December 1, 2005

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

Attention: Ms. Justina F. Callangan
Director
Corporation Finance Department

Dear Ms. Callangan:

This is in reference to the checklist of the incomplete/undisclosed requirements of our audited financial statements for the year ended December 31, 2004 we received last November 29 thru fax.

Summarized below are our answers to the comments you mentioned in the checklist:

SEC Comments	*Answers*
1. Related Party Transactions	
• Nature of related party transactions	In Note 14 to financial statements, the term "related parties" has been defined as companies under common control of the Group. Further, the details in the note discussing each of the significant transactions indicate whether the related party is an affiliate or a stockholder
• Outstanding items – i.e., balances at year-end	The details in Note 14 to financial statements indicate the outstanding balances of trade payables, trade receivables and short-term loans as of December 31, 2004, 2003 and 2002.
• There should be a separate disclosure, rather than in aggregate, of items of similar nature	The disclosures in Note 14 to financial statements indicate the significant transactions with related parties. These are segregated from the Group's transactions with other parties by a disclosure of the outstanding balances as well as the amount of transaction during the year.
2. Inventory	
• The financial statements should disclose either: (a) the cost of inventories recognized as an expense during the period; or (b) the operating costs, applicable to revenues, recognized as an expense during the period, classified by their nature.	The amount of inventories used and charged to operations is disclosed in Note 16 to financial statements.

• The following disclosures should be made: (a) declines subsequent to balance sheet date in market prices of inventory not protected by firm sales contracts; (b) changes in pricing methods and the effects thereof; (c) unusual purchase commitments and accrued net losses, if any, on such commitments. (Losses which are expected to arise from firm and uncancellable commitments for the future purchase of inventory items, should, if material, be recognized in the accounts and separately disclosed in the income statement); and (d) the amount of any substantial and unusual write-downs.	As of March 29, 2005, the date of report of our independent auditors, there were no significant declines in the market prices of our inventories nor were there changes in our pricing methods. Also, there were no unusual purchase commitments with our suppliers. There was also no write-down of inventories in 2004.
3. Retirement Benefit Plan • Statement of changes in net assets available for benefits; • A summary of significant accounting policies; and • A description of the plan and the effect of any changes in the plan during the period.	These disclosure requirements are under Statement of Financial Accounting Standards (SFAS) 26/International Accounting Standards (IAS) 26, Retirement Benefit Plans. Per SFAS 26/IAS 26, the standard "should be applied in the reports of retirement benefit plans where such reports are prepared". The required disclosures on companies' retirement benefits costs are covered by SFAS 24, Retirement Benefits Cost. These are disclosed in Note 17 to financial statements.

Hope that this letter will address all your concerns. Thank you.

Very truly yours,

EDISON CO SETENG
President and General Manager

COVER SHEET

2 4 0 1 5

SEC Registration Number

M A R I W A S A   M A N U F A C T U R I N G ,   I N C .   A N D

S U B S I D I A R I E S

(Company's Full Name)

O r t i g a s   A v e n u e   E x t e n s i o n ,

B o .   R o s a r i o ,   P a s i g   C i t y

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

Edison Co Seteng

(Contact Person)

628-3871

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Calendar Year)

1 7 – A

(Form Type)

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors

The Stockholders and the Board of Directors
Mariwasa Manufacturing, Inc.
Ortigas Avenue Extension
Bo. Rosario, Pasig City

We have audited the accompanying consolidated balance sheets of Mariwasa Manufacturing, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mariwasa Manufacturing, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. The Parent Company and its subsidiaries have incurred recurring net losses and have a working capital deficiency. In addition, the Parent Company and its major subsidiary have not complied with certain loan covenants with creditor banks. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Parent Company and its subsidiaries' ability to continue as a going concern. The consolidated financial statements do not include any adjustment to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

SyCip Gorres Velayo & Co.

Aileen L. Saringan
Partner
CPA Certificate No. 72557
SEC Accreditation No. 0096-A
Tax Identification No. 102-089-397
PTR No. 9404030, January 3, 2005, Makati City

March 29, 2005

MARIWASA MANUFACTURING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Number of Shares, and Par Value Per Share)

	December 31	
	2004	2003 (As restated, Note 3)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	**₱58,502**	₱53,316
Receivables - net (Notes 5 and 14)	**224,126**	188,848
Inventories (Note 6)	**454,719**	450,956
Prepaid expenses and other current assets	**30,173**	21,447
Total Current Assets	**767,520**	714,567
Noncurrent Assets		
Investments - at cost	**17,535**	20,344
Property, plant and equipment (Notes 7, 10, 11 and 12)		
At cost - net	**2,023,737**	2,138,856
At appraised values	**977,930**	937,865
Other noncurrent assets	**21,875**	36,148
Total Noncurrent Assets	**3,041,077**	3,133,213
TOTAL ASSETS	**₱3,808,597**	₱3,847,780
LIABILITIES AND EQUITY		
Current Liabilities		
Short-term loans (Notes 8 and 14)	**₱644,256**	₱616,761
Accounts payable and accrued expenses (Notes 9, 12, 14, 15 and 17)	**519,581**	489,233
Acceptances and trust receipts payable (Note 6)	**191,314**	151,222
Income tax payable	**2,741**	4,703
Current portion of:		
Installment payable (Note 10)	**18,063**	19,512
Obligations under capital lease (Notes 7, 11 and 22)	**22,288**	16,358
Long-term debt (Notes 12 and 15)	**1,945,774**	531,681
Total Current Liabilities	**3,344,017**	1,829,470
Noncurrent Liabilities		
Installment payable - net of current portion (Note 10)	**14,583**	29,567
Obligations under capital lease - net of current portion (Notes 7, 11 and 22)	**93,826**	113,901
Long-term debt - net of current portion (Notes 12 and 15)	**–**	1,377,794
Deferred income tax liability (Notes 3 and 18)	**146,985**	274,472
Total Noncurrent Liabilities	**255,394**	1,795,734
Total Liabilities	**3,599,411**	3,625,204
Equity		
Capital stock - ₱1 par value (Note 13)		
Authorized - 1,000,000,000 shares		
Issued - 924,999,969 shares	**925,000**	925,000
Deposits for future stock subscriptions (Note 13)	**200,000**	200,000
Additional paid-in capital	**152,796**	152,796
Revaluation increment in land - net (Notes 3 and 7)	**750,804**	583,252
Deficit (Note 2)	**(1,819,414)**	(1,638,472)
Total Equity	**209,186**	222,576
TOTAL LIABILITIES AND EQUITY	**₱3,808,597**	₱3,847,780

See accompanying Notes to Consolidated Financial Statements.

