

**MABUHAY VINYL CORPORATION**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2002 AND 2001 AND**

**FOR EACH OF THE THREE YEARS**

**IN THE PERIOD ENDED DECEMBER 31, 2002**

Statement Required by Section 8-A,  
Revenue Regulations No. V-1

To the Board of Directors and Stockholders of  
**Mabuhay Vinyl Corporation**  
3<sup>rd</sup> Floor, Gammon Center  
126 Alfaro Street, Salcedo Village  
Makati City

None of the partners of the Firm have any financial interest in the Company or any family relationships with its president, manager or principal stockholder.

The required information regarding taxes is shown in the attached statement of taxes paid or accrued during the year.

Makati City  
February 14, 2003

JENNY L. ARCIGA  
CPA Cert. No. 45415  
P.T.R No. 7621372  
Issued Jan. 6, 2003, at Makati City  
TIN No. 112-069-971  
A.N. 08-000745-32-2002  
Issued on Jan. 14, 2002  
Effective until Jan. 14, 2005  
BOA/PRC Reg. No. 0142  
Issued Feb. 27, 2002  
Effective until Feb. 26, 2005

Report of Independent Accountants

To the Board of Directors and Stockholders of  
**Mabuhay Vinyl Corporation**

We have audited the accompanying balance sheets of Mabuhay Vinyl Corporation (the Company) as of December 31, 2002 and 2001, and the related statements of income (loss), of changes in stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the 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 generally accepted auditing standards 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 financial statements referred to above, present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with generally accepted accounting principles in the Philippines.

Makati City  
February 14, 2003

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**MABUHAY VINYL CORPORATION**

**BALANCE SHEETS  
DECEMBER 31, 2002 AND 2001**

	2002	2001
<u><b>A S S E T S</b></u>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Notes 2 and 3)	P 416,572,316	P 523,557,125
Accounts receivable, net (Notes 2, 4 and 17)	179,217,574	240,216,800
Inventories (Notes 2, 5, 11, 17, 18, 19 and 21)	162,568,473	177,165,126
Deferred income tax asset (Notes 2 and 16)	13,480,730	11,547,005
Other current assets (Note 6)	31,072,345	14,911,509
Total current assets	802,911,438	967,397,565
INVESTMENTS IN STOCK (Notes 2, 7 and 17)	6,345,182	6,345,182
PROPERTY, PLANT AND EQUIPMENT, net (Notes 2, 8, 17 and 18)	542,314,214	239,081,296
OTHER ASSETS (Note 9)	4,936,128	6,469,458
	P1,356,506,962	P1,219,293,501
<u><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b></u>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and other current liabilities (Note 10)	P 82,035,770	P 59,353,385
Notes and trust receipts payable (Note 11)	23,747,240	105,376,445
Income tax payable (Note 16)	470,231	-
Total current liabilities	106,253,241	164,729,830
STOCKHOLDERS' EQUITY (Notes 2 and 12)	1,250,253,721	1,054,563,671
	P1,356,506,962	P1,219,293,501

(See accompanying notes to financial statements)

**MABUHAY VINYL CORPORATION**

STATEMENTS OF INCOME (LOSS)  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
NET SALES (Note 2)	P862,214,969	P972,386,958	P 709,969,099
COST OF SALES (Notes 2, 13, 19 and 21)	611,528,960	671,678,526	544,105,997
GROSS PROFIT ON SALES	250,686,009	300,708,432	165,863,102
OPERATING EXPENSES (Notes 2, 10 and 14)	190,095,600	228,699,687	172,972,661
OPERATING INCOME (LOSS)	60,590,409	72,008,745	(7,109,559)
OTHER INCOME (EXPENSES)			
Interest and financing charges (Notes 2 and 11)	(7,938,446)	(27,609,823)	(28,545,944)
Interest income (Notes 2 and 3)	33,209,339	45,573,150	6,431,454
Foreign exchange gain (Note 2)	-	-	556,000
Miscellaneous, net	11,187,596	11,095,732	5,471,835
	36,458,489	29,059,059	(16,086,655)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAX	97,048,898	101,067,804	(23,196,214)
PROVISION FOR INCOME TAX (Notes 2 and 16)			
Current	24,037,332	13,323,607	-
Final tax	6,641,868	9,114,630	1,286,291
Deferred	(1,207,603)	7,995,480	(8,703,396)
	29,471,597	30,433,717	(7,417,105)
INCOME (LOSS) FROM CONTINUING OPERATIONS	67,577,301	70,634,087	(15,779,109)
DISCONTINUED OPERATIONS OF A SEGMENT OF BUSINESS (Notes 7 and 17)			
Equity in net earnings of PRII	-	9,120,809	15,938,568
Gain from sale of investment in PRII, net of final tax of P28,267,457	-	131,895,277	-
Gain from sale of marketing and sales operations of PVC business, net of applicable income tax of P3,457,432	-	7,347,043	-
Loss from PVC plant operation, net of applicable deferred income tax credit of P8,062,344 in 2000	-	(6,182,895)	(17,132,484)
	-	142,180,234	(1,193,916)
NET INCOME (LOSS) FOR THE YEAR	P 67,577,301	P212,814,321	P (16,973,025)
BASIC/DILUTED EARNINGS (LOSS) PER SHARE (Note 2)			
Continuing operations	P 0.089	P 0.093	P (0.021)
Discontinued operations	-	0.187	(0.001)
	P 0.089	P 0.280	P (0.022)
WEIGHTED AVERAGE NO. OF SHARES	761,316,866	761,316,866	761,316,866

