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SEC Registration No.

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(Company's Full Name)

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

Atty. Nestor S. Romulo

Contact Person

(632) 706-7888/706-5982

Contact Telephone No./Fax No.

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Any day in May

Fiscal Year

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, If Applicable

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Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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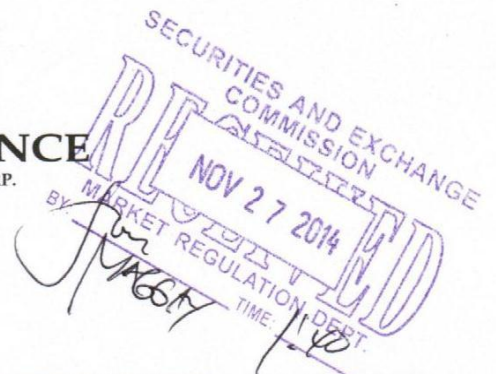
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20-IS Definitive Report: MAHEC



November 27, 2014

To All Shareholders:

Please be informed that the ANNUAL MEETING OF STOCKHOLDERS shall be held on December 19, 2014, Friday, at 1:00 p.m. at One Café and Events Place, 6th Floor One Corporate Centre, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City.

The Order of Business shall be:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on September 15, 2006
4. Report of the President
5. Presentation and approval of the Annual Financial Statements
6. Approval and Ratification of the actions and proceedings taken by the Board of Directors and Corporate Officers regarding the BPC Project.
7. Ratification of the actions and proceedings taken by the Board of Directors and Corporate Officers since September 15, 2006
8. Approval of the amendment of the Article III of the Articles of Incorporation (change of official business address).
9. Election of the Members of the Board of Directors
10. Appointment of External Auditor
11. Other business
12. Adjournment

As fixed by the Board of Directors, stockholders of record date as of November 27, 2014 shall be entitled to notice of, and vote at, said stockholders' meeting and for this purpose, the Board of Directors authorized the closing of the stock and transfer book of the Corporation from November 27 – December 19, 2014.

If you are not attending, you may submit a proxy statement to the office of the Corporate Secretary of this Corporation at the address below not later than ten (10) days before the meeting. Corporate stockholders are requested to attach to the proxy instrument their respective Board Resolutions in support to their proxies.

On the day of the meeting, you or your proxy are hereby required to bring this Notice and any form of identification with picture and signature (e.g. driver's license, SSS ID, company ID, etc.) to facilitate registration.


ATTY. NESTOR S. ROMULO
Corporate Secretary

35th Flr. One Corporate Center Doña Julia Vargas Avenue corner
Meralco Ave., Ortigas Center, Pasig City, Phils. 1605
Trunkline (02) 706-7888 * Fax No. (02) 706-5982

PROXY

The undersigned stockholder of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as *attorney* and *proxy*, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on December 19, 2014 and at any of the adjournments thereof for the purpose of acting on the following matters:

- | | |
|---|--|
| <p>1. Approval of minutes of previous meeting held September 15, 2006.
☐ Yes ☐ No ☐ Abstain</p> <p>2. Approval of the annual financial statements.
☐ Yes ☐ No ☐ Abstain</p> <p>3. Approval and Ratification of the actions and proceedings taken By the Board of Directors and Corporate Officers regarding the BPC project
☐ Yes ☐ No ☐ Abstain</p> <p>4. Ratification of the actions and proceedings taken by the Board of Directors and Corporate Officers since September 15, 2006.
☐ Yes ☐ No ☐ Abstain</p> <p>5. Election of the Members of the Board of Directors
☐ Vote for all nominees listed below:
Renato B. Magadia
Reno I. Magadia
Lamberto B. Mercado, Jr.
Miguel B. Varela (Independent)
Ricardo de la Torre
Nestor S. Romulo
Rogelio D. Garcia (Independent)</p> <p>☐ Withhold authority for all nominees listed above</p> <p>☐ Withhold authority to vote for the nominees listed below:

_____</p> | <p>6. Election of Uy Singson Abella & Co. CPAs as external auditors.
☐ Yes ☐ No ☐ Abstain</p> <p style="text-align: right;">_____
PRINTED NAME OF STOCKHOLDER</p> <p style="text-align: right;">_____
SIGNATURE OF STOCKHOLDER/
AUTHORIZED SIGNATORY</p> <p style="text-align: right;">_____
DATE</p> |
|---|--|

THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **DECEMBER 9, 2014**, THE DEADLINE FOR SUBMISSION OF PROXIES.

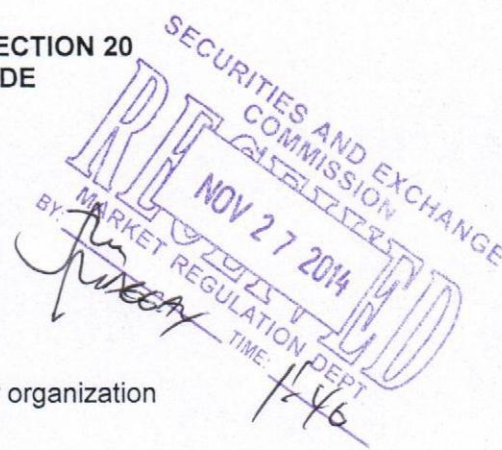
THIS PROXY IS NOT REQUIRED TO BE NOTARIZED, AND WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER AS DIRECTED HEREIN BY THE STOCKHOLDER(S). IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES AND FOR THE APPROVAL OF THE MATTERS STATED ABOVE AND FOR SUCH OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING IN THE MANNER DESCRIBED IN THE INFORMATION STATEMENT AND/OR AS RECOMMENDED BY MANAGEMENT OR THE BOARD OF DIRECTORS.

