to 90 days	91 days to 120 days	More than 120 days
Trade payables, accrued expenses and other liabilities (see Note 6)	P70,674,718	P66,559,359	P2,739,118	P1,376,241	P-
Notes payable (see Note 7)	119,653,045	106,376,923	-	-	13,276,122
Due to related parties (see Note 8)	17,441,630	17,441,630	-	-	-
	P207,769,393	P190,377,912	P2,739,118	P1,376,241	P13,276,122

Market risks

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Group's income or the value of its holdings of financial statements. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group is subject to various market risks, including risks from changes in interest rates and currency exchange rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

a. Interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due changes in market interest rates.

The Group's financial instrument that is exposed to interest risk is their loans that are based on prevailing market rate, subject to quarterly repricing. These are concession rates given by the bank in consideration for the Group's operational and financial difficulties.

Cash flow interest rate risk exposure is managed within parameters approved by the management.

b. Foreign currency risk

Currency risk arises when transactions are denominated in foreign currencies

The Group is not exposed to significant foreign currency risk given that financial assets and liabilities are denominated in the Group's functional currency.

Capital Risk Management

The primary objective of the Group's capital management is to ensure its ability to continue as a going concern and that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

Note 16 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

The BOD has overall responsibility for monitoring of capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business operations and industry.

The Company monitors capital on the basis of the debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is equivalent to total liabilities shown in the balance sheet. Total equity comprises all components of equity including capital stock, additional paid-in capital and related earnings. Debt to equity ratio of the Company is 39:61 and 49:51 as of December 31, 2007 and 2006, respectively.

There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

Note 17 – FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The carrying values and fair values of financial assets and financial liabilities as of December 31, 2007 are presented below:

	Carrying Values		Fair Values	
	2007	2006	2007	2006
Financial assets:				
Cash	P11,064,779	P4,282,082	P11,064,779	P4,282,082
Trade and other receivables (see Note 4)	87,909,220	2,812,180	87,909,220	2,812,180
Notes receivable	50,000,000	-	50,000,000	-
Due from related parties (see Note 8)	81,449,381	5,940,856	81,449,381	5,940,856
Advances to projects	9,167,441	1,659,273	9,167,441	1,659,273
	P239,590,821	P14,694,391	P239,590,821	P14,694,391
Financial liabilities:				
Trade and other payables (see Note 6)	P70,674,718	P1,629,197	P70,674,718	P1,629,197
Notes payable (see Note 7)	119,653,045	7,000,000	119,653,045	7,000,000
Due to related parties (see Note 8)	17,441,630	796,783	17,441,630	796,783
	P207,769,393	P9,425,980	P207,769,393	P9,425,980

The carrying amounts of cash in bank, receivables, due to and from related parties, trade and other payables, and short-term notes payable approximate their fair values due to the relatively short-term maturities of the financial instruments.

The fair value of the long-term notes payable is based on the discounted value of the expected future cash flows using the applicable rate.

The fair values of accounts payable and other accrued expenses have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the balance sheets to be reasonable approximation of their fair values.

NOTE 18 – EARNINGS PER SHARE

Basic EPS is computed as follows:

	2007	2006
Net income attributable to equity holders of the Parent Company (a)	P4,302,533	P582,136
Weighted average number of shares (b)	10,000,000	10,000,000
Basic EPS (a/b)	P0.43	P0.06

NOTE 19 – BUSINESS ACQUISITION

The acquisitions of the following subsidiaries have been accounted for using the purchase method of accounting:

Acquirer	Acquiree	Date Acquired	% of Ownership
Parent Company	FCA	January 1, 2007	60%
FCA	F & G	January 1, 2007	100%

Accordingly, the 2007 consolidated financial statements include the results of operations of FCA and F&G for the one year ended from their acquisition on January 1, 2007 to December 31, 2007.