(See accompanying notes to financial statements)

**MABUHAY VINYL CORPORATION**

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000**

	Capital Stock	Capital Paid In Excess of Par	Deposit on Stock Subscription	Stocks Held In Treasury	Revaluation Increment	Retained Earnings	Total Stockholders' Equity
Balances, January 1, 2000	P788,366,866	P169,763,887	P10,876	P(13,392,021)	P9,886,404	P284,744,796	P1,239,380,808
Net loss for the year	-	-	-	-	-	(16,973,025)	(16,973,025)
Revaluation surplus on land disposed	-	-	-	-	(644,343)	644,343	-
Balances, December 31, 2000	788,366,866	169,763,887	10,876	(13,392,021)	9,242,061	268,416,114	1,222,407,783
Net income for the year	-	-	-	-	-	212,814,321	212,814,321
Cash dividends paid (P0.50 per share)	-	-	-	-	-	(380,658,433)	(380,658,433)
Balances, December 31, 2001	788,366,866	169,763,887	10,876	(13,392,021)	9,242,061	100,572,002	1,054,563,671
Net income for the year	-	-	-	-	-	67,577,301	67,577,301
Revaluation surplus on land (Note 8)	-	-	-	-	128,112,749	-	128,112,749
Balances, December 31, 2002	P788,366,866	P169,763,887	P10,876	P(13,392,021)	P137,354,810	P168,149,303	P1,250,253,721

(See accompanying notes to financial statements)

**MABUHAY VINYL CORPORATION**

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

	2002	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) from continuing operations before provision for income tax	P 97,048,898	P 101,067,804	P (23,196,214)
Equity in net earnings of PRII	-	9,120,809	15,938,568
Gain from sale of investment in PRII	-	160,162,734	-
Gain from sale of marketing and sales operations of PVC business	-	10,804,475	-
Loss from PVC plant operations	-	(6,182,895)	(25,194,828)
Income (loss) before provision for income tax	97,048,898	274,972,927	(32,452,474)
Adjustments for:			
Depreciation	44,686,530	66,081,345	48,772,209
Equity in net earnings of PRII	-	(9,120,809)	(15,938,568)
Gain from sale of investment in PRII	-	(160,162,734)	-
Gain from sale of marketing and sales operations of PVC business	-	(10,804,475)	-
Provision for doubtful accounts	6,192,465	4,460,257	-
Provision for decline in value of investments	-	25,634,500	-
Unrealized foreign exchange gains	-	-	(556,000)
Loss (gain) on exchange/sale of property, plant and equipment	138,567	(299,850)	(5,377,616)
Interest income	(33,209,339)	(45,573,150)	(6,431,455)
Interest expense	7,788,600	27,317,436	48,100,324
Operating income before working capital changes	122,645,721	172,505,447	36,116,420
(Increase) decrease in:			
Accounts receivable	53,629,686	15,844,432	(6,582,823)
Inventories	14,596,652	73,888,959	(8,965,385)
Other current assets	(16,160,836)	12,851,936	(3,998,145)
Increase (decrease) in:			
Trust receipts payable	(59,629,205)	(86,475,305)	91,551,750
Accounts payable and other current liabilities	21,265,555	3,581,273	(25,359,791)
Cash generated by operations	136,347,573	192,196,742	82,762,026
Income taxes paid	(23,567,101)	(6,006,995)	(9,104,323)
Interest paid	(6,371,770)	(29,883,427)	(46,836,540)
Net cash provided by operations	106,408,702	156,306,320	26,821,163
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in other assets	807,207	2,323,366	(2,705,902)
Proceeds from sale of investment in PRII, net of tax	-	856,650,955	-
Proceeds from sale of PVC business, net	-	81,080,398	-
Proceeds from sale of property, plant and equipment	1,069,310	1,342,760	1,267,902
Acquisitions of property, plant and equipment	(221,014,575)	(62,664,734)	(65,878,748)
Interest received, net of tax	27,744,547	34,327,548	13,931,037
Net cash (used in) provided by investing activities	(191,393,511)	913,060,293	(53,385,711)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of notes payable, net	(22,000,000)	(191,000,000)	(188,700,000)
(Payments of) proceeds from long-term debt, net	-	(21,468,784)	7,482,771
Payments of cash dividends	-	(380,658,433)	-
Net cash used in financing activities	(22,000,000)	(593,127,217)	(181,217,229)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(106,984,809)</b>	<b>476,239,396</b>	<b>(207,781,777)</b>
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year	523,557,125	47,317,729	255,099,506
End of year	P 416,572,316	P 523,557,125	P 47,317,729

