

# COVER SHEET



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SEC Registration Number

T . I . M . C O R P O R A T I O N A N D S U B S I D I A R I  
E S

(Company's Full Name)

5 6 0 0 S o u t h S u p e r h i g h w a y , M a k a t i C  
i t y

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

Ms. Verna O. Cruz

(Contact Person)

831-8796

(Company Telephone Number)

1 2 3 1

Month Day  
(Fiscal Year)

A A C F S

(Form Type)

Month Day

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Domestic

Foreign

Total Amount of Borrowings

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

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## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
T.I.M. Corporation  
5600 South Super Highway  
Makati City

We have audited the accompanying financial statements of T.I.M. Corporation and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated statements of income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

We did not audit the financial statements of Automated Technologies, Inc., Asia Pacific Technology Integrators Corporation, Innovative Storage Corporation, QNX Corporation and Versaprint, Inc., which statements reflect total assets and total revenues of 10% and 6% in 2007 and 8% and 7% in 2006, respectively, of the related consolidated totals. The financial statements of those companies were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

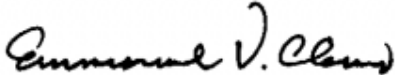
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



**Opinion**

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of T.I.M. Corporation and Subsidiaries as of December 31, 2007 and 2006, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Emmanuel V. Clarino

Partner

CPA Certificate No. 27455

SEC Accreditation No. 0071-AR-1

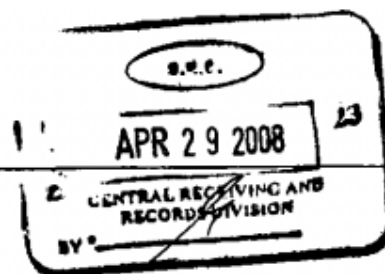
Tax Identification No. 102-084-004

PTR No. 0017585, January 3, 2008, Makati City

April 2, 2008



**T.I.M. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**



	December 31	
	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 6 and 26)	P79,969,408	P78,556,037
Trading securities at fair value (Notes 7 and 26)	2,717,275	2,183,430
Receivables - net (Notes 8, 17 and 26)	338,290,022	383,522,564
Inventories - at cost	6,223,836	5,278,802
Prepaid expenses and other current assets (Note 9)	76,265,017	41,065,813
Total Current Assets	503,465,558	510,606,646
<b>Noncurrent Assets</b>		
Available-for-sale financial assets (Notes 10 and 26)	56,705,000	36,755,000
Investment property (Note 11)	35,000,000	21,000,000
Property and equipment:		
At cost - net (Note 12)	107,232,500	86,904,956
At revalued amounts - net (Note 13)	10,969,000	11,907,000
Deferred tax assets (Note 24)	13,387,068	10,045,611
Other noncurrent assets (Note 14)	6,447,261	3,190,606
Total Noncurrent Assets	229,740,829	169,803,173
	P733,206,387	P680,409,819
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 15 and 26)	P89,794,975	P63,969,425
Advances from officers and customers (Note 26)	-	11,659,774
Total Current Liabilities	89,794,975	75,629,199
<b>Noncurrent Liabilities</b>		
Pension benefit obligation (Note 22)	21,328,560	16,555,549
Deferred tax liability (Note 24)	2,825,641	3,153,941
Total Noncurrent Liabilities	24,154,201	19,709,490
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock	400,000,000	400,000,000
Revaluation increment in property (Note 16)	5,247,611	5,857,311
Unrealized loss on decline in value of available-for-sale financial assets	(6,777,275)	(27,002,275)
Retained earnings (Note 16)	206,656,742	194,136,689
	605,127,078	572,991,725
<b>Minority Interest</b>		
	14,130,133	12,079,405
Net Equity	619,257,211	585,071,130
	P733,206,387	P680,409,819

See accompanying Notes to Consolidated Financial Statements.



**T.I.M. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31	
	2007	2006
<b>REVENUE</b>		
Net sales	P319,617,818	P198,354,478
Maintenance services	260,292,467	122,279,646
Business recovery services	51,702,569	46,860,035
Rental	2,933,279	2,242,716
	<b>634,546,133</b>	<b>369,736,875</b>
<b>COSTS OF SALES AND SERVICES</b>		
Cost of sales (Note 18)	326,903,909	160,022,785
Cost of services (Notes 12,13,19 and 23)	164,929,472	93,946,707
	<b>491,833,381</b>	<b>253,969,492</b>
<b>GROSS PROFIT</b>	<b>142,712,752</b>	<b>115,767,383</b>
Operating expenses (Notes 12, 13, 17, 20, 22 and 23)	(144,925,551)	(116,328,860)
Other income - net (Notes 7 and 21)	15,075,100	7,808,043
Interest income (Notes 8 and 17)	7,776,763	12,671,091
Interest expense	(26,978)	-
<b>INCOME BEFORE INCOME TAX</b>	<b>20,612,086</b>	<b>19,917,657</b>
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 24)</b>		
Current	10,320,762	7,547,143
Deferred	(3,669,757)	(1,885,537)
	<b>6,651,005</b>	<b>5,661,606</b>
<b>NET INCOME</b>	<b>P13,961,081</b>	<b>P14,256,051</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the parent	P11,910,353	P14,426,646
Minority interest	2,050,728	(170,595)
	<b>P13,961,081</b>	<b>P14,256,051</b>