MARIWASA MANUFACTURING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Loss Per Share)

	Years Ended December 31		
	2004	2003	2002
NET SALES (Note 14)	**₱1,883,450**	₱1,685,680	₱1,328,924
COST OF GOODS SOLD (Note 16)	**1,538,936**	1,415,538	1,194,602
GROSS PROFIT	**344,514**	270,142	134,322
OPERATING EXPENSES (Notes 14, 16 and 17)	**225,023**	249,900	263,844
INCOME (LOSS) FROM OPERATIONS	**119,491**	20,242	(129,522)
OTHER INCOME (CHARGES)			
Financing charges (Notes 8, 10, 11, 12 and 14)	**(254,576)**	(208,205)	(194,633)
Foreign exchange losses - net (Note 15)	**(46,030)**	(149,446)	(140,534)
Interest income	**800**	962	1,168
Others - net	**8,188**	3,801	3,541
	(291,618)	(352,888)	(330,458)
LOSS BEFORE INCOME TAX	**(172,127)**	(332,646)	(459,980)
PROVISION FOR INCOME TAX - Current (Note 18)	**8,815**	7,540	5,780
NET LOSS	**(₱180,942)**	(₱340,186)	(₱465,760)
LOSS PER SHARE (Note 19)	**(₱0.196)**	(₱0.368)	(₱0.504)

See accompanying Notes to Consolidated Financial Statements.

MARIWASA MANUFACTURING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱172,127)**	(₱332,646)	(₱459,980)
Adjustments for:			
Depreciation and amortization (Notes 7 and 16)	**170,403**	159,421	177,423
Impairment loss (Note 7)	**–**	13,544	5,772
Unrealized foreign exchange losses	**32,432**	133,061	94,334
Loss (gain) on sale of property and equipment	**(254)**	–	2,130
Write-off of inventories	**–**	–	17,691
Provisions for:			
Doubtful accounts (Note 16)	**5,082**	19,695	2,000
Inventory obsolescence	**–**	14,551	–
Financing charges	**254,576**	208,205	194,633
Interest income	**(800)**	(962)	(1,168)
Operating income before working capital changes	**289,312**	214,869	32,835
Decrease (increase) in:			
Receivables	**(40,623)**	(37,643)	39,814
Inventories	**(3,763)**	(28,700)	44,145
Prepaid expenses and other current assets	**(5,301)**	(16,416)	10,635
Increase (decrease) in:			
Accounts payable and accrued expenses	**(12,669)**	42,480	14,095
Acceptances and trust receipts payable	**44,557**	(69,655)	194,471
Cash generated from operations	**271,513**	104,935	335,995
Financing charges paid	**(211,896)**	(130,966)	(195,571)
Interest received	**1,063**	699	1,168
Income taxes paid, including creditable withholding taxes	**(14,202)**	(8,945)	–
Net cash from (used in) operating activities	**46,478**	(34,277)	141,592
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposals of (additional) investments	**2,809**	(481)	(1,719)
Acquisitions of property, plant and equipment	**(55,297)**	(81,491)	(94,682)
Proceeds from sale of property and equipment	**267**	–	4,956
Decrease (increase) in other noncurrent assets	**16,030**	(6,075)	(1,539)
Net cash used in investing activities	**(36,191)**	(88,047)	(92,984)

(Forward)

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of:			
Short-term loans	**₱49,530**	₱216,250	₱37,122
Installment payable	**–**	–	14,781
Payments of:			
Short-term loans	**(23,565)**	(92,827)	(39,503)
Installment payable	**(16,921)**	(17,139)	(11,827)
Obligations under capital lease	**(14,145)**	(73)	–
Long-term debt	**–**	(3,333)	(28,853)
Net cash from (used in) financing activities	**(5,101)**	102,878	(28,280)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,186**	(19,446)	20,328
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**53,316**	72,762	52,434
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱58,502**	₱53,316	₱72,762

See accompanying Notes to Consolidated Financial Statements.

MARIWASA MANUFACTURING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in Thousands)

	Years Ended December 31		
	2004	2003 (As restated, Note 3)	2002 (As restated, Note 3)
CAPITAL STOCK (Note 13)	**₱925,000**	₱925,000	₱925,000
DEPOSITS FOR FUTURE STOCK SUBSCRIPTIONS (Note 13)	**200,000**	200,000	200,000
ADDITIONAL PAID-IN CAPITAL	**152,796**	152,796	152,796
REVALUATION INCREMENT IN LAND - Net (Note 7)			
Beginning of year			
As previously stated	**633,745**	633,745	898,614
Effect of change in accounting for income taxes (Notes 3 and 18)	**(50,493)**	(50,493)	(287,557)
As restated	**583,252**	583,252	611,057
Adjustment to deferred income tax liability (Note 18)	**191,760**	–	13,085
Revaluation decrease in land of Parent Company	**(160,788)**	–	(40,890)
Revaluation increase in land of MSCI	**136,580**	–	–
End of year	**750,804**	583,252	583,252
DEFICIT (Note 2)			
Beginning of year	**(1,638,472)**	(1,298,286)	(832,526)
Net loss for the year (Note 2)	**(180,942)**	(340,186)	(465,760)
End of year	**(1,819,414)**	(1,638,472)	(1,298,286)
TOTAL EQUITY	**₱209,186**	₱222,576	₱562,762

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Par Value Per Share, Weighted Average Number of Shares Outstanding, and Loss Per Share)

1. Corporate Information

Mariwasa Manufacturing, Inc. (the Parent Company) and subsidiaries (collectively referred to as the Group) were incorporated in the Philippines. The Parent Company was incorporated on November 5, 1963. The Parent Company's registered office address is Ortigas Avenue Extension, Bo. Rosario, Pasig City. The Group is primarily engaged in the manufacture of ceramic tiles. The Group had 810, 788 and 764 employees as of December 31, 2004, 2003 and 2002, respectively.