A STOCKHOLDER GIVING A PROXY HAS THE POWER TO REVOKE IT AT ANYTIME BEFORE THE RIGHT GRANTED IS EXERCISED. A PROXY IS ALSO CONSIDERED REVOKED IF THE STOCKHOLDER ATTENDS THE MEETING IN PERSON AND EXPRESSED HIS INTENTION TO VOTE IN PERSON.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:
☐ Preliminary Information Statement
☒ Definitive Information Statement
2. Name of Registrant as specified in its charter :
Metro Alliance Holdings & Equities Corp.
3. **Philippines**
 Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number : **296**
5. BIR Tax Identification Code: **000-130-411**
6. **22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City 1226**
 Address of principal office Postal Code
7. Registrant's telephone number, including area code: **(632) 706-7888**
8. **December 19, 2014, Friday, 1:00 pm, One Café and Events Place
 35th Floor One Corporate Centre, Doña Julia Vargas cor. Meralco Aves.
 Ortigas Center, Pasig City**
 Date, time and place of the meeting of security holders
9. Approximate date on which the Information Statement is first to be sent or given to security holders **December 4, 2014**
10. **In case of Proxy Solicitations:**
Name of Person Filing the Statement/Solicitor: Not applicable
Address and Telephone No.: Not applicable
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Class A	183,673,470
Common Class B	122,448,979
Outstanding Debt	Php 984,328,922

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes **x** No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange

All Common Class A and Class B

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of meeting of security holders.

- (a) Annual Stockholders' Meeting will be held on:
Date: December 19, 2014
Time: 1:00 pm
Place: One Café and Events Place
6th Floor One Corporate Centre, Doña Julia Vargas
Cor. Meralco Aves., Ortigas Center, Pasig City

Complete mailing address of the principal office of the corporation:
35th Floor One Corporate Centre, Doña Julia Vargas
Cor. Meralco Aves., Ortigas Center, Pasig City

- (b) As stated in the first page of the information statement, the approximate date on which **copies of** the information statement are first to be sent or given to security holders is on **December 4, 2014**.

Item 2. Dissenters' Right of Appraisal

Instances of appraisal right of dissenters with respect to any matter to be acted upon.

- (a) In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
- (b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in Section 81 of the Corporation Code; and
- (c) In case of merger or consolidation.

In instances wherein the stockholder has voted against a proposed corporate action, the statutory procedures required to be followed by dissenting security holders in order to perfect such rights are, as follows:

- (a) The withdrawing stockholder shall make a written demand on the corporation within thirty (30) days after the date that the vote was taken for payment of the fair value of his shares. Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right.
- (b) The withdrawing stockholder shall submit his shares to the corporation for notation of being a dissenting stockholder within ten (10) days from written demand and the corporation has to pay the stockholder, upon surrender of the corresponding certificates within 30 days after demanding payment for his shares, the fair value thereof.

- (c) Failure to make the demand within thirty (30) days shall be deemed a waiver of the appraisal right.
- (d) If within a period of sixty (60) days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two thus chosen. The findings of the majority appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made.
- (e) No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment.
- (f) Upon payment by the corporation of the agreed or awarded price, the stockholder shall forthwith transfer his shares to the corporation.

There are no matters or proposed corporate actions to be taken up during the annual stockholders meeting which may give rise to a possible exercise by security holders of their appraisal right under Section 81 of the Corporation Code of the Philippines (Corporation Code).

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- (a) No person who has been a director, officer, nominee for election as a director or associate of any director, officer or nominee of the corporation since the beginning of the last fiscal, has any substantial interest, direct or indirect, by security holdings or otherwise, of each of the following persons in any matter to be acted upon, other than election to office.
- (b) No director of the registrant has informed the registrant in writing that he intends to oppose any action to be taken by the corporation at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

- (a) Class of voting shares as of October 31, 2014:

	Shares Outstanding	No. of Vote Each Share is Entitled
Common Shares – Class A		
Filipino	183,673,470	One (1) vote each
Foreigner	–	
Total	<u>183,673,470</u>	
Common Shares – Class B		
Filipino	60,675,182	One (1) vote each
Foreigner	61,773,797	One (1) vote each
Total	<u>122,448,797</u>	
Total Outstanding Shares	<u>306,122,267</u>	

- (b) All stockholders as of record date **November 27, 2014** are entitled to notice and to vote at the annual stockholders' meeting.
- (c) The election of directors shall be taken up at the meeting pursuant to Section 24 of the Corporation Code. The holders of common stock (Class A and Class B) are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on the record date, multiplied by the number of directors to be elected. A stockholder may cast all such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or raising of hands. In all matters included in the agenda, except the election of directors, the counting of vote will be done through the regular method.
- (d) Security Ownership of Certain Record and Beneficial Owners and Management (Information required by Part IV paragraph (C) of "Annex C" to the extent known by the persons on whose behalf the solicitation is made)

1. Security Ownership of Certain Record and Beneficial Owners

As of October 31, 2014 the Corporation knows of no one who beneficially owns in excess of 5% of the Corporation's common stock except as set forth in the table below.

