



**CONCRETE AGGREGATES CORPORATION**

Don Mariano Santos Avenue, San Isidro, Angono, Rizal  
Tel. No.: 651-3211 to 15    Telefax No.: 451-0192



November 14, 2007

**THE PHILIPPINE STOCK EXCHANGE, INC.**

4/F Philippine Stock Exchange Center  
Exchange Road, Ortigas Center  
Pasig City, Metro Manila

Attention: **Atty. Pete M. Malabanan**  
Head, Disclosure Department

Gentlemen:

In compliance with Philippine Stock Exchanges' Rules on Disclosure, please find attached hereto a copy of Concrete Aggregates Corporation's Quarterly Report for the third quarter of 2007 (SEC Form 17-Q), which we filed at the Securities and Exchange Commission today, November 14, 2007.

Thank you and best regards.

Very truly yours,

  
**MICHAEL DAVID I. ABUNDO III**  
Corporate Information Officer



SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER



1. For the quarterly period ended **September 30, 2007**
2. SEC Identification Number **36140**
3. BIR Tax Identification No. **000-201-881**
4. Exact name of registrant as specified in its charter **CONCRETE AGGREGATES CORP.**
5. **Philippines**  
Province, Country or other jurisdiction of  
Incorporation or organization
6. (SEC Use Only)   
Industry Classification Code;
7. **Don Mariano Santos Avenue, Barangay San Isidro, Angono, Rizal** **1930**  
Address of principal office Per Amended Articles of Incorporation approved  
by the SEC on December 2, 1999 Postal Code
8. **Telephone No.: 02) 651-3211 to 15 / 451-1102 Fax No.: 651-3211 to 14**  
Registrant's telephone number, including area code
9. **No. 70 Industria St., Bagumbayan, Quezon City**  
Former address

10. Securities registered pursuant to Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Shares	27,466,449

11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes (x) No ( ) Classes Common "A" and Common "B"

12. Check whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Revised Securities Code and SRC Rule 17 thereunder or Sections 11 of the Revised Securities Act (RSA) and RSA Rule 11(a) - 1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

Yes (x) No ( )

- (b) has been subject to such filing requirements for the 90 days.

Yes (x) No ( )

PSE Security Code \_\_\_\_\_  
SEC Number 36140  
File Number \_\_\_\_\_

**CONCRETE AGGREGATES CORP.**

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**(Company's Full Name)**

DON MARIANO SANTOS AVENUE, SAN ISIDRO, ANGONO, RIZAL

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**(Company's Address)**

651-32-11 to 15 / 451-11-02  
Fax no.: 651-3211 to 14

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**(Company's Telephone Number)**

DECEMBER 31

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**(Fiscal Year Ending)  
(Month & Day)**

**SEC FORM 17-Q 3<sup>rd</sup> Quarter 2007**

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**(FORM TYPE)**

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**(Amendment Designation if Applicable)**

**September 30, 2007**

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**Period Ended Date**

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**(Secondary License Type, if any)**



## **FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

Please see the following attached documents:

- Unaudited Balance Sheet Statement, as of September 30, 2007
- Unaudited Statement of Operations and Retained Earnings, as of September 30, 2007
- Unaudited Statement of Cash Flows, as of September 30, 2007
- Unaudited Statement of Changes in Stockholder's Equity, as of September 30, 2007
- Aging of Accounts Receivables, as of September 30, 2007
- Statement of Management's Responsibility
- Notes to Financial Statements

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

For the first three quarters of the year 2007, the Company was able to post a net income of ₱19.86 million, which figure is almost three times higher compared to that of last year. This was largely due to the increase in sales volume brought about by the dynamic and continuing rise in real estate activity throughout the greater Manila region. Sales increased by 12% resulting to ₱256.57 million in 2007 from ₱227.76 million in 2006 again due to a marked increase in demand specifically from ready mix and property development activities where there is an upsurge of construction of high-rise buildings and residential housing. Other key factors include the ongoing rehabilitation of South Luzon Expressway, the increasing demand for the Company's "Blue Sand Vibro" product, and the Company's export sales particularly in the Pacific Islands. All of these contributed significantly to the increase in revenues for 2007.

Looking forward, the Company anticipates further growth in sales in line with the increase in real estate activities coupled with the advent of various large scale infrastructure projects by the government that were slightly delayed by the mid-term national and local elections such as the Manila-Cavite Coastal Road and the Northrail Projects. The continued rise in housing units and office spaces construction as well as the growing export market in the Pacific Islands are expected to significantly contribute further to the Company's revenue pie. Lastly, the improvement of the Company's in-house mechanical capability was undertaken to enhance the Company's ability to generate revenues.

### **Operating Results**

#### **Sales**

Sales during the nine month period of 2007 registered an increase of 12% or around ₱28.80 million, which increase was due primarily to the marked increase in demand from ready mix and property development companies and to the significant volume continuously being supplied by the Company to the South Luzon Expressway Rehabilitation Project.

#### Cost of sales

Cost of sales increased by 22% or around ₱32.47 million from ₱145.09 million in 2006 to ₱177.70 million this year. The increase was basically due to the improvement in sales and production volume that resulted in a considerable increase in extraction rate, equipment rental costs, fuel costs, and repairs & maintenance. In addition, the Company's decision to establish its in-house mechanical capabilities contributed to additional costs on handling costs rates.

#### General & Administrative Expenses

General and administrative expenses for 2007 increased by 9% or ₱3.81 million from ₱35.49 million during the first nine months of 2006 to this year's ₱38.52 million. The increase was brought about by the implementation of extensive training and development programs for employees amounting to ₱1.50 million for the nine month period coupled with additional costs on outsourced services.

#### Selling expenses

Selling expenses amounting to ₱16.40 million showed a minimal increase of 5% as compared to 2006's figures of ₱15.62 million. This was due to increases in sales loading charges, finished goods transfers and handling costs on account of improved sales volume.

#### Interest and other financing charges

Despite having a higher loan balance in 2007, interest and other financing charges resulted in a favorable marginal decrease of 4% from last year's ₱7.02 million to only ₱6.75 million. This was mainly due to lower bank loan rates averaging 7.25% compared to last year's figure of close to 9%.

#### Net income (loss) after tax

The Company posted a net income of ₱19.85 million for the first nine months of 2007, which figure is almost three times higher than the previous level of ₱5.28 million. As stated above, the improvement was the result of increased revenues from its sale of aggregates and effective management of cost and expenses.

### **Financial Condition**

#### Cash

Cash balances for 2007 stands at ₱19.20 million, which is higher by ₱2.84 million compared to 2006. This 17% increase is due to higher sales revenues collections for the year.

#### Receivables

Receivables, net of allowance for doubtful accounts, is at ₱42.42 million and is 5% higher than last year's ending balance. This was due to higher sales revenue for the year compared to 2006.

#### Inventories

Inventories (finished goods, spare parts and supplies) jumped up by 143% from ₱19.21 million to ₱46.66 million. The continuous improvement in production volume brought about by improved service from the Company's third party contractor as well as improved in-house mechanical capabilities contributed to the increase in the inventory of both goods for sale and spare parts for the additional heavy equipment of the Company.

#### Other current assets

The Company's other current assets increased by 28% from last year's balance of ₱7.32 million to ₱9.40 million by end of September 2007. This was due to higher prepayments on real estate taxes as the Company opted to pay in full in March 2007 to take advantage of the discounts then offered. Payments were treated as prepaid expenses and are amortized on a monthly basis.

#### Investment properties

As a result of capitalizable expenses incurred on idle properties, the Company's investment properties consisting of land, land improvements and buildings remained at almost the same level with last year's balance being ₱78.52 million compared to this year's ₱79.14 million.

#### Property, plant & equipment

Property, plant and equipment (net) increased by 10% or ₱17.36 million from last year's balance of ₱176.20 million to this year's ₱193.56 million. This was due to the acquisitions of heavy equipment, major repairs, rehabilitation of some non-operational equipment (crane, back hoe and dump trucks) and incurrence of capitalizable costs throughout the year.

#### Short term loans

Short term loans amounting to ₱150 million increased by 28% or ₱33 million compared to last year's ending balance of ₱117 million. The increase in production costs and capital expenditure requirements led to a loan availment in 2007.

#### Trade accounts payable

Trade accounts payable increased by 54% or around ₱15.45 million from last year's ₱28.73 million to this year's balance of ₱13.28 million. This was due to the Company's increased production activity which resulted to higher payables in favor of contractors and suppliers.

#### Accrued Expenses and other Payables

Accrued Expenses and other payables increased by 24% or ₱13.20 million from last year's ₱55.72 million to ₱68.92 million. During the third quarter of 2007, the development costs started to pick up coupled with a higher production output compared to 2006 levels.

#### Stockholders' Equity

Stockholders' Equity increased from last year's balance of ₱207.03 million to ₱226.87 million by end of September 2007. This was due to the ₱19.85 million net income contribution posted during the nine month period in 2007 compared to last year's net income of ₱5.28 million.

Book value per share is at ₱8.26 per share as of September 30, 2007 compared to ₱7.54 per share in December 31, 2006.

