

SECURITIES AND EXCHANGE COMMISSION

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

1. For the quarterly period ended March 31, 2005
2. Commission identification number: ASO 94-008745
3. BIR Tax Identification No.: 047-003-945-022V
4. Name of Issuer: ALASKA MILK CORPORATION
5. Jurisdiction of Incorporation: Makati City, Philippines
6. Industry Classification Code:
7. Address: 6/F Corinthian Plaza, 121 Paseo de Roxas, Makati City
8. Telephone No.: 840-4500 / 840-5921 to 39
9. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA: 963,569,878 Common Stock
10. 963,569,878 common shares are listed on the Philippine Stock Exchange
11. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding (12) months or for such other shorter period the registrant was required to file such reports.

YES (X)

NO ()

(b) has been subject to such filing requirements for the past ninety (90) days.

YES (X)

NO ()

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements are attached to this SEC Form 17-Q

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The domestic milk market contracted during the first quarter of the year versus year ago levels, reflective of a general slowdown in consumer spending. Prices of all commodity groups are at high levels due to inflationary pressures as a result of the continued hike in oil prices. Food, beverage and tobacco prices, in particular, accelerated by 7.2% in March 2005 owing to the selling price increase across most food items, milk products included. As a result of the contraction of the milk market, revenues of Alaska Milk Corporation for the first quarter of 2005 fell to ₱1.170 billion from ₱1.324 billion in the first quarter of 2004. The 12% decline in revenues was largely attributed to weak sales volume as a result of sluggish consumer demand for milk products. Selling prices of selected Alaska products were increased by an average of 7% effective February 1, 2005.

In line with the milk market's contraction, sales volumes of Alaska Liquid and Powdered Milk products posted double-digit declines in the first quarter of the year compared to the same period last year. On the other hand, combined sales volume of the UHT line surged year-on-year, driven by the strong performance of the Hershey's Chocolate Milk Drink and Alaska Crema All-Purpose Cream. Notwithstanding the sluggish market, Alaska's market share in the evaporated milk remained stable while condensed milk and powdered milk market shares showed an improvement compared to the first quarter of 2004.

Cost of sales and operating expenses for the quarter stood at ₱1.061 billion, 6% lower than cost of sales and operating expenses in the third quarter last year of ₱1.126 billion. Skimmed milk powder (SMP) and tinplates, major cost components in milk manufacturing, remained at high levels owing to tight supply conditions. This put operating income for the quarter at ₱109 million or 9.3% of net sales from ₱198 million or 14.9% of net sales in first quarter 2004.

Interest income for the first quarter of 2005 was 22% lower at ₱18 million compared to the interest income of ₱23 million during the same period last year, principally due to the lower interest yield realized on the Company's short-term investments. Foregoing was due to the continued decline in domestic interest rates. On the other hand, a relatively stable Peso-US Dollar rate reduced foreign exchange losses for the quarter. Interest income and other income for the quarter, net of other expenses, amounted to ₱20 million, putting net income for the first three months of the year at ₱93 million or 7.9% of net sales, 40% lower than net income in the first quarter of 2004 of ₱154 million or 11.6% of net sales.

Earnings per share (EPS) based on the performance for the first three months of the year was equivalent to ₱0.10 from EPS in the first three months of 2004 of ₱0.17.

Total current assets as of the end of March 31, 2005 amounted to ₱3.175 billion, ₱152 million lower than total current assets as of December 31, 2004 of ₱3.327 billion. The slight decrease was primarily due to the lower accounts receivable as a result of the lower sales during the first quarter of 2005. However, foregoing decline in accounts receivable was partly offset by the higher prepaid expenses due to the advanced payments made on the Company's retirement contribution, lease obligations and insurance policies, which are amortized over a period of one (1) year.

Property, plant and equipment, net of accumulated depreciation, amounted to ₱702 million as of end March 2005, slightly lower than the ₱709 million balance as of the end of December 2004. This put total assets as of the end of the first three months of the year at ₱4.084 billion, ₱155 million lower than the ₱4.239 billion total assets as of December 31, 2004.

Total liabilities reached ₱1.140 billion as of March 31, 2005, ₱226 million lower than the ₱1.366 billion in liabilities as of end December 2004. Foregoing decline was primarily due to lower import bills due for payment as a result of differences in credit terms by different suppliers. In addition, the fourth and last tranche of dividends payable amounting to ₱67 million as of December 31, 2004 was paid out in March 2005, which reduced the dividend payable account to ₱1.5 million by the end of March 2005.