(See accompanying notes to financial statements)

## **MABUHAY VINYL CORPORATION**

### **NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2002 AND 2001 AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2002**

#### **Note 1 - Organization and operations**

Mabuhay Vinyl Corporation (the Company) was organized primarily to engage in the business of manufacturing and distributing basic and intermediate chemicals with a wide range of household and industrial applications, including caustic soda, hydrochloric acid, liquid chlorine and sodium hypochlorite (chlor-alkali) and polyvinyl chloride resin (PVC). As discussed in Note 17, the Company disposed of its PVC business in 2001 to concentrate on its chlor-alkali business.

The Company operates manufacturing plants in Iligan City and at Laguna Technopark, Sta. Rosa Laguna. Its main office is located at 3<sup>rd</sup> Floor, Philamlife Building, 126 Leviste Street, Salcedo Village Makati City.

As discussed in Note 8, the Company is currently constructing Phase I of its Ion Membrane Process Chlor-alkali plant in Iligan City. In relation to this project, the Board of Investments (BOI) approved the Company's application for registration as Expanding Domestic Producer of Caustic Soda (NaOH)/Hydrochloric Acid (HCl)/Liquid Chlorine (Cl<sub>2</sub>) on a pioneer status under the Omnibus Investments Code of 1987 (E.O. 226). Under the terms of its registration, the Company will be subject to certain BOI requirements, principally that of maintaining 75:25 debt-to-equity ratio. As a registered enterprise, the Company will be entitled to certain tax incentives which include, among others; a) income tax holiday (ITH) computed using a sales base figure of P434.1 million for three years from actual start of commercial operations of its new plant and for another two years after completion of the Phase II of the expansion project and upon compliance with certain BOI requirements; b) additional deduction for wages of additional workers hired, provided that ITH is not simultaneously availed with deduction for wages; and c) tax credit for taxes and duties on raw materials for its export product. Phase I of the project is expected to become fully operational by October 2003.

As of December 31, 2002, the Company has 189 employees (2001 - 190 employees).

## **Note 2 - Basis of financial statement presentation; Significant accounting policies**

The financial statements were prepared in accordance with generally accepted accounting principles in the Philippines and under the historical cost convention.

The more significant accounting policies and practices of the Company are set forth to facilitate the understanding of data presented in the financial statements.

Cash and cash equivalents include highly liquid short-term investments with maturity of three months or less from date of acquisitions.

Trade receivables are carried at original invoice amount, net of allowance for doubtful accounts. Allowance for doubtful accounts covers mainly receivables which have been past due for over 6 months.

Inventories are valued at lower of cost or net realizable value, cost being determined using the moving average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. An allowance is recognized in the accounts to reflect possible inventory losses and obsolescence.

Investment in Philippine Resins Industries, Inc. (PRII) was carried under the equity method of accounting investment until April 30, 2001 (see Notes 7 and 17). Under the equity method, the Company recognized in its investment account and income statement its share in the net earnings or losses of the affiliated company.

Investments in shares of stock, proprietary shares and other investments are valued at cost. Any clear impairment in the fair value of these investments is provided for in the accounts.

Property, plant and equipment are carried at cost except for land which is stated at appraised value as of October 11, 2002 (as of June 30, 1982 in 2001 and 2000) as determined by independent appraisers. Increase in the carrying amount arising on revaluation of the land is credited to revaluation surplus in stockholders' equity. Decreases that offset previous increases of the same asset are charged against that reserve; all other decreases are charged to the income statement. Leasehold improvements are amortized over their estimated useful lives or the term of the lease, whichever is shorter.