Title of Class	Name, address of Record owner and Relationship with issuer	Name of Beneficial Owner* and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common Shares – Class B	Creston Global Limited C/o #9 Cardinal St., St. Dominic Subd., Bahay Toro, Congressional Ave, Quezon City (1 st major stockholder)	John Torres – Authorized signatory (Designated representative)	British	56,378,388	18.42%
Common Shares – Class A 16,190,768 Class B 26,779,182	PCD Nominee Corp. 37F Tower 1, The Enterprise Center, 6766 Ayala Avenue cor. Paseo De Roxas, Makati City (2 nd major stockholder)	PCD Participants and their clients (see Schedule A)	Filipino	42,969,950	14.04%
Common Shares – Class A	Chesa Holdings, Inc. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (3 rd major stockholder)	Perlie Alpuerto – Corporate Treasurer (Designated representative)	Filipino	40,500,000	13.23%
Common Shares – Class A	Pacific Wide Realty & Development Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (4 th major stockholder)	Chona Chua – Corporate Treasurer (Designated representative)	Filipino	31,498,000	10.29%

Common Shares – Class A 14,442,356 Class B 13,432,644	Forum Holdings Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (5 th major stockholder)	Ellen T. Balunsat Corporate Treasurer (Designated representative)	Filipino	27,875,000	9.11%
Common Shares – Class A	Misons Industrial and Development Corp. Unit 2002 20 th Antel 2000 Corporate Center 121 Valero St., Salcedo Village, Makati City (6 th major stockholder)	Renato B. Magadia	Filipino	22,000,000	7.19%
Common Shares – Class A 6,329,500 Class B 9,503,908	Pacific Concorde Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (7 th major stockholder)	Irene F. San Roque Corporate Treasurer (Designated representative)	Filipino	15,833,408	5.17%

* Person designated to exercise investment power over the equity

Schedule A. Top 10 PCD Nominee as of October 31, 2014

PCD Nominee	No. of Shares Held	%
Class A		
1. BPI Securities Corporation	2,278,900	0.74%
2. Papa Securities Corporation	2,104,916	0.69%
3. Westlink Global Equities, Inc.	1,755,750	0.57%
4. Quality Investments & Securities Corporation	1,172,922	0.38%
5. AB Capital Securities, Inc.	887,488	0.29%
6. Maybank ATR Kim Eng Securities, Inc.	881,536	0.29%
7. Mapfre Insular Insurance Corporation-Non Life	480,000	0.16%
8. RTG & Company, Inc.	444,000	0.15%
9. SB Equities, Inc.	354,750	0.12%
10. Abacus Securities Corporation	325,395	0.11%
11. Others	5,505,111	1.80%
Class B		
1. Quality Investments & Securities Corporation	8,976,929	2.93%
2. Westlink Global Securities, Inc.	1,817,867	0.59%
3. AB Capital Securities, Inc.	1,660,019	0.54%
4. Papa Securities, Inc.	1,648,103	0.54%
5. Tower Securities, Inc.	1,011,500	0.33%
6. SB Equities, Inc.	934,100	0.31%
7. Maybank ATR Kim Eng Securities, Inc.	915,875	0.30%
8. Standard Chartered Bank	750,000	0.24%
9. Abacus Securities Corporation	749,928	0.24%
10. Evergreen Stock Brokerage & Sec., Inc.	725,000	0.24%
11. Others	7,589,861	2.48%
TOTAL	42,969,950	14.04%

2. Security Ownership of Management

As of October 31, 2014 the security ownership of individual directors, executive officers and nominees of the Corporation is as follows:

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	%
Common—Class A	Renato B. Magadia	125,010 / Direct	Filipino	0.041
Common—Class A	Reno I. Magadia	100 / Direct	Filipino	0.000
Common—Class A	Nestor S. Romulo	1 / Direct	Filipino	0.000
Common—Class A	Lamberto B. Mercado, Jr.	1 / Direct	Filipino	0.000
Common—Class A	Rogelio D. Garcia	1 / Direct	Filipino	0.000
Common—Class A	Ricardo M. Dela Torre	1 / Direct	Filipino	0.000
Common—Class A	Miguel B. Varela	1 / Direct	Filipino	0.000
Common—Class A	James B. Palit-Ang	1 / Direct	Filipino	0.000
Total		125,116		

3. Voting Trust Holders of 5% or More – There are no voting trust holders of 5% or more.

4. Changes in Control – There are no change in control of the corporation and there is no arrangement which may result in change of control.

(e) No change in control of the corporation has occurred since the beginning of its last fiscal year.

Item 5. Directors and Executive Officers

If action is to be taken with respect to the election of directors, furnish the following information in tabular form, to the extent practicable.

A. Information required by Part IV, paragraphs (A), (D) (1) and (D) (3) of “Annex C”

(a) The information required by Part IV, paragraph (A) of “Annex C”.