- i. Due to the Company's sound financial condition, there are no foreseeable trends, events or uncertainties that may have a material impact on its long term or short term liquidity.
- ii. There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.
- iii. There are no off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.
- iv. Funding will be sourced from internally-generated cash flow, and also from borrowings or available credit facilities from other local and international commercial banks.

- v. At the moment, there are no material commitments for capital expenditures other than those performed in the ordinary course of trade or business.
- vi. Currently, the management is monitoring its production volume capacity as demand for aggregates usually reaches its peak during summer season only. However, the Company believes that there is a stable demand throughout the year due to the continuing government projects like the South Luzon Expressway Rehabilitation that went full blast in 2007. During the last quarter of the year, however, the Company anticipates there will be lower sales volume due to reduced number of working days.
- vii. The causes for any material changes in the unaudited financial statements for the first nine months of the years 2006 and 2007 are explained in the Management Discussion and Analysis, as well as in the accompanying Notes to Financial Statements.
- viii. There is no known significant element of income or loss that did not arise from the Company's continuing operations, except as disclosed above and in the attached unaudited financial statements.
- ix. Accounts that registered material changes of 5% or more and the causes thereof are as follows:

<b>Accounts</b>	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>	<b>Remarks</b>
Sales	₱256,565,853	₱227,763,121	₱28,802,732	This was due basically to the marked increase in demand from ready mix, real estate and property development projects and the significant volume continuously being supplied to the South Luzon Expressway Rehabilitation Project.
Cost of sales	177,697,552	145,228,216	32,469,336	This was due primarily to the improvement in sales volume which triggered considerable increases in extraction rate, fuel, surge pile, waste and finished goods handling rates.
General & Administrative expenses	38,519,483	35,492,853	3,026,630	This was basically brought about by the extensive training and development programs for employees implemented during 2007.

Selling expenses	16,397,932	15,618,953	778,979	This was due largely to increases in sales loading charges, finished goods transfers and handling costs on account of improved sales volume.
Cash	19,198,069	16,358,873	2,839,196	This was due primarily to the ongoing improvement in the processing of payment on payables and deferment of payment to suppliers.
Inventories	46,662,075	19,213,781	27,448,294	The growth in production brought about by improvements in service from the third party contractor and in the Company's in-house mechanical capabilities resulted in the increase in inventories despite higher sales volume delivered.
Other current assets	9,399,087	7,322,334	2,076,753	This was due basically to advance payment of the Company's real property taxes for the whole year.
Short term bank loans	150,000,000	117,000,000	33,000,000	The increase in production costs and capital expenditure requirements led to loan availment in 2007.
Trade accounts payable	13,283,105	28,729,661	15,446,556	This was due to higher payables in favor of contractors and suppliers on account of increased production versus last year.
Accrued expenses and other payables	68,915,507	55,719,613	13,195,894	This was due to higher accruals on account of increasing development costs coupled with higher production activities.
Stockholders' equity	226,872,932	207,027,228	19,845,704	Stockholders' Equity increased due to the contribution of the nine month period net income to the reduction of deficit.

### **Key Performance Indicators**

The Company has identified the following Key Performance Indicators affecting its operation:

<b>MEASURES</b>	<b>2007</b>	<b>2006</b>	<b>Manner of Calculation</b>
Current Ratio	0.51	0.41	Current Assets ÷ Current Liabilities
Debt / Equity Ratio	1.05	1.00	Total Liabilities ÷ Total Stockholders' Equity
Gross Profit Rate	31%	39%	Gross Margin ÷ Sales
Operating Profit Rate	12%	16%	Operating Profit ÷ Sales
Net Income Rate	8%	3%	Net Income ÷ Sales
Return on Assets	4%	1%	Net Income ÷ Total Assets
Return on Equity	9%	2%	Net Income ÷ Total Stockholder's Equity

### **Signatures**

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CONCRETE AGGREGATES CORPORATION**



**ELEANOR B. TRUMATA**

Accounting Manager/Authorized Officer  
November 13, 2007

**CONCRETE AGGREGATES CORP.****BALANCE SHEET****SEPTEMBER 30, 2007****With Comparative Figures for December 31, 2006**

	<b>September 2007 Unaudited</b>	December 2006 Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>19,198,069</b>	16,358,873
Receivables - net (Note 4)	<b>42,423,390</b>	40,534,838
Inventories (Note 5)	<b>46,662,075</b>	19,213,781
Other current assets - net (Note 6)	<b>9,399,086</b>	7,322,334
<b>Total Current Assets</b>	<b>117,682,620</b>	83,429,826
<b>Noncurrent Assets</b>		
Investment properties - net	<b>79,138,461</b>	78,522,267
Property, plant & equipment - net (Note 7)	<b>193,563,220</b>	176,199,872
Deferred income tax assets	<b>58,880,098</b>	58,880,098
Other non-current assets (Note 8)	<b>15,472,223</b>	17,109,517
<b>Total Noncurrent Assets</b>	<b>347,054,002</b>	330,711,754
<b>TOTAL ASSETS</b>	<b>464,736,622</b>	414,141,580
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Short-term bank loans (Note 9)	<b>150,000,000</b>	117,000,000
Trade accounts payable	<b>13,283,105</b>	28,729,661
Accrued expenses & other accounts payable (Note 10)	<b>68,915,507</b>	55,719,613
<b>Total Current Liabilities</b>	<b>232,198,612</b>	201,449,274
<b>Noncurrent Liability</b>		
Net pension liability	<b>5,665,078</b>	5,665,078
<b>Total Liabilities</b>	<b>237,863,690</b>	207,114,352
<b>Stockholders' Equity</b>		
Capital stock - P10 par value (Note 14)		
Authorized - 50,000,000 shares		
Issued and outstanding - 27,466,449 shares (held by 629 stockholders)	<b>274,664,490</b>	274,664,490
Additional paid-in capital	<b>1,069,304</b>	1,069,304
Unrealized gain on appreciation in value of available available-for-sale investments, net of related deferred income tax	<b>1,214,057</b>	1,214,057
Deficit	<b>(50,074,919)</b>	(69,920,623)
<b>Total Stockholders' Equity</b>	<b>226,872,932</b>	207,027,228
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>464,736,622</b>	414,141,580

*See accompanying Notes to Financial Statements.*

**CONCRETE AGGREGATES CORP.****STATEMENT OF INCOME****FOR THE 3RD QUARTER ENDING SEPTEMBER 30, 2007 (Unaudited)****With Comparative Figures for September 2006**

	<b>July to September 2007</b>	July to September 2006	<b>January to September 2007</b>	January to September 2006
<b>SALES</b>	<b>83,908,480</b>	165,094,127	<b>256,565,853</b>	227,763,121
<b>COSTS OF SALES</b> (Note 11)	<b>61,462,570</b>	103,797,529	<b>177,697,552</b>	145,228,216
<b>GROSS PROFIT</b>	<b>22,445,910</b>	61,296,598	<b>78,868,301</b>	82,534,905
General & administrative expenses (Note 12)	<b>(12,677,325)</b>	(23,362,497)	<b>(38,519,483)</b>	(35,492,853)
Selling expenses (Note 13)	<b>(5,037,607)</b>	(11,382,329)	<b>(16,397,932)</b>	(15,618,953)
Interest and other financing charges (Note 9)	<b>(2,211,418)</b>	(4,782,779)	<b>(6,881,653)</b>	(7,051,632)
Interest income	<b>86,240</b>	27,391	<b>131,153</b>	33,080
Others - net	<b>1,381,799</b>	(6,556,067)	<b>2,645,318</b>	(19,125,846)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>3,987,599</b>	15,240,317	<b>19,845,704</b>	5,278,701
<b>PROVISION FOR INCOME TAX</b>	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>3,987,599</b>	15,240,317	<b>19,845,704</b>	5,278,701
<b>Basic / Diluted Earnings (Loss) per Share (Note 16)</b>	<b>0.15</b>	0.55	<b>0.72</b>	0.19

*See accompanying Notes to Financial Statements.*

**CONCRETE AGGREGATES CORP.**  
**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE 3RD QUARTER ENDING SEPTEMBER 30, 2007 (Unaudited)**  
**With Comparative Figures for September 30, 2006**

	Capital Stock	Additional Paid-in Capital	Unrealized Gain on Appreciation in Value of Available-for- Sale Investments	Deficit	Total
Balances at January 1, 2007 (audited)	274,664,490	1,069,304	1,214,057	(69,920,623)	207,027,228
Net Income - January 1, 2007 to September 30	-	-	-	19,845,704	19,845,704
<b>Balances at September 30, 2007</b>	<b>274,664,490</b>	<b>1,069,304</b>	<b>1,214,057</b>	<b>(50,074,919)</b>	<b>226,872,932</b>
Balances at December 31, 2005, as previously reported	274,664,490	1,069,304	3,535,522	(72,782,128)	206,487,188
Effect of change in method of amortizing quarry development costs	-	-	-	43,178,657	43,178,657
Other restatements	-	-	(348,552)	(6,763,406)	(7,111,958)
Balances at December 31, 2005, as restated	274,664,490	1,069,304	3,186,970	(36,366,877)	242,553,887
Net Income - January 1, 2006 to September 30, 2006	-	-	-	5,278,701	5,278,701
<b>Balances at September 30, 2006</b>	<b>274,664,490</b>	<b>1,069,304</b>	<b>3,186,970</b>	<b>(31,088,175)</b>	<b>247,832,589</b>

See accompanying Notes to Financial Statements.