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 29, 2005.

2. Status of Operations

The accompanying consolidated financial statements were prepared assuming that the Group will continue as a going concern. The Group has incurred recurring net losses and has a working capital deficiency. The Group incurred net losses of ₱180,942, ₱340,186 and ₱465,760, for the years ended December 31, 2004, 2003 and 2002, respectively. The Group's current liabilities exceeded its current assets by ₱2,576,497 and ₱1,114,903 as of December 31, 2004 and 2003, respectively. In addition, the Parent Company and its major subsidiary have not complied with certain loan covenants with creditor banks and are not in a position to comply with the repayment schedule (see Note 12). These conditions indicate the existence of a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern.

To address these conditions:

a. Steps are being undertaken by the Group to improve business operations, which include the following:

   i. Increasing the revenue base through the introduction of new premium products oriented towards the medium and higher residential segments;

      The Group is also increasing exports to Thailand to fully utilize its installed capacity and to accelerate the transfer of the Parent Company's idle production lines in Pasig to its major subsidiary located in Batangas by the first quarter of 2006.

   ii. Increasing the Group's presence and its activities in emerging markets outside the National Capital Region;

   iii. Implementing additional programs designed to reduce other production costs, which include the following:

      a. Joint programs with suppliers to reduce raw material costs;

b. Energy conservation/reduction programs, which have reduced total energy costs by 8% in 2004; and

c. Line efficiency programs designed to reduce wastages and reduce material consumption.

iv. Initiating loan restructuring in 2004 on which progress has been made.

While the Group has not been able to fully service its debt in 2004 and 2003, it has substantially improved its interest payments in 2004. Further, negotiations for loan restructuring were initiated in 2004 and progress has been made. The Group expects the restructuring to be completed before the end of the third quarter of 2005.

b. The Group has also undertaken the following measures:

i. Tightening credit control to avert potential bad debts; and

ii. Continuously improving production efficiencies and cutting down overall costs by consolidation and rationalization of capacities and continued downsizing.

Meanwhile, in view of the continuing losses of the Parent Company, its BOD approved in June 2001 a motion to permanently cease the manufacturing operations at the Parent Company's Pasig plant and transfer all manufacturing operations to Mariwasa-Siam Ceramics, Inc. (MSCI), a wholly owned subsidiary in Batangas. As a result of this move, the Parent Company retrenched around 400 employees and incurred separation costs amounting to ₱53,075. Further, some assets of the Parent Company with a carrying value of ₱623 and ₱3,173 were transferred to MSCI in 2004 and 2003, respectively, for use in operations.

While the Parent Company has stopped all manufacturing operations at its Pasig plant, it is still very active in marketing and selling ceramic tiles and associated products. The Parent Company serves as the corporate center for MSCI and provides services in areas such as accounting, financial control, human resources development, information technology, logistics, and treasury (see Note 14).

Significant sales growth was experienced by MSCI throughout 2004. Management believes that this will continue in 2005.

Further, with the increase in demand for MSCI's products, some of the equipment (raw material plant equipment) from Pasig will be transferred to the Batangas plant in 2005 and one more kiln will be transferred in 2006. The remaining machinery and equipment will be transferred by the middle of 2008.

The ultimate outcome of management's actions and programs as discussed above cannot be presently determined. The accompanying consolidated financial statements do not include any adjustment to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

3. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying consolidated financial statements have been prepared under the historical cost convention, except for the parcels of land which are carried at appraised values, and in conformity with accounting principles generally accepted in the Philippines.

Adoption of New Accounting Standards
On January 1, 2004, the Group adopted the following Statement of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS), which became effective in 2004:

- SFAS 12/IAS 12, *Income Taxes,* prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred income tax liability and, subject to certain conditions, deferred income tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred income tax asset when it is probable that taxable income will be available against which the deferred income tax asset can be used. It provides for the recognition of a deferred income tax liability with respect to asset revaluations. The standard also prescribes the required disclosures that should be included with respect to these items.

  In prior years, deferred income tax assets were recognized for deductible temporary differences and carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO). A valuation allowance was provided for deferred income tax assets when it is more likely than not that some or all of the deferred income tax assets will not be utilized in the future.

  The adoption of this standard was accounted for retroactively. It resulted in the reversal of deferred income tax assets and related valuation allowance of ₱383,080 as of December 31, 2003. It also resulted in the recognition of deferred income tax liability on the revaluation increment in land by the Parent Company of ₱223,979 and the subsidiary of ₱50,493 as of December 31, 2002. The retroactive application of SFAS 12/IAS 12 has no effect on deficit as of January 1, 2004 and 2003.

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures to apply to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased assets. On the other hand, lease payments under an operating lease should be recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit. The adoption of this standard has no effect on the consolidated financial statements and did not result in the restatement of prior years' consolidated financial statements.

