













**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 March 31, 2008
2. Commission identification no. 12397    3. BIR Tax Identification No. 000-107-026
4. Bacnotan Consolidated Industries, Inc.  
Exact name of registrant as specified in its charter
5. Manila, Philippines  
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code : \_\_\_\_\_
7. Level 12, Phinma Plaza, 39 Plaza Drive, Rockwell Center, Makati City  
Address of registrant's principal office
8. (632) 870-01-00  
Registrant's telephone number, including area code
9. Former name, former address, and former fiscal year, if changed since last report : N/A
10. Common Shares - 234,306,566 shares issued and outstanding
11. Are any or all of the securities listed on the Philippine Stock Exchange ?  

Yes (  )                      No (  )

If yes, state the name of such stock exchange and the classes of securities listed therein :

Philippine Stock Exchange, Inc.

Common Shares

12. Indicate by check mark whether the registrant :
  - (a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of the 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 the registrant was required to file such reports)  

Yes [  ]                      No [  ]
  - (b) Has been subject to such filing requirements for the past 90 days.  

Yes [  ]                      No [  ]

## **PART I - FINANCIAL INFORMATION**

### ***Item I – Consolidated Financial Statements :***

- Exhibit I - Consolidated Income Statements  
Three (3) Months ended March 31, 2008 and 2007
- Exhibit I-a - Computation of Earnings (Loss) per share  
Three (3) Months ended March 31, 2008 and 2007
- Exhibit II - Consolidated Balance Sheets  
March 31, 2008 and December 31, 2007
- Exhibit II- a - Breakdown of Current Assets and Current Liabilities  
March 31, 2008 and December 31, 2007
- Exhibit III - Statement of Changes in Stockholders' Equity  
March 31, 2008 and December 31, 2007
- Exhibit IV - Consolidated Statement of Cash Flows  
Three (3) Months ended March 31, 2008 and 2007
- Exhibit V - Schedule of Accounts Receivable Trade  
As of March 31, 2008
- Exhibit VI - Schedule of Accounts Receivable - Non Trade  
As of March 31, 2008

## ***Item 2 – Management’s Discussion and Analysis of Financial Condition And Results of Operations***

### **A. Quarter ended March 31, 2008 vs. 2007**

Bacnotan Consolidated Industries, Inc.’s (BCII) consolidated net income for the first quarter of 2008 amounted to P37 million compared to P103 million last year. The P 66 million decrease in the net income was due to the decrease in the dividend income of the parent company during the first quarter of CY 2008 compared to the same period last year. Equity in net earnings of associates also decreased from P27 million in March 2007 to P7 million this year.

Of the P 37 million income for the 1<sup>st</sup> quarter 2008, P 25.6 million was income attributable to the equity holders of the parent company.

BCII’s unaudited consolidated sales revenues for the 1st quarter of March 2008 amounted to P749 million compared to P701 million in CY 2007. The increase was due to the increase in sales revenues of Union Galvasteel Corporation (UGC) amounting to P55 million and Bacnotan Industrial Park Corp. (BIPC) of P34 million for the 1st quarter. Unaudited consolidated cost and expenses of BCII for the first quarter amounted to P678 million, 6% higher compared to the previous year’s P638 million. The increase is due to increase in costs and expenses of UGC, Cagayan de Oro College (COC) and BIPC.

The results of operations of BCII subsidiaries for the three months ended March 31, 2008 compared to 2007 are as follows :

### **Union Galvasteel Corporation (UGC)**

#### **Marketing**

Sales volume for the 1<sup>st</sup> quarter totaled 1.373 million sheets or 5% below the budget of 1.449 million sheets but 4% higher than last year’s volume of 1.314 million sheets. The shortfall in the sales volume is a strategy to stretch our low cost inventories in the light of the continuous increases in the CRC cost. This move paid off; in spite of the shortfall in volume, the target contribution margin amount was still attained.

#### **Demand and Supply**

Demand during the quarter was on tract because of full swing construction activities in both residential and commercial segments. CRC prices continuously increased from the levels of \$700/mt in January to close to \$1,000/mt in March. Indications are for global steel prices to spiral in the second quarter. This development also gave us the opportunity to gradually adjust our selling prices although there are still inventories at the old cost in the market. The strategy was to nurse our low cost inventory thru selective selling to better margin projects or products in order to improve profitability.