**CONCRETE AGGREGATES CORP.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE 3RD QUARTER ENDING SEPTEMBER 30, 2007**  
**With comparative figures for September 30, 2006**

	July to September 2007	July to September 2006	January to September 2007	January to September 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Income (Loss) for the year	<b>3,987,599</b>	1,359,776	<b>19,845,704</b>	5,278,701
Adjustments for:				
Depreciation and depletion	<b>5,699,056</b>	8,631,006	<b>15,632,644</b>	15,352,479
Interest and other finance charges	<b>2,211,418</b>	2,479,325	<b>6,881,653</b>	7,051,632
Interest income	<b>(86,240)</b>	(23,080)	<b>(131,153)</b>	(33,080)
Gain on sale of property and equipment	-	-	-	(5,000)
Unrealized gain on appreciation in value of available-for-sale investments	-	-	-	348,552
(Increase) decrease in:				
Receivables	<b>(2,915,160)</b>	(4,538,565)	<b>(1,888,552)</b>	(17,820,067)
Inventories	<b>(24,264,801)</b>	(5,849,010)	<b>(27,448,294)</b>	2,603,488
Other current assets	<b>781,515</b>	(3,603,683)	<b>(2,076,752)</b>	(11,052,225)
Increase (decrease) in:				
Trade accounts payable	<b>1,889,412</b>	(2,759,816)	<b>(15,446,556)</b>	(14,610,299)
Accrued expenses and other accounts payable	<b>12,010,129</b>	7,424,330	<b>6,445,394</b>	(39,801,645)
Net cash flows from (used in) operating activities	<b>(687,072)</b>	3,120,283	<b>1,814,088</b>	(52,687,464)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of property and equipment and investment properties (Note 7)	<b>(5,218,147)</b>	(5,698,421)	<b>(33,612,186)</b>	35,785,269
Decrease (increase) in other noncurrent assets	<b>(1,551,757)</b>	837,566	<b>1,637,294</b>	6,255,469
Net cash flows used in investing activities	<b>(6,769,904)</b>	(4,860,855)	<b>(31,974,892)</b>	42,040,738
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payment (proceeds) of short-term loans	<b>18,000,000</b>	(18,000,000)	<b>33,000,000</b>	(3,000,000)
Net cash flows from (used) in activities financing activities	<b>18,000,000</b>	(18,000,000)	<b>33,000,000</b>	(3,000,000)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>10,543,024</b>	(19,740,572)	<b>2,839,196</b>	(13,646,726)
<b>CASH AT BEGINNING OF THE PERIOD</b>	<b>8,655,045</b>	38,756,344	<b>16,358,873</b>	32,662,498
<b>CASH AT END OF SEPTEMBER 30</b>	<b>19,198,069</b>	19,015,772	<b>19,198,069</b>	19,015,772

See accompanying Notes to Financial Statements.

**CONCRETE AGGREGATES CORP.**  
**ACCOUNTS RECEIVABLE AGING (Unaudited)**  
**FOR THE 3RD QUARTER ENDING SEPTEMBER 30, 2007**

DESCRIPTION	TOTAL	CURRENT	1 - 30 DAYS	31 - 60 DAYS	61 - 90 DAYS	91 - 120 DAYS	Over 120 DAYS	UNDER LITIGATION
<b>AGING SCHEDULE</b>								
<b>A. Trade Receivables</b>								
Angono Aggregates	49,530,947	31,486,526	9,793,333	361,930	384,937	1,259,127	6,245,094	-
Pangasinan Aggregates	2,241,979	-	-	-	-	-	-	2,241,979
<b>Subtotal</b>	<b>51,772,926</b>	<b>31,486,526</b>	<b>9,793,333</b>	<b>361,930</b>	<b>384,937</b>	<b>1,259,127</b>	<b>6,245,094</b>	<b>2,241,979</b>
Less: Allowance For Doubtful Accounts	13,856,131	-	3,363,064	361,930	384,937	1,259,127	6,245,094	2,241,979
<b>Net Trade Receivable</b>	<b>37,916,795</b>	<b>31,486,526</b>	<b>6,430,269</b>	-	-	-	-	-
<b>B. Non-trade Receivables</b>								
<u>Discontinued Division</u>								
ReadyMix	12,314,253	-	-	-	-	-	12,314,253	-
Aphalt Mix	17,258,025	-	-	-	-	-	17,258,025	-
Hollow Blocks	1,089,281	-	-	-	-	-	1,089,281	-
Prestress	12,976,809	-	-	-	-	-	12,976,809	-
Construction	17,313,353	-	-	-	-	-	17,313,353	-
Quality Control	89,606	-	-	-	-	-	89,606	-
<b>Sub-total</b>	<b>61,041,327</b>	-	-	-	-	-	<b>61,041,327</b>	-
Other Non-trade Receivables	5,630,333	1,433,631	-	-	-	-	4,196,702	-
<b>Sub-total</b>	<b>66,671,660</b>	<b>1,433,631</b>	-	-	-	-	<b>65,238,029</b>	-
Less: Allowance for Doubtful Accounts	62,165,065	-	-	-	-	-	62,165,065	-
<b>Net Non-trade Receivables</b>	<b>4,506,595</b>	<b>1,433,631</b>	-	-	-	-	<b>3,072,964</b>	-
<b>NET RECEIVABLES</b>	<b>42,423,390</b>	<b>32,920,157</b>	<b>6,430,269</b>	-	-	-	<b>3,072,964</b>	-
<b>COLLECTION PERIOD</b>								
<b>Type of Receivable</b>	<b>Nature / Description</b>	<b>Terms</b>						
Trade Receivable	Angono Aggregates	COD / 30 to 45 Days						
Trade Receivable	Pangasinan Aggregates	COD / 30 to 45 Days						
<b>NORMAL OPERATING CYCLE</b>								
20% Cash Basis								
80% Credit Terms (30 to 45 Days)								

## **Statement of Management's Responsibility**

The Management of Concrete Aggregates Corporation (CAC) is responsible for all information and representations contained in the financial statements for the period ended September 30, 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting, which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor any: (i) significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the internal controls; and (iii) fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

### **CONCRETE AGGREGATES CORP.**

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#### **NOTES TO FINANCIAL STATEMENTS**

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##### **1. Corporate Information and Business Operations**

Concrete Aggregates Corporation (the "Company") was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on August 23, 1968. The Company is listed in the Philippine Stock Exchange and is primarily engaged in quarrying, crushing and selling basalt concrete aggregates. The Company's quarrying operations within its property in Barangay San Isidro, Angono, Rizal is allowed by virtue of Mineral Production Sharing Agreements (MPSAs) and an Environmental Compliance Certificate issued by the government.

The Company's wholly owned subsidiaries, namely, CAC Insurance Agency Corp. (CIAC) and CAC Marketing and Services Corp. (CMSC) are both incorporated in the Philippines and are currently dormant companies.

The Company has a management agreement with its parent company and majority stockholder, Ortigas & Company, Limited Partnership (OCLP).

The registered office address of the Company is Don Mariano Santos Avenue, Barangay San Isidro, Angono, Rizal.

The financial statements of the Company for the year ended December 31, 2006 were authorized for issue in accordance with a resolution of the Board of Directors (BOD) on March 19, 2007.

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## 2. Summary of Significant Accounting and Financial Reporting Policies

### Basis of Preparation

The financial statements have been prepared on the historical cost basis, except for available-for-sale investments that have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional currency, and rounded to the nearest peso except when otherwise indicated.

### Statement of Compliance

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

### **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended PFRS and Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) interpretation during the year. Adoption of these new standards, amendments and interpretation did not have a material effect on the Company's financial statements except for the additional disclosures where required.

- Amendments to Philippine Accounting Standard (PAS) 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, permit an additional option of recognizing actuarial gains and losses in full in the period in which they occur, outside profit or loss, in a statement of recognized income and expenses. This change has no recognition nor measurement impact, as the Company chose not to apply the new option offered to recognize actuarial gains and losses outside of the statement of income. The disclosures required by the above amendments were included in the financial statements, where applicable.
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, provides that all exchange difference arising from a monetary item that forms part of the Company's net investment in a foreign operation are recognized in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated. This amendment has no impact on the financial statements.
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement*

*The Fair Value Option*, revised the fair value option by limiting its use to those financial instruments that meet certain conditions. The conditions that are required to be met under the amendments are: (a) where such designation eliminates or significantly reduces an accounting mismatch, (b) when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management and investment strategy, and (c) when an instrument contains embedded derivative that meets particular conditions. The Company has not previously used this option; hence, the amendments had no effect on the financial statements.

*Hedges of Forecast Intragroup Transactions*, amended PAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Company currently has no such transactions, the amendment did not have an effect on the financial statements.