*See accompanying Notes to Consolidated Financial Statements.*



**T.I.M. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Attributable to Equity Holders of the Parent				Minority Interest	Total Equity
	Common Stock	Revaluation Increment in Property Available-for-sale in Financial Assets (Note 16)	Unrealized Loss on Decline in Value of Available-for-sale Financial Assets	Retained Earnings (Note 16)		Total
<b>Balance at January 1, 2007</b>	P400,000,000	P5,857,311	(P27,002,275)	P194,136,689		P572,991,725
Depreciation on revaluation increment transferred to retained earnings	-	(938,000)	-	938,000		-
Benefit from deferred income tax on items directly recognized in equity	-	328,300	-	(328,300)		-
Net gains on available-for-sale financial assets	-	-	20,225,000	-		20,225,000
<b>Total income (expense) for the year recognized directly in equity</b>	-	(609,700)	20,225,000	609,700		20,225,000
<b>Net income</b>	-	-	-	11,910,353		11,910,353
<b>Total income (expense) for the year</b>	-	(609,700)	20,225,000	12,520,053		32,135,353
<b>Balance at December 31, 2007</b>	P400,000,000	P5,247,611	(P6,777,275)	P206,656,742		P605,127,078
					P14,130,133	P619,257,211
<b>Balance at January 1, 2006</b>	P400,000,000	P6,467,011	(P29,798,251)	P179,100,343		P555,769,103
Depreciation on revaluation increment transferred to retained earnings	-	(938,000)	-	938,000		-
Benefit from deferred income tax on items directly recognized in equity	-	328,300	-	(328,300)		-
Net gains on available-for-sale financial assets	-	-	2,795,976	-		2,795,976
<b>Total income (expense) for the year recognized directly in equity</b>	-	(609,700)	2,795,976	609,700		2,795,976
<b>Net income</b>	-	-	-	14,426,646		14,426,646
<b>Total income (expense) for the year</b>	-	(609,700)	2,795,976	15,036,346		17,222,622
<b>Acquisition of investment during the year</b>	-	-	-	-		-
<b>Balance at December 31, 2006</b>	P400,000,000	P5,857,311	(P27,002,275)	P194,136,689		P572,991,725
					P12,079,405	P585,071,130

See accompanying Notes to Consolidated Financial Statements.



**T.I.M. CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	P20,612,086	P19,917,657
Adjustments for:		
Depreciation and amortization (Notes 12 and 13)	30,360,165	37,211,095
Changes in fair value of:		
Investment property (Note 11)	(14,000,000)	2,000,000
Trading securities at fair value (Note 7)	(533,845)	(613,975)
Interest income (Notes 8 and 17)	(7,776,763)	(12,671,091)
Loss on sale of available-for-sale financial assets	185,000	-
Dividend income (Note 21)	(128,300)	(84,797)
Unrealized foreign exchange loss (gain)	68,432	(347,049)
Interest expense	26,978	-
Gain on sale of:		
Property and equipment	(15,962)	(415,723)
Trading securities at fair value (Notes 7 and 21)	-	(8,646,650)
Operating income before working capital changes	28,797,791	36,349,467
Decrease (increase) in:		
Receivables	52,198,213	(55,132,805)
Prepaid expenses and other current assets	(35,199,204)	(4,331,332)
Inventories	(945,034)	(536,288)
Increase in:		
Accounts payable and other current liabilities	25,823,266	1,740,729
Pension benefit obligation (Note 22)	4,773,011	2,994,394
Net cash generated from (used in) operations	75,448,043	(18,915,835)
Income tax paid	(10,318,478)	(6,105,286)
Net cash provided by (used in) operating activities	65,129,565	(24,569,957)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment (Note 12)	(49,749,965)	(19,187,188)
Decrease (increase) in other noncurrent assets	(3,256,655)	40,847
Interest received	742,660	997,920
Dividend received	128,300	84,797
Proceeds from sale of:		
AFS financial assets	90,000	-
Property and equipment	16,218	415,752
Trading securities at fair value (Note 7)	-	44,886,970
Net cash provided by (used in) investing activities	(52,029,442)	27,239,098
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in advances from officers and customers	(11,659,774)	(30,500)
Interest paid	(26,978)	-
Proceeds from issuance of capital stock of subsidiary	-	12,250,000
Net cash provided by (used in) financing activities	(11,686,752)	12,219,500
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,413,371</b>	<b>14,888,641</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>78,556,037</b>	<b>63,667,396</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>P79,969,408</b>	<b>P78,556,037</b>

*See accompanying Notes to Consolidated Financial Statements.*



## **T.I.M. CORPORATION AND SUBSIDIARIES**

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

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#### **1. Corporate Information**

T.I.M. Corporation (Parent Company) and its subsidiaries (collectively referred to as the "Company") are incorporated in the Philippines. The Parent Company, Automated Technologies, Inc. (ATI) and Asia Pacific Technology Integrators Corporation (APTIC) are engaged in the selling of computer hardware, software and peripherals, and providing maintenance services, system integration, outsourcing and business recovery services. The registered office address of the Parent Company is 5600 South Superhighway, Makati City.

The following are the Parent Company's subsidiaries:

	Percentage of Ownership	
	2007	2006
ATI	100	100
APTIC	100	100
Innovative Storage Corporation (ISC)*	100	100
QNX Corporation (QNXC)*	100	100
Versaprint, Inc.	51	51

\* In the process of liquidation as of December 31, 2007.