As of March 31, 2005, the Company's retained earnings stood at ₱2.139 billion, ₱93 million or 5% higher than end December 2004 balance of ₱2.046 billion. On the other hand, the Cumulative Translation Adjustment account as of end March 2005 reflected an unrealized loss of ₱16 million versus the favorable balance of ₱6 million as of December 31, 2004. Foregoing was due to the appreciation of the Philippine Peso relative to the Company's hedged US Dollar inventory.

The company's current ratio stands at 2.8x as of March 31, 2005, up from 2.4x as of end December 2004. The company does not anticipate any liquidity problems in the next 12 months as the company consistently maintains a strong cash position. Cash and cash equivalents as of March 31, 2005 amounted to ₱1.86 billion. The company also consistently generates cash from operations and has no outstanding bank loans. Cash generated by the company's operations as well as existing cash balance are the main source of funds for working capital requirements, capital expenditures as well as maintenance expenses. Likewise, the company maintains credit lines/facilities extended by banks although these have remained largely unused given the Company's strong cash position. Cash is invested in low-risk, short to medium-term money market instruments.

Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

Skimmed milk powder (SMP) and foreign exchange costs have a significant impact on the company's net income and profitability levels. World prices of SMP remained at peak levels as the Euro and Oceania currencies strengthened against the US Dollar. In addition, continued strong demand and some tightness in supplies helped keep prices around the US\$2,300/MT level. Export supplies are not expected to expand until the latter part of 2005.

SMP prices and foreign exchange will continue to have a material impact on the company's operating income and profitability. Should the SMP supply situation tighten further, this may put pressure on the Company's income from operations going forward. The stability of the peso vis-à-vis the US dollar will likewise have an impact on the company's cost and level of profitability. Any deterioration of the Peso versus the US dollar will exacerbate cost pressures. In view of the potential impact of any significant increase in SMP prices and foreign exchange cost to the company's income and profitability, the company continues to actively hedge part of its US dollar and SMP requirements.

Selling prices of selected Alaska products were raised by an average of 7% last February 1, 2005. The selling price adjustment was implemented to mitigate cost pressures that erode the company's profitability.

Any significant elements of income or loss that did not arise from the issuer's continuing operations.

All of the company's income/earnings arose from its continuing operations.

Any seasonal aspects that had a material effect on the financial condition or results of operations.

Sales of milk products exhibit some seasonality during the year, particularly for liquid canned milk products. Historically, sales in the second quarter are strong for this category due to the summer season when use of the liquid canned milk increases during fiesta season and for "halo-halo". Demand during the third quarter of the year usually slackens, compared to the summer (second quarter) and peaks again during the Christmas (fourth quarter) season. A similar pattern also applies to the all-purpose cream product. On the other hand, sales of powdered filled milk and UHT milk are less prone to seasonal influences as these products are used as regular milk drink/beverage.

Discussion of the company's top five (5) key performance indicators.

The company uses various profitability and liquidity ratios in order to better assess the company's financial performance from period to period. Among the most important are the following:

1. Operating Margin

The operating margin is the ratio of the company's earnings before interest and tax (EBIT) or operating income to net sales for a given period. The operating margin is computed by dividing operating income by net sales. The quotient is expressed in percentage. This KPI measures the return obtained for every peso of revenue earned, after all cost of sales and operating expenses are deducted.

2. Return on Sales

The return on sales is the ratio of the company's net income after tax to net sales revenue for a given period. This is computed by dividing net income by total revenues. The result is expressed in percentage. This KPI provides a measure of return for every peso of revenue earned, after all other operating and non-operating expenses, including taxes, are deducted.

3. Return on Equity

The return on equity is the ratio of the company's net income to stockholders' equity. It is computed by dividing net income by the total stockholders' equity as a point in time. This KPI is a measure of the shareholders' return for every peso of invested equity.

4. Debt to Equity Ratio

Debt to equity ratio is the percentage of debt to total stockholders' equity. Total debt (including short-term liabilities) is divided by total stockholders' equity as of a point in time. This KPI is a measure of the company's use of leverage and solvency position.

5. EBITDA

EBITDA is computed by adding back depreciation and amortization expenses (both non-cash expenses) to earnings before interest and tax. This KPI is a measure of the company's ability to generate cash from operations.

Any events that will trigger direct or contingent financial obligations that is material to the company, including any default or acceleration of an obligation.