On January 1, 2007, a Memorandum of Agreement was executed by and between the Parent Company and FCA. The agreement provides for the Company's acquisition of 60% equity interest in FCA and infusing new capital in the latter to develop and expand the subsidiary's business. Upon signing of the agreement, the Company issued partial payment of P5.0 million as initial downpayment and another P5.0 million was paid. Balance for the remaining net worth, approximately P40.0 million estimated as of signing (appraised value of total assets minus the total liabilities), was paid on September 5, 2007.

Also, on January 1, 2007, FCA declared ownership over 100% of the paid up capital of F&G by virtue of the fulfillment of the conditions for unconditional transfer of ownership from F&G incorporators to FCA as embodied in various Deeds of Trusts entered among the parties in 2007.

The cost of acquisition of acquirers, fair value of net identifiable assets of acquirees and the resulted goodwill on the aforementioned acquisitions are as follows:

	Acquirees		
	FCA	F&G	Total
Cost of Acquisition	P50,004,838*	P750,000	P50,754,838
Interest on the Net Identifiable Assets and Liabilities	22,097,126	(1,400,409)	20,696,717
Goodwill	P27,907,712	P2,150,409	P30,058,121

* Includes transaction cost of P4,838

Also, the Parent Company's acquisition on LFPVI and IMEX in 2005, resulted to recognition of goodwill amounting P33,175. The additional investment made by the Parent Company to IMEX in 2007, resulted to recognition of additional goodwill of 12,600.

NOTE 20 – MEMORANDUM OF AGREEMENT

On February 15, 2007, a Memorandum of Agreement was executed by and among the Company, Education Parks for Sustainable Development Foundation, a non-stock and non-profit organization, Bamban Aeta Tribal Association (B.A.T.A.), and National Commission for Indigenous People (NCIP), a national government agency.

The agreement provides for the establishment of the joint governing council for the B.A.T.A. sustainable development project. To hasten and facilitate a more effective and binding interaction among the four parties, a Joint Governing Council (JGC) shall be established to be represented as follows: two to be named by B.A.T.A.; two to be named by the Foundation; two by the Company; and one by the NCIP. This JGC shall evaluate, approve and provide guidance and direction in the management of the various component projects, which shall be introduced and implemented by various participating entities, which are willing to partake of the different development activities relevant to the improvement of the socio-economic conditions of the indigenous people.

NOTE 21 – RESTATEMENT

The 2006 financial statements was restated to record accruals pertaining to 2006 transactions that were not recorded on the same year. Effect of said restatements are detailed as follows:

	2006 as previously reported	Effect of restatements	2006 as restated
Balance sheet:			
Cash	P15,083,727	(P15,033,711)	P50,016
Trade and other receivables	12,851,742	27,181,096	40,032,838
Advances to related parties	0	16,616,820	16,616,820
Property and equipment	18,929,594	(8,837,327)	10,092,267
	<u>P46,865,063</u>	<u>P19,926,878</u>	<u>P66,791,941</u>
Liabilities and Equity			
Trade and other payable	P657,858	P22,737,181	P23,395,039
Unappropriated retained earnings	6,552,766	(724,221)	5,828,545
	<u>P7,210,624</u>	<u>P22,012,960</u>	<u>P29,223,584</u>
Income Statement:			
Sales	P247,301,013	P17,755,880	P265,056,892
Cost of sales	(198,991,447)	(4,192,693)	(203,184,139)
Operating expenses	(40,353,163)	(14,287,408)	(54,640,571)
	<u>P7,956,403</u>	<u>(P724,221)</u>	<u>P7,232,182</u>
Net effect of restatement		<u>(P2,810,303)</u>	

NOTE 22 – OTHER MATTERS

Certain 2006 financial statement data were reclassified to conform with the current year's presentation.

NOTE 23 – SUPPLEMENTAL INFORMATION TO CASH FLOW STATEMENTS

In 2007, the Company had the following non-cash financing transactions:

- a.) Assignment of notes receivable amounting to P50.0 million (see Note 10); and
- b.) Assignment of machinery and equipment amounting to P20.98 (see Note 10).