



**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17 – Q**

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

1. For the quarterly period ended September 30, 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. Makati City, 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 : Not applicable
10. Common Shares - **257,737,307** 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  
Nine (9) Months ended September 30, 2008 and 2007
- Exhibit I-a - Computation of Earnings (Loss) per share  
Nine (9) Months ended September 30, 2008 and 2007
- Exhibit II - Consolidated Balance Sheets  
September 30, 2008 and December 31, 2007
- Exhibit II- a - Breakdown of Current Assets and Current Liabilities  
September 30, 2008 and December 31, 2007
- Exhibit III - Statement of Changes in Stockholders' Equity  
September 30, 2008 and December 31, 2007
- Exhibit IV - Consolidated Statement of Cash Flows  
Nine (9) Months ended September 30, 2008 and 2007
- Exhibit V - Schedule of Accounts Receivable Trade  
As of September 30, 2008
- Exhibit VI - Schedule of Accounts Receivable - Non Trade  
As of September 30, 2008

**BACNOTAN CONSOLIDATED INDUSTRIES, INC.**  
**Notes to Consolidated Financial Statements**

**1. Basis of Financial Statement Preparation**

The accompanying unaudited consolidated financial statements of the Company have been prepared using the historical cost basis, except for investments held for trading, available-for-sale (AFS) investments and derivative assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the company's functional and presentation currency. All values are rounded to the nearest thousand peso unless otherwise stated/

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

The unaudited consolidated financial statements include the accounts of Bacnotan Consolidated Industries, Inc. (herein referred to as the "Parent Company" or "BCII") and its subsidiaries collectively referred to as the "Company".

**2. Accounting Policies**

The unaudited consolidated financial statements include the accounts of the Parent Company and the subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

**3. Principles of Consolidation**

The consolidated financial statements included in the financial statements of BCII and the following majority owned subsidiaries :

	<u>% of ownership</u>
Atlas Holdings Corporation	90.00
Union Galvasteel Corporation	80.50
Araullo University, Inc.	78.64
Cagayan de Oro College, Inc.	74.35
Bacnotan Industrial Park Corporation	60.00
P&S Holdings, Inc.	60.00
Asian Plaza, Inc.	57.62

Investments in associates are accounted for under the equity method of accounting. Major associates and the related percentages of ownership as of Sept. 30, 2008 are as follows :

Trans-Asia Oil and Energy Dev. Corporation	27.11
AB Capital and Investment Corporation	26.51
Phinma Property Holdings Corporation	35.27
Asia Coal Corporation	12.08

4. **Cash and cash equivalents consist of the following : (in thousand pesos)**

	<b>Sept. 30, 2008</b>	<b>December 31, 2007</b>
Cash on hand and in banks	P 54,828	P 40,098
Short-term deposits	2,009,458	1,620,780
	<b>P2,064,286</b>	<b>P1,660,878</b>

5. **Inventories (in thousand pesos)**

<b>At cost</b>	<b>Sept. 30, 2008</b>	<b>December 31, 2007</b>
Finished goods	626,389	510,602
Land and development costs held for sale	122,056	143,226
Raw materials	205,770	147,402
<b>At net realizable value</b>		
Spare parts and others	26,986	23,133
	<b>P981,201</b>	<b>P824,363</b>

6. **Investments in Associates (in thousand pesos)**

<b>Acquisition costs :</b>	<b>Sept. 30, 2008</b>	<b>December 31, 2007</b>
Balance at beginning of year	1,473,643	1,234,216
Additions	63,350	239,427
Balance at end of year	<b>1,536,993</b>	<b>1,473,643</b>
<b>Accumulated equity in net losses</b>		
Balance at beginning of year	(306,362)	(403,496)
Equity in net earnings for the year	41,737	108,478
Dividends received	(25,891)	(11,344)
	<b>(290,516)</b>	<b>(306,362)</b>
<b>Share in net unrealized gain on change in fair value</b>		
Balance as beginning of year	24,784	8,349
Addition	(6,168)	16,435
Balance at end of year	18,616	<b>24,784</b>
	<b>1,265,093</b>	<b>1,192,065</b>