There are no events anticipated or planned that will trigger any direct or contingent financial obligation.

All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities of other persons created during the reporting period.

There are no material off-balance sheet transactions or arrangements or obligations or relationships created during the period in review.

SIGNATURES

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

ALASKA MILK CORPORATION

Santiago A. Polido
Corporate Secretary

Arnold L. Abad
Vice President - Accounting

May 12, 2005

ALASKA MILK CORPORATION
BALANCE SHEET
AS OF DATES INDICATED
(In Thousand Pesos)

	<u>MAR 31,2005</u>	<u>DEC 31,2004</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	P 1,859,791	P 1,948,332
Accounts Receivable - Net	271,504	398,940
Inventories	982,735	956,451
Prepaid Expenses and Other Current Assets	<u>61,355</u>	<u>23,428</u>
Total Current Assets	3,175,385	3,327,151
Property, Plant & Equipment - Net	702,448	708,946
Other Assets - Net	<u>206,578</u>	<u>203,132</u>
Total Assets	P <u>4,084,411</u>	P <u>4,239,229</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts Payable and Accrued Expenses	P 603,619	P 613,944
Dividends payable	1,518	68,496
Acceptances Payable	404,591	581,617
Income Tax Payable	130,116	101,544
Total Liabilities	<u>1,139,844</u>	<u>1,365,601</u>
Stockholder's Equity		
Capital Stock	963,570	963,320
Additional Paid In Capital	2,013	1,778
Retained Earnings	2,138,994	2,045,862
Cumulative Translation Adjustment	(16,225)	6,453
Treasury Stocks	<u>(143,785)</u>	<u>(143,785)</u>
Total Stockholder's Equity	<u>2,944,567</u>	<u>2,873,628</u>
Total Liabilities and Stockholder's Equity	P <u>4,084,411</u>	P <u>4,239,229</u>

Certified Correct:

ARNOLD L. ABAD
Vice President of Accounting

ALASKA MILK CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
For the Three Months Ended March 31, 2005 and 2004
(In Thousand Pesos)

	3 mos. Ended Mar 31	
	2005	2004
CAPITAL STOCK	963,570	962,485
Additional Paid-in Capital	2,013	978
RETAINED EARNINGS		
Appropriated for various capital investment projects:	500,000	200,000
Appropriated for the Share - Buy Back Program	200,000	200,000
Unappropriated:		
Balance at the beginning of quarter	1,595,862	1,416,636
Net Income	93,132	153,643
Dividends declared		
Appropriation for capital inv. project during the qtr.	(250,000)	
Balance at end of quarter	1,438,994	1,570,279
	2,138,994	1,970,279
CUMULATIVE TRANSLATION ADJUSTMENT		
Balance at beginning of quarter	6,453	25,557
Additions/(Deductions) during the period	(22,678)	6,494
Balance at end of quarter	(16,225)	32,051
TREASURY STOCK		
Balance at beginning of quarter	(143,785)	(143,785)
Acquisition	-	-
Balance at end of quarter	(143,785)	(143,785)
	2,944,567	2,822,008

Certified Correct:

ARNOLD L. ABAD
Vice President of Accounting

ALASKA MILK CORPORATION
COMPARATIVE INCOME STATEMENTS
For the Three Months Ended March 31, 2005 and 2004
(In Thousand Pesos)

		<u>3 mos. Ended MAR 31, 2005</u>		<u>3 mos. Ended MAR 31, 2004</u>
SALES	P	1,170,081	P	1,324,377
COST OF SALES & OPERATING EXPENSES		<u>1,061,415</u>		<u>1,126,496</u>
INCOME FROM OPERATION		108,666		197,881
OTHER INCOME/(CHARGES)				
Interest -Net		17,514		22,617
Miscellaneous		<u>2,712</u>		<u>(5,018)</u>
Total		20,226		17,599
INCOME BEFORE INCOME TAX		128,892		215,480
PROVISION FOR INCOME TAX		<u>35,760</u>		<u>61,836</u>
NET INCOME		93,132		153,644
Retained Earnings at Beginning of Period		2,045,862		1,816,635
Dividend Declared/Paid		<u>-</u>		<u>-</u>
Retained Earnings at End of Period	P	<u><u>2,138,994</u></u>	P	<u><u>1,970,279</u></u>
Appropriated Retained Earnings:				
Appropriation for various capital investment project & stock buy back program		700,000		400,000
Treasury stock Acquired		143,785		143,785
Unappropriated retained earnings		<u>1,295,209</u>		<u>1,426,494</u>
	P	<u><u>2,138,994</u></u>	P	<u><u>1,970,279</u></u>
Earnings Per Share	P	0.10	P	0.17
<i>No. of Shares Issued</i>		<i>963,569,878</i>		<i>962,484,878</i>
<i>Less: No. of Treasury Stocks</i>		<u><i>(70,869,188)</i></u>		<u><i>(70,869,188)</i></u>
<i>Total Shares Issued net of Treasury Stocks</i>		<u><i>892,700,690</i></u>		<u><i>891,615,690</i></u>