*Financial Guarantee Contracts*, amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be re-measured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the financial statements.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*, permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of PAS 8, *Accounting Policies, Change in Accounting Estimates and Errors*. Thus, under PFRS 6, an entity may continue to use the accounting policies applied immediately before adopting PFRS 6. This includes continuing to use recognition and measurement practices that are part of those accounting policies. It also requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. It varies from the recognition of impairment of PAS 36, *Impairment of Assets*, but measures the impairment in accordance with that standard once the impairment is identified. Adoption of this standard did not have significant effect on the financial statements since the Company has no exploration and evaluation assets as of September 30, 2007 and December 31, 2006, respectively.
- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides guidance for determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has no impact on the financial statements.
- Philippine Interpretation IFRIC 5, *Rights Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, establishes the accounting treatment for funds established to help finance the decommissioning of assets. This interpretation has no impact on the financial statements.
- Philippine Interpretation IFRIC 6, *Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment*, establishes the recognition date for liabilities arising from the European Union Directive relating to the disposal of waste electrical and electronic equipment. This interpretation has no impact on the financial statements.

## **Summary of Significant Accounting Policies**

### Cash

Cash includes cash on hand and in banks.

### Financial Assets and Financial Liabilities

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial asset at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) investments. Financial liabilities on the other hand, are classified into the following categories: financial liabilities at FVPL, other financial liabilities. The Company determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

### *Financial assets at FVPL*

A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management at FVPL. Derivatives, including separated embedded derivatives, are also categorized as held at FVPL, except those derivatives designated and considered as effective hedging instruments or a financial guarantee contract. Assets classified under this category are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in the consolidated statement of income.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and the performance evaluated on a fair value basis in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

The Company has no financial assets designated as FVPL as of September 30, 2007 and December 31, 2006.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. After initial measurement, loans and receivables are subsequently carried at cost or amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within twelve months of the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included under this category are the Company's receivables.

#### *HTM investments*

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturities wherein the Company has the positive intention and ability to hold to maturity. HTM assets are carried at cost or amortized cost in the balance sheet. Amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process.

Assets under this category are classified as current assets if maturity is within twelve months of the balance sheet date. Otherwise, these are classified as noncurrent assets.

As of September 30, 2007 and December 31, 2006, the Company had no HTM investments.

#### *AFS investments*

AFS investments are non-derivatives that are either designated in this category or not classified in any of the other categories. AFS investments are carried at fair value in the balance sheet, with the unrealized gains or losses on changes in their fair value being recognized directly in equity. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate method. Dividends earned on investments are recognized in the income statement as "Dividends received" when the right of payment has been established.

These financial assets are classified as non-current assets unless there is intention to dispose of such assets within twelve months of the balance sheet date.

As of September 30, 2007 and December 31, 2006, the Company's AFS includes investments in golf shares and investments in shares of stock relative to the Company's electrical and telephone subscription.

#### *Financial Liabilities at FVPL*

Financial liabilities are classified in this category if these results from trading activities or derivative transactions that are not accounted for as accounting hedges, on when the Company elects to designate a financial liability under this category.

The Company has no financial liability designated as at FVPL.

#### *Other financial liabilities*

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

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

As of September 30, 2007 and December 31, 2006, the Company's other financial liabilities include short-term bank loans, trade payables, and accrued expenses and other liabilities.

#### Impairment of Financial Assets

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

#### *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 the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

#### *Assets Carried at Cost*

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such 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.

#### *AFS Investments*

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

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investment 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 the statement of income, is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

#### Derecognition or Removal of Financial Assets and Financial Liabilities

##### *Financial assets*

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial Liability*

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such 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 profit or loss.

### Inventories

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

- |                                |   |
|--------------------------------|---|
| Mine products                  | - determined using the moving average method; cost includes direct labor and a proportion of manufacturing overhead cost based on actual production but excluding borrowing cost. |
| Spare parts, fuel and supplies | - purchased cost using the moving average method.   |

The net realizable value for mine products is the estimated selling price in the normal course of business less the estimated costs of completion and estimated costs necessary to make the sale. The net realizable value for fuel is current replacement cost. The net realizable value for spare parts and supplies is the estimated scrap value.

### 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, except land, are carried at cost less accumulated depreciation and amortization, and any impairment losses. Land is carried at cost less any impairment in value.

Depreciation and amortization of investment properties is computed using the straight-line method over the asset's useful life, regardless of utilization. The estimated useful lives of the assets are as follows:

	Number of Years
Land improvements	10
Building	6 to 10

Investment properties are removed from the accounts (i.e., derecognized) when they have been either disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are credited or charged to current operations.

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 completion 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.

### Property, Plant and Equipment

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

The initial cost of property, plant and equipment consists of their purchase price and any directly attributable costs of bringing the assets to their working condition and location for their intended use and any estimated cost of dismantling and removing the property, plant and equipment item and restoring the site on which it is located to the extent that the Company had recognized the obligation of that cost. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to 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 standards of performance, the expenditures are capitalized as additional costs of the property, plant and equipment. When assets are retired or otherwise disposed of, the cost and the 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.

Amortization of quarry development costs is computed using the units of production method based on estimated recoverable reserves. The units of production method uses an extraction rate per unit which is computed by dividing the quarry development cost by the estimated quantity of recoverable reserves to be extracted. The extraction rate per unit is multiplied by the quantity extracted during the period to obtain the amortization for the period.

Depreciation and amortization of other items of property, plant and equipment is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Number of Years
Buildings and improvements	20
Plant site improvements	3 to 20
Machinery and equipment	3 to 10
Transportation and rolling equipment	3 to 5
Furniture and fixtures	1 to 2
Tools and implements	1 to 2

Depreciation and amortization of other items of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation and amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, and the date the item is derecognized.

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

Construction in progress is stated at cost, which includes the cost of construction, plant and equipment and other direct costs. Construction in progress is not depreciated or amortized until such time as these are completed and become available for use.

#### Impairment of Nonfinancial Assets

The carrying values of property, plant and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment and investment properties is the greater of fair value less cost to sell 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 statement of income.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sales are recognized when the goods are delivered to and accepted by the customer.

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

#### Borrowing Costs

Borrowing costs are expensed as incurred.

#### Retirement Benefits Costs

Retirement 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 immediately, 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. Past service cost, on the other hand, is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested, past service cost is recognized immediately. Gains or losses on the curtailment or settlement of retirement benefits are recognized when the curtailment or settlement occurs.

The defined retirement benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by the past service cost not yet recognized and the fair value of the plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

#### Leases

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

#### Provisions and Contingencies

Provisions are recognized when the Company 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 obligations; and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are not recognized in the financial statements but disclosed 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 the financial statements when an inflow of economic benefits is probable.

#### Foreign Currency Transactions

Transactions in foreign currencies are initially recorded using the functional currency exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are restated using the functional currency closing exchange rate at the balance sheet date. Exchange gains or losses arising from foreign currency transactions and balances are credited or charged to current operations.

## Income Tax

### *Current Income Tax*

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

Deferred income tax assets are recognized for all deductible temporary differences and carry-forward benefits of unused excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) 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 carry forward benefits of unused excess MCIT and NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

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

### Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) 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 or loss 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 potential dilutive common shares, if any.

In determining both the basic and diluted earnings per share, the effect of stocks dividend, if any, is accounted for retroactively.

### Events After the Balance Sheet Date

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

## Future Changes in Accounting Policies

The following are the new accounting standards and interpretations that will become effective subsequent to 2006:

- PFRS 7, *Financial Instruments: Disclosures*, and the complementary amendments to PAS 1, *Presentation of Financial Statements: Capital Disclosures* (effective for annual periods beginning on or after January 1, 2007), introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk liquidity risk and market risk, as well as sensitivity analysis to market risk. The amendments to PAS 1 introduce disclosures about the level of an entity's capital and how it manages capital.
- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine SEC for purposes of issuing any class of instruments in a public market.
- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after March 1, 2006), provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary.
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2* (effective for annual periods beginning on or after May 1, 2006), requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after June 1, 2006), establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006), prohibits the reversal of impairment losses on goodwill and available for sale equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date.
- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*, (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholder(s) of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when the subsidiary's employees receive rights to the equity instruments of the parent.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from entities providing public services.

The Company is currently assessing the impact of the foregoing standards and interpretations on the financial statements. The effects of the adoption of these standards and interpretations, if any, will be included in the financial statements when the Company adopts them when they become effective.

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### 3. Significant Accounting Judgments and Accounting Estimates

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of date of the financial statements. Actual results could differ from these estimates and assumptions used.

#### *Determination of the Company's functional currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the Company's operations.

#### *Classification of financial instruments*

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

#### *Estimation of allowance for doubtful accounts*

Provisions are made for accounts specifically identified to be doubtful of collection. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the other party, the other party's payment behavior and known market factors. Allowance for doubtful accounts amounted to ₱76,021,196 as of September 30, 2007 and December 31, 2006, respectively. The amount of receivables, net of allowance for doubtful accounts, amounted to ₱42,423,390 as of September 30, 2007 and ₱40,534,838 as of December 31, 2006, respectively.

#### *Determination of net realizable values of inventories*

The Company's estimates of the net realizable values of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made at net realizable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in net realizable value because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised net realizable value. Inventories stated at net realizable value amounted to ₱2,933,939 as of December 31, 2006.