In January 2006, the Parent Company invested in shares of stock of Versaprint, Inc. for ₱12.8 million representing 51% ownership. Versaprint, Inc. is incorporated in the Philippines and is primarily engaged in providing printing services, file preparation for printing, customer database development management and associated computer services such as supply of software.

The accompanying consolidated financial statements as of December 31, 2007 were authorized for issue by the Board of Directors (BOD) on April 2, 2008.

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#### **2. Basis of Preparation, Statement of Compliance and Basis of Consolidation**

##### Basis of Preparation

The accompanying consolidated financial statements of the Company have been prepared on a historical cost basis, except for land and building and improvements, trading securities and available-for-sale (AFS) financial assets, which have been measured at fair values. The consolidated financial statements are presented in Philippine peso, which is the Company's functional currency. All amounts are rounded off to the nearest Philippine peso unit except when otherwise indicated.

##### Statement of Compliance

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



### Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets and liabilities, are eliminated in full.

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

Minority interest represents the portion of profit or loss and the net assets of Versaprint, Inc. not held by the Company and are presented separately in the consolidated statement of income and within equity in the consolidated statement of changes in equity.

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## **3. Summary of Significant Changes in Accounting Policies and Disclosures**

### **3.1 Changes in Accounting Policies**

The Company adopted the following amended and new PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) during the year. Adoption of these amended and new standards and interpretations did not have any effect on the financial performance or position of the Company:

- The Amendment to Philippine Accounting Standards (PAS) 1, “Presentation of Financial Statements: Capital Disclosures” — This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company’s objectives, policies and processes for managing capital (see Note 25).
- PFRS 7, “Financial Instruments - Disclosures” — This standard requires 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. It replaces PAS 32, “Financial Instruments: Disclosure and Presentation.”

The Company adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Company does not need to present comparative information for the disclosures required by paragraphs 31–42 of PFRS 7, unless the disclosure was previously required under PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the consolidated financial statements.



- Philippine Interpretation IFRIC 7, “Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies” — This interpretation requires that when a country becomes hyperinflationary, PAS 29 must be applied as if the country had always been hyperinflationary and it provides guidance on calculating deferred taxes and comparatives.
- Philippine Interpretation IFRIC 8, “Scope of PFRS 2” — This interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value.
- Philippine Interpretation IFRIC 9, “Reassessment of Embedded Derivatives” — This interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- Philippine Interpretation IFRIC 10, “Interim Financial Reporting and Impairment” — This interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

### 3.2 Future Changes in Accounting Policies

The Company did not early adopt the following revised, amended and new standards, and interpretations which have been approved but are not yet effective:

- Revised PAS 1, “Presentation of Financial Statements” — This will become effective for annual periods beginning on or after January 1, 2009. PAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Companies will need to consider whether to present the statement of comprehensive income as a single statement or two statements. This may also impact the information disclosed in the other announcements by the Company, such as press releases.
- The Amendment to PAS 23, “Borrowing Costs” — This standard was issued in March 2007 and will become effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
- PFRS 8, “Operating Segments” — This will be effective January 1, 2009 and will replace PAS 14, “Segment Reporting,” and adopts a management approach to reporting segment information. PFRS 8 is required for adoption only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine Securities and Exchange Commission for purposes of issuing any class of instruments in a public market.



- Philippine Interpretation IFRIC 11, “PFRS 2 - Group and Treasury Share Transactions” — This interpretation will be effective March 1, 2007. This 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 stockholder(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 their employees receive rights to the equity instruments of the parent.
- Philippine Interpretation IFRIC 12, “Service Concession Arrangements” — This interpretation will become effective January 1, 2008. This interpretation covers contractual arrangements arising from entities providing public services.
- Philippine Interpretation IFRIC 13, “Customer Loyalty Programmes” — This interpretation will become effective for annual periods beginning on or after July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transactions in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.
- Philippine Interpretation IFRIC 14, “PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” — This interpretation was issued on July 2007 and will become effective for annual periods beginning on or after January 1, 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, “Employee Benefits.”

The Company expects that these future changes will have no impact on the financial position or performance of the Company.

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

##### Cash and Cash Equivalents

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

##### Financial Instruments

*Initial Recognition and Fair Value Measurement.* Financial instruments are recognized in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.



Financial instruments are recognized initially at the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, AFS financial assets, and loans and receivables. The Company classifies its financial liabilities into the following categories: financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. Management determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques and comparison to similar instruments for which market observable prices exist. Any difference noted between the fair value and the transaction price is treated as expense or income, unless it qualifies for recognition as some type of asset or liability.

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" profit amount.

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

Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Where a contract contains one or more embedded derivatives, the hybrid contract may be designated as a financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.



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 and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

This category consists of listed securities which are traded in the Philippine Stock Exchange (PSE).

*AFS Financial Assets.* AFS financial assets are nonderivatives that are either designated in this category or not classified in any of the other categories. AFS financial assets are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are accounted for in equity until the financial asset is derecognized or until the financial asset is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income. These financial assets are classified as noncurrent assets unless there is intention to dispose such assets within 12 months from the balance sheet date.

This category consists of golf and club shares.

*Loans and Receivables.* Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in the consolidated 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 12 months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

This category includes the Company's cash and cash equivalents and receivables.

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or noninterest bearing loans and borrowings.

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

This category includes accounts payables and other current liabilities and advances from subsidiaries.