Accounting Standards Effective Subsequent to 2004

New and revised accounting standards based on IAS and International Financial Reporting Standards, referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS), respectively, will become effective in 2005. The Group will adopt the following new accounting standards that are relevant to the Group effective January 1, 2005:

- PAS 19, *Employee Benefits*, results in the use of the projected unit credit method in measuring retirement benefits expense and a change in the manner of computing benefits expense relating to past service cost and actuarial gains and losses. It requires the company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity to ensure that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

  The Group will adopt PAS 19 in 2005. This will result in the restatement of prior years' consolidated financial statements to recognize the increase in liability. The balance of deficit as of January 1, 2005, 2004, and 2003 will increase by ₱17,292, ₱9,915, and ₱10,555, respectively, representing the increase in liability as of those dates.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, prohibits the capitalization of foreign exchange losses. Upon adoption of PAS 21 in 2005, undepreciated capitalized foreign exchange losses of ₱29,284 as of December 31, 2004 will be adjusted against beginning deficit and prior years' consolidated financial statements will be restated.

- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the company, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial instruments (price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liability or equity in accordance with their substance and not their legal form.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value.

PAS 39 also covers the accounting for derivative instruments. This standard has expanded the definition of a derivative instrument to include derivatives (and derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the balance sheet as either an asset or liability measured at its fair value. Derivatives that do not qualify as hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedging relationship, changes in the fair value of the derivative are either offset against the changes in fair value of the hedged assets, liabilities, and firm commitments through earnings, or recognized in stockholders' equity until the hedged item is recognized in earnings. The company must formally document, designate, and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

The Group is currently assessing the operational and financial statement impact of adopting PAS 32 and 39. Under PAS 39, all derivatives instruments (both freestanding and embedded) as well as most financial instruments will be measured at fair value which may add volatility to the balance sheets and statements of income. However, the quantitative impact of adopting PAS 39 will be determined only upon substantial completion of the implementation activities. The effect of adopting PAS 32 and 39 in 2005 will be computed retroactively and adjusted to the 2005 beginning deficit. Disclosure requirements, where applicable, will be included in the 2005 consolidated financial statements. Prior years' consolidated financial statements will not be restated as allowed by the Philippine Securities and Exchange Commission (SEC).

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon adoption of PAS 40 in 2005, the Group will continue to carry its investment property at fair value. Any change in the fair market value of the investment property at each balance sheet date will be recognized in the consolidated statements of income.

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, provides guidance when the company adopts PFRS for the first time. It sets forth requirements on the beginning balance sheet prepared under PFRS as a starting point for the company's accounting under PFRS. PFRS 1 also sets forth the required disclosures that explain how the transition from the previous SFAS/IAS to PFRS affected the company's reported financial position, financial performance, and cash flows. The Group is currently assessing the operational and financial statement impact of adopting PFRS 1.

The Group will also adopt in 2005 the following revised standards:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the entity's accounting policies.

- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories. It does not permit the use of the last in, first out formula to measure the cost of inventories.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting error.

- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.

- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases*, provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the compensation of key management personnel by benefit type.

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in the consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 33, *Earnings Per Share*, prescribes principles for the determination and presentation of earnings per share for companies with publicly traded shares, companies in the process of issuing ordinary shares to the public, and companies that calculate and disclose earnings per share. The standard also provides additional guidance in computing earnings per share including the effects of mandatorily convertible instruments and contingently issuable shares, among others.

- PAS 36, *Impairment of Assets*, prescribes guidance on how to measure the recoverable amount of an intangible asset with an indefinite useful life annually, whether or not there is an indication of impairment. Goodwill recognized on a business combination is required to be tested for impairment annually.

The Group does not expect any significant changes in its accounting policies when it adopts the above revised standards in 2005, except for the effect of PAS 27. Upon adoption of PAS 27 in 2005, the Parent Company will account for its investments in subsidiaries in the separate financial statements under the cost method less any impairment in value.

Basis of Consolidation
The consolidated financial statements include the accounts of the Parent Company and the following wholly owned subsidiaries, which are all incorporated in the Philippines:

Artistica Ceramica, Inc. (ACI)[1]
Cera Linda Incorporated (CLI)[1]
Ceramic Tile Specialists, Inc. (CTSI)[2]
Cyber Ceramics, Inc. (CCI)[1]
MSCI
Millennium Ceramics, Inc. (MCI)[1]
[1] Ceased operations in 2000
[2] Ceased operations in 1998

The subsidiaries are consolidated from the date on which control is transferred to the Group, and they cease to be consolidated from the date on which control is transferred out of the Group.

Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances. All significant intercompany transactions and balances, including intercompany profits and losses and unrealized profits and losses, are eliminated.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from sale of goods is recognized when the goods are delivered to and accepted by the customers. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discount and value rebate.

Interest income is recognized as the interest accrues.

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.

Receivables

Receivables are recognized and carried at original invoice amount less allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. NRV of finished goods and work in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. NRV of raw materials, and spare parts and supplies is the current replacement cost.

Investments

Investments are carried at cost less any significant and apparently permanent decline in value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value, except for parcels of land of the Parent Company and MSCI which are stated at appraised values as determined by independent appraisers. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

The net appraisal increment pertaining to land resulting from the revaluation is shown as "Revaluation increment in land", net of deferred tax liability, in the consolidated balance sheets and consolidated statements of changes in equity. Any resulting decrease in the land's carrying amount as a result of subsequent revaluation is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment. Any excess is recognized as expense. Any amount pertaining to the disposal of land at revalued amount is transferred to the "Deficit" account shown in the consolidated balance sheets and consolidated statements of changes in equity.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes, and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost includes capitalized foreign exchange differences on the foreign currency-denominated loan used to finance the acquisition of property, plant and equipment, provided that the resulting carrying amounts of the property, plant and equipment do not exceed their recoverable values. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. When assets are sold or retired, their cost, accumulated depreciation and amortization, and impairment in value are eliminated from the accounts, and any gain or loss resulting from their disposal is included in the consolidated statements of income.