Construction in progress represents plant expansion project under construction and is stated at cost, including cost of construction, machinery and equipment under installation and other related costs. This also includes interest costs on borrowings used to finance the construction of the project. Interest costs are capitalized until the project is completed and becomes operational. The interest capitalized will be amortized over the estimated useful life of the related asset.

Depreciation and amortization is provided on the straight-line method over the following estimated economic lives of the assets:

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Land improvements	10 years
Buildings and structures	10 years
Machinery and equipment	10 years
Transportation equipment	5 years
Office furniture and equipment	5 years

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Major additions and replacements are capitalized while ordinary repairs and maintenance are charged to operations as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the property accounts and any gain or loss is credited or charged to income. On disposal of revalued assets, the revaluation amounts are transferred to retained earnings.

Deferred income tax assets and liabilities are recognized for temporary differences between the financial and tax reporting bases of assets and liabilities. Deferred income tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided to reduce deferred tax assets to that portion which will be realized. Deferred income tax expense or credit is recognized for the change during the year in the deferred income tax assets and liabilities and the related valuation allowance.

Sales are recognized when (1) all significant risks and rewards of ownership is transferred to the buyer; (2) the amount of revenue can be reliably measured; and (3) the economic benefit associated with the earnings will flow to the Company. These generally coincide with billing and delivery of goods to customers. Other income is recorded when earned.

Expenses are charged to operations when incurred.

Foreign currency transactions are recorded in Philippine pesos based on the exchange rate prevailing at the time of the transaction. Outstanding foreign currency denominated monetary assets and liabilities are restated based on the exchange rate prevailing at balance sheet date. Gains or losses arising from subsequent settlements or restatements of foreign currency denominated monetary assets and liabilities at exchange rates different from those at which they were recorded are credited or charged to income.

Pension costs are actuarially computed using the attained age normal method where the accrued liability is the present value of all benefits less the present value of all future normal cost contributions.

Interest and financing charges except for those related to the construction of capital projects are charged to income when incurred.

Interest income which are subjected to final tax are presented inclusive of the tax paid or withheld.

Stock issue costs are charged to capital paid in excess of par.

Treasury stocks are valued at acquisition cost irrespective of whether these are acquired below or above par value.

Basic/diluted earnings per share is computed based on the weighted average number of common shares issued and outstanding during the year, adjusted retroactively for stock dividends, if any.

#### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the Philippines requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ from estimates.

#### Recently issued accounting pronouncements

The Company adopted Statements of Financial Accounting Standards (SFAS) No. 1 (revised 2000), "Presentation of Financial Statements"; SFAS No. 4 (revised 2000), "Inventories"; SFAS No. 13 (revised 2000), "Net income or loss for the period, Fundamental errors and changes in accounting policies"; and SFAS No. 22 (revised 2000), "Cash Flow Statements" issued by the Philippine Accounting Standards Council (ASC) effective January 1, 2001.

In addition, the Company adopted SFAS No. 16/IAS 16, "Property, Plant and Equipment"; SFAS No. 24/IAS 24, "Related Party Disclosures"; and SFAS No. 36/IAS 36, "Impairment of Assets" which became effective for financial statements beginning January 1, 2002.

Accordingly, certain accounts in the 2001 and 2000 financial statements have been reclassified to conform with the 2002 presentation.

**Note 3 - Cash and cash equivalents**

Cash and cash equivalents at December 31 consist of:

	2002	2001
Cash on hand and in bank	P 34,653,734	P 29,859,189
Short-term investments	381,918,582	493,697,936
	P 416,572,316	P 523,557,125

Short-term investments represent 40-45 days cash placements maturing on various dates in January 2003 (2001 - January 2002). These placements earn income based on annual interest rates ranging from 4.25% to 6.00% (2001 - 9.40% to 12.50%).

**Note 4 - Accounts receivable**

Accounts receivable at December 31 consist of:

	2002	2001
Trade	P191,207,866	P245,016,743
Others	2,233,355	3,231,240
	193,441,221	248,247,983
Less - allowance for doubtful accounts	14,223,647	8,031,183
	P179,217,574	P240,216,800

**Note 5 - Inventories**

Inventories at December 31 consist of:

	2002	2001
Finished goods	P 86,555,221	P 99,613,247
Work-in-process	5,194,473	3,807,695
Raw materials	21,551,935	25,746,663
Other materials and supplies	49,266,844	47,997,521
	P162,568,473	P177,165,126

**Note 6 - Other current assets**

Other current assets at December 31 consist of:

	2002	2001
Input tax, net	P 22,708,274	P 5,818,407
Creditable withholding taxes	1,863,945	5,376,964
Advances on purchases	1,600,426	-
Prepaid expenses	1,416,838	378,007
Others	3,482,862	3,338,131
	P 31,072,345	P14,911,509