#### *Impairment of AFS investments*

The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Company evaluates the financial health of the issuer, among others. In the case of available-for-sale equity instruments, the Company expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the Company's investments. As of September 30, 2007, there is no indication of impairment. The carrying value of the Company's AFS investments amounted to ₱2,846,336 as of September 30, 2007 and December 31, 2006, respectively.

#### *Impairment of nonfinancial assets*

The Company determines whether its assets are impaired, at least on an annual basis. This requires an estimation of recoverable amount which is higher of an asset's or cash-generating unit's fair value less cost to sell and value in use. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose an appropriate discount rate in order to calculate the present value of those cash flows. Estimating the fair value less cost to sell is based on the information available to reflect the amount that the Company could obtain as of the balance sheet date. In determining this amount, the Company considers the outcome of recent transactions for similar assets within the same industry. The total net carrying value of the Company's property, plant and equipment as of September 30, 2007 and December 31, 2006 amounted to ₱193,563,220 and ₱176,199,872, respectively. The total carrying value of the Company's investment properties amounted to ₱79,138,461 in 2007 and ₱78,522,267 in 2006. There is no indication of impairment in 2007.

#### *Estimation of useful lives and residual values of property, plant and equipment and investment properties*

Useful lives of property, plant and equipment and investment properties are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. Any reduction in the estimated useful lives of property, plant and equipment would increase the Company's recorded cost of sales and general and administrative expenses and decrease noncurrent assets.

There is no change in the estimated useful lives and residual values of property, plant and equipment and investment properties as of September 30, 2007 and December 31, 2006.

#### *Estimation of recoverable mine reserves and resources*

Mine reserves and resources are based on the interpretation of geological data obtained from sampling techniques and feasibility studies. Estimated reserves are subject to revision, either upward or downward, based on new information, such as from block grading and production activities or from changes in economic factors including mine development plans. The Company plans to review its estimate of mine reserves and resources every year starting in 2007.

*Estimation of asset retirement obligation*

The determination of asset retirement obligation requires estimation of the cost of dismantling, installation and restoring leased properties to their original condition. Based on the Company's evaluation, management believes that there is no asset retirement liability to be recognized in the financial statements as of September 30, 2007 and December 31, 2006.

*Estimation of allowance for sales volume discrepancies*

The Company recognizes revenue from sale of mine products at the time these are delivered to the customer. Revenue is measured based on the applicable quoted price and delivered quantity of mine products using the Company's weighing scale which may differ from the quantity received and acknowledged by the customers. The Company accordingly estimates an allowance for sales volume discrepancies. As of September 30, 2007, the Company has provided an allowance for sales volume discrepancies of ₱3,072,964.

*Estimation of retirement benefits costs*

The determination of the Company's obligation and cost for retirement benefits is dependent on management's selection of certain assumptions used by actuaries in calculating such amounts. The assumptions for retirement benefits costs include among others, discount rates, expected rate of return on plan assets and rates of salary increase. In accordance with PFRS, actual results that differ from assumptions are accumulated and amortized over future periods and therefore, generally affect the Company's recognized expense and recorded obligation in such future periods. While management believes that the assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in management assumptions may materially affect the Company's retirement obligations.

Net retirement benefits liability amounted to ₱5,665,078 and net retirement plan assets amounted to ₱1,487,693 as of September 30, 2007.

*Recognition of deferred income tax assets*

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. The Company has recognized deferred income tax assets amounting to ₱58.88 million as of September 30, 2007.

*Provisions and contingencies*

The estimate of probable costs of resolution of possible claims has been developed in consultation with external counsels handling the Company's defense in these matters and is based upon an analysis of potential results. The Company is a party to certain lawsuits or claims arising from the ordinary course of business. However, the Company's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material effect on the Company's financial statements. Accordingly, no provision for probable losses arising from contingencies was recognized in the Company's financial statements as of September 30, 2007.

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#### 4. Receivables

	<b>Unaudited Jan to Sep 2007</b>	Audited 2006
Trade - net of allowance for doubtful accounts of ₱13,856,131 in 2007 & 2006, respectively.		
	<i>₱37,916,795</i>	<b>₱37,191,338</b>
Advances to officers and employees - net of allowance for doubtful accounts of ₱1,123,738 in 2007 & 2006, respectively.	<b>1,588,207</b>	1,129,834
Advances to suppliers	<b>874,714</b>	921,470
Receivables of discontinued Engineering and Construction Division - net of allowance for doubtful accounts of ₱61,041,327 in 2007 & 2006, respectively.	-	-
Others	<b>2,043,674</b>	1,292,196
	<b>₱42,423,390</b>	₱40,534,838

Trade receivables are due within 30 to 45 days and do not bear interest.

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#### 5. Inventories

	<b>Unaudited Jan to Sep 2007</b>	Audited 2006
Mine products - at cost	<b>₱22,663,761</b>	₱2,731,828
Spare parts, fuel, and supplies	<b>23,998,313</b>	16,481,953
	<b>₱46,662,075</b>	₱19,213,781

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#### 6. Other Current Assets

The components of the company's other current assets are as follows:

	<b>Unaudited Jan to Sep 2007</b>	Audited 2006
Prepaid insurance	<b>₱555,871</b>	₱596,331
Prepaid taxes & licenses	<b>961,949</b>	-
Prepaid interest expense	-	-
Input tax - spare parts and supplies	<b>321,519</b>	832,772
Input tax - services	<b>2,309,969</b>	4,029,558
Input tax - equipment	<b>2,654,065</b>	723,817
Other current assets	<b>2,595,714</b>	1,139,856
	<b>₱9,399,087</b>	₱7,322,334

7. **Property, Plant and Equipment**

September 30, 2007:

	Land	Quarry Land	Quarry Development Cost	Buildings and Improvement	Plant Site Improvements	Machinery and Equipment	Transportation and Rolling Equipment	Furniture and Fixtures	Tools and Implements	Construction In Progress	Total
(Amounts in thousands)											
Cost											
Beginning of year	₱42,285	₱16,209	₱66,318	₱24,363	₱29,879	₱129,906	₱45,543	₱15,270	₱2,069	-	₱371,842
Additions	-	-	3,151	366	31	11,136	12,983	2,953	144	-	30,764
Disposals/write-offs	-	-	-	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	4,811	5,069	251	-	-	10,131
End of year	42,285	16,209	69,469	24,729	29,910	145,853	63,595	18,474	2,213	-	412,737
Accumulated											
Depreciation and Amortization											
Beginning of year	-	-	3,352	7,562	9,524	122,872	38,024	12,348	1,960	-	195,642
Depreciation and amortization for the year	-	-	1,227	800	3,828	2,813	2,666	2,009	57	-	13,400
Disposals/write-offs	-	-	-	-	-	4,811	5,069	251	-	-	10,131
End of year	-	-	4,579	8,362	13,352	130,496	45,759	14,608	2,017	-	219,173
<b>Net Book Value</b>	<b>₱42,285</b>	<b>₱16,209</b>	<b>₱64,890</b>	<b>₱16,367</b>	<b>₱16,558</b>	<b>₱15,357</b>	<b>₱17,836</b>	<b>₱3,866</b>	<b>₱196</b>	<b>₱-</b>	<b>₱193,564</b>

December 31, 2006:

	Land	Quarry Land	Quarry Development Cost	Buildings and Improvement	Plant Site Improvements	Machinery and Rolling Equipment	Transportation and Rolling Equipment	Furniture and Fixtures	Tools and Implements	Construction in Progress	Total
(Amounts in thousands)											
Cost											
Beginning of year	\$42,285	\$16,209	\$59,757	\$24,363	\$15,913	\$124,054	\$38,855	\$11,201	\$1,956	\$10,931	\$345,524
Additions	-	-	6,561	-	3,035	5,852	7,155	4,069	113	-	26,785
Disposals/write-offs	-	-	-	-	-	-	(467)	-	-	-	(467)
Reclassification	-	-	-	-	10,931	-	-	-	-	(10,931)	-
End of year	42,285	16,209	66,318	24,363	29,879	129,906	45,543	15,270	2,069	-	371,842
Accumulated Depreciation and Amortization											
Beginning of year	-	-	2,425	6,376	4,611	117,327	37,667	10,579	1,940	-	180,925
Depreciation and amortization for the year	-	-	927	1,186	4,913	5,545	824	1,769	20	-	15,184
Disposals/write-offs	-	-	-	-	-	-	(467)	-	-	-	(467)
End of year	-	-	3,352	7,562	9,524	122,872	38,024	12,348	1,960	-	195,642
<b>Net Book Value</b>	<b>\$42,285</b>	<b>\$16,209</b>	<b>\$62,966</b>	<b>\$16,801</b>	<b>\$20,355</b>	<b>\$7,034</b>	<b>\$7,519</b>	<b>\$2,922</b>	<b>\$109</b>	<b>\$-</b>	<b>\$176,200</b>

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**8. Other Noncurrent Assets**

	<b>Unaudited Jan to Sep 2007</b>	Audited 2006
Mine rehabilitation fund	<b>₱5,088,789</b>	₱5,088,789
Prepayments	<b>3,066,824</b>	3,375,571
Available-for-sale investments	<b>2,846,336</b>	2,846,336
Computerization costs	<b>1,186,126</b>	1,100,411
Others - net	<b>3,284,148</b>	4,698,410
	<b>₱15,472,223</b>	₱17,109,517

Pursuant to the requirements of Republic Act (RA) No.7942, otherwise known as "The Philippine Mining Act of 1995," the Company maintains a Mine Rehabilitation Fund (MRF) with Land Bank of the Philippines. The MRF shall be used for the physical and social rehabilitation of areas affected by the Company's quarrying activities, and for research in the social, technical and preventive aspects of the mine rehabilitation.