The detailed carrying values of investments in associates which are accounted for under the equity method are as follows :

	<b>Sept. 30, 2008</b>	<b>December 30, 2007</b>
TA Oil	796,150	775,787
PPHC	296,509	228,706
AB Capital	172,168	187,280
Asia Coal	266	292
	<b>1,265,093</b>	<b>1,192,065</b>

## **7. Financial Risk Management**

The Company's principal financial instruments comprise of cash and cash equivalents, short-term deposits, corporate promissory notes and bonds, government bonds quoted and unquoted shares of stocks, investments in unit investment trust funds, and loans and borrowings in Philippine peso, US dollar (USD) and Euro currencies. The main purpose of these financial instruments is to finance the Company's investments. The Company also has financial assets and liabilities, such as trade and other receivables and trade and other payables that arise directly from operations

The main risks arising from the Company's treasury transactions are credit risk, liquidity risk, foreign currency risk, interest rate risk, and equity price risk. Careful study, skill, prudence and due diligence are exercised at all times in the handling of the funds of the Company. An Investment Committee reviews and approves policies and directions for investments and risks management. The basic parameters approved by the Investment Committee are:

<b>Investment Objective</b>	<b>Safety of Principal</b>
Tenor	Three year maximum for any security, with average duration between one and two years
Exposure Limits	<ul style="list-style-type: none"><li>a. For banks and fund managers: maximum of 20% of total funds of the Company per bank or fund</li><li>b. For peso investments: minimal corporate exposure except for registered bonds</li><li>c. For foreign currencies: maximum 50% of total portfolio. Limits on third currencies outside USD are set regularly and reviewed at least once a year by the Investment Committee</li><li>d. For investments in equities whether directly managed or managed by professional managers: limits are set as approved by the Investment Committee and based on current market outlook at the time of review</li></ul>

### **Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Due to the Company's investing and operating activities, the Company is exposed to the potential credit-related losses that may occur as a result of an individual, counterparty or issuer being unable or unwilling to honor its contractual obligations.

In managing credit risk on these financial instruments, the Company transacts only with the Company's duly accredited domestic and foreign banks. Investments per financial institution are subject to a maximum of 20% of the Company's investible funds. It is the Company's policy that investments cannot exceed 10% of the trust or mutual fund's total assets. The Company monitors the credit quality of corporate and sovereign bonds with reference to credit rating studies and updates from the major rating agencies.

The Company's exposure to credit risk on its cash and cash equivalents, short-term investments, investments held for trading, AFS investments, trade and other receivables and derivative instruments arises from the default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Company.

### **Liquidity Risk**

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company manages liquidity risks by restricting investments principally to publicly traded securities with a history of marketability and by dealing with only large reputable domestic and international institutions.

### **Market Risk**

Market risks are managed by constant review of global and domestic economic and financial environments as well as regular discussions with banks' economists/strategy officers to get multiple perspectives on interest rate trends/forecasts. Regular comparison of the portfolio's marked-to-market values and yields with defined benchmarks are also made.

### **Foreign Currency Risk**

The Company's financial assets that are exposed to foreign currency risk are foreign-currency denominated cash and cash equivalents, short-term investments, investments in unit investment trust funds, and investment in bonds.

Foreign exchange risks on the US dollar and Euro and other foreign currencies are managed through constant monitoring of the political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies. The Company also enters into currency forward contracts to manage its currency risk.

The following table shows the foreign currency-denominated financial assets and their peso equivalents as of September 30, 2008 and December 31, 2007 :

	<b>Sept. 30, 2008</b>		<b>December 31, 2007</b>	
	<b>Foreign currency</b>	<b>Peso equivalent</b>	<b>Foreign currency</b>	<b>Peso equivalent</b>
<b><i>In US Dollar :</i></b>				
Cash & cash equivalents	US\$ 22,203	P1,043,236	US\$16,581	P 684,464
Short-term investments	1,135	53,341	3,342	137,958
Financial assets at FVPL	6,394	300,832	11,740	484,627
	<b>US\$29,732</b>	<b>P1,397,409</b>	<b>US\$31,663</b>	<b>P1,307,049</b>

There are no financial liabilities denominated in foreign currency as of September 30, 2008 and December 31, 2007.