### **Note 7 - Investment in stocks**

Investments in stock at December 31 consist of:

	2002	2001
Philippine Resins Industries, Inc. (PRII), 49% owned:		
Acquisition cost	P -	P 602,143,841
Equity in net earnings of PRII		
Beginning of year	-	113,491,028
For the period	-	9,120,809
End of period	-	122,611,837
	-	724,755,678
Sale of investment in PRII (Note 17)	-	(724,755,678)
		-
Tosoh Polyvin Corporation (TPC)	28,217,500	28,217,500
The Orchard Golf & Country Club, Inc.	1,900,000	1,900,000
Valley Golf and Country Club	1,128,000	1,128,000
Others	734,182	734,182
	31,979,682	31,979,682
Less - allowance for possible decline in value	25,634,500	25,634,500
	P 6,345,182	P 6,345,182

As discussed in Note 17, the Company sold its entire shareholdings to existing shareholders of PRII on April 23, 2001. Consequently, the equity method of accounting for investment in PRII was discontinued effective April 30, 2001. The equity in net earnings recognized for the period from January 1, 2001 to April 30, 2001 is based on available unaudited financial statements of PRII as of April 30, 2001.

The Company presented consolidated financial statements until December 31, 2000, which include the accounts of PRII, on the basis of significant control exercised by the Company over the financial and operating policies of PRII. The presentation of consolidated financial statements was discontinued in 2001, as a result of the sale of investment in PRII.

Pursuant to the Joint Venture Agreement executed on November 16, 1998 among various parties, the Company subscribed to 10% of TPC's authorized capital stock equivalent to 23,600 shares for the commercial production of certain plastic compounds such as PVC in the Philippines and their sale throughout the world. In 2001, TPC increased its capital stock. Consequently, the Company converted its loans receivable from TPC to preferred redeemable non-voting shares amounting to P5,001,000. Allowance for possible decline in value of investments amounting to P23,216,500 as of December 31, 2002 and 2001 relates to the Company's investment with TPC.

## **Note 8 - Property, plant and equipment**

Property, plant and equipment at December 31 consist of:

	Land at appraised value (Note 2)	Land improvements	Buildings and structures	Machinery and equipment	Transportation equipment	Leasehold improvements	Office furniture and equipment	Construction in progress	Total
<b>At December 31, 2001</b>									
Cost/appraised value	P 22,748,250	P13,586,422	P147,920,438	P813,100,375	P42,842,775	P10,339,775	P27,574,125	P 4,115,875	P1,082,228,035
Accumulated depreciation	-	10,490,123	89,279,392	678,624,004	31,371,182	9,833,516	23,548,522	-	843,146,739
Net book value	22,748,250	3,096,299	58,641,046	134,476,371	11,471,593	506,259	4,025,603	4,115,875	239,081,296
<b>Year ended December 31, 2002</b>									
Opening net book value	22,748,250	3,096,299	58,641,046	134,476,371	11,471,593	506,259	4,025,603	4,115,875	239,081,296
Appraisal increase	128,112,749	-	-	-	-	-	-	-	128,112,749
Additions	-	1,530,278	3,719,772	12,228,532	8,748,956	147,639	1,661,948	192,977,450	221,014,575
Transfers from construction in progress	-	-	-	1,749,544	-	-	-	(1,749,544)	-
Disposals	-	(32,780)	(159,263)	(484,045)	(531,785)	-	(3)	-	(1,207,876)
Depreciation and amortization	-	(547,836)	(9,104,520)	(28,432,625)	(4,770,750)	(148,009)	(1,682,790)	-	(44,686,530)
Closing net book value	150,860,999	4,045,961	53,097,035	119,537,777	14,918,014	505,889	4,004,758	195,343,781	542,314,214
<b>At December 31, 2002</b>									
Cost/appraised value	150,860,999	14,916,888	150,261,691	814,125,406	47,418,046	10,487,414	29,052,981	195,343,781	1,412,467,206
Accumulated depreciation	-	10,870,927	97,164,656	694,587,629	32,500,032	9,981,525	25,048,223	-	870,152,992
Net book value	P150,860,999	P 4,045,961	P 53,097,035	P119,537,777	P14,918,014	P 505,889	P 4,004,758	P195,343,781	P 542,314,214

In relation to the Company's adoption of SFAS 16/IAS16 as mentioned in Note 2, the Company's land was further revalued by independent appraiser on October 11, 2002. Valuation was made on the basis of the fair market value determined by referring to the character, utility of the property; comparable property which have been sold recently; zoning and current land usage in the locality where property was located; and highest and best use of the property. Consequently, the Company recorded in 2002 an appraisal increase of P128,112,749 crediting revaluation increment in the stockholders' equity. The land was acquired at the original cost of P13,506,189 and was first revalued in June 30, 1982 where the Company initially recorded revaluation increment amounting to P9,886,404.