AFS investments include investment in golf shares and investment in shares of stocks relative to the Company's electrical and telephone subscription.

Other inventories pertain to those of the Company's discontinued Engineering and Construction Division which were fully provided with allowance for probable losses.

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**9. Short-term Bank Loans**

Short-term bank loans consist of short term peso-denominated loans with repricing every 30 days, obtained from a local bank with interest rates from 7.0% to 9.5% in year 2007 and 2006, respectively. The loans are secured by real estate mortgages on certain parcels of land owned by the Company.

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**10. Accrued Expenses and Other Payables**

	<b>Unaudited Jan to Sep 2007</b>	Audited 2006
Accrued expenses	<b>₱56,242,628</b>	₱31,799,355
Output taxes	<b>9,400,173</b>	8,742,816
Due to a stockholder	<b>2,283,348</b>	7,480,181
Others	<b>989,357</b>	7,697,261
	<b>₱68,915,507</b>	₱55,719,613

## 11. Cost of Sales

	Unaudited Jan to Sep 2007	Unaudited Jan to Sep 2006
Production cost:		
Extraction cost	<b>₱68,587,220</b>	₱58,811,622
Repairs and maintenance	<b>21,797,540</b>	20,040,893
Light and power	<b>19,802,834</b>	19,253,029
Salaries and wages	<b>15,839,740</b>	10,498,569
Taxes and licenses	<b>10,211,515</b>	8,715,582
Rentals	<b>9,552,649</b>	5,088,281
Fuel, oil and lubricants	<b>9,313,970</b>	2,494,512
Depreciation and amortization	<b>9,207,686</b>	4,385,058
Security and janitorial services	<b>6,642,189</b>	5,579,207
Amortization of development costs	<b>1,226,064</b>	5,073,794
Insurance	<b>261,634</b>	235,092
Others	<b>3,792,724</b>	2,199,425
	<b>176,235,765</b>	142,375,064
Add mine products inventory at beginning of year	<b>2,731,828</b>	9,528,868
Total goods available for sale	<b>178,967,593</b>	151,903,932
Less mine products inventory ending	<b>1,590,694</b>	6,675,716
Cost of goods manufactured and sold	<b>177,376,899</b>	145,228,216
Cost of trading materials	<b>320,653</b>	-
	<b>₱177,697,552</b>	₱145,228,216

## 12. General and Administrative Expenses

	Unaudited Jan to Sep 2007	Unaudited Jan to Sep 2006
Professional fees	<b>₱13,315,271</b>	₱9,331,553
Salaries, wages and employee benefits	<b>7,767,396</b>	8,214,882
Taxes and licenses	<b>4,825,934</b>	4,441,123
Depreciation	<b>2,511,910</b>	2,869,883
Securities and utilities	<b>1,507,233</b>	1,231,821
Repairs and maintenance	<b>1,092,904</b>	2,854,050
Power, light and water	<b>828,850</b>	419,397
Rent	<b>627,516</b>	312,153
Insurance	<b>554,715</b>	810,458
Entertainment, amusement and recreation	<b>539,714</b>	201,963
Supplies	<b>525,816</b>	686,982
Fuel, oil and lubricants	<b>461,876</b>	419,397
Transportation and communication	<b>208,950</b>	826,366
Others	<b>3,751,398</b>	2,872,825
	<b>₱38,519,483</b>	₱35,492,853

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### 13. Selling Expenses

	<b>Unaudited Jan to Sep 2007</b>	Unaudited Jan to Sep 2006
Rent	<b>₱8,180,414</b>	₱8,169,973
Salaries, wages and other employee benefits	<b>4,217,303</b>	2,907,484
Advertising and promotions	<b>844,197</b>	1,428,329
Entertainment, amusement and recreation	<b>756,320</b>	107,154
Depreciation	<b>544,598</b>	402,083
Fuel, oil and lubricants	<b>386,171</b>	444,329
Supplies	<b>314,186</b>	233,283
Transportation and communication	<b>279,547</b>	1,003,663
Repairs and maintenance	<b>279,338</b>	359,472
Insurance	<b>80,063</b>	68,994
Power, light and water	<b>58,305</b>	20,399
Taxes and licenses	<b>12,982</b>	210,467
Others	<b>444,508</b>	263,323
	<b>₱16,397,932</b>	₱15,618,953

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### 14. Capital Stock

Type of Common Shares	Number of Authorized Shares	Number of Issued and Outstanding Shares	Amount
Class A	40,000,000	22,077,771	₱220,777,710
Class B	10,000,000	5,388,678	53,886,780
	50,000,000	27,466,449	₱274,664,490

In 1973, upon securing the approval of the SEC, the Company's common shares were officially listed and offered to the public through the local stock exchange on April 2, 1973.

Class A and Class B common shares have the same rights and privileges. Class A common shares shall be issued solely to Filipino citizens, while Class B common shares may be issued to Filipino and non-Filipino citizens.

As of September 30, 2007, there are 22,077,771 listed and outstanding Class A common shares of which 5,997,747 are float shares whereas there are 5,388,678 listed and outstanding Class B common shares of which 402,975 are floating shares. The latest closing price for Class A common shares was recorded at ₱13 while Class B common shares have never been traded since their listing date.

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### 15. Income Taxes

On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as RA No. 9337, or the E-VAT Act of 2005, which took effect on November 1, 2005. Among the relevant provisions of RA No. 9337 are:

- i. Change in regular corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting January 1, 2009 and thereafter;
- ii. Change in the non-deductible interest expense rate from 38% to 42% of interest income subjected to final tax for the next three years effective on November 1, 2005, and 33% starting January 1, 2009 and thereafter;
- iii. Input value-added tax (VAT) on capital goods should be spread evenly over the useful life or 60 months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds P=1 million;
- iv. Input VAT credit in every quarter shall not exceed 70% of the output VAT; and,
- v. Increase in the VAT rate imposed on goods and services from 10% to 12% effective January 1, 2006 provided that the VAT collection as a percentage of Philippine Gross Domestic Product of the previous year exceeds 2.8% or the Philippine National Government deficit as a percentage of GDP of the previous year exceeds 1.5%.

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

On November 21, 2006, the President of the Philippines signed into law RA No. 9361 which amends Section 110 (B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax (inclusive of the input VAT carried over from the previous quarter) exceeds the output VAT, the excess input VAT shall be carried over to the succeeding quarter or quarters. The Department of Finance, through the Bureau of Internal Revenue, issued Revenue Regulations No. 2-2007 to implement the provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361 except VAT returns covering taxable quarters ending earlier than December 2006.

The Company recognized deferred income tax assets on the deductible temporary differences and carryforward benefits because management believes that the projects that did not materialize in 2006 will do so in 2007 and, thus, there will be sufficient future taxable income against which the deferred income tax assets will be utilized.

As of December 31, 2006, the NOLCO and excess of MCIT over RCIT are available for deduction against future taxable income and for payment of regular income tax liabilities, respectively, as follows:

Year Incurred	Available Until	NOLCO	MCIT
2004	2007	₱-	₱2,548,278
2005	2008	-	2,105,594
2006	2009	1,238,654	1,747,340
		₱1,238,654	₱6,401,212

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## 16. Related Party Transactions

- a. On January 24, 2006, the Company entered into a management agreement with its majority stockholder, OCLP. Under the terms of the agreement, the Company shall pay OCLP a monthly fee of ₱700,000 from commencement of the agreement up to December 31, 2005, subject to an annual escalation fee of 5% or the average inflation rate for the immediately preceding year, whichever is higher, plus an additional fee of 5% of incremental audited net income after tax, starting on January 1, 2006 with the 2005 audited net income as base year. OCLP waived the Company's payment of management fee for the first two months of the implementation of the contract. Total management fee recognized in 2006 amounted to ₱9.0 million. The outstanding balance due to OCLP amounted to ₱7.5 million as of December 31, 2006.
- b. The Company also leases from OCLP its office and parking spaces in Ortigas Building, Ortigas Avenue, Pasig City. The lease contract is for a period of two years, renewable annually. Total amount of rental and parking charges recognized as expense amounted to ₱676,337 during the nine months period of year 2007. The Company has no outstanding liability related to this contract as of September 30, 2007.
- c. The compensation of key management personnel of the Company amounted to ₱4,712,368 and ₱5,186,187 as of September 30, 2007 and for the year ended December 31, 2006, respectively.
- d. Last October 03, 2007, the Company's stockholders unanimously voted to approve the proposal of OCLP for the latter to purchase the Company's Property located in Longos, Bagumbayan, Quezon City, with an area of approximately 12.47 hectares for the purchase price of P1.13billion payable under the terms agreed upon by the parties.