### Impairment of Financial Assets

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

*Assets Carried at Amortized Cost.* If there is an objective evidence that an impairment loss on assets 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 expected 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 is reduced through the use of an allowance account. The amount of the loss shall be recognized in the consolidated 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 no longer 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 loss was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

In relation to trade receivables, a provision for impairment is made when there is an objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired trade receivables are derecognized when they are assessed as uncollectible.

*Assets Carried at Cost.* If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the 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 Financial Assets.* In case of quoted equity investments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the consolidated statement of changes in equity and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in the consolidated statement of changes in equity.



### Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- 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.

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

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

### Inventories

Inventories are valued at the lower of cost and net realizable value. The costs of materials and merchandise inventories are determined using the specific identification method. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### Investment Property

Investment property is 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 property is stated at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from the changes in the fair value of investment property are included in the consolidated statement of income in the year in which they arise.

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



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

#### Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Land and building and improvements are measured at fair value less depreciation on building and improvements and any impairment charged subsequent to the date of the revaluation. Depreciation is calculated on a straight-line basis over the useful lives of the assets.

Following initial recognition at cost, land and building and improvements are carried at revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on building and improvements and any accumulated impairment losses.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the "Revaluation increment in property" included in the equity section of the consolidated balance sheets, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is recognized in the consolidated statement of income. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

The assets' residual values, useful lives and method of depreciation and amortization are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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



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

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that investment property and property and equipment may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each 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. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Revenue

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

*Sale of Goods.* Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

*Rendering of Services.* Revenue from maintenance and business recovery services is recognized as the services are rendered.

*Rental.* Revenue is accounted for on a straight-line basis over the lease term.

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



### Pension Benefits

The Company has an unfunded, defined benefit pension plan determined using the projected unit credit actuarial valuation method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

Retirement expense includes current service cost, interest cost, expected return on plan assets, amortization of unrecognized past service costs, recognition of actuarial gains (losses) and effect of any curtailments or settlements. Past service cost is amortized over a period until the benefits become vested. The portion of the actuarial gains and losses is recognized when it exceeds the corridor (10% of the greater of the present value of obligation and market related value of the plan assets) at the previous reporting date, divided by the expected average remaining working lives of active plan members.

The amount recognized as defined benefit obligation is the net of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains not recognized minus past service cost not recognized.

### Income Taxes

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

*Deferred Tax.* Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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

#### Operating Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangements and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Company as a Lessee.* Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

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

#### Provisions

Provisions, if any, 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 obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.



### Contingencies

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

### Foreign Currency Transactions

The functional and presentation currency of the Company is Philippine peso under PFRS. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the balance sheet date. Foreign exchange gains and losses are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as of the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

### Events after Balance Sheet Date

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

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## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosures of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result on outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

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

- Legal Contingencies

The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. There was no provision for contingencies made in 2007 and 2006.

- Functional Currency

The Company determined its functional currency to be the Philippine Peso. The determination of functional currency was based on the primary economic environment in which the Company generates and expends cash.



- **Operating Leases**

The Company has entered into commercial property leases related to its office spaces. The Company has determined that it does not retain the significant risks and rewards of ownership of these properties which are being leased by the Company under operating lease arrangements.

- **Revenue Recognition**

Management considered the detailed criteria for the recognition of revenue from the sale of goods set out in PAS 18, "Revenue," and in particular, whether the Company had transferred to the buyer the significant risks and rewards of ownership of the goods.

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

- **Allowance for Doubtful Accounts**

The Company assesses whether objective evidence of impairment exist for receivables that are individually significant, and collectively for receivables that are not individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

The carrying value of receivables amounted to ₱338.3 million and ₱383.5 million as of December 31, 2007 and 2006, respectively (see Note 8). There were no provision for doubtful accounts in 2007 and 2006.

- **Impairment of Financial and Nonfinancial Assets**

PAS 36, "Impairment of Assets," requires that an impairment review be performed when certain impairment indicators are present. Determining the value in use of property and equipment and investment property requires the determination of future cash flows expected to be generated from such assets.

PAS 39, "Financial Instruments: Recognition and Measurement," requires the Company to assess at each balance sheet date whether a financial asset or group of financial assets is impaired. Determining the value for AFS financial assets requires the determination of the quoted price.

These require the Company to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting additional impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

The carrying value of investment property and property and equipment are disclosed in Notes 11, 12 and 13, respectively.



AFS financial assets amounted to ₱56.7 million and ₱36.8 million as of December 31, 2007 and 2006, respectively (see Note 10).

- **Estimated Useful Lives of Property and Equipment**

The useful life of each item of the Company's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded operating expenses and decrease noncurrent assets.

The carrying amounts of the Company's property and equipment at cost aggregated ₱107.2 million and ₱86.9 million as of December 31, 2007 and 2006, respectively (see Note 12). The carrying amounts of the Company's property and equipment at revalued amounts aggregated ₱11.0 million and ₱11.9 million as of December 31, 2007 and 2006, respectively (see Note 13).

- **Deferred Tax Assets**

The Company's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Company's past results and future expectations on revenue and expenses. The Company's deferred tax assets amounted to ₱13.4 million and ₱10.0 million as of December 31, 2007 and 2006, respectively.

- **Pension Benefits**

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Pension benefit obligation recorded by the Company amounted to ₱21.3 million and ₱15.6 million as of December 31, 2007 and 2006, respectively (see Note 22).

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 22 to the consolidated financial statements.