Depreciation and amortization are computed using the straight-line method based on the estimated useful life of the assets as follows:

Building and improvements	10 to 45 years
Machinery and equipment	2 to 20 years
Others:	
Land improvements	10 to 40 years
Furniture, fixtures and equipment	5 to 10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements (10 years), whichever is shorter.

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

The useful life and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

Idle property, plant and equipment are carried at the lower of net realizable value and net carrying value.

Impairment of Assets
The carrying values of property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment, and other long-lived assets is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements of income.

Borrowing Costs
Borrowing costs are generally recognized as expense in the year in which these costs are incurred, except those borrowing costs that are directly attributable to the acquisition or construction of the property, plant and equipment.

The capitalization of borrowing costs: (a) commences when the expenditures and borrowing costs for the acquisition or construction of the property, plant and equipment are being incurred and activities necessary to prepare them for their intended use are in progress; (b) is suspended during extended periods in which active development is interrupted; and (c) ceases when substantially all the activities necessary to prepare the property, plant and equipment for their intended use are complete.

Leases

Lease payments under an operating lease agreement are recognized as expense in the consolidated statements of income on a straight-line basis.

Equipment held under leasing agreements that transfer substantially all the risks and give rights equivalent to ownership are treated as finance leases Finance leases are recorded in the consolidated financial statements as assets and liabilities at amounts equal to the fair value of the leased property, or, if lower, at the present value of the minimum lease payments.

Retirement Benefits Costs

Retirement benefits costs are actuarially determined using the projected unit credit method. This method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement benefits costs include current service cost plus amortization of past service cost, experience adjustments, and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Provisions and Contingencies

Provisions are recognized when the Group 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 pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

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

Income Taxes

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

Deferred income tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess MCIT over RCIT and NOLCO, but only 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 excess MCIT over RCIT and NOLCO can be utilized. Deferred income tax, however, is not recognized when it 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.

Deferred income tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign Currency-Denominated Transactions and Translations
Transactions in foreign currencies are recorded using the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are revalued using the exchange rate at the balance sheet date. Exchange gains or losses on foreign currency-denominated loans used to finance the acquisition of property, plant and equipment are added to or deducted from the carrying amounts of the related property, plant and equipment, provided that the resulting carrying amounts do not exceed the asset's recoverable value. Other exchange gains or losses are credited to or charged directly against current operations.

Financial Instruments
MSCI uses short-term deliverable currency forward contracts to manage foreign currency risks arising from foreign currency-denominated obligations. The forward contracts are marked to market and any resulting gains and losses are taken to the consolidated statements of income.

Earnings or Loss Per Share
Earnings or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	2004	2003
Cash on hand and in banks	**₱55,675**	₱53,316
Short-term investments	**2,827**	–
	₱58,502	₱53,316

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

5. Receivables

Receivables consist of:

	2004	2003
Trade (Note 14)	**₱237,068**	₱197,072
Advances to officers and employees	**5,815**	6,173
Loans receivable	**2,650**	3,000
Advances to suppliers and contractors	**1,174**	384
Others	**8,546**	8,264
	255,253	214,893
Less allowance for doubtful accounts	**31,127**	26,045
	₱224,126	₱188,848

6. Inventories

Inventories consist of:

	2004	2003
Finished goods:		
At cost	**₱166,679**	₱195,689
At NRV	**6,894**	12,066
Work in process - at cost	**26,930**	31,065
Raw materials - at cost	**134,604**	102,259
Spare parts and supplies - at cost	**119,612**	109,877
	₱454,719	₱450,956

Under the terms of agreements covering liabilities under trust receipts, some raw materials and spare parts amounting to ₱44,535 and ₱19,974 in 2004 and 2003, respectively, have been released to MSCI in trust for the banks. MSCI is accountable to the banks for the trusteed raw materials and spare parts or the sales proceeds of the finished goods.

7. Property, Plant and Equipment

Property, plant and equipment consist of:

At cost:

	Building and Improvements	Machinery and Equipment	Construction in Progress	Others	**2004 Total**	2003 Total
Cost						
Beginning balance	₱631,985	₱2,605,283	₱14,306	₱90,850	**₱3,342,424**	₱3,136,149
Additions	4,820	37,911	7,949	4,617	**55,297**	211,823
Retirements and disposals	–	(1,595)	–	–	**(1,595)**	(5,548)
Reclassifications	–	96	–	(96)	**–**	–
Ending balance	636,805	2,641,695	22,255	95,371	**3,396,126**	3,342,424

(Forward)

	Building and Improvements	Machinery and Equipment	Construction in Progress	Others	**2004 Total**	2003 Total
Accumulated Depreciation, Amortization, and Impairment Loss						
Beginning balance	₱101,372	₱1,058,753	₱–	₱43,443	**₱1,203,568**	₱1,036,207
Depreciation and amortization	12,403	150,080	–	7,920	**170,403**	159,421
Retirements and disposals	–	(1,582)	–	–	**(1,582)**	(5,604)
Impairment loss	–	–	–	–	**–**	13,544
Ending balance	113,775	1,207,251	–	51,363	**1,372,389**	1,203,568
Net Book Value	₱523,030	₱1,434,444	**₱22,255**	**₱44,008**	**₱2,023,737**	₱2,138,856

Land at appraised values:

	2004	2003
Beginning balance	**₱937,865**	₱937,865
Revaluation decrease in land of Parent Company	**(160,788)**	–
Revaluation increase in land of MSCI	**200,853**	–
Ending balance	**₱977,930**	₱937,865
Historical cost	**₱82,303**	₱82,303

As a result of the cessation of the operations of the Parent Company in June 2001 and all the other subsidiaries except for MSCI in prior years, a substantial portion of property, plant and equipment are held idle by the Group. The carrying value of the temporarily idle property, plant and equipment amounted to ₱66,088 as of December 31, 2004 and ₱91,596 as of December 31, 2003. Land of the Parent Company, which is retired from active use and held for disposal, has a carrying value amounting to ₱538,540 as of December 31, 2004 and ₱699,328 as of December 31, 2003 (see Note 18).