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## 17. Basic / Diluted Earnings (Loss) Per Share

Basic diluted earnings (loss) per share amounts are calculated as follows:

	<b>Unaudited Jan to Sep 2007</b>	Unaudited Jan to Sep 2006
Net income (loss)	<b>₱19,845,704</b>	₱5,278,701
Divided by weighted average number of common shares outstanding during the year	<b>27,466,449</b>	27,466,449
<b>Basic/diluted earnings (loss) per share</b>	<b>₱0.72</b>	₱0.19

The Company does not have dilutive potential common shares as of September 30, 2007 and December 31, 2006. Therefore, the basic and diluted earnings (loss) per share are the same as of those dates.

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## 18. Retirement Benefits Costs

The Company has a funded, noncontributory, defined benefit plan covering its eligible officers and employees. Actual return on plan assets in 2006 amounted to ₱960,743.

The overall expected return on the plan assets is determined based on the market prices prevailing on the data applicable to the period over which the obligation is settled. There has been no change in the expected rate of return on plan assets.

The latest actuarial valuation of the plan is as of December 31, 2006. Discount rate used was 8.14%. The number of employees as of December 31, 2006 was 82.

The retirement plan calls for annual contributions covering the current service cost for the period plus payment toward funding the actuarial past service liability which has been accrued as of December 31, 2006.

Pursuant to the Management Agreement discussed in Note 16, OCLP was empowered and authorized to undertake the reorganization and restructuring of all the divisions of the Company. In line with this, OCLP initiated a Redundancy Program (the Program) last January 31, 2006. Under the Program, the Company has offered a terminal pay package to affected employees, equivalent to 165% of their monthly pay for every year of service, along with their accrued salaries and benefits. The Company paid ₱16.4 million (of which for ₱10 million was paid from the retirement fund and ₱6.4 was recognized as expense and paid from Company funds) for 75 employees who have left the Company under the Program.

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## 19. Long-term Mine Extraction Contract

In December 13, 2005, the Company entered into a mine extraction contract with Omengan Construction and Development Corporation (OCDC) for the latter to provide drilling, blasting, hauling, and delivery services for the Company's quarrying operations. The contract provides, among others, for the supply of equipment complement to implement the extraction work, loading of aggregates and tailings handling for the Company. In addition, OCDC shall assist the Company in performing community service such as dredging of rivers and waterways, loading of filling materials for donation to various communities, grading of parks and playgrounds, etc., for which the Company shall pay equipment rental to OCDC at the agreed rate per metric ton of materials delivered to the crushers or any designated dumpsite. The term of the contract shall be for a period of five years, to start retroactively from May 5, 2004 and shall end on May 4, 2009.

In connection with the contract, for the first nine months of 2007, total extraction costs amounted to ₱69 million and total rental charges amounted to ₱10 million. These are included as part of cost of sales in the statements of income.

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## 20. Contingencies

The Company is involved in various legal proceedings incidental to its normal business activities. The Company's management and legal counsel are of the opinion that the amount of the ultimate liability with respect to these matters would not have a material adverse effect on the financial position, results of operations or liquidity of the Company. Hence, no provision has been made as of September 30, 2007.

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## 21. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash, AFS investments and short-term bank loans. The main purpose of these financial instruments is to ensure adequate funds for the Company's operations. The Company has other financial assets and financial liabilities such as receivables, trade payables and accrued expenses and other payables, which arise directly from its operations.

Financial risk management by the Company is governed by policies and guidelines approved by the BOD. Company policies and guidelines cover interest rate risk, foreign currency risk, credit 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 Company's results of operations and financial position. The Company actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties principle.

### *Interest rate risk*

The Company's exposure to the risk of changes in market interest rates relates primarily to its bank loans. The Company negotiates for the regular repricing of interest on its short-term bank loans and provides for interest in accordance with the provision of the respective loan agreements to minimize interest rate risk exposure.

### *Foreign currency risk*

The Company's transactional currency exposure arises from sales and purchases in currencies other than its functional currency. However, the Company's exposure to currency risk is minimal since most of its sales and purchases are in its functional currency.

### *Credit risk*

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers that wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on a continuous basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Company, which comprise mainly of cash, the Company's exposure to credit risk arises from the default of the counterparties, with a maximum exposure equal to the carryings values of these instruments.

### *Liquidity risk*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of short-term bank loans. The Company's addresses liquidity concerns primarily through cash flows from operations and short-term borrowings.

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## 22. Fair Values of Financial Assets and Financial Liabilities

The carrying amounts of receivables, short-term bank loans, trade payables and accrued expenses and other payables, approximate their fair values due to the relatively short-term maturities of these financial instruments.

The fair values of the AFS investments are the quoted market bid price at the close of business. AFS investments with no available market prices are carried at cost (less allowance for impairment), which approximate their fair market values due to the unpredictable nature of future cash flows and lack of suitable methods of arriving at reliable fair value.

The carrying values and estimated fair values of the Company's financial assets and liabilities as of September 30, 2007 and December 31, 2006 are presented below:

	Unaudited January to September 2007		Audited December 2006	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets:				
Cash	<b>₱19,198,069</b>	<b>₱19,198,069</b>	₱16,358,873	₱16,358,873
Receivables	<b>42,423,390</b>	<b>42,423,390</b>	40,534,838	40,534,838
Available-for-sale investments	<b>2,846,336</b>	<b>2,846,336</b>	2,846,336	2,846,336
Financial liabilities:				
Short-term bank loans	<b>150,000,000</b>	<b>150,000,000</b>	117,000,000	117,000,000
Trade payables	<b>13,283,105</b>	<b>13,283,105</b>	28,729,661	28,729,661
Accrued expenses and other payables	<b>68,915,507</b>	<b>68,915,507</b>	55,719,613	55,719,613

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## 23. Segment Information

The Company processes and sells only one product line. Its operating business is neither organized nor managed by geographical segment.

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## 24. Restatements

In 2006, management made the following changes in its 2005 and 2004 financial statements:

- The change in the method of amortizing quarry development costs to mine reserves from the overall stripping ratio method to units of production method increased the amount of capitalized development costs (included as part of property, plant and equipment) as of December 31, 2005 by ₱43,178,657 and correspondingly decreased deficit as of December 31, 2004 and 2003 by ₱18,696,776 and ₱4,699,164, respectively. Also, cost of sales decreased by ₱24,481,881 and ₱13,997,612 for the years ended December 31, 2005 and 2004, respectively.

- b. Further, the new management completed its detailed review of accounts and determined the need for other restatements. These prior period adjustments increased (decreased) deficit by ₱6,763,406, ₱2,371,397, (₱6,330,797) as of December 31, 2005, 2004, and 2003, respectively. In 2005, the adjustments increased the provision for doubtful accounts by ₱9,875,970; increased retirement expense by ₱386,020, and decreased income coming from other income and expense accounts by ₱2,080,826. In 2004, the adjustments resulted from the write-off of advances to employees of ₱5,060,553 and the net increase in income coming from other income and expenses accounts by ₱1,933,199. Also, provision for deferred income tax decreased by ₱3,789,155 2005 in 2005 and increased by ₱1,708,442, in 2004.
- c. Hauling income (net of related hauling expenses) amounting to ₱2,050,819 in 2005 and ₱2,191,379 in 2004 have been reclassified as other income. Previously, the gross hauling revenue (₱24,249,910 in 2005 and ₱64,504,116 in 2004) and hauling charges (₱22,199,091 in 2005 and ₱62,312,737 in 2004) amounts were presented as part of sales and cost of sales, respectively. The reclassification was made since this type of income is not being earned on a regular basis as the aggregates are sold. The Company does not earn this income should the customers decide to pick up the aggregates from the plant by themselves.

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## 25. Key Performance Indicators

The Company has identified the following Key Performance Indicators affecting its operation:

Measures	2007	2006	Highlights
<b>Current Ratio: Current Assets ÷ Current Liabilities</b>	<b>0.51</b>	<b>0.41</b>	<b>This was due to the increase in cash, receivables, inventories and other current assets which contributed to higher income in 2007 versus 2006.</b>
<b>Debt / Equity Ratio: Total Liabilities ÷ Total Stockholders' Equity</b>	<b>1.05</b>	<b>1.00</b>	<b>This was due to the increase in loan balances in payment for capital expenditures needed to improve production requirements.</b>
<b>Gross Profit Rate: Gross Margin ÷ Sales</b>	<b>31%</b>	<b>36%</b>	<b>This was due to the increases in sales loading and product handling rates per unit as well as the decline in export sales.</b>

<b>Operating Profit Rate: Operating Profit ÷ Sales</b>	<b>12%</b>	<b>14%</b>	<b>This was due to the slow down in export sales during the first nine months of the year.</b>
<b>Net Income Rate: Net Income ÷ Sales</b>	<b>8%</b>	<b>2%</b>	<b>This was due to the improvement in sales volume coupled with effective management of operating expenses.</b>
<b>Return on Assets: Net Income ÷ Total Assets</b>	<b>4%</b>	<b>1%</b>	<b>The ₱19.85 million net income posted in the first three quarters of 2007 is a favorable increase compared to 2006 and was due to the increase in sales volume on local sales.</b>
<b>Return on Equity: Net Income ÷ Total Stockholder's Equity</b>	<b>9%</b>	<b>3%</b>	<b>The higher net income posted in 2007 as opposed to the first nine months of 2006 resulted in a favorable increase and was due to the increase in sales volume on local sales.</b>