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**6. Cash and Cash Equivalents**

This account consists of:

	2007	2006
Cash on hand and in banks	P64,240,924	P68,373,223
Cash equivalents	15,728,484	10,182,814
	<b>P79,969,408</b>	<b>P78,556,037</b>

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

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**7. Trading Securities at Fair Value**

Trading securities at fair value consist of listed securities which are traded in the PSE. The fair value of trading securities amounted to P2.7 million and P2.2 million as of December 31, 2007 and 2006, respectively. Income from the change in fair value of trading securities amounted to P0.5 million and P0.6 million in 2007 and 2006, respectively, (see Note 21).

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**8. Receivables**

This account consists of:

	2007	2006
Trade receivables	P100,557,401	P72,328,194
Advances to stockholders, officers and employees (see Note 17)	133,185,229	304,702,293
Advances to Strategic Synergy, Inc. (see Note 17)	78,970,294	-
Other receivables	33,164,915	14,079,894
	<b>345,877,839</b>	<b>391,110,381</b>
Less allowance for doubtful accounts	7,587,817	7,587,817
	<b>P338,290,022</b>	<b>P383,522,564</b>

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

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**9. Prepaid Expenses and Other Current Assets**

This account consists of:

	2007	2006
Excess of cost over billing	P37,128,952	P-
Creditable withholding taxes	30,187,835	28,161,331
Input tax	8,386,119	12,405,937
Rentals	498,545	498,545
Others	63,566	-
	<b>P76,265,017</b>	<b>P41,065,813</b>



The Company's revenue and the related cost of goods sold from systems integration projects are recognized based on percentage of completion. The difference between the total cost of the computer hardware used in the project and the amount recognized as cost of goods sold is recorded in the "Excess of cost over billing" account.

#### 10. Available-for-Sale Financial Assets

AFS financial assets amounting to ₱56.7 million and ₱36.8 million as of December 31, 2007 and 2006, respectively, consist of investments in golf and club shares.

#### 11. Investment Property

	2007	2006
At January 1	₱21,000,000	₱23,000,000
Net gain (loss) from fair value adjustment	14,000,000	(2,000,000)
At December 31	₱35,000,000	₱21,000,000

Investment property pertains to a condominium unit. The fair value was determined based on the current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation.

#### 12. Property and Equipment - at Cost

This account consists of:

	2007						Total
	Machinery, Tools and Other Equipment	Test and Service Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in-progress	
<b>Cost</b>							
January 1	₱200,766,103	₱85,237,501	₱51,556,213	₱40,651,242	₱23,693,378	₱25,805,616	₱427,710,053
Additions	15,375,259	-	15,267,731	4,321,613	14,785,362	-	49,749,965
Disposals	(20,806,558)	-	-	-	-	-	(20,806,558)
Reclassifications	-	-	-	-	2,577,225	(2,577,225)	-
December 31	195,334,804	85,237,501	66,823,944	44,972,855	41,055,965	23,228,391	456,653,460
<b>Accumulated</b>							
Depreciation							
January 1	180,531,800	85,237,500	34,093,466	28,996,541	11,945,790	-	340,805,097
Depreciation for the year	11,851,717	-	6,659,872	5,161,001	5,749,575	-	29,422,165
Disposals	(20,806,302)	-	-	-	-	-	(20,806,302)
December 31	171,577,215	85,237,500	40,753,338	34,157,542	17,695,365	-	349,420,960
Net Book Value	₱23,757,589	₱1	₱26,070,606	₱10,815,313	₱23,360,600	₱23,228,391	₱107,232,500



2006							
	Machinery, Tools and Other Equipment	Test and Service Equipment	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Construction in-progress	Total
<b>Cost</b>							
January 1	P337,369,966	P85,237,501	P56,794,010	P40,776,563	P23,482,538	P23,228,391	P566,888,969
Additions	12,051,777	-	3,447,321	900,025	210,840	2,577,225	19,187,188
Disposals	(148,655,640)	-	(8,685,118)	(1,025,346)	-	-	(158,366,104)
December 31	200,766,103	85,237,501	51,556,213	40,651,242	23,693,378	25,805,616	427,710,053
<b>Accumulated Depreciation</b>							
January 1	311,579,562	85,237,500	36,430,093	24,878,987	4,771,935	-	462,898,077
Depreciation for the year	17,607,864	-	6,348,486	5,142,890	7,173,855	-	36,273,095
Disposals	(148,655,626)	-	(8,685,113)	(1,025,336)	-	-	(158,366,075)
December 31	180,531,800	85,237,500	34,093,466	28,996,541	11,945,790	-	340,805,097
<b>Net Book Value</b>	<b>P20,234,303</b>	<b>P1</b>	<b>P17,462,747</b>	<b>P11,654,701</b>	<b>P11,747,588</b>	<b>P25,805,616</b>	<b>P86,904,956</b>

The useful lives of the property and equipment are estimated as follows:

Machinery, tools and other equipment	2-5 years
Test and service equipment	3 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years
Leasehold improvements	3 years or the term of the lease, whichever is shorter

### 13. Property and Equipment - at Revalued Amounts

This account consists of:

2007			
	Land	Building and Improvements	Total
<b>Revalued amounts -</b>			
December 31	<b>₱8,155,000</b>	<b>₱8,390,000</b>	<b>₱16,545,000</b>
<b>Accumulated depreciation:</b>			
January 1	-	4,638,000	4,638,000
Depreciation for the year	-	938,000	938,000
December 31	-	5,576,000	5,576,000
<b>Net book value</b>	<b>₱8,155,000</b>	<b>₱2,814,000</b>	<b>₱10,969,000</b>