(1) Directors, including Independent Directors, and Executive Officers

a. Names, ages, citizenship, and position and office of all directors and executive officers

Name	Age	Citizenship	Position and Office
Renato B. Magadia	76	Filipino	Chairman of the Board and President
Lamberto B. Mercado, Jr.	49	Filipino	Director
Rogelio D. Garcia	76	Filipino	Independent Director
Reno I. Magadia	44	Filipino	Director
Ricardo M. Dela Torre	72	Filipino	Director
Nestor S. Romulo	69	Filipino	Director/Corporate Secretary
Miguel B. Varela	72	Filipino	Nominee – Independent Director
James B. Palit-Ang	50	Filipino	Treasurer

b. Term of Office as a Director

The Directors of the Corporation are elected at the annual stockholders’ meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Thus, the term of office of each director is one year, until the Board of Directors at its first meeting following the Meeting of Stockholders has elected their successors annually. Their respective terms of office are until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been elected or shall have qualified.

c. Business experience during the past five years and other directorships

Name	Corporation	Position
Renato B. Magadia Chairman of the Board & President Filipino 76 years old Bachelor of Science in Business Administration University of the Philippines Certified Public Accountant -1960	Present: MAHEC MAHEC MAHEC Philippine Estate Corp. Waterfront Phils., Inc. CPDSI FEZ and ZDI Asia Healthcare, Inc. Acesite (Phils.) Hotel Corp. ZetaMark, Inc. Previous: The Zuellig Corporation Mabuhay Vinyl Corporation	Chairman of the Board since 1999 President since 2001 Director since 1998 Director Chairman of the Board/Director since 1999 Chairman of the Board since 1999 Chairman and President since 2004 Chairman of the Board, 2001-2003 Chairman and President, since 2004 Vice Chairman Chairman President & CEO, 1980-99 Chairman & CEO, 2001-2007
Lamberto B. Mercado, Jr. Director Filipino 49 years old Bachelor of Laws (L.L.B.) Ateneo de Manila University School of Law Lawyer – 1991	Present: MAHEC AHI, FEZ and ZDI Waterfront Phils., Inc. Forum Pacific, Inc. The Wellex Group, Inc. Previous: Subic Bay Metropolitan Authority	Director since 2003 Director, 2004 Director since 1999 Director since 1998 Vice President for Legal since 1998 Deputy Administrator for Administration, 1997-98
Rogelio D. Garcia Independent Director Filipino 76 years old Bachelor of Laws (LLB) University of the Philippines 1961	Present: MAHEC Garco Pacific Consultants Previous: ConyBio Philippines, Inc. NIR Placement Center Inc.	Director since 2003 Chief Executive Officer since 1993 Chief Executive Officer, 1997-2000 Executive Consultant, 1998-2000
Reno I. Magadia Director Filipino 44 years old BA, TV and Radio Broadcasting California State University, Los Angeles Master's Degree – Business Administration Pepperdine University, Los Angeles, California	Present: MAHEC Metro Combined Logistics Solutions, Inc. (formerly GAC Logistics, Inc.). Misons Industrial & Development Corp. Previous: Mercator Filter Manufacturing Corp. Papa Securities Corp.	Director since 2006 Managing Director since Nov. 2011 Managing Director Vice President, 1996-2003 Head Portfolio Manager, 1993-1996

Ricardo M. Dela Torre Independent Director Filipino 72 years old Advanced Management Program – 1994 (Asian Institute of Management, Indonesia) Masters in Business Management – 1970 (Asian Institute of Management, Philippines) Bachelor of Science in Accounting – 1963 (Ateneo de Naga, Philippines) Certified Public Accountant – 1964	Present Metro Alliance Holdings & Equities Corp. Metro Combined Logistics Solutions, Inc. Previous Banco de Oro BPI – Family Bank BPI – Family Bank BPI Card Corporation BPI/MS Insurance FGU Insurance Corporation Santiago Land Ford Credit Philippines Ford Credit Philippines Filiol Corporation	Independent director (since 2005) Consultant, Consumer Financing (July 2003-July 2005) Senior Vice President (1984-2002) Director Director Director Director Director General Manager Sales and Distribution Manager Corporate Planning Manager
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Nestor S. Romulo Corporate Secretary Filipino 69 years old Bachelor of Laws (LLB) University of the Phils., 1970 Lawyer - 1971	Present: Metro Alliance Holdings & Equities Corp. Winbank (Savings Bank) Westmont Investment Corp Wincorp Securities Romulo, Serrano and Camello Law Offices Reyno, Tiu, Domingo and Santos Law Offices JP Consultancy Resources and Management, Inc. JMP Development Corp. Margarita Properties, Inc. Zuellig Distributors Inc. Asia Healthcare, Inc. Previous: EPCIB PCIB	Corporate Secretary since February 2004 Chairman of the Board Chairman of the Board Director Partner Consultant Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Consultant, 1999-2000 VP and Head, Legal Services Group, 1995-1999
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Atty. Miguel B. Varela Nominee Independent Director Filipino 72 years old San Beda College Liberal Arts Ateneo de Manila University Bachelor of Law	Present: MAHEC Megaworld Corporation Global Estates Resorts, Inc. Emperador, Inc.	Nominee – Independent Director Independent Director and Vice Chairman 2006-present Independent Director, 2012 - present Independent Director, 2012 - present
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James B. Palit-Ang Treasurer Filipino 50 years old B.S.B.A Accounting Philippine School of Business Administration	Present: MAHEC Noble Arch Realty & Construction Corp. Crisanta Realty & Development Corp. Philippine Estates Corp.	Treasurer Chairman and President since 2010 Chairman and President since 2008 Director since 2010
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Nominees for Election as Members of the Board of Directors, including the Independent Directors

The following are expected to be nominated to the Board of Directors of the Corporation for the ensuing year:

- | | |
|------------------------------|--|
| (1) Renato B. Magadia | (5) Ricardo M. Dela Torre |
| (2) Reno I. Magadia | (6) Miguel B. Varela – Independent Director |
| (3) Lamberto B. Mercado, Jr. | (7) Rogelio D. Garcia – Independent director |
| (4) Nestor S. Romulo | |

The aforementioned nominees are all incumbent directors except for Atty. Miguel B. Varela. All nominees in the final list were pre-screened by the Nomination Committee and their qualifications are presented on the previous pages. Mr. Rogelio D. Garcia, one of the independent directors, will be serving his 3rd term as independent director when elected during the annual meeting. Atty. Miguel B. Varela, on the other hand, will be serving his first. The Nomination Committee will recommend them to undergo a cooling off period for two years after their last term on 2017 and 2019, respectively, pursuant to SEC Memorandum Circular No. 9 series of 2011 (Term limits of Independent Directors). The Certifications of Independent Directors executed by the aforementioned independent directors of the Corporation are attached hereto. (Please refer to pages 29 to 30). None of the candidates for independent directors of the Corporation are related to Metro Alliance Holdings & Equities Corp.

A summary of the nominees' qualifications is presented in the preceding paragraph. Mr. Renato B. Magadia is the nominating person and he has no relationships with these nominees.

The members of the Nomination Committee are the following:

1. Rogelio D. Garcia – Chairman
2. Lamberto B. Mercado, Jr. – member
3. Nestor S. Romulo – member

(2) Significant Employees

Other than its current officers mentioned in the preceding subsection, the Corporation has not engaged the services of any person who is expected to make significant contribution to the business of the Corporation.

(3) Family Relationships

With the exception of the father-son relationship between Renato B. Magadia (Chairman and President) and Reno I. Magadia (Director), there are no family relationships up to the fourth civil degree either by consanguinity or affinity among directors, executive officers, persons nominated or chosen by the Corporation to become directors, or executive officers.

(4) Involvement in Certain Legal Proceedings

For the past five (5) years up to November 26, 2014, the Company is not aware of any bankruptcy proceedings filed by or against any business of a director, person nominated to become a director, executive officer or control person of the Company is a party or of which any of their property is subject.

For the past five (5) years up to November 26, 2014, the Company is not aware of any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, of any of its director, person nominated to become a director, executive officer, or control person.

For the past five (5) years up to November 26, 2014, the Company is not aware of any order, judgment or decree not subsequently reversed, superseded, or vacated, by any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending, or otherwise limiting the involvement of a director, person nominated to become a director, person nominated to become a director, executive officer, or control person of the Company in any type of business, securities, commodities, or banking activities.

For the past (5) years up to November 26, 2014, the Company is not aware of any findings by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or electronic marketplace or self-regulatory organization, that any of its director, person nominated to become a director, executive officer, or control person has violated a securities or commodities law.

The Corporation, as represented by the Board of Directors, is involved or has been involved in certain legal proceedings as follows ***(please refer to page 52 to 57 of this report for the detailed discussion of each case):***

1) Metro Alliance vs Commissioner of Internal Revenue

- Assessment for deficiency withholding taxes for the year 1989, 1990 and 1991.
- As of the date of this report, Metro Alliance has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable.

2) Securities and Exchange Commission (SEC) En Banc Case No. 07-09-169

- For Review of Order of Revocation of Registration of and Permit to Sell Securities
- The SEC En Banc, premises considered, granted the Order of Revocation of Registration of and Permit to Sell Securities dated June 25, 2009 be SET ASIDE.
- However, the timeliness of the filing of the required reports is a totally different issue. The Commission En Banc directed the Corporate Finance Department (CFD) to determine and impose, after proper proceedings, penalties against the Company for its late filing of its 2006 Annual Report (SEC Form 17-A) and 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q). As of the date of this report, final amount for all the penalties that accrue cannot be determined. The Company believes that it made provisions sufficient enough to cover the contingent liability.

3) Metro Alliance vs The Philippine Stock Exchange ("PSE")

- Trading suspension due to non-filing of structured reports from 2007-2014.
- Non-submission of annual and quarterly reports since 2007 is due to legal issues involving the acquisition of the petrochemical plant and the surrounding issues that are beyond the control of the Company. The Company has made provisions on its financial statements sufficient enough to cover such liability.

Certain Relationships and Related Transactions

The Group, in the normal course of business, has transactions with related parties. The following table summarizes the transactions with related parties for the year ended December 31, 2013 and 2012. Please refer to Note 15 of the Audited Consolidated Financial Statements attached to this report for the broad discussions.

a. Due from/to related parties

The amounts due from related parties included under receivables are unsecured and noninterest bearing advances, which have no definite repayment terms.

The amounts due to related parties pertain to advances provided to the Parent Company to finance its working capital requirements, capital expenditures, Petrochemical Project support and for other investments and have no definite repayment terms. These are unsecured and noninterest bearing, except the liability to WPI, which is interest bearing but the related finance charges are being charged to Polymax, since the corresponding liability were obtained in relation to the Petrochemical Project.

b. Payables for shared operating expenses

On November 30, 2011, Gulf Agency Company Holdings (BV) and the Parent Company executed a Deed of Assignment in which the former offered to assign, transfer, cede and convey to the latter all its rights, title and interests in and to its shares, and the latter has accepted the offer. Accordingly, the former's shares were cancelled on May 7, 2012.