Construction in progress pertains to accumulated costs of the Company's Ion Membrane Process Chlor-alkali plant currently being constructed at the Company's manufacturing facility in Iligan City, including accumulated costs of machinery and equipment under installation and interest costs on borrowings related to the project. For the year ended December 31, 2002, total amount of interest capitalized amounted to P356,746.

In relation to the project, the Company has entered into certain contracts for its construction, acquisition of its machinery and equipment and other related services. As of December 31, 2002, the Company has outstanding commitments with contractors and suppliers amounting to P155 million.

**Note 9 - Other assets**

Other assets at December 31 consist of:

	2002	2001
Security and rental deposits (Note 18)	P2,005,578	P2,760,578
Deferred income tax asset - noncurrent (Notes 2 and 16)	2,532,653	3,258,775
Note and other receivable	397,897	450,105
	<b>P4,936,128</b>	<b>P6,469,458</b>

**Note 10 - Accounts payable and other current liabilities**

Accounts payable and other current liabilities at December 31 consist of:

	2002	2001
Trade payables	P46,546,698	P31,353,840
Customers deposit	18,276,914	17,907,413
Accrued expenses and other payables	17,212,158	10,092,132
	P82,035,770	P59,353,385

Accrued expenses and other payables mainly include accruals for interests, manufacturing and other operating expenses, other taxes payable and advances from customers.

**Note 11 - Notes and trust receipts payable**

Notes and trust receipts payable consist of peso short-term promissory notes issued to banks to finance the Company's working capital requirements, and bear annual interests ranging from 8.00% - 14.50% (2001 - 13.25% to 14.50%). Trust receipts representing the bank's security in the underlying raw materials and finished goods secure certain notes payable.

As of December 31, 2002, the Company has unused credit lines amounting to P200.3 million.

**Note 12 - Capital stock**

The details of authorized and issued and outstanding common stock at December 31, 2002 and 2001 are shown below:

	Authorized		Issued and Outstanding	
	No. of Shares	Amount	No. of shares	Amount
Common, at P1 par value each	1,200,000,000	P1,200,000,000	788,366,866	P788,366,866
Treasury shares			(27,050,000)	(13,392,021)
			761,316,866	P774,974,845

On October 7, 1996, the Company received from the Securities and Exchange Commission a certificate of permit to offer its shares for sale to the public. On November 27, 1996, the Philippine Stock Exchange, Inc. (PSE) approved the Company's application for the listing and trading in the PSE of the Company's 223.187 million common shares at an offer price of P1.90 per share. The Company was listed on the PSE on February 5, 1997. Subsequently, the 223.187 million shares were fully subscribed and paid. Total proceeds from subscription amounted to P424.1 million. The excess of the proceeds over par value, net of stock issue costs (Note 2), was credited to capital paid in excess of par. From the total shares offered, the Company's officers and employees subscribed 2.2 million shares.

The Company is 43.46% owned by Metro Alliance Holdings & Equities Corporation and 35.74% by Tosoh Corporation, Mitsubishi Corporation and Asian Investments Company Ltd., foreign corporations. The remaining 20.8% equity is being held by other minor stockholders.

**Note 13 - Cost of sales**

Cost of sales for the years ended December 31 consist of:

	2002	2001	2000
Finished goods inventory, January 1	P 99,613,247	P164,592,383	P132,323,808
Raw materials used	464,212,386	469,921,575	460,521,407
Direct Labor	14,152,663	14,376,049	13,231,012
Manufacturing overhead			
Supervision and indirect labor	35,446,406	24,818,671	28,203,276
Depreciation	34,330,845	42,407,740	26,446,750
Repairs and maintenance	23,281,609	23,489,055	20,510,976
Supplies and facilities	14,182,508	13,061,540	13,155,920
Taxes and licenses	6,175,213	6,943,124	3,736,981
Rental, light, janitorial and security	5,082,589	3,670,708	4,270,264
Others	2,993,493	2,057,114	2,360,521
Total manufacturing cost	599,857,712	600,745,576	572,437,107
(Increase) decrease in work in process inventory	(1,386,778)	5,953,814	3,937,465
Cost of goods manufactured	598,470,934	606,699,390	576,374,572
Total goods available for sale	698,084,181	771,291,773	708,698,380
Finished goods inventory, December 31	86,555,221	99,613,247	164,592,383
	P611,528,960	P671,678,526	P544,105,997