In 2003, an impairment loss was recognized representing a portion of the carrying value of the building located at the old plant in Pasig amounting to ₱13,544, since it has no future use and no future cash inflows.

Land is stated at appraised value as determined by independent appraisers. In 2004, a write-down in the value of the land of the Parent Company amounting to ₱160,788 was recognized representing the difference between its carrying amount and its fair market value as of December 31, 2004 based on the latest appraisal report.

The property, plant and equipment of the Parent Company and the entire plant facilities of MSCI with carrying value of ₱2,957,523 and ₱3,039,464 in 2004 and 2003, respectively, serve as collateral to secure the Parent Company's and MSCI's long-term debt.

Machinery and equipment includes MSCI's power plant under a capital lease agreement (see Note 11) with a carrying value of ₱134,259 and ₱145,582 as of December 31, 2004 and 2003, respectively.

8. **Short-term Loans**

Short-term loans consist of accounts payable to local banks, financing institutions, and stockholders with interest rates ranging from 10.00% to 14.00% per annum in 2004 and 8.16% to 13.00% per annum in 2003.

9. **Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of:

	2004	2003
Trade (Note 15)	**₱257,064**	₱279,423
Accrued:		
Operating expenses	**77,528**	93,887
Management fee (Note 14)	**54,657**	44,294
Interest expense and penalties (Note 12)	**83,055**	40,379
Retirement benefits costs (Note 17)	**25,849**	27,626
Others	**21,428**	3,624
	₱519,581	₱489,233

10. **Installment Payable**

Installment payable pertains to MSCI's acquisition of equipment for floor-glazed tile production. The equipment was acquired from a foreign supplier and is payable in 14 equal quarterly installments up to 2006 with interest ranging from 6.36% to 7.35% per annum in both years.

Starting in 2002, payments pertaining to outstanding installment payable are made in Euro (EUR) currency.

11. **Obligations Under Capital Lease**

In 2003, MSCI entered into a capital lease agreement with a financing company covering a power plant. Under this financial arrangement, MSCI has the option to purchase the power plant at the end of the lease period at its residual value.

As of December 31, 2004, MSCI's minimum lease commitments are as follows:

Year ending December 31	Amount
2005	₱35,931
2006	33,067
2007	30,204
2008	27,326
2009	24,495
2010	5,659
Total minimum lease payments	156,682
Less interest	40,568
Present value of minimum lease payments	116,114
Less current portion	22,288
	₱93,826

12. Long-term Debt

In 1999, the Parent Company and MSCI signed various agreements with creditor banks modifying the terms of their respective long-term loans. The amended long-term loans are secured by a Mortgage Trust Indenture over the property, plant and equipment of the Parent Company and the entire plant facilities of MSCI and a continuing corporate suretyship by the Parent Company. The agreements covering certain loans provide for restrictions for granting of advances to affiliates up to certain amounts, change in nature of business, and maintenance of certain financial ratios.

The details of long-term debt, including the summary of the original and amended terms of the bank loans, is as follows:

Original	As Amended	**2004**	2003
Peso-denominated:			
Parent Company			
Loan payable in 20 equal quarterly amortizations and maturing in January 2003 with interest rates ranging from 19% to 25%	Loan payable in 20 equal quarterly amortizations of ₱11,250 starting in 2003 with balance payable upon maturity in 2008 with interest rate of 2.5% over 91-day Treasury Bill (T-bill) rate	**₱232,000**	₱232,000
Loan with 60% of the principal to be paid in 12 equal quarterly installments of ₱6,000 and the balance to be paid upon maturity in April 2000 with interest rates ranging from 16% to 23%	Loan payable in 20 equal quarterly amortizations starting in 2003 with interest rate of 2.5% over 91-day T-bill rate	**110,600**	110,600
Loan payable in 20 equal quarterly amortizations and maturing on August 15, 2001 with interest rates ranging from 19% to 28%	Loan payable in 21 equal quarterly amortizations starting in 2003 with interest rate of 2.5% over 91-day T-bill rate	**95,515**	95,515
MSCI			
Loan payable in 28 equal quarterly installments with interest rates ranging from 16% to 24%	Loan payable in 20 equal quarterly installments starting in 2003 with interest rate of 2.5% over and above the 91-day T-bill rate plus applicable Gross Receipts Tax (GRT)	**267,443**	267,443
Loan payable in 28 equal quarterly installments starting in 2001 with interest rate of 2.75% over Development Bank of the Philippines' base rate plus 3% GRT	Not applicable	**120,403**	120,403
Loan payable in 28 equal quarterly installments with interest rates ranging from 16% to 24%	Loan payable in 21 equal quarterly installments starting in 2003, with interest rate of 2.5% over and above the 91-day T-bill rate	**115,293**	115,293

(Forward)

Original	As Amended	2004	2003
Loan payable in 24 equal quarterly installments starting in 2002, with interest rate at prevailing 91-day T-bill rate plus 4%	Not applicable	**₱148,834**	₱148,834
Foreign currency-denominated:			
Parent Company and MSCI			
Loan payable in 14 equal semiannual amortizations starting in 2003 with interest rate at the six-month London Inter Bank Offered Rate (LIBOR) plus 3.25%	Not applicable	**686,846**	652,630
Loan payable in lump sum in 2009 with interest rate at the six-month LIBOR plus 6.50%	Not applicable	**168,840**	166,757
		1,945,774	1,909,475
Less current portion		**1,945,774**	531,681
		₱–	₱1,377,794

On October 29, 1999, the Parent Company and MSCI (as joint borrowers) entered into a loan agreement with a foreign financing institution covering a 10-year JP¥1,257,960 senior loan (50% for the Parent Company and 50% for MSCI) and a 10-year US$3,000 subordinated loan for the Parent Company. Under the terms of the loan agreement, the proceeds from these loans shall be used to finance capital expenditures, loan repayments, and operating and cash flow contingencies. The senior loan shall be payable in 14 semiannual payments starting in 2003 until 2009, while the subordinated loan shall be payable in lump sum in 2009. The loan agreement contains, among others, provisions regarding the use of proceeds, dividend payments, leasing of property, and maintenance of certain financial ratios.