In translating foreign currency-denominated financial assets into peso amounts, the exchange rates used were P47.05 to US\$1.00 as of September 30, 2008 and P41.28 to US\$1.00 as of December 31, 2007.

## **Interest Rate Risk**

### **a. Cash flow interest rate risk**

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

The Company is exposed to cash flow interest rate risk due to Araullo University's variable rate loan from China Bank as follows :

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Loan payable to China Bank	P67,500	P74,250
Less : current portion	9,000	9,105
Net	P58,500	P65,145

Araullo University's loan payable to China Bank represents a 10-year loan from China Bank – Cabanatuan Branch. The proceeds of the loan was used to pre-terminate restructured long-term debt from another local bank, to partially finance Araullo University's building renovation and to purchase various school equipment. The debt is payable on fixed monthly amortization of P750,000 starting April 17, 2006. Interest shall be payable monthly in arrears based on variable pass-on rate plus spread. Actual interest rate was 8.66% in September 30, 2008 and 8.75% in December 31, 2007.

### **b. Price interest rate risk**

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Company accounts for its debt investments at fair value. Thus, changes in bench mark interest rate will cause changes in the fair value of quoted debt instruments.

## **Equity Price Risk**

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The Company's exposure to equity price risk relates primarily to its equity investments listed in the PSE classified under investments held for trading.

The Company's policy is to maintain the risk to an acceptable level. Movement of share price is monitored regularly to determine impact on the Company's financial position.

## **8. Financial Instruments**

### **Fair Value**

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 balance sheet.

<b>Financial Assets</b>	<b>Carrying amount</b>		<b>Fair Value</b>	
	<b>September 30, 2008</b>	<b>June 30, 2008</b>	<b>September 30, 2008</b>	<b>June 30, 2008</b>
Loans and receivables	2,725,653	2,234,639	2,725,653	2,234,639
Financial assets as FVPL :	662,699	1,058,667	662,699	1,058,667
AFS investments :	332,709	332,714	332,709	332,714
Financial Liabilities	1,436,860	1,720,792	1,436,860	1,720,792

The following methods and assumptions are used to estimate the fair value of each class of financial instruments :

*Cash and Cash Equivalents, Trade and Other Receivable, Short-term Investments, Notes Payable, Trade and Other Payables, Trust Receipts Payable and Due to Related Parties.* The carrying amounts approximate fair values due to the relatively short-term maturities of the financial instruments.

*Installment Contract Receivable.* The fair value of this financial asset is based on the discounted value of expected future cash flows using the effective market rate.

*Investments held for Trading and AFS Investments.* Quoted market prices have been used to determine the fair value of financial assets at FVPL and listed AFS investments. Unquoted AFS investments are measured at cost less accumulated impairment loss since the fair value is not readily determinable. The Company does not intend to dispose the unquoted AFS in the near future.

*Long-term Debt.* The fair values are based on the expected cash flows on the instruments,

### **Derivative Instruments**

*Freestanding Derivatives.* The Company has outstanding currency forward contracts with an aggregate notional amount of US\$9.8 million as of September 30, 2008 and US\$19.5 million as of December 31, 2007. The weighted average contracted forward rate is P45.218 to US\$1.00 and P46.911 to US\$1.00 in September 30, 2008 and December 31, 2007 respectively. The net fair value gain and loss on these outstanding current forward contracts as of September 30, 2008 and December 31, 2007 amounted to P22 million loss and P57 million gain respectively.

The net movements in fair value changes of these derivative assets (liability) are as follows :

(in thousands)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Balance beginning	P56,964	P 40,326
Net change in fair value during the year	(48,002)	270,935
Fair value of settled contracts	(31,159)	(254,297)
<b>Balance at end of year</b>	<b>(22,197)</b>	<b>P 56,964</b>

*Embedded Derivatives.* Embedded foreign currency derivatives were bifurcated from certain of the Company's purchase contracts, which are denominated in a currency that is neither the functional currency of a party to the contract nor the routine currency for the transaction.