**"ANNEX 68.1-K"  
Balance Sheet**

**Trade and Other Payables**

**(iv) Accrued Expenses**

The components of the company's Accrued Expenses are as follows:

	<b>Unaudited January to September 2007</b>	Audited December 2006
Accrued Extraction and other production cost	<b>₱51,600,548</b>	₱27,806,815
Accrued Taxes and licenses	<b>3,381,518</b>	1,982,314
Accrued Payroll	<b>1,260,562</b>	2,010,227
<b>Total</b>	<b>₱56,242,628</b>	₱31,799,355

**"ANNEX 68.1-L"  
Income Statement**

**Sales**

<b>Aggregates</b>	<b>Unaudited January to September 2007</b>		<b>Unaudited January to September 2006</b>	
	<b>Volume</b>	<b>Amount</b>	Volume	Amount
Gravel 1/2 (G-1)	<b>119,791</b>	<b>₱27,036,929</b>	107,563	₱25,283,380
Gravel 2-1/2 (G-2)	<b>465</b>	<b>269,935</b>	-	-
Gravel 3/4	<b>373,603</b>	<b>124,618,836</b>	367,888	125,134,529
Gravel 3/8	<b>154,077</b>	<b>41,751,766</b>	102,928	27,814,577
Course sand (S-1)	<b>133,025</b>	<b>34,928,641</b>	175,962	40,655,281
Course sand (S-2)	<b>7,103</b>	<b>3,703,832</b>	409	293,894
Base course – A	<b>72,430</b>	<b>16,559,057</b>	32,106	7,122,126
Sub-base course	<b>694</b>	<b>161,096</b>	426	90,073
Cement-treated base course	<b>18,704</b>	<b>4,344,998</b>	-	-
Blue Sand Vibro	<b>118</b>	<b>235,746</b>	-	-
Other materials	<b>14,980</b>	<b>2,211,382</b>	11,981	1,369,261
Trading materials	<b>2,562</b>	<b>743,635</b>	-	-
<b>Total</b>	<b>897,552</b>	<b>₱256,565,853</b>	799,263	₱227,763,121

**"ANNEX 68.1-M"  
SCHEDULES**

**Schedule B**

**Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)**

	<b>Unaudited January to September 2007</b>	Audited December 2006
Advances to Officers and Employees		
Indebtedness exceeding ₱100,000.00		
Armendi, Arlinda	<b>₱121,665</b>	₱115,698
Galang, Corazon	<b>116,765</b>	116,765
Macaspac, Antonio	<b>234,846</b>	-
Montoya, Romeo	<b>169,745</b>	169,745
Viscayno, Cyril	<b>212,331</b>	248,909
Oliva, Doremadonte	<b>210,425</b>	-
Others	<b>1,646,468</b>	1,602,455
Allowance for doubtful accounts	<b>(1,123,738)</b>	(1,123,738)
Total Receivable from Officers, Employees and Related Parties	<b>₱1,588,207</b>	₱1,129,834

**Schedule C**

**Non-Marketable Equity Securities, Other Long Term Investments in Stocks, and Other Investments**

This account consists of investments in shares of stocks of wholly owned subsidiaries accounted for under equity method. However, since these investments remained non-performing since 1999, these were reclassified to other non-current assets in year 2006.

The details of this account are summarized as follows:

**Investment in Stocks reclassified to Other Non-Current Assets:**

	<b>Unaudited January to September 2007</b>	Audited December 2006
CAC Insurance Agency Corporation	<b>₱161,237</b>	₱161,237
CAC Marketing and Services Corporation	<b>1,470,348</b>	1,470,348
TOTAL	<b>₱1,631,585</b>	₱1,631,585

### **Investment Property**

A reconciliation of the carrying amounts of investment property at the beginning and end of the year is shown below:

#### **For the Nine-Month Period Ended September 30, 2007 (Unaudited)**

	Land	Land improvements	Building	Total
Acquisition Cost:				
Beginning Balance	<i>₱68,805,991</i>	<i>₱15,202,640</i>	<b>22,442,531</b>	<b>106,451,162</b>
Additions	<b>2,744,036</b>	-	-	<b>2,744,036</b>
Ending Balance	<i>71,550,027</i>	<i>15,202,640</i>	<b>22,442,531</b>	<b>109,195,198</b>
Accumulated Depreciation:				
Beginning Balance	-	<b>10,422,832</b>	<b>17,506,063</b>	<b>27,928,895</b>
Provisions for the nine months of the year	-	<b>1,071,169</b>	<b>1,056,674</b>	<b>2,127,843</b>
Ending Balance	-	<b>11,494,001</b>	<b>18,562,737</b>	<b>30,056,738</b>
Carrying Amount:				
Beginning Balance	<b>₱68,805,991</b>	<b>₱4,779,808</b>	<b>₱4,936,468</b>	<b>₱78,522,267</b>
Ending Balance	<b>₱71,550,027</b>	<b>₱3,708,639</b>	<b>₱3,879,794</b>	<b>₱79,138,460</b>

#### **For the Year Ended December 31, 2006 (Audited)**

	Land	Land improvements	Building	Total
Acquisition Cost:				
Beginning Balance	<b>₱68,805,991</b>	<b>₱15,202,640</b>	22,442,531	106,451,162
Additions			-	
Ending Balance	<b>68,805,991</b>	<b>15,202,640</b>	22,442,531	106,451,162
Accumulated Depreciation:				
Beginning Balance	-	9,038,480	16,079,819	25,118,299
Provisions for the year	-	1,384,352	1,426,244	2,810,596
Ending Balance	-	10,422,832	17,506,063	27,928,895
Carrying Amount:				
Beginning Balance	₱68,805,991	₱6,164,160	₱6,362,712	₱81,332,863
Ending Balance	₱68,805,991	₱4,779,808	₱4,936,468	₱78,522,267

In 2004, the company sold a parcel of land located in Cebu with a cost of ₱3,217,376 for ₱25,736,276, net of selling expenses, and resulted to a gain of ₱22,518,900. Certain parcels of land with carrying value of ₱1,363,178 as of December 31, 2006 are mortgaged as collateral to secure the company's bank loans.

## **Schedule D**

### **Indebtedness of Unconsolidated Subsidiaries and Related Parties**

Wholly owned subsidiaries and related parties had no indebtedness to the company as of September 30, 2007 and December 31, 2006, respectively.

## **Schedule G**

### **Indebtedness to Related Parties**

	<b>Unaudited January to June 2007</b>	Audited December 2006
Due to OCLP	<b>₱43,500</b>	₱7,480,181
Due to CAC Marketing and Services Corporation	<b>3,047,069</b>	3,297,069
Due to (from) CAC Insurance	<b>(807,221)</b>	192,779
Total Indebtedness to Related Parties	<b>₱2,283,348</b>	₱10,970,029

## **Schedule I**

### **Capital Stock**

The details of authorized and paid-up capital stock are as follows:

Type of Common Shares	Number of Authorized Shares	Number of Issued and Outstanding Shares	Amount
Class A	40,000,000	22,077,771	₱220,777,710
Class B	10,000,000	5,388,678	53,886,780
	50,000,000	27,466,449	₱274,664,490

Class "A" and Class "B" common shares have the same rights and privileges. Class "A" common shares shall be issued solely to Filipino citizens, while Class "B" common shares may be issued to Filipino and non-Filipino citizens.

## **Other Required Disclosures**

### **Related Party Transactions**

	<b>Unaudited January to September 2007</b>	Audited December 2006
Due from CAC Insurance	-	-
Due to OCLP	<b>₱43,500</b>	₱7,480,181
Due to CAC Marketing and Services Corporation	<b>3,047,069</b>	3,297,069
Due to CAC Insurance	<b>(807,221)</b>	192,779

- a. In January 24, 2006, the Company entered into a management agreement with its majority stockholder, OCLP. Under the terms of the agreement, the Company shall pay OCLP a monthly fee of ₱700,000 from commencement of the agreement up to December 31, 2005, subject to an annual escalation fee of 5% or the average inflation rate for the immediately preceding year, whichever is higher, plus an additional fee of 5% of incremental audited net income after tax, starting on January 1, 2006 with the 2005 audited net income as base year. OCLP waived the Company's payment of management fee for the first two months of the implementation of the contract. Total management fee recognized during the nine months period of year 2007 amounted to ₱7 million. The outstanding balance due to OCLP amounted to ₱1.19 million and ₱7.48 million as of September 30, 2007 and December 31, 2006, respectively.
- b. The Company also leases from OCLP its office and a parking space in Ortigas Building, Ortigas Avenue, Pasig City. The lease contract is for a period of two years, renewable annually. Total amount of rental and parking charges recognized as expense amounted to ₱676,337 during the nine months period of year 2007. The Company has no outstanding liability related to this contract as of September 30, 2007.