Certified Correct:

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Vice President of Accounting

ALASKA MILK CORPORATION
CASH FLOW STATEMENTS
For the Three Months Ended March 31, 2005 and 2004
(In Thousand Pesos)

	<u>3 mos. Ended</u> <u>MAR 31,2005</u>	<u>3 mos. Ended</u> <u>MAR 31, 2004</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Net Income	P 93,132	P 153,644
Depreciation & Amortizations	24,873	25,551
Net Change in Assets & Liabilities		
Decrease/Increase in Current Assets	63,226	(12,746)
Decrease/Increase in Current Liabilities	<u>(158,783)</u>	<u>(65,019)</u>
Net Operational Flows	P <u>22,448</u>	P <u>101,430</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Payment for purchase of Prop. Plant & Equipt.	(18,374)	(13,896)
Treasury Stocks	-	-
Increase/Decrease in Other Assets	<u>(3,446)</u>	<u>(11,729)</u>
Net Investment Flows	P <u>(21,820)</u>	P <u>(25,625)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Increase/Decrease Cumulative Translation Adjustment	(22,678)	6,494
Issuance of Capital Stock	485	-
Dividend payment	<u>(66,977)</u>	<u>(66,951)</u>
Net Financing Flows	P <u>(89,170)</u>	P <u>(60,457)</u>
NET CASH PROVIDED/USED	P <u>(88,541)</u>	P <u>15,348</u>
CASH & CASH EQUIVALENTS AT BEG. OF THE PERIOD	P <u>1,948,332</u>	P <u>1,938,268</u>
CASH & CASH EQUIVALENTS AT END OF THE PERIOD	P <u><u>1,859,791</u></u>	P <u><u>1,953,616</u></u>

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Certified Correct:

ARNOLD L. ABAD
Vice President of Accounting

ALASKA MILK CORPORATION
AGING OF ACCOUNTS RECEIVABLE
AS OF MARCH 31, 2005
(In Thousand Pesos)

	CURRENT	PAST DUE				TOTAL
		1-30 DAYS	31-60 DAYS	61-90 DAYS	OVER 91 DAYS	
Trade - net	253,190	46,425	80	5,216	47,758	352,669
Non-trade						26,143
Total	253,190	46,425	80	5,216	47,758	378,812
Less: Allowance for B/D						(107,308)
Accounts Receivable, Net						<u>271,504</u>

Certified Correct:

ARNOLD L. ABAD
Vice President of Accounting

ALASKA MILK CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Alaska Milk Corporation (the Company) is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 28, 1994. The Company is principally involved in the manufacture, distribution and sale of liquid, powdered and Ultra-Heat Treated milk products under the Alaska brand. The average number of employees of the Company was 676. The registered office address of the Company is 6F, Corinthian Plaza, Paseo de Roxas, Makati City.

The Company is majority-owned by SCM-Bond Holdings, Inc. (SCM).

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines using the historical cost basis.

Changes in Accounting Policies

On January 1, 2004, the Company adopted the following Statements of Financial Accounting Standards (SFAS)/International Accounting Standards (IAS):

- 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 tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions. The standard provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. SFAS 17/IAS 17, "Leases," which prescribes the accounting policies and disclosures to apply to finance and operating leases. Adoption of the standard has no material impact on the Company's financial position and results of operations.

New Accounting Standards Effective in 2005

New accounting standards based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), referred to as Philippine Accounting Standards (PAS) or Philippine Financial Reporting Standards (PFRS), will become effective in 2005. The Company will adopt the following new accounting standards effective January 1, 2005.

- PAS 19, "Employee Benefits," will result in a change in the manner of computing benefit 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 that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date.
- PAS 21, "The Effects of Changes in Foreign Exchange Rates," will result in the elimination of the capitalization of foreign exchange losses. PAS 21 further requires a company to determine its functional currency and measure its results and financial position in that currency. Translation procedures are specified when the presentation currency used for reporting differs from the company's functional currency. Adoption of PAS 21 has no significant impact on

the Company's financial position and results of operations.