The net movements in fair value changes of these embedded derivatives are as follows :

(in thousands)

	<b>September 30, 2008</b>	<b>December 31, 2007</b>
Balance beginning	P9,762	P 2,480
Net change in fair value during the year	-	31,895
Fair value of settled contracts	-	(24,613)
<b>Balance at end of year</b>	<b>P9,762</b>	<b>P 9,762</b>

The net changes in fair values of derivatives in September 30, 2008 is part of Other Income in the Company's consolidated statement of income.

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

### **A. Quarter ended September 30, 2008 vs. 2007**

Bacnotan Consolidated Industries, Inc.'s (BCII) consolidated net income in the third quarter of 2008 reached P132 million compared to P70 million income for the same period last year. The P 62 million increase in the net income for the quarter was due to 1) the unrealized foreign exchange gain brought about by the weakening of the peso from P44.90 in June 2008 to P47.05 in September 2008, and the 2) the increase in equitized income from Union Galvasteel Corporation (UGC) as a result of favorable market prices and lower costs .

BCII's unaudited consolidated revenues for the third quarter amounted to P878 million. This is 33% higher compared to the previous year's revenue of P659 million; this increase is attributable to UGC.

### **B. Nine (9) months ended September 30, 2008 vs. 2007**

BCII's unaudited consolidated revenues amounted to P2.5 billion for the nine (9) months ended Sept. 30, 2008. This is higher by 25% compared to revenues of almost P2 billion for the same period last year. This increase is attributable to an increase in sales revenues of UGC brought about by improved selling prices.

Equity in net earnings of associates slightly increased from P40.5 million in September 2007 to P41.7 million for the period January to Sept. 2008.

BCII's unaudited consolidated nine (9) months performance for CY 2008 resulted in a net income of P317 million, a 55% increase from last year's net income of P205 million. The increase is mainly due to higher income from UGC and higher unrealized foreign exchange gain of the parent company.

Of the P 317 million income for the period January to September 2008, P 277 million was income attributable to the equity holders of the parent company.

BCII's total assets by end of September of CY 2008 was P8.3 billion, of which cash and near-cash financial assets amount to P 2.9 billion.

The results of operations of BCII subsidiaries for the nine (9) months ended September 30, 2008 compared to 2007 are as follows :

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

The results of operations for the third quarter of CY 2008 was unprecedented in terms of profitability, despite the slowdown in demand. This was brought about by the realization of higher margins due to favorable market prices and the availability of low priced inventories. Net income for the quarter amounted to P61.3 million or almost triple the income of P21.2 million for the third quarter of 2007.

For the period January to September 2008, demand was almost flat compared with the same period in 2007, however there was a considerable increase in selling prices by 12%. On the other hand, raw material prices have increased by more than 50% year on year. Nevertheless, UGC had the advantage of holding substantial materials procured at more favorable prices than replacement costs.

Consequently, net income for the period peaked at P132 million more than double the P62.1 million realized in 2007.

The sustainability of higher margins is now in doubt since the effects of the US Financial crisis is now being felt in the global steel industry in terms of declining demand resulting in high levels of inventories and its negative effects on prices.

#### **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.

For the nine (9) months ending September 30, 2008, BIPC booked revenue from sale of real estate in the amount of P36 million due to an upward adjustment in the percentage of completion of BIPC's park development. Port revenue, on the other hand, amounted to P17 million, 11% higher compared to the same period last year.

As of September 30, 2008, BIPC posted a net income of P 13 million.

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

For the nine (9) months ended September 30, 2008, Atlas Holdings Corporation, a 90% subsidiary of BCII, registered a net income of P 9 million mainly from financial income. This is almost the same as the income for the same period last year.

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

For the period January to September 2008, Araullo University registered revenues amounting to P139 million while direct costs amounted to P68 million. General and administrative expenses for the same period amounted to P25 million. For the nine (9) months ended September 30, 2008, Araullo University registered a net income of P16 million.

Total assets for the period September 30, 2008 amounted to P394 million while liabilities amounted to P138 million.

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

For the period January to September of CY 2008, COC registered revenues amounted to P110 million. Direct cost and operating expenses as of September 30, 2008 was P53 million and P31 million respectively. COC realized a net income of P7 million for the period January to September 2008, compared to P3 million income last year.