In accordance with the Deed of Assignment, it is agreed that the outstanding liabilities of MCLSI with Gulf Agency Company Holdings (BV) referred to in the Memorandum of Agreement dated November 30, 2011 will be honored and paid, should the latter's shares be sold to other persons.

c. The related amounts applicable to the Group's transactions with related parties are as follows:

	Amount of Transactions		Outstanding	
	Increase (Decrease)		Receivable/Payable	
	2013	2012	2013	2012
Asset Held For Sale				
Advances to Polymax (special purpose entity)	₱5,646,912	₱8,022,387	₱960,289,978	₱954,643,066
Due from Related Parties				
The Wellex Group, Inc.	(₱5,268,421)	₱7,668,421	₱10,801,000	₱16,069,421
Others	—	—	293,487	293,487
	(₱5,268,421)	₱7,668,421	₱11,094,487	₱16,362,908

	Amount of Transactions Increase (Decrease)		Outstanding Receivable/Payable	
	2013	2012	2013	2012
Due to Related Parties				
<i>Under Common Control</i>				
Waterfront Philippines, Inc. (WPI)	₱6,896,540	₱6,761,314	₱368,976,125	₱362,079,585
Acesite (Phils.) Hotel Corporation	—	—	6,239,733	6,239,733
Wellex Mining Corp.	—	—	225,000	225,000
Gulf Agency Company Holdings (BV)	1,640,269	(1,541,105) (16,692,965)	22,567,469	20,927,200
The Wellex Group, Inc.	—	)	—	—
GAC Shipping and Cargo System (Phils.), Inc.	—	(158,109)	—	—
<i>Stockholders</i>	—	—	181,753,940	181,753,940
<i>Others</i>	(7,651,661)	4,586,327	(4,801,026)	2,850,635
	₱885,148	(₱7,044,538)	₱574,961,241	₱574,076,093
Accrued Finance Charges				
WPI	₱137,930	₱135,227	₱7,034,470	₱6,896,540

Ownership Structure and Parent Company

(a) The information required by Part IV, paragraphs (D)(3) of “Annex C”.

Metro Alliance Holdings & Equities Corp. (MAHEC), the Parent Company, wholly owns three (3) companies: Consumer Products Distribution Services, Inc. (CPDSI), FEZ-EAC Holdings, Inc. (FEZ-EAC) and Zuellig Distributors, Inc. (ZDI), all have ceased operations. MAHEC owns 60% of Asia Healthcare, Inc. (AHI), the pharmaceutical arm of the Group and also have ceased operations. Lastly, MAHEC owns 51% of Metro Combined Logistics Solutions, Inc. (MCLI; formerly GAC Logistics, Inc.), the contract logistics arm and the only operating subsidiary of the Group.

Resignation of Directors Due to Disagreement

There are no directors who resigned or decline to stand for re-election because of disagreement.

Terms of Office

The Directors of MAHEC are elected at the annual stockholders’ meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

All officers, except executive officers, shall be elected by the Board of Directors at its first meeting following their election. Every officer so elected shall be subject to removal at any time by the Board of Directors but all officers, unless removed, shall hold office until their successors are duly elected and qualified.

The executive officers shall hold office either by appointment of the Board of Directors or upon contract of employment with the Corporation approved by the Board of Directors.

The members of the Executive Committee are the following:

1. Renato B. Magadia – Chairman
2. Lamberto B. Mercado, Jr. – member
3. Nestor S. Romulo – member

Item 6. **Compensation of Directors and Executive Officers**

The following table lists the names of the Corporation's Directors and Executive Officers Annual Compensation for the two most recent years including the estimated compensation for year 2014. As observed, there was no compensation, in any form, to all Directors and key officers for the previous years due to the Company's tight cash position resulting from the trading suspension from PSE and subsidiaries that have ceased operations.

(a) Summary Compensation Table – Annual Compensation

	Name and Principal Position	Year	Salary	Bonus	Other compensation
1	Renato B. Magadia Chairman of the Board and President	2014	-	-	-
		2013	-	-	-
		2012	-	-	-
2	James B. Palit-Ang Treasurer	2014	-	-	20,000
		2013	-	-	-
		2012	-	-	-
3	Nestor S. Romulo Corporate Secretary and Legal Counsel	2014	-	-	600,000
		2013	-	-	600,000
		2012	-	-	600,000
4	Other directors	2014	-	-	40,000
		2013	-	-	-
		2012	-	-	-
5	All directors and Officers as a Group unnamed	2014	-	-	660,000
		2013	-	-	600,000
		2012	-	-	600,000

Note: Renato B. Magadia's management fee was waived by him until the Company gets back to operations and became profitable again.

The Compensation Committee prescribed only the above compensation for the specified officers and directors for year 2014.

The members of Compensation Committee are the following:

1. Reno I. Magadia – Chairman
2. Nestor S. Romulo – member
3. Rogelio D. Garcia (independent director) – member

(1) Standard Arrangement

Except for a nominal amount of per diem amounting to P10,000 during attendance in special meetings, there is no standard arrangement with regard to election, any bonus, profit sharing, pension/retirement plan, granting of any option, warrant or right to purchase any securities. There are no other arrangements or consulting contracts or other form of services with directors.

a. Other Arrangement

There are no other arrangements pursuant to which any director of the Corporation was compensated, or is to be compensated directly or indirectly for any services provided as a director for the last completed calendar year and ensuing year, for any service provided as a director.