#### **Production**

##### **CGL**

The line produced a total of 10,369MT, 569MT higher than the budget of 9,800MT. GI for substrates constituted the bulk of production at 71% for the period. Plant utilization also was higher at 69% vis a vis the target of 65%. However, the productivity rate was slightly lower than the target of 9 MT/hr at 8.88 MT/hr. While productivity may be lower, zinc usages and energy

utilization for the quarter were all below budget. Basically, the plant had normal operations for the period.

## **CCL**

At the Color Line, total production for the quarter summed up to 8,381MT, short by 10% compared to budget. The shortfall was due to the adjustments and balancing of the 25 meter oven with its new directional louvers and maintenance-related delays, cutting down machine productive time. After these adjustments and repairs were undertaken, the line went back to normal operations in March with a 3,138MT production or a utilization of 85% compared with target.

## **Financials**

Contribution margin generated was on target at P147 Million or an increase of P41 Million compared to last year. Gross profit rate is 18.73% compared to budget of 17.79%. Net income for the quarter is P26 Million or 7% higher than the budget of P24 Million and 260% of last year of P10 Million. Inventories amounted to P662 Million while receivable balance is at P292 Million. Current Ratio and Debt to Equity Ratios of 1.56 and 1.50 respectively, were in compliance with creditor banks' requirements.

### **Bacnotan Industrial Park Corporation (BIPC)**

Bacnotan Industrial Park Corporation (BIPC) is a 60%-owned subsidiary of BCII which operates the Batangas Union Industrial Park (BUIP) in Calaca, Batangas.

The 1<sup>st</sup> quarter of the year showed revenue from sale of real estate in the amount of P33 million due to the adjustment in recorded income from lot sales brought about by the increase in percentage of completion of park development. Port revenue amounted to P5.6 million as compared to P6.7 million last year.

As of March 31, 2008, BIPC posted a net income of P 11.8 million.

### **Atlas Holdings Corporation (AHC)**

For the three (3) months ended March 31, 2008, Atlas Holdings Corporation, a 90% subsidiary of BCII, registered a net income of P 0.898 million mainly from financial income.

### **Araullo University (AU)**

For the period January to March 2008, Araullo University registered revenues amounting to P47 million while direct costs amounted to P23 million. General and administrative expenses for the same period amounted to P11 million. For the three months ended March 31, 2008, Araullo University registered a net income of P5.6 million.

Total assets for the period March 31, 2008 amounted to P373 million while liabilities amounted to P110 million.

### **Cagayan de Oro College, Inc. (COC)**

For the period January to March of CY 2008, COC registered revenues amounting to P39 million. Direct cost and operating expenses as of March 31, 2008 was P21.6 million and

P15 million respectively. COC realized a net income of P2.021 million for the period January to March 2008.

**Asian Plaza, Inc. (API)**

For the 1<sup>st</sup> quarter 2008, API posted net income of P 2.5 million on revenues of P 10.6 million.

**Key Performance Indicators (KPI)**

The top five (5) KPI's used to measure the financial performance of BCII and its subsidiaries as of March 31, 2008 compared to the same period last year are shown in the following table :

<b>Financial KPI</b>	<b>Definition</b>	<b>2008</b>	<b>2007</b>
<b><u>Profitability</u></b>			
Return on Equity (ROE)	$\frac{\text{Net income (loss)}}{\text{Ave. total equity attributable to BCII equity holders}}$	0.46%	1.86%
Gross Profit Margin	$\frac{\text{Gross profit}}{\text{Net sales}}$	20.15%	20.73%
<b><u>Efficiency</u></b>			
Cash Flow Margin	$\frac{\text{Cash flow from operating Activities}}{\text{Net sales}}$	8.91%	7.00%
<b><u>Liquidity</u></b>			
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	4.21 : 1.00	4.15 : 1.00
Debt-to Equity Ratio	$\frac{\text{Total liabilities}}{\text{Equity attributable to BCII equity holders}}$	0.28 : 1.00	0.30 : 1.00

**Profitability**

Return on equity for the period January to March 2008 was 0.46% compared to 1.86% for the same period last year. The decrease was due to lower net income for the 1<sup>st</sup> quarter of CY 2008 compared to the same period last year.

Gross profit margin went down slightly from 20.73% in March 2007 to 20.15% this year despite an increase in net sales from P701 million to P749 million due to a decrease in the investment income of the parent company from P46 million to P3 million.