The Parent Company and MSCI have not been able to fully comply with the quarterly principal and interest payments and financial ratios as required by the creditor banks. Negotiations for loan restructuring were initiated in 2004 and progress has been made. The Group expects the restructuring to be completed before the end of the third quarter of 2005. As of December 31, 2004, these loans are classified as current in the balance sheet.

In 2003, the Parent Company transferred to MSCI a portion of its peso-denominated long-term debt amounting to ₱83,000.

13. Capital Stock

On November 5, 1998, the Parent Company's stockholders passed a resolution approving the increase in authorized capital stock of the Company from ₱1,000,000, divided into 1,000,000,000 shares with par value of ₱1 to ₱1,500,000 divided into 1,500,000,000 shares with par value of ₱1.

The subscriptions to the 500,000,000 proposed increase in authorized capital stock amounting to ₱200,000 were credited to "Deposits for future stock subscriptions" account in the consolidated balance sheets and the consolidated statements of changes in equity.

The increase in authorized capital stock of the Company is pending approval of the SEC as of March 29, 2005.

14. Related Party Transactions

Significant transactions and account balances with stockholders and other related parties (which refer to companies under common control with the Group) follow:

	2004	2003	2002
Foreign related parties:			
Sales	**₱61,670**	₱2,373	₱6,006
Sale of property and equipment	**–**	–	4,888
Trade payables	**952**	2,253	26,924
Management fee	**54,657**	44,294	18,098
Local related parties:			
Sales	**475,871**	533,546	393,099
Rent expense	**3,360**	6,887	13,191
Interest expense	**–**	–	2,755
Trade receivables	**37,177**	31,638	34,941
Short-term loans	**56,391**	39,574	31,620
Trade payables	**7,872**	16,138	26,924

a. The Group sells its products to related parties at normal market prices.

b. The Parent Company pays management fee to a foreign affiliate for the deployment of expatriates.

c. The Parent Company and MSCI lease various warehouses from related parties.

d. Stockholders granted short-term loans to the Parent Company and MSCI with interest rate at 10.79% in 2004 and 9.53% in 2003.

e. The Parent Company has issued a continuing corporate suretyship to guarantee a long-term debt of MSCI.

15. Foreign Currency-Denominated Monetary Liabilities

a. Foreign currency-denominated monetary liabilities as of December 31, 2004 and 2003 are as follows:

	2004		2003	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
Current liabilities denominated in:				
US Dollars	**US$3,080**	**₱173,352**	US$1,452	₱80,688
Euro	**EUR274**	**21,019**	EUR798	55,395
Singapore Dollars	**SGD12**	**420**	SGD68	2,219

(Forward)

	2004		2003	
	Foreign Currency	**Peso Equivalent**	Foreign Currency	Peso Equivalent
UK Pound	**GBP10**	**₱1,053**	GBP6	₱599
Japanese Yen	–	–	JP¥624	324
Thailand Baht	–	–	THB184	258
Long-term liabilities denominated in:				
Japanese Yen	**JP¥1,257,960**	**686,846**	JP¥1,257,960	652,630
US Dollars	**US$3,000**	**168,840**	US$3,000	166,757
Total peso equivalents		**₱1,051,530**		₱958,870

Net foreign exchange losses charged against income amounted to ₱46,030 in 2004, ₱149,446 in 2003 and ₱140,534 in 2002.

b. The exchange rates used to convert the foreign currency-denominated monetary liabilities to peso are as follows:

	December 31, 2004	March 29, 2005
EUR	**₱76.60**	₱70.16
JP¥	**0.55**	0.51
US$	**56.28**	54.48
SGD	**34.41**	32.95
GBP	**108.48**	101.51

16. **Cost of Goods Sold and Operating Expenses**

Cost of goods sold and operating expenses consist of:

	2004	2003	2002
Utilities and fuel	**₱509,912**	₱501,065	₱397,164
Materials used and changes in inventories (Note 6)	**505,836**	444,719	375,808
Depreciation and amortization	**170,403**	159,421	177,423
Personnel costs (Note 17)	**147,371**	154,773	182,927
Repairs and maintenance	**107,258**	88,380	85,740
Outside services	**56,687**	47,492	39,260
Handling and delivery	**52,151**	49,292	42,884
Taxes and licenses	**35,847**	31,769	34,913
Provision for doubtful accounts	**5,082**	19,695	2,000
Rent (Note 14)	**4,325**	7,667	15,822
Streamlining costs (Note 2)	**2,936**	6,885	4,473
Impairment loss	–	13,544	5,772
Others	**166,151**	140,736	94,260
	₱1,763,959	₱1,665,438	₱1,458,446

17. Retirement Benefits

The Parent Company and MSCI have a funded, noncontributory defined benefit group retirement plan covering substantially all of their employees. Contributions and costs are determined in accordance with the actuarial study made for the plan, which is normally obtained every three years. The Group's retirement benefits are based on years of service and compensation during the last five years of employment.

Based on the actuarial valuation as of January 1, 2003, the actuarial present value of retirement benefits amounted to ₱31,050, the fair value of plan assets amounted to ₱382, and the unfunded present value of retirement benefits amounted to ₱30,668. The principal actuarial assumptions used to determine retirement benefits were a return on plan assets of 8% and a salary increase rate of 6%.

Total retirement benefits costs charged to operations amounted to ₱2,568, ₱6,254 and ₱2,571 in 2004, 2003 and 2002, respectively.

As of December 31, 2004 and 2003, accrued retirement benefits costs (included under "Accounts payable and accrued expenses" in the consolidated balance sheets) amounted to ₱25,849 and ₱27,626, respectively.