**Note 14 - Operating expenses**

Operating expenses for the years ended December 31 consist of:

	2002	2001	2000
Shipping and delivery	P108,308,830	P116,359,623	P111,879,275
Salaries and wages	19,476,194	18,709,786	17,996,376
Rental, light and water (Note 18)	11,889,232	14,006,262	11,169,506
Depreciation	10,355,685	9,995,732	10,699,318
Employee benefits	7,856,959	9,359,976	1,048,193
Provision for doubtful accounts	6,192,465	4,460,257	-
Professional fees	4,888,425	4,216,125	2,928,390
Taxes and licenses	3,712,550	4,107,256	1,912,309
Repairs and maintenance	3,317,344	2,951,806	2,409,417
Supplies	2,810,798	1,915,717	1,226,717
Transportation and travel	2,421,363	2,059,762	1,141,141
Communication	1,692,882	1,697,728	1,156,372
Insurance	1,635,898	975,664	782,696
Retirement benefits (Note 15)	1,537,630	3,794,408	4,539,216
Representation and entertainment	1,359,516	1,140,883	548,121
Provision for decline in value of investment	-	25,634,500	-
Miscellaneous	2,639,829	7,314,202	3,535,614
	P190,095,600	P228,699,687	P172,972,661

Professional fees in 2002 include remuneration of members of board of directors amounting to P1,752,100 (2001 - P1,195,500; 2000 - P820,000).

### **Note 15 - Retirement plan**

The Company has a funded, non-contributory defined benefit retirement plan providing for death and retirement benefits to all its regular employees. An independent actuary using the “attained age normal cost” conducts an actuarial valuation of the fund once every three years. The actuarial accrued liability is determined according to the plan formula taking into account the service rendered and compensation of covered employees as of valuation date.

Based on the latest actuarial valuation dated June 29, 2001, the actuarially computed value of the vested plan benefits amounted to P35.5 million. Net assets available for plan benefits as of December 31, 2002 amounted to P44.6 million.

The retirement cost in 2000 includes P4.3 million representing amortization of past service cost.

### **Note 16 - Deferred income tax; provision for income tax**

Deferred income tax asset at December 31 represents the tax effects of the following:

	2002			2001		
	Total	Current	Non-current	Total	Current	Non-current
Allowance for doubtful accounts	P 4,551,567	P 4,551,567	P -	P 2,569,978	P 2,569,978	P -
Allowance for decline in value of investments	8,203,040	8,203,040	-	8,203,040	8,203,040	-
Unamortized past service costs	3,258,776	726,123	2,532,653	4,032,762	773,987	3,258,775
	<u>P16,013,383</u>	<u>P13,480,730</u>	<u>P2,532,653</u>	<u>P 14,805,780</u>	<u>P 11,547,005</u>	<u>P 3,258,775</u>

Details of provision for income tax reflected in the Statements of Income (Loss) for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Provision for income tax on continuing business	P29,471,597	P30,433,717	P (7,417,105)
Final tax on sale of investment in PRII	-	28,267,457	-
Income tax on gain from sale of PVC business	-	3,457,432	-
Deferred income tax on loss from PVC plant operations	-	-	(8,062,344)
	<u>P29,471,597</u>	<u>P62,158,606</u>	<u>P(15,479,449)</u>

A reconciliation of income taxes computed at the statutory income tax rate to the provision for income tax reflected in the Statements of Income (Loss) for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Income (loss) before provision for income tax (as shown in the Statements of Cash Flows)	P97,048,898	P274,972,927	P(32,452,474)
Statutory tax rate	32%	32%	32%
Income tax at statutory rate	31,055,647	87,991,337	(10,384,791)
Increase (decrease) in provision for income tax resulting from:			
Interest income subjected to final tax	(3,985,120)	(5,468,778)	(771,775)
Gain from sale of investment in PRII subjected to capital gains tax	-	(22,984,618)	-
Equity in net earnings of PRII	-	(2,918,659)	(5,100,341)
Unallowable portion of interest expense	2,492,352	5,541,695	782,065
Dividend income	(91,282)	(2,371)	(4,607)
	(1,584,050)	(25,832,731)	(5,094,658)
	P29,471,597	P 62,158,606	P(15,479,449)

**Note 17 - Discontinued operation of a segment of business**

On April 23, 2001, the Company sold its entire 49% shareholdings in PRII, a company engaged in PVC manufacturing, to existing shareholders of PRII. The sale is in accordance with the joint venture agreement of the Company with the other shareholders of PRII. The sale was approved by the Company's board of directors and stockholders in its meeting on December 11, 2000 and annual stockholders' meeting on March 30, 2001, respectively.