**Efficiency**

Net cash inflow from operations was P67 million for the period January to March 2008 compared to P49 million in Jan-March 2007. The increase was due to decrease in working capital changes.

**Liquidity**

Current ratio was P4.21 as of March 31, 2008 compared to P4.15 last year. The increase was due to decrease in accounts payable of UGC. As a result, the debt-equity ratio of

BCII and its subsidiaries as of March 31, 2008 was 0.28:1.00 from 0.30:1.00 as of March 31, 2007.

## **Notes to Financial Statements**

### **Accounting Policies and Principles**

The accompanying consolidated financial statements of Bacnotan Consolidated Industries have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit and loss, available for sale investments and derivative investments that have been measured at fair value.

The consolidated financial statements are prepared in Philippine pesos, the company's functional and presentation currency.

### **Seasonality Aspects of the Business**

Like any other company in the construction industry, the operations of UGC is affected by seasonality of cyclicity. During the summer months starting December to May, demand for roofing materials are greater than during the rainy months of June to November. The demand for the first semester of the calendar year is normally higher than that of the second semester.

### **Interim Disclosures on Financial Statements**

The following financial disclosures do not materially affect or are not applicable to the Company's interim operations :

1. Unusual items that affect the assets, liabilities, equity, net income or cash flows because of their nature, size or incidents.
2. Changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that have a material effect in the current period.
3. Issuances, repurchases of debt and equity securities.
4. Segment revenue and segment results for business segments and geographical segments.
5. Changes in contingent liabilities or contingent assets since the last annual balance sheet.
6. Existence of material contingencies and other events of transactions that are material to an understanding of the current interim period.
7. Known trends, demands, commitments, events and uncertainties that will result in or likely to decrease its liquidity in any material way. BCII does not anticipate having within the next twelve (12) months any cash flow or liquidity problems nor does it anticipate any default or breach of any of its existing notes, loans, leases,

- other indebtedness or financing arrangements requiring it to make payments, except the breach in current ratio requirements of the loan covenants.
8. Events that will trigger direct or contingent material financial obligations to the company, including any default or acceleration of its existing obligations.
  9. Material off-balance sheet transactions, arrangements, obligations (direct or contingent) and other relationships of the company with unconsolidated entities or other person created during the year.
  10. Material commitments for capital expenditures.
  11. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales/revenues/ income from continuing operations.
  12. Significant elements of income or loss that did not arise from the company's continuing operations.

## **Material Changes in Balance Sheet Accounts**

### **Cash and cash equivalents**

The decrease in cash and cash equivalents are shown in the cash flow statement.

### **Financial assets at fair value through profit or loss**

The increase in the account represents additional investments of the parent company in bonds and in UITF during the first quarter of 2008.

### **Accounts receivable trade and others - net**

The increase in the account represents increase in the accounts receivable of the parent company, UGC, BIPC, Araullo University and Cagayan de Oro College.

### **Inventories**

The decrease in inventories comes from the decrease in UGC's inventories as of end-March 2008.

### **Other current assets**

The decrease in the account represents derivative assets outstanding as of December 31, 2007 which matured during the 1<sup>st</sup> quarter 2008.

## **LIABILITIES**

### **Notes payable**

The decrease in notes payable represents decrease in UGC short term borrowings.

### **Trade and other payables**

The increase in the account is attributable to the increase in UGC's trust receipts payable.

### **Unearned revenues**

The decrease in the account represents revenues earned by BIPC, AU and COC during the 1<sup>st</sup> quarter 2008.

### **Long-term debt**

The decrease in the account represents payments made by UGC and COC.

### **Deferred tax liabilities**

The decrease in the account represents decrease in the deferred tax liabilities of BIPC.

### **Non-current Liabilities**

The decrease in the account is attributable to BIPC and API.

## **Material Changes in Income Statement Accounts**

### **Revenues**

The increase in revenues is due to 1) a 4% increase in sales volume of UGC, 2) an upward adjustment in the percentage of completion of BIPC's park development, resulting in additional revenue recognition and 3) higher revenues of AU & COC for the period January to March of 2008 compared to same period last year.

### **Cost of sales**

The increase in the cost of sales represents the increase in the cost of raw materials of UGC, particularly cold rolled coils.