(3) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no employment contract and termination of employment and change-in-control arrangement with the directors and executive officers.

(4) Warrants and Options Outstanding: Repricing

There are no warrants and options outstanding held by the Corporation's CEO, executive officers and all officers and directors as a group. There is no repricing made.

Item 7. Independent Public Accountants

- (a) Valdes, Abad & Associates, CPAs (VAA), upon recommendation by the Audit Committee of the Board of Directors composed of Mr. Ricardo M. Dela Torre as Chairman and Mr. Renato B. Magadia and Mr. James B. Palit-Ang as members, will be the external auditors of the Company for the year 2014. Said firm will be recommended to the stockholders for election as the Company's principal external auditors for the year 2014. The selection of external auditors is made on the basis of credibility, professional reputation and accreditation with the Securities and Exchange Commission. The professional fees of the external auditors are approved by the Company after the approval by the stockholders of the engagement and prior to the commencement of each audit season.
- (b) In Compliance with SRC Rule 68 paragraph 3 (b)(iv) (Rotation of External Auditors) and as adopted by the Company, the external auditors or engagement partners are rotated every five years or earlier. The Corporation has engaged Ms. Cynthia Manlapig, a Sycip Gorres Velayo & Co. (SGV) partner, for years 2002 to 2006. Ms. Ma. Milagros F. Padernal of USA&Co is the engagement partner for years 2007-2010 and 2013. The Corporation has engaged Ms. Felicidad A. Abad of Valdes Abad & Associates for years 2011 and 2012 and again for calendar year 2014.
- (c) Representatives of the principal auditors for the current year and for the most recently completed fiscal year are expected to be present at the annual stockholders' meeting. They will have the opportunity to make a statement if they desire to do so and are likewise expected to be available to respond to appropriate questions.

4) External Audit Fees and Services

Audit and related fees of Uy Singson Abella and Company amounted to P300,000 exclusive of 12% VAT for byear 2013 for expressing an opinion on the financial statements and assistance in preparing the annual income tax return.

No other service such as tax and assurance audit was provided by external auditors to the Company for the calendar year 2013.

5) **Changes in and Disagreement with Accountants on Accounting and Financial Disclosure**

During the corporation's two most recent fiscal years or any subsequent interim period,

(1) USA&Co who is the Corporation's principal accountant for the most recent fiscal year and the current year has not resigned (or indicated it has declined to stand for re-election after the completion of the current audit) nor was it dismissed.

a. No new independent accountant has been engaged as either the principal accountant to audit the registrant's financial statements or as an independent accountant on whom the principal accountant has expressed or is expected to express reliance in its report regarding a significant subsidiary, notwithstanding any previous disclosure.

There is no change in the auditing firm or handling partner in the two most recent calendar years and in the interim period. There are no changes and disagreements with accountants on accounting and financial disclosure.

Item 8. Compensation Plans

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

There are no stock options, warrants or rights plan or any other type of compensation plan.

Item 9. Financial and Other Information

Audited Financial Statements as of December 31, 2013, Management's Discussion and Analysis and Market Price of Shares and other data related to the Company's financial information are attached thereto. The schedules required under Part IV(c) of Rule 68 are included in the Annual Report.

Item 10. Mergers, Consolidations, Acquisitions and Similar Matters

There is no action to be taken with respect to any transactions involving the following: (1) the merger or consolidation of the Corporation into or with any other entity; (2) the acquisition by the Corporation or any of its stockholders of securities of another person or entity; (3) the acquisition by the Corporation of any other going business or of the assets thereof; (4) the sale or other transfer of all or any substantial part of the assets of the Corporation; and (5) the liquidation or dissolution of the Corporation.

Item 11. Acquisition or Disposition of Property

There is no action to be taken with respect to any material acquisition or disposition of any property of the Corporation.

Item 12. Restatement of Accounts

There is no action to be taken with respect to the restatement of any asset, capital, or surplus account of the Corporation.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

- (a) The Annual Report and Audited Financial Statements for the year ended December 31, 2007 to 2013 and prior years will be presented to the stockholders for approval by a majority vote of the stockholders. Approval of the Annual Report and Audited Financial Statements constitutes a ratification of the Corporation's performance during the previous fiscal year as contained therein.
- (b) Minutes of the 2006 Annual Stockholders' Meeting held last September 15, 2006 will also be presented to the stockholders for approval by a majority vote of the stockholders.
- (b) Ratification of the Corporate Acts of the Board of Directors and Executive Officers for the years 2007 to 2013 by a majority vote of the stockholders.
- (c) Approval by the two-thirds of the stockholders the amendment of the Article III of the Articles of Incorporation (change of principal office address of the Company from 22nd Floor Citibank Tower, 8741 Paseo De Roxas, Makati City to 35th Floor One Corporate Centre, Doña Julia Vargas cor. Meralco Aves., Oritgas Center, Pasig City.
- (d) Election of the members of the Board of Directors for the ensuring year
- (e) Appoint of External Auditor by a majority vote of the stockholders.

Below is a summary of the Corporate Acts of the Board of Directors and Executive Officers subject to ratification of the stockholders:

February 7, 2007

Authorization of Ms. Elvira A. Ting to cause the preparation and filing of the Petition In Indirect Contempt of Court against Mirant (Philippines) Energy Corporation and its President and/or Chief Executive Officer, and to represent the company in its prosecution thereof before the Honorable Regional Trial Court of Bataan.