18. Income Taxes

a. In line with the Group's adoption of SFAS 12/IAS 12 in 2004 (see Note 3), deferred income tax assets have not been recognized for the following deductible temporary differences, NOLCO and excess MCIT over RCIT as future taxable profits may not be available against which the deductible temporary differences, NOLCO and excess MCIT over RCIT can be utilized.

	2004	2003
NOLCO	**₱614,965**	₱951,551
Unrealized foreign exchange losses and others	**113,656**	116,089
Accrued retirement benefits costs	**25,849**	27,626
Allowances for:		
Doubtful accounts	**31,127**	26,045
Decline in value of idle assets and inventory	**7,323**	10,980
Advances	**9,800**	9,800
Unamortized past service cost	**3,697**	2,727
MCIT	**22,126**	16,802

Deferred income tax liability amounting to ₱146,985 and ₱274,472 as of December 31, 2004 and 2003, respectively, pertains to the revaluation increment in land. The decrease in the amount of deferred income tax liability of the Parent Company pertains to the change in the classification in 2004 of the appraised property from ordinary to capital asset, which is subject to a lower tax rate (see Note 7).

b. The provision for income tax - current in both years represents the MCIT, which can be carried forward and applied against future RCIT as follows:

Incurred in	Amount	Expired	Balance as of December 31, 2004	Available Until
2001	₱3,491	(₱3,491)	₱–	2004
2002	5,771	–	5,771	2005
2003	7,540	–	7,540	2006
2004	8,815	–	8,815	2007
	₱25,617	(₱3,491)	₱22,126	

c. As of December 31, 2004, the status of the Group's NOLCO for income tax purposes, which are available for deduction from future taxable income is as follows:

Incurred in	Amount	Expired	Balance as of December 31, 2004	Tax Effect	Available Until
2001	₱485,146	(₱485,146)	₱–	₱–	2004
2002	318,683	–	318,683	101,978	2005
2003	147,722	–	147,722	47,272	2006
2004	148,560	–	148,560	47,540	2007
	₱1,100,111	(₱485,146)	₱614,965	₱196,790	

d. The reconciliation of benefit from income tax computed by multiplying loss before income tax by the statutory tax rate and the provision for income tax at the Group's effective tax rate as shown in the consolidated statements of income follows:

	2004	2003	2002
Benefit from income tax at statutory tax rate	**(₱55,081)**	(₱106,447)	(₱147,194)
Additions to (reductions in) income tax resulting from tax effects of:			
Depreciation expense of idle assets	**5,664**	14,132	18,655
Nontaxable interest income	**(252)**	(308)	(374)
Nondeductible portion of interest expense	**120**	146	178
Deductible temporary differences, NOLCO and excess MCIT over RCIT for which no deferred income tax assets were recognized	**58,364**	100,017	134,515
Provision for income tax	**₱8,815**	₱7,540	₱5,780

19. Loss Per Share

Loss per share is computed as follows:

	2004	2003	2002
Net loss	**₱180,942**	₱340,186	₱465,760
Weighted average number of shares outstanding	**924,999,969**	924,999,969	924,999,969
Loss per share	**₱0.196**	₱0.368	₱0.504

20. Contingencies

a. The Parent Company and MSCI have pending deficiency tax assessments covering years 2000 to 2002. Management believes that the ultimate outcome of these assessments, if any, would not materially affect the Parent Company's and MSCI's financial position and operating results.

b. As a customer of the Manila Electric Company (Meralco), the Parent Company and MSCI could expect to receive a refund for some of its previous billings. On April 30, 2003, the Third Division of the Supreme Court (SC) denied the urgent Motion for Consideration filed by Meralco, rendering the SC decision dated November 15, 2003 final and executory. The decision mandates that Meralco refund its customers ₱0.167 per kilowatt-hour starting with the billing cycles beginning February 1994 up to May 2003, or credit the refund in favor of the customers against their future power consumption.

   Meralco had reached an agreement with the Energy Regulatory Commission (ERC) on the manner and timing of the refund. The refund to the smaller, mostly residential, customers (Refund Phase I to III) will first be satisfied and is presently ongoing. Refunds to commercial and industrial customers (Refund Phase IV) are proposed to be paid over a period of approximately five years starting May 2005. Details of Refund Phase IV will require further ERC approval.

   The Parent Company and MSCI are covered by Refund Phase IV. They will recognize the Meralco refund when it is virtually certain of collection, both as to amount and timing of receipt.

21. Financial Instruments

MSCI enters into foreign exchange forward contracts to hedge existing and anticipated foreign currency-denominated loans and importation. As of December 31, 2004 and 2003, MSCI has no outstanding foreign exchange forward contracts.

22. Note to Consolidated Statements of Cash Flows

The Group's principal non-cash investing transaction refers to the acquisition of a power plant by MSCI in 2003, amounting to ₱130,332, through a capital lease agreement with a financing company. As of December 31, 2004 and 2003, the unpaid balance, amounting to ₱116,114 and ₱130,259, respectively, is included as part of "Obligations under capital lease" in the consolidated balance sheets.

23. Segment Information

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

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BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors on Supplementary Schedules

The Stockholders and the Board of Directors
Mariwasa Manufacturing, Inc.
Ortigas Avenue Extension
Bo. Rosario, Pasig City

We have audited in accordance with auditing standards generally accepted in the Philippines the consolidated financial statements of Mariwasa Manufacturing, Inc. and subsidiaries included in this Form 17-A and have issued our report thereon dated March 29, 2005. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Parent Company's management and are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SyCip Gorres Velayo & Co.

Aileen L. Saringan
Partner
CPA Certificate No. 72557
SEC Accreditation No. 0096-A
Tax Identification No. 102-089-397
PTR No. 9404030, January 3, 2005, Makati City

March 29, 2005