### **Operating expenses**

The decrease in the account represents a decrease in the income-related operating expenses of the parent company.

### **Other income (expenses) – net**


The decrease in the account represents a decrease in dividend income of the parent company. The decrease is also due to unrealized and realized losses on derivatives of both the parent company and Atlas Holdings Corporation.

### **Provision for income tax**

IGNATURES


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

**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**



**REGINA B. ALVAREZ**

Senior Vice President - Finance



**RIZALINA P. ANDRADA**  
Asst. Vice President - Finance

April 29, 2008

**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**  
**CONSOLIDATED INCOME STATEMENTS**  
*(In Thousand Pesos)*

UNAUDITED	
MARCH 31,	
2008	2007

REVENUES	749,444	700,638
COST OF SALES	(598,429)	(555,401)
GROSS PROFIT	151,015	145,237
OPERATING EXPENSES	(79,942)	(82,987)
INCOME FROM OPERATIONS	71,073	62,250
OTHER INCOME (EXPENSES) - Net	(17,188)	47,932
INCOME (LOSS) BEFORE INCOME TAX	53,885	110,182
PROVISION FOR INCOME TAX	(16,798)	(7,234)
NET INCOME	37,087	102,948
<i>Attributable To</i>		
Equity holders of the parent	25,647	99,760
Minority	11,440	3,188
Net income	37,087	102,948

Basic Earnings Per Common Share - attributable to Equity  
 Holders of the Parent

0.11

0.43

BCI, INC.

*Computation of Earnings (loss) Per Share*

As of March 31, 2008 and 2007

*amounts in thousands except earnings per share*

	UNAUDITED		AUDITED
	Quarter Ended		Audited
	3/31/2008	3/31/2007	12/31/2007
Net income (loss) attributable to equity holders of the parent	25,647	99,760	330,410
# of common shares outstanding	234,306	234,306	234,306
Basic earnings per common share - attributable to equity holders of the parent	0.11	0.43	1.41

**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(In Thousand Pesos)*

	<b>UNAUDITED</b>	<b>AUDITED</b>
	<b>MARCH 31,</b>	<b>DEC. 31,</b>
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
CURRENT ASSETS	4,192,993	4,192,788
INVESTMENTS AND ADVANCES - net	1,169,266	1,192,065
AVAILABLE FOR SALE INVESTMENTS	313,414	313,366
PROPERTY, PLANT & EQUIPMENT - Net	1,262,729	1,294,892
INVESTMENT PROPERTIES	779,376	784,577
OTHER ASSETS	210,977	178,983
<b>TOTAL ASSETS</b>	<b>7,928,755</b>	<b>7,956,671</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES	994,921	1,010,126
NONCURRENT LIABILITIES	589,465	627,637
EQUITY		
Equity attributable to equity holders of the parent :		
Capital Stock	2,342,942	2,342,942
Additional paid-in capital	255,785	255,785
Share in equity component of convertible notes	13,443	13,443
Share in unrealized gains on financial assets of associates	24,784	24,784
Unrealized gain on change in fair value of an AFS investment	1,200	1,151
Retained Earnings	2,925,106	2,899,459
	5,563,260	5,537,564
Minority interest	781,109	781,344
Total Equity	6,344,369	6,318,908
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>7,928,755</b>	<b>7,956,671</b>

**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**  
**Breakdown of Current Assets, Current Liabilities**  
**& NonCurrent Liabilities**

*(In Thousand Pesos)*

	<b>UNAUDITED</b>	<b>AUDITED</b>
	<b>MARCH 31,</b>	<b>DEC. 31,</b>
	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,096,562	1,660,878
Short-term investments	71,542	77,545
Financial assets at fair value through profit or loss	1,603,976	1,046,308
Trade and other receivables	474,711	368,705
Inventories	818,207	824,363
Other current assets - net	127,995	214,989
<b>Total</b>	<b>4,192,993</b>	<b>4,192,788</b>
<b>CURRENT LIABILITIES</b>		
Notes payable	199,088	219,667
Trade and other current liabilities	356,206	382,487
Trust receipts payable	294,688	191,302
Unearned revenues	7,295	79,070
Current portion of long-term debt	137,644	137,600
<b>Total</b>	<b>994,921</b>	<b>1,010,126</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt - net of current portion	442,106	464,007
Deferred tax liabilities	57,381	65,981
Deferred rent revenue	51,892	51,892
Other noncurrent liabilities	38,086	45,757
<b>Total</b>	<b>589,465</b>	<b>627,637</b>

## Exhibit III

BACNOTAN CONSOLIDATED INDUSTRIES, INC.