February 26, 2007

- a. Authorization for the Corporation to transfer, assign and convey to Marsman-Drysdale Foundation, Inc. the ownership of PLDT stock certificate nos. 036886; 036887; 036888 and 036889.
- b. Authorization of Mr. Renato B. Magadia, Chairman and President, to endorse the above-mentioned stock certificates and to sign, execute and deliver any document necessary to transfer ownership thereof in the name of Marsman-Drysdale Foundation, Inc.
- c. Appointment of Mr. Renato B. Magadia, Chairman and President, as the Corporation's proxy, with full power of substitution and revocation, to represent the Corporation, participate in the deliberation and vote at the Special or Annual Stockholder's Meetings of the following subsidiaries/affiliates: 1) Mabuhay Vinyl Corporation; 2) Consumer Products Distributions Services, Inc.; 3) GAC Logistics, Inc.; 4) Asia Helathcare, Inc.; 5) FEZ-EAC Holdings, Inc.; and 6) Zuellig Distributors, Inc.

April 20, 2007

- a. Discussion by the Chairman and President, Mr. Renato B. Magadia, with the board members of the updates of the petrochemical project, status of the following: 1) pending court cases; 2) loans and advances; 3) investment in MVC; and results of operations and company updates as of December 31, 2006.
- b. Deferment and rescheduling of the annual stockholders' meeting from any business day in May to September 21, 2007 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The

Corporation set August 17, 2007 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

- c. Authorization of the Corporation to sell the corporation's 51% equity in GACL under such terms and conditions which deems for the best interest of the Corporation. Authorization of Mr. Renato B. Magadia, Chairman and President, to sign, executes and delivers all such contracts, deeds or other pertinent papers necessary for such purposes including the issuance of necessary instrument to accomplish the above acts.

July 30, 2007

- a. Discussion by the Chairman and President, Mr. Renato B. Magadia, with the board members of the updates of the petrochemical project, status of the following: 1) pending court cases; 2) loans and advances; 3) investment in MVC; and results of operations and company updates as of June 30, 2007.
- b. Authorization of Ms. Janice Concepcion A. Dungca to claim from PLDT all dividends, current and in arrears, on the PLDT shares in the name of Marsman & Company, Inc. now Metro Alliance Holdings & Equities Corp. and having the PLDT shares in the Marsman & Company transferred in the name of Metro Alliance Holdings & Equities Corp. and to sign such documents, and other such papers necessary thereto.

August 16, 2007

- a. Authorization of Atty. Lamberto B. Mercado, Jr. to sign such documents, affidavits, verification, certification and other such papers necessary and in relation to the case filed by the Corporation which is a Petition for Review on Certiorari under Rule 45 against the Philippine Trust Company.
- b. Deferment and rescheduling of the annual stockholders' meeting which was previously set to be on September 21, 2007 to November 9, 2007 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set the record date from August 17, 2007 to October 5, 2007 for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

September 27, 2007

Postponement of annual stockholders' meeting from November 9, 2007 to December 14, 2007; and change of record date from October 5, 2007 to November 9, 2007.

November 8, 2007

Postponement of annual stockholders meeting from December 14, 2007 to January 18, 2008; and change of record date from November 9, 2007 to December 14, 2007.

December 13, 2007

- a. Postponement of annual stockholders meeting from January 18, 2008 to February 29, 2008; and change of record date from December 14, 2007 to January 31, 2008;
- b. Approval and authorization for issuance of the Audited Financial Statements for the year ended December 31, 2006. Authorization of Ms. Janice A. Dungca to sign and execute all related documents related to the said financial statements.

January 25, 2008

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in February 28 to May 30, 2008 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set April 28, 2008 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

March 17, 2008

- a. Authorization for Renato B. Magadia or Kenneth T. Gatchalian or Elvira A. Ting or Rogelio D. Garcia or Lamberto B. Mercado Jr. to file case against Banco de Oro(formerly Equitable PCIBank) and verify complaint and certify non-forum shopping
- b. Authorization for Corporate Counsels, Phils. Law Offices or any other lawyers belonging to Corporate Counsels, Phils. Law offices, as its attorney-in-fact or representative of the Corporation to file the case, to sign such papers necessary and in relation to the case to be filed by the Corporation against Banco de Oro(formerly Equitable PCIBank).
- c. Authorize A.Tan , Zoleta and Associates Law Firm and/or any of its associates Attys. Alex Y. Tan, Tristram B. Zoleta, Elvib P. Grana and Roberto S. Federis to represent the Corporation in civil action against Philippine Trust Company.
- d. Authorization for Mr. Renato B. Magadia as the Corporation's proxy, to represent the corporation, participate in deliberation and vote at the Special or Annual Stockholder's Meetings of the following subsidiaries/affiliates: 1) Mabuhay Vinyl Corporation; 2) Consumer Products Distribution Services,Inc.; 3) GAC Logistics, Inc.; 4) Asia Healthcare, Inc.; 5) FEZ-EAC Holdings, Inc. and Zuellig Distributors, Inc.
- e. Authorization for Janice A. Dungca to pre-terminate on of behalf of the Corporation the promissory notes that the Corporation previously issued in favor of Waterfront Philippines