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

Asian Plaza, Inc., (API), A 57% owned subsidiary of BCII, is engaged in the lease of real property. As of September 30, 2008, API posted a net income of P 9 million on revenues of P33 million compared to P6 million income for the same period last year.

### **Key Performance Indicators (KPI)**

The top five (5) KPI's used to measure the financial performance of BCII and its subsidiaries as of September 30, 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)	<u>Net income (loss)</u> Ave. total equity attributable to BCII equity holders	4.87%	3.35%
Gross Profit Margin	<u>Gross profit</u> Net sales	23.08%	21.31%
<b><u>Efficiency</u></b>			
Cash Flow Margin	<u>Cash flow from operating Activities</u> Net sales	3.78%	6.44%
<b><u>Liquidity</u></b>			
Current Ratio	<u>Current assets</u> Current liabilities	4.06 : 1.00	4.15 : 1.00
Debt-to Equity Ratio	<u>Total liabilities</u> Equity attributable to BCII equity holders	0.28 : 1.00	0.30 : 1.00

#### **Profitability**

Return on equity for the period January to September 2008 was 4.87% compared to 3.35% for the same period last year. The increase was due to higher net income for the nine (9) months period of CY 2008 compared to the same period last year.

Gross profit margin went up from 21.31% in September 2007 to 23.08% this year. The improvement is mainly attributable to improved margins of UGC as a result of favorable selling prices.

#### **Efficiency**

Net cash inflow from operations was P94 million for the period January to September 2008 compared to P128 million in January to September 2007. The decrease was mainly due to an increase in inventories during the year.

#### **Liquidity**

Current ratio was 4.06 as of September 30, 2008 compared to 4.15 last year. The decrease was due to increase in accounts payable of UGC. However, debt-equity ratio of BCII and its subsidiaries as of September 30, 2008 improved slightly from 0.30:1.00 as of September 30, 2007 to 0.28:1.00 for September 2008. The slight increase in debt was offset by an increase in equity coming from earnings during the period.

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

### **Cash and cash equivalents**

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

### **Short-term investments**

The increase in the account represents a transfer of short-term placements with maturities of less than 90 days (classified under cash and cash equivalents) to longer-term placements classified under short-term investments.

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

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

### **Inventories**

The increase in inventories comes mainly from the increase in UGC's finished goods and raw materials inventories as of end September 2008.

### **Other current assets**

The decrease in the account represents a decrease in input tax of UGC and a decrease in derivatives. The company had a net asset arising from derivatives in the amount of P 56.9 million as of December 31, 2007 and a net liability of P 22.1 million as of September 30, 2008.

## **LIABILITIES**

### **Trade and other current liabilities**

The increase in the account represents increase in accounts payable trade of UGC.

### **Trust receipts payable**

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

### **Unearned revenues**

Unearned revenue represents tuition-related revenue of AU and COC that are billed at the start of the academic semester. The account is decreased as revenue is earned through the semester.

### **Long-term debt**

The decrease in the account represents payments made by BIPC, UGC and AU on their long-term debt.

### **Non-current Liabilities**

The decrease in the account is attributable to BIPC. In 2008, the Housing and Land Use Regulatory Board (HLURB) approved the decreased in total park development cost, resulting in a decrease in the estimated liability for land development.

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

#### **Revenues**

The increase in revenues is due to 1) increase in selling price and 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 and COC for the period January to September of 2008 compared to the same period last year.

#### **Cost of sales**

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

#### **Operating expenses**

The increase in the account represents increase in the operating expenses of UGC brought about by its higher sales volume.

#### **Other income (expenses) – net**

The increase in the account represents the increase in the unrealized foreign exchange gain of the parent company brought about by the change in the peso-dollar exchange rate from P 41.28 on December 31, 2007 to P 47.05 as of September 30, 2008.

#### **Provision for income tax**

The increase in provision for income tax was brought about by the higher income of UGC during the nine month period of CY 2008.