2006			
	Land	Building and Improvements	Total
<b>Revalued amounts -</b>			
December 31	<b>₱8,155,000</b>	<b>₱8,390,000</b>	<b>₱16,545,000</b>
<b>Accumulated depreciation:</b>			
January 1	-	3,700,000	3,700,000
Depreciation for the year	-	938,000	938,000
December 31	-	4,638,000	4,638,000
<b>Net book value</b>	<b>₱8,155,000</b>	<b>₱3,752,000</b>	<b>₱11,907,000</b>



The Company engaged an independent appraiser to determine the fair value of its land and building and improvements. Fair value was determined by reference to data in the local market consisting of sales and offerings of similar properties for the land and current prices for construction materials and labor for the improvements. The date of the valuation was December 7, 2005.

Revaluation increment absorbed through depreciation amounted to ₱938,000 and in 2007 and 2006.

The useful life of building and improvements is five years.

If the land and building and improvements were measured using the cost model, the carrying amounts would be as follows:

2007			
	Land	Building and Improvements	Total
Cost -			
December 31	₱200,000	₱5,391,496	₱5,591,496
Accumulated depreciation:			
January 1	-	2,724,527	2,724,527
Depreciation for the year	-	28,779	28,779
December 31	-	2,753,306	2,753,306
Net book value	₱200,000	₱2,638,190	₱2,838,190

2006			
	Land	Building and Improvements	Total
Cost -			
December 31	₱200,000	₱5,391,496	₱5,591,496
Accumulated depreciation:			
January 1	-	2,695,748	2,695,748
Depreciation for the year	-	28,779	28,779
December 31	-	2,724,527	2,724,527
Net book value	₱200,000	₱2,666,969	₱2,866,969

#### 14. Other Noncurrent Assets

This account consists of:

	2007	2006
Rental deposits	₱5,570,877	₱2,946,642
Miscellaneous deposits	424,964	243,964
Others	451,420	-
	₱6,447,261	₱3,190,606



## 15. Accounts Payable and Other Current Liabilities

This account consists of:

	2007	2006
Trade	P28,250,634	P8,173,138
Nontrade	21,412,970	17,592,646
Accrued expenses:		
Maintenance services	11,394,550	13,637,567
Rent	6,662,459	4,905,428
Utilities	3,845,919	3,037,001
Dues and subscription	1,535,932	-
Others	2,288,631	871,290
Output tax	7,425,521	11,796,895
Withholding taxes	5,715,430	3,955,460
Retention payable	1,260,645	-
Income tax payable	2,284	-
	<b>P89,794,975</b>	<b>P63,969,425</b>

Trade payables are noninterest-bearing and are normally settled on 30-day's terms.

Other payables are noninterest-bearing and have an average term of three months.

## 16. Retained Earnings

The retained earnings account is restricted for payment of dividends to the extent of the revaluation surplus balance amounting to P5.2 million in 2007 and P5.9 million in 2006.

## 17. Related Party Transactions

a. The compensation of key management personnel of the Company is as follows:

	2007	2006
Short-term employee benefits	P8,650,184	P8,653,793
Post-employment benefits	995,465	995,465
	<b>P9,645,649</b>	<b>P9,649,258</b>

b. The Company has advances to stockholder and officers and related party as follows:

	2007	2006
Advances to a stockholder and officers	P133,165,520	P303,695,657
Strategic Synergy, Inc.	78,970,294	-

The advances to a stockholder and officer and related party earn interest at prevailing market rates in 2007 and 2006. Interest income on these advances amounted to P7.0 million in 2007 and P11.6 million in 2006.



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### 18. Cost of Sales

This account consists of:

	2007	2006
Inventories at beginning of year	<b>₱4,818,913</b>	<b>₱4,742,514</b>
Purchases - net	<b>328,308,832</b>	<b>160,559,073</b>
	<b>333,127,745</b>	<b>165,301,587</b>
Inventories at end of year	<b>6,223,836</b>	<b>5,278,802</b>
	<b>₱326,903,909</b>	<b>₱160,022,785</b>

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### 19. Cost of Services

This account consists of:

	2007	2006
Repairs and maintenance	<b>₱91,827,096</b>	<b>₱26,015,071</b>
Salaries and wages	<b>28,321,465</b>	<b>23,438,253</b>
Rent (see Note 23)	<b>7,674,919</b>	<b>7,435,433</b>
Depreciation (see Notes 12 and 13)	<b>12,697,086</b>	<b>18,052,019</b>
Utilities	<b>7,811,911</b>	<b>6,794,324</b>
Supplies	<b>8,085,711</b>	<b>5,655,332</b>
Employee benefits	<b>1,982,333</b>	<b>2,138,200</b>
Others	<b>6,528,951</b>	<b>4,418,075</b>
	<b>₱164,929,472</b>	<b>₱93,946,707</b>

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### 20. Operating Expenses

This account consists of:

	2007	2006
Salaries and wages	<b>₱30,790,201</b>	<b>₱25,807,748</b>
Outside services	<b>20,566,622</b>	<b>10,987,044</b>
Commission	<b>20,463,720</b>	<b>16,366,784</b>
Depreciation (see Notes 12 and 13)	<b>17,663,079</b>	<b>19,159,076</b>
Entertainment, amusement and recreation	<b>13,545,966</b>	<b>6,525,447</b>
Employee benefits (see Notes 17 and 22)	<b>7,437,687</b>	<b>5,285,136</b>
Rent (see Note 23)	<b>6,512,389</b>	<b>3,340,748</b>
Utilities	<b>5,076,742</b>	<b>6,703,222</b>
Transportation and travel	<b>5,013,593</b>	<b>4,502,944</b>
Repairs and maintenance	<b>3,402,161</b>	<b>2,525,365</b>
Advertising and promotions	<b>2,988,694</b>	<b>2,806,320</b>
Dues and subscriptions	<b>2,798,715</b>	<b>2,660,114</b>
Supplies	<b>1,464,350</b>	<b>2,780,959</b>
Gasoline, oil, and lubricants	<b>1,293,014</b>	<b>1,533,325</b>
Trainings and seminars	<b>205,948</b>	<b>800,524</b>
Others	<b>5,702,670</b>	<b>4,544,104</b>
	<b>₱144,925,551</b>	<b>₱116,328,860</b>



## 21. Other Income

This account consists of:

	2007	2006
Change in fair value of:		
Investment property	P14,000,000	(P2,000,000)
Trading securities at fair value	533,845	613,975
Net foreign exchange loss	(291,556)	(1,057,839)
Loss on sale of AFS	(185,000)	-
Dividend income	128,300	84,797
Gain on sale of:		
Property and equipment	15,962	415,723
Trading securities at fair value (see Note 7)	-	8,646,450
Others	873,549	1,104,937
	<b>P15,075,100</b>	<b>P7,808,043</b>

## 22. Retirement Plan

The Company has an unfunded, defined benefit pension plan covering all of its permanent employees.

The following tables summarize the components of the benefit expense recognized in the consolidated statements of income and movement in the pension benefit obligation account in the consolidated balance sheets.

	2007	2006
Current service cost	P2,455,234	P1,095,833
Interest cost	2,317,777	1,898,561
	<b>P4,773,011</b>	<b>P2,994,394</b>

Movements in the benefit liability in 2007 and 2006 are as follows:

	2007	2006
At January 1	P16,555,549	P13,561,155
Benefit expense	4,773,011	2,994,394
At December 31	<b>P21,328,560</b>	<b>P16,555,549</b>

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

	2007	2006
Benefit obligation at beginning of year	P16,555,549	P13,561,155
Current service cost	2,455,234	1,095,833
Interest cost	2,317,777	1,898,561
Benefit obligation at end of year	<b>P21,328,560</b>	<b>P16,555,549</b>



The principal actuarial assumptions used to determine the pension benefits are as follows:

	2007	2006
Discount rate	10.3%	14.0%
Salary increase	10.0%	10.0%

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### 23. Lease Agreements

The Company leases its warehouses and offices for a period of two to ten years. Certain lease agreements are subject to a 5% escalation every year. Rental expense amounted to ₱13.0 million in 2007 and ₱10.8 million in 2006.

Future minimum lease payments are as follows:

Years	Amounts
2008–2012	₱31,832,633
2013–2015	18,271,313

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### 24. Income Tax

The current provision for income tax represents regular corporate income tax.

The deferred tax assets and deferred tax liabilities as of December 31, 2007 and 2006, relates to the following tax effects of temporary differences:

	2007	2006
Deferred tax assets:		
Defined benefit obligation	₱7,464,996	₱5,794,442
Allowance for doubtful accounts	2,655,736	2,655,736
Accrued rent	2,157,370	1,716,900
NOLCO	1,032,633	–
MCIT	52,382	–
Unrealized foreign exchange loss (gain)	23,951	(121,467)
	<b>₱13,387,068</b>	<b>₱10,045,611</b>
Deferred tax liability -		
Revaluation increment on property and equipment	<b>₱2,825,641</b>	<b>₱3,153,941</b>



The reconciliation of provision for income tax computed at statutory income tax rate to provision for income tax as shown in the consolidated statements of income is as follows:

	2007	2006
Provision for income tax at statutory rate	₱8,629,039	₱6,971,180
Income tax effects of permanent differences:		
Unallowable expenses	3,441,979	1,593,958
Change in fair value of:		
Investment property	(4,900,000)	700,000
Trading securities at fair value	(186,845)	(214,891)
Interest income subjected to final tax	(259,931)	(332,634)
Dividend income	(44,905)	(29,679)
Gain on sale of trading securities at fair value subjected to final tax	-	(3,026,328)
Others	(28,332)	-
	<b>₱6,651,005</b>	<b>₱5,661,606</b>

## 25. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents and advances to/from subsidiaries. The main purpose of these financial instruments is to fund the Company's operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments shall be undertaken.

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

### Foreign Currency Risk

The Company also has transactional currency exposures. Such exposure arises from sales and purchases in currencies other than the Company's functional currency. The Company's foreign currency-denominated financial assets and financial liabilities translated in Philippine peso (PHP) as of December 31, 2007 are as follows:

	Original Currency	PHP Equivalent
Current assets:		
Cash and cash equivalents	\$230,608	₱9,519,516
Receivables	176,915	7,303,064
Current liability -		
Accounts payable and other current liabilities	(358,033)	(14,779,602)
Net asset	\$49,490	₱2,042,978



In translating the foreign currency-denominated monetary assets and liabilities into PHP amounts, the exchange rate used was ₱41.28 to United States dollar (USD) \$1.0, the USD to PHP exchange rate as of December 31, 2007.