The Company realized a net gain of P131,895,277 in 2001 from the sale, details of which follows:

Gross proceeds	P 884,918,412
Investment in PRII, including accumulated equity in net earnings of P122,611,837 (Note 7)	(724,755,678)
Gain before tax	160,162,734
Capital gains tax	(28,267,457)
	P 131,895,277

Also, in 2001, following the Company's major reappraisal of its business and in line with its strategic move to concentrate on its chlor-alkali business and pursue expansion on this area, the Company sold its PVC business to PRII. The sale included transfer of the remaining marketing and sales operation to PRII. The Company realized a net gain of P10,804,475 in 2001 from this transaction, details of which follows:

Gross proceeds	P120,000,000
Separation payments to retrenched employees	(38,852,413)
Other expenses	(67,189)
Net proceeds per Statements of Cash Flows	81,080,398
PVC assets written off:	
Inventories	(48,366,712)
Receivables	(3,921,339)
Property and equipment	(17,987,872)
	P 10,804,475

**Note 18 - Lease; commitments**

- a) The Company has various lease agreements under operating lease covering office spaces, parking slots, warehouse, storage tanks, piping systems and pumps for a period of three to fifteen years expiring on various dates in 2003 to 2010. These leases are renewable upon mutual agreement of the parties.

The covering agreements of these leases require the Company to pay certain amounts of security and rental deposits which are included under "Other assets" in the balance sheet.

Future minimum rental commitments under the above agreements follow:

Years	Amount
2003	5,525,772
2004	3,012,600
2005	1,492,125
2006	1,092,000
2007	2,352,000
2008 to 2010	3,134,000

- b) As of December 31, 2002, the Company has outstanding purchase commitments with certain suppliers for the supply of certain machinery and equipment, liquid chlorine and spare parts in 2003 amounting to about P10.5 million.

**Note 19 - Related party transactions**

The Company purchases materials from Mitsubishi Corporation based on reasonable commercial terms and conditions. Total purchases from Mitsubishi Corporation for the year ended December 31, 2002 amounted to P170,098,572 (2001 – P270,994,499).

**Note 20 - Contingencies**

On January 23, 1998, the Company received assessment notices from the Bureau of Internal Revenue (BIR) for alleged deficiency withholding taxes on interest incurred on borrowings totaling to P454.39 million, including basic surcharges and interest, for years 1988 and 1989. The Company likewise received on March 6, 1998 pre-assessment notices for deficiency income taxes amounting to P322.61 million for years 1988 and 1989 resulting from disallowance of interest expenses for failure to withhold taxes.

On September 21, 1998, the Company filed a Petition for Review of the above assessments with the Court of Tax Appeals (CTA).

On January 9, 2003, the Company received CTA's decision on the assessments, ordering the Company to pay the BIR an amount totaling to P119.21 million representing deficiency withholding taxes on borrowings, including surcharges and interests for years 1988 and 1989 computed up to February 1998. CTA further ordered the Company to pay 20% interest on the deficiency withholding taxes from February 1998 until fully paid. CTA also ruled that pre-assessment notices on deficiency income taxes is still premature and cannot be the subject of a decision as CTA may only assume jurisdiction if the assessment involves a decision of the BIR on a disputed assessment.

On January 24, 2003, the Company filed a Motion for Reconsideration with the CTA appealing its position that (a) the right of the BIR to assess has already prescribed; (2) the Company is not liable to pay 50% surcharges on fraud as the Company was able to comply with the filing of necessary returns; and (3) the Company is not liable to pay total amount of P119.2 million. The Motion for reconsideration is still pending with the CTA.

Management, with legal counsel intends to vigorously contest the case and believes that it would be able to defend its position on the issues being raised by the BIR. Management also believes that the outcome of the case will not result to a significant liability that would materially affect the financial position or results of operation of the Company as of or for the year ended December 31, 2002.

**Note 21 - Forward contracts**

The Company utilizes forward exchange contracts to hedge the impact of currency movements, principally on anticipated inventory importations, and does not engage in speculative or trading derivative activities. Gains and losses related to these contracts, which generally cover 30-day periods, are initially recognized as part of the carrying cost of inventories and then to cost of sales when the inventories are sold.

As of December 31, 2002, the Company has outstanding forward exchange contracts with a local bank amounting to P32 million.

SEC No.: 216

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**DECEMBER 31, 2002**

**FINANCIAL STATEMENTS**