**SIGNATURES**

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**  
Assistant Vice President - Finance

November 14, 2008

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

	QUARTER ENDED		NINE (9) MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2008	2007	2008	2007
REVENUES	877,897	658,662	2,484,856	1,990,095
COST OF SALES	(640,154)	(544,440)	(1,911,457)	(1,566,020)
GROSS PROFIT	237,743	114,222	573,399	424,075
OPERATING EXPENSES	(108,506)	(47,836)	(278,305)	(209,563)
INCOME FROM OPERATIONS	129,237	66,386	295,094	214,512
OTHER INCOME (EXPENSES) - Net	38,277	19,312	103,167	34,670
INCOME BEFORE INCOME TAX,	167,514	85,698	398,261	249,182
PROVISION FOR INCOME TAX	(35,688)	(16,119)	(81,580)	(44,615)
NET INCOME	131,826	69,579	316,681	204,567
<i>Attributable to :</i>				
Equity holders of the parent	115,660	62,564	276,798	190,507
Minority	16,166	7,015	39,883	14,060
Net income	131,826	69,579	316,681	204,567
Basic Earnings Per Common Share - attributable to Equity Holders of the Parent	0.45	0.24	1.07	0.74

BCI, INC.

*Unaudited Computation of Earnings (loss) Per Share*

As of September 30, 2008 and 2007

*amounts in thousands except earnings per share*

	<b>UNAUDITED</b>		<b>UNAUDITED</b>	
	<b>Quarter Ended</b>		<b>Nine (9) Months Ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net income attributable to equity holders of the parent	115,660	62,564	276,798	190,507
# of common shares outstanding	257,737	257,737	257,737	257,737
<b>Basic earnings per share attributable to equity holders of the parent</b>	<b>0.45</b>	<b>0.24</b>	<b>1.07</b>	<b>0.74</b>

**BACNOTAN CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED BALANCE SHEETS**

*(In Thousand Pesos)*

	<b>UNAUDITED</b>	<b>AUDITED</b>
	<b>SEPT. 30,</b>	<b>DEC. 31,</b>
	<b>2008</b>	<b>2007</b>
<b>A S S E T S</b>		
CURRENT ASSETS	4,423,663	4,192,788
INVESTMENTS AND ADVANCES - net	1,265,093	1,192,065
AVAILABLE FOR SALE INVESTMENTS	332,709	313,366
PROPERTY, PLANT & EQUIPMENT - Net	1,275,704	1,294,892
INVESTMENT PROPERTIES	770,619	784,577
OTHER ASSETS	208,324	178,983
<b>TOTAL ASSETS</b>	<b>8,276,112</b>	<b>7,956,671</b>
<b>LIABILITIES &amp; STOCKHOLDERS EQUITY</b>		
CURRENT LIABILITIES	1,090,884	1,010,126
NONCURRENT LIABILITIES	561,128	627,637
MINORITY INTEREST	816,467	781,344
STOCKHOLDERS' EQUITY		
Capital Stock	2,577,249	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	18,616	24,784
Unrealized gain on change in fair value of an AFS investments	590	1,151
Retained Earnings	2,941,950	2,899,459
Total Stockholders' Equity	5,807,633	5,537,564
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>8,276,112</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>SEPTEMBER 30</b>	<b>DECEMBER 31</b>
	<b>2008</b>	<b>2007</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	2,064,286	1,660,878
Short-term investments	148,281	77,545
Financial Assets at fair value through profit or loss	662,669	1,046,308
Trade and other receivables	448,107	368,705
Inventories	981,201	824,363
Other current assets - net	119,089	214,989
<b>Total</b>	<b>4,423,633</b>	<b>4,192,788</b>
<b>CURRENT LIABILITIES</b>		
Notes payable	215,544	219,667
Trade and other current liabilities	426,826	382,487
Trust receipts payable	263,936	191,302
Unearned revenues	45,711	79,070
Current portion of long-term debt	138,867	137,600
<b>Total</b>	<b>1,090,884</b>	<b>1,010,126</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt - net of current portion	394,966	464,007
Deferred tax liabilities	78,615	65,981
Deferred rent revenue	51,892	51,892
Other noncurrent liabilities	35,655	45,757
<b>Total</b>	<b>561,128</b>	<b>627,637</b>