The following table demonstrates the sensitivity to a reasonably possible change in the next reporting period in foreign exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2007:

Change in PHP to USD Exchange Rate	Effect on Income Before Income Tax
₱1 Appreciation	₱2,042,978
₱1 Depreciation	(2,042,978)

The increase in PHP to USD rates means weaker peso against the USD while the decrease in PHP to USD rates means stronger peso against the USD.

#### Credit Risk

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

With respect to credit risk arising from the other financial assets of the Company, which comprise of cash, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

	2007	2006
Financial assets at FVPL -		
Trading securities at fair value	₱2,717,275	₱2,183,430
AFS financial assets -		
AFS financial assets	56,705,000	36,755,000
Loans and receivables:		
Cash in bank	71,822,240	45,615,218
Receivables	338,290,022	382,783,328

As of December 31, 2007, the analysis of receivables that were past due but not impaired are as follows:

	Total	Neither past due nor impaired	Past due but not impaired			Impaired
			30 days	60 days	More than 90 days	
Trade	₱100,557,401	₱49,471,256	₱17,082,965	₱8,737,598	₱17,677,765	₱7,587,817
Advances to:						
Officers and employees	133,185,229	-	-	-	133,185,229	-
Related party	78,970,294	51,000,000	12,907,644	15,062,650	-	-
Others	33,164,915	5,859,087	-	-	27,305,828	-
	₱345,877,839	₱106,330,343	₱29,990,609	₱23,800,248	₱178,168,822	₱7,587,817



The Company's receivables which are neither past due nor impaired are classified as Grade A receivables since these receivables pertain to those receivables from clients or customers that always pay on time or even before the maturity date.

**Liquidity Risk**

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of advances from officers and subsidiaries.

	1-30 Days	31-120 Days	Over 120 Days	Total
Accounts payable and other current liabilities:				
Trade	P23,394,916	P3,216,511	P1,639,207	P28,250,634
Nontrade	18,646,554	205,206	-	18,851,760
Accrued expenses	19,065,032	-	6,662,459	25,727,491
	<b>P61,106,502</b>	<b>P3,421,717</b>	<b>P8,301,666</b>	<b>P72,829,885</b>

**Capital Management**

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholder value.

The Company monitors capital on the basis of the debt-to-equity ratio and makes adjustments to it in light of changes in economic conditions and its financial position. This ratio is calculated as total debt divided by equity. Total debt is the sum of notes payable, accounts payable and other current liabilities and long-term debt. Equity comprises all components of equity.

The Company's debt-to-equity ratios as of December 31, 2007 and 2006 are as follows:

	2007	2006
Accounts payable and other current liabilities	<b>P89,794,975</b>	P63,969,425
Advances from officers and customers	-	11,659,774
Deferred tax liability	<b>2,825,641</b>	3,153,941
Pension benefit obligation	<b>21,328,560</b>	16,555,549
Total liabilities	<b>113,949,176</b>	95,338,689
Equity	<b>619,257,211</b>	585,071,130
<b>Debt-to-Equity Ratio</b>	<b>18%</b>	16%



**26. Financial Instruments**

**Fair Values**

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the consolidated financial statements at other than fair values as of December 31, 2007.

	Carrying Amount		Fair Value	
	2007	2006	2007	2006
<b>Financial assets at FVPL -</b>				
Trading securities at fair value	<b>₱2,717,275</b>	₱2,183,430	<b>₱2,717,275</b>	₱2,183,430
<b>AFS financial assets -</b>				
AFS financial assets	<b>56,705,000</b>	36,755,000	<b>56,705,000</b>	36,755,000
<b>Loans and receivables:</b>				
Cash and cash equivalents	<b>79,969,408</b>	78,556,037	<b>79,969,408</b>	78,556,037
Receivables	<b>338,290,022</b>	383,522,564	<b>338,290,022</b>	383,522,564
	<b>₱477,681,705</b>	₱501,017,031	<b>₱477,681,705</b>	₱501,017,031
<b>Other financial liabilities:</b>				
Accounts payable and other current liabilities	<b>₱89,794,975</b>	₱63,969,425	<b>₱89,794,975</b>	₱63,969,425
Advances from officers and customers	-	11,659,774	-	11,659,774
	<b>₱89,794,975</b>	₱75,629,199	<b>₱89,794,975</b>	₱75,629,199

*Cash and cash equivalents, Receivables, Accounts payable and other current liabilities and Advances from officers and customers.* Due to the short-term nature of these financial instruments, their fair values approximate the carrying amounts as of balance sheet date.

*Trading securities at fair value and Available-for-sale financial assets.* The fair values of these financial instruments are determined by reference to quoted market bid prices at the close of business on the balance sheet date since these are actively traded in organized financial markets.



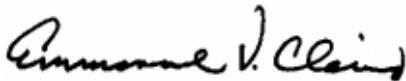
## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
T.I.M. Corporation  
5600 South Super Highway  
Makati City

We have audited the financial statements of T.I.M. Corporation and Subsidiaries for the year ended December 31, 2007, on which we have rendered the attached report dated April 2, 2008.

In compliance with SRC Rule 68, we are stating that the above Company has three (3) stockholders owning one hundred (100) or more shares each.

SYCIP GORRES VELAYO & CO.



Emmanuel V. Clarino  
Partner  
CPA Certificate No. 27455  
SEC Accreditation No. 0071-AR-1  
Tax Identification No. 102-084-004  
PTR No. 0017585, January 3, 2008, Makati City

April 2, 2008