- 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 (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 liabilities or equity in accordance with its substance and not its legal form.
- PAS 39, "Financial Instruments: Recognition and Measurement," establishes the accounting and reporting standards for recognizing, measuring, and disclosing information about a 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 nonderivative 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 qualify 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. A Company must formally document, designate and assess the hedge effectiveness of derivative transactions that receive hedge accounting treatment.

Adoption of PAS 39 is expected to have operational and financial statement impact to the Company which is not presently quantifiable. Volatility in the financial statements is anticipated because of the requirement to fair value most financial instruments, including derivative financial instruments. In 2005, the impact of adopting PAS 39 will be retroactively computed, as applicable, and adjusted to January 1, 2005 retained earnings. Prior years' financial statements, as allowed by the Securities and Exchange Commission, will not be restated.

- 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 effectivity of PAS 40, the Company will adopt the cost model and will continue to carry its investment property at depreciated cost less any accumulated impairment losses.
- PFRS 2, "Share-Based Payments," will result in a charge to net income for the cost of share options granted. The Company currently does not recognize an expense from share options

granted but discloses required information for such options. The quantified impact of adopting PFRS 2 will not materially affect the Company's financial statements.

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

- PAS 1, "Presentation of Financial Statements," provides a framework within which the Company 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 Company'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.

Adoption of the above revised standards has no significant impact on the financial statements except for the additional disclosures required by the standards and the presentation of the statements of income.

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 are subject to an insignificant risk of change in value.

Short-term Investments

Short-term investments include investment in trust fund (Fund) and time deposits with original maturities of more than three months but less than one year. Any decline in value of investment in Fund is charged to statements of income.

Trade and Other Receivables

Trade receivables are recognized and carried at original invoice amounts less allowance for any uncollectible amount. Other receivables are stated at face value less allowance for any uncollectible amount. An estimate for doubtful accounts is made when collection of the full amount is no longer probable.

Inventories

Inventories are valued at the lower of cost or net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for using the weighted average method. For manufactured and processed inventories, cost includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Net realizable value of raw materials, packaging materials, spare parts, supplies and others is the current replacement cost.

Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and other costs directly attributable in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the year 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.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

Land improvements	20 years
Buildings and leasehold improvements	15 years or term of the lease contracts, whichever is shorter
Machinery and equipment	10 years
Transportation equipment	3 to 5 years
Office furniture, fixtures and other equipment	3 years

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

Machinery and equipment under installation and machinery in-transit are stated at cost, and are not depreciated until such time that the relevant asset is put into operational use.

Construction in-progress represents properties under construction and is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in-progress is not depreciated until such time that the relevant asset is completed and put into operational use.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment loss are removed from the accounts and any resulting gain or loss is credited or charged to statements of income.

Asset Impairment

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 when the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment and other long-lived assets is the greater of net selling price or value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. 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 loss, if any, is recognized in the statements of income.

Reversal of impairment loss recognized in prior year is recorded when there is an indication that the impairment loss recognized for the asset no longer exists or have decreased. The reversal is recorded as income. However, the increased carrying amount of an asset due to reversal of an impairment loss is recognized only to the extent that it does not exceed the carrying amount (net of accumulated depreciation) that would have been determined had impairment loss not been recognized for that asset in prior year.

Investment in Condominium Property

Investment in condominium property, included under "Other noncurrent assets" account, is carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over a period of 15 years.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent Events

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

Revenue Recognition

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

Sales. Sales are recognized upon delivery and billing to customers.

Interest. Interest is recognized on a time proportion basis that takes into account the effective yield on the related asset.

Toll Packing Income. Toll packing income is recognized in accordance with the terms of the toll packing agreements.

Operating Lease

Lease payments under operating leases are recognized as expense on a straight-line basis over the terms of the lease agreements.

Retirement Costs

The Company has a funded, noncontributory defined benefit retirement plan, administered by a Board of Trustees, covering all permanent employees. Retirement costs are actuarially determined using the projected unit credit method. This method reflects the years of service rendered by the employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement 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.

Foreign Currency Transactions

Foreign currency transactions are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at the balance sheet date. All exchange rate differences including those arising on the settlement of monetary items at rates different from those at which they were recorded are recognized in the statements of income in the year in which the differences arise, except for foreign currency differences pertaining to cash, cash equivalents and short-term investments designated as hedging instruments.