## Exhibit III

### BACNOTAN CONSOLIDATED INDUSTRIES, INC. AND SUBSIDIARIES

#### Unaudited Statement of Changes in Equity

(in thousands)

	UNAUDITED		AUDITED
	JAN. - SEPTEMBER		December
	2008	2007	2007
<b>CAPITAL STOCK - common</b>	2,577,249	2,342,942	2,343,942
<b>ADDITIONAL PAID-IN CAPITAL</b>	255,785	255,785	255,785
<b>SHARE IN EQUITY COMPONENT OF CONVERTIBLE NOTES</b>	13,443	15,409	13,443
<b>SHARE IN UNREALIZED GAINS ON FINANCIAL ASSETS OF ASSOCIATES</b>	18,616	23,834	24,784
<b>UNREALIZED GAIN ON CHANGE IN FAIR VALUE OF AN AVAILABLE-FOR-SALE INVESTMENTS</b>	590	-	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)
	1,899,459	1,893,777	1,874,667
Net Income (loss)	276,798	190,507	330,410
Stock dividends on common shares	(234,307)	(305,618)	(305,618)
<b>TOTAL</b>	1,941,950	1,778,666	1,899,459
<b>MINORITY INTEREST</b>	816,467	759,137	781,344
<b>TOTAL EQUITY</b>	<b>6,624,100</b>	<b>6,175,773</b>	<b>6,319,908</b>

## BACNOTAN CONSOLIDATED INDUSTRIES INC. AND SUBSIDIARIES

**Unaudited Consolidated Statements of Cash Flows**

For the nine (9) months ended September 30, 2008 and 2007

	<b>September 30 2008</b>	<b>September 30 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income (Loss)	398,261	249,182
Adjustments for:		
Depreciation, amortization and depletion	128,792	98,534
Equity in net earnings of investees	(41,737)	(40,568)
Unrealized foreign exchange (gain) loss	(171,643)	101,017
Unrealized (gain) loss on change in fair value	27,262	(7,089)
Unrealized gain on derivatives	22,197	(46,839)
Dividend income	(2,724)	(47,895)
Changes in working capital	(264,295)	(114,391)
Others	(2,228)	(63,725)
<i>Cash provided by (used in) operating activities</i>	<b>93,885</b>	<b>128,226</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in other noncurrent assets	(29,340)	(876)
Proceeds received from settlement of derivative asset	51,531	112,389
Settlement of derivative liability	(20,373)	-
Decrease (increase) in		
Short term investments	(67,471)	108,657
Financial assets at fair value through profit and loss	435,625	977,274
Investments	(63,351)	(52,711)
Available for sale investments	(19,905)	(19,939)
Property and equipment	(95,646)	(2,411)
Dividend received	28,616	59,239
<i>Cash provided by (used in) investing activities</i>	<b>219,686</b>	<b>1,181,622</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from (Payments of) :		
Short-term borrowing	68,511	(144,581)
Long-term borrowing	(67,774)	23,784
<i>Cash provided by (used in) financing activities</i>	<b>737</b>	<b>(120,797)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH & CASH EQUIVALENTS	89,100	(50,406)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>314,308</b>	<b>1,189,051</b>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,660,878	612,202
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>2,064,286</b>	<b>1,750,847</b>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.

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

As of September 30, 2008

*in thousands*

	<u>AMOUNT</u>
Current	296,549
1 - 30 days	31,315
31 - 60 days	12,290
Over 90 days	<u>86,168</u>
<b>TOTAL</b>	<b>426,322</b>
Less : Allow. For Doubtful Accounts	<u>103,236</u>
<b>Trade Receivable - Net</b>	<b><u><u>323,086</u></u></b>

BACNOTAN CONSOLIDATED INDUSTRIES, INC.  
**Consolidated Aging of A/R- Non Trade**  
As of September 30, 2008  

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*(in thousands)*

	<u>AMOUNT</u>
Current	117,616
0 - 30 days	1,127
31 - 60 days	564
Over 90 days	<u>15,050</u>
<b>TOTAL</b>	<b>134,357</b>
Less : Allow. For Doubtful Accounts	<u>9,336</u>
<b>Non-Trade Receivable - Net</b>	<b><u><u>125,021</u></u></b>