### Statement of Changes in Equity

(in thousands)

	UNAUDITED		AUDITED
	JAN. - MARCH		December
	2008	2007	2007
CAPITAL STOCK - common	2,342,942	2,037,324	2,342,942
ADDITIONAL PAID-IN CAPITAL	255,785	255,785	255,785
SHARE IN EQUITY COMPONENT OF CONVERTIBLE NOTES	13,443	15,409	13,443
SHARE IN UNREALIZED GAINS ON FINANCIAL ASSETS OF ASSOCIATES	24,784	9,720	24,784
UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AN AVAILABLE-FOR-SALE INVESTMENT	1,200	-	1,151
<b>RETAINED EARNINGS</b>			
Appropriated for future investments	1,000,000	1,000,000	1,000,000
Unappropriated :			
Balance beginning of year	1,899,459	1,893,777	1,893,777
Share in associate's restatement of net assets	-	(19,110)	(19,110)
Balance beginning of year, as restated	1,899,459	1,874,667	1,874,667
Net Income	25,647	99,760	330,410
Stock dividends on common shares	-	-	(305,618)
	1,925,106	1,974,427	1,899,459
MINORITY INTEREST	781,109	753,998	781,344
<b>TOTAL EQUITY</b>	<b>6,344,369</b>	<b>6,046,663</b>	<b>6,318,908</b>

## Exhibit IV

**BACNOTAN CONSOLIDATED INDUSTRIES INC. AND SUBSIDIARIES**

**Statements of Cash Flows**

For the three (3) months ended March 31, 2008 and 2007

	31-Mar-08	31-Mar-07
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	25,647	99,760
Adjustments for:		
Depreciation, amortization and depletion	38,255	29,083
Equity in net earnings of investees	(7,084)	(26,877)
Unrealized foreign exchange loss (gain)	(13,820)	18,714
Unrealized loss (gain) on change in fair value	15,785	(20,777)
Loss (gain) on derivatives	20,821	(14,074)
Changes in working capital	3,409	(42,898)
Others	(16,271)	6,136
<i>Cash provided by (used in) operating activities</i>	<i>66,742</i>	<i>49,067</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in Other Assets	(26,792)	(7,578)
Decrease (increase) in:		
Short-term investments	6,003	-
Financial assets at fair value through profit or loss	(562,825)	188,024
Investments	-	(52,553)
Property and equipment	(6,092)	(3,832)
Dividends received	239	1,275
Net settlement of derivative assets	(2,346)	14,074
<i>Cash provided by (used in) investing activities</i>	<i>(591,813)</i>	<i>139,410</i>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from (payments of):		
Short-term borrowing	(20,579)	21,637
Long-term borrowing	(21,857)	(32,406)
Increase (decrease) in other reserves	-	1,371
Increase (decrease) in minority interest	-	(9,581)
<i>Cash provided by (used in) financing activities</i>	<i>(42,436)</i>	<i>(18,979)</i>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH &amp; CASH EQUIVALENTS</b>	<b>3,191</b>	<b>(18,714)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(567,507)</b>	<b>169,498</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,660,878</b>	<b>612,202</b>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.

**Consolidated Aging of A/R-Trade**

As of March 31, 2008

*in thousands*

	<u>Total</u>
Current	263,879
1 - 30 days	11,970
31 - 60 days	-
61 - 90 days	17,724
Over 90 days	-
	<u>94,035</u>
<b>TOTAL</b>	<b>392,627</b>
Less : Allow. For Doubtful Accounts	<u>90,099</u>
<b>Net Trade Receivable</b>	<b><u><u>302,528</u></u></b>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.

**Consolidated Aging of A/R- Non Trade**

As of March 31, 2008

*(in thousands)*

	<u>TOTAL</u>
Current	160,284
0 - 30 days	762
31 - 60 days	-
61 - 90 days	826
Over 90 days	-
	<u>19,249</u>
<b>TOTAL</b>	<b>183,933</b>
Less : Allow. For Doubtful Accounts	<u>11,750</u>
<b>Net Non-Trade Receivable</b>	<b><u><u>172,183</u></u></b>