Hedging Instruments

Prior to 2003, the Company enters into short-term foreign exchange forward contracts to hedge a portion of the Company's foreign currency-denominated liabilities arising from importations of inventories. The Company uses the forward rates specified in the related foreign exchange contracts as the basis for measuring and reporting the underlying liabilities.

Starting May 1, 2003, the Company designates certain of its US dollar cash, cash equivalents and short-term investments as cash flow hedges of the foreign currency exposure associated with its highly probable forecasted or firmly committed US dollar denominated purchases of inventories, machinery and equipment. Foreign currency translation gains or losses on the US dollar cash, cash equivalents and short-term investments that qualify as highly effective cash flow hedges are deferred in the stockholders' equity section of the balance sheets as CTA. The ineffective portion is immediately recognized in earnings. Foreign currency translation gains and losses initially recognized in CTA form part of the costs of inventories, machinery and equipment when the hedged purchase transaction occurs. When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that has been reported directly in CTA is retained in CTA until the hedged forecasted or firmly committed purchase occurs. When the hedged purchase transaction is no longer expected to occur, any cumulative gain or loss previously reported in CTA is transferred to the statements of income.

Income Tax

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 assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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 asset 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.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing the net income for the year attributable to the shareholders by the weighted average number of shares outstanding during the year.

Diluted EPS is computed by dividing net income attributable to the shareholders by the weighted average number of shares outstanding during the year adjusted for the effects of dilutive stock options. Stock options are deemed to have been converted into shares on the date when the options were granted.

Segment Reporting

For purposes of segment reporting, the Company does not have other reportable segment other than milk manufacturing.

3. Cash and Cash Equivalents

This account consists of cash on hand and cash in banks. Cash equivalents are short-term investments in trust funds, time deposits, and foreign exchange and cash collateralized forward contracts with original maturities of not more than one year and are carried at cost. Highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

As of March 31, 2005, US dollar cash and cash equivalents and short-term investments aggregating US\$27.4 million (₱1.5 billion) have been designated by the Company as cash flow hedges of the foreign currency exposure associated with its US dollar-denominated forecasted purchase requirements for inventories, machinery and equipment in April to December 2005. The amount hedged constitutes about 66% of total US dollar-denominated forecasted purchase requirements for inventories, machinery and equipment in April to December 2005.

The amount recognized as CTA of ₱16.2 million as of March 31, 2005 represents the aggregate foreign currency translation loss on the US dollar cash and cash equivalents and short-term investments designated as cash flow hedges during the year. Reclassification made from CTA to cost of inventories amounted to ₱5.9 million 2005.

4. Accounts Receivables

This account consists of Trade, Insurance claims and others net of allowance for doubtful accounts.

5. Inventories

This account consists of Finished goods, Raw and packaging materials, Spare parts, supplies and others, Goods in Transit. Allowance for inventory obsolescence is deducted from this account.

6. Property, Plant and Equipment

This account consists of Land and improvements, Buildings and leasehold improvements, Machinery and equipment, Transportation equipment, Office Furniture, fixtures and other equipment, Machinery and equipment under installation and construction in progress. Accumulated depreciation and amortization is deducted from this account.

7. Accounts Payable and Accrued Expenses

This account consists of:

	<u>March 31, 2005</u>	<u>Dec. 31, 2004</u>
Accounts payable - trade	P466,700	P469,148
Accrued expenses	83,088	81,277
Advertising expense payable	<u>53,831</u>	<u>63,519</u>
	<u>P603,619</u>	<u>P613,944</u>

8. Pension Plan

The Company has a funded, noncontributory defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and compensation as of valuation date.

9. Related Party Disclosures

Transactions with related parties include the following:

- a. The Company charges GenOSI, Inc. (GenOSI) and Wentworth Development Corporation (WDC), affiliates, for their share in the expenses incurred by directors and officers common to these companies.
- b. The Company leases office space from SCM. Rental expense for the first quarter of 2005 amounted to P2.9 million.
- c. The Company also leases provincial office space from WDC. Rental expense amounted to P0.15 million for the first quarter of 2005.
- d. The Company recognizes incentives to the members of the BOD, management and employees based on a certain percentage of operating income.
- e. The Company leases the land where its manufacturing plant is situated from the Retirement Fund for a period of 25 years starting November 9, 2004. Rental expense amounted to P2.6 million in 2004. Annual lease payments for the whole term of the lease amount to P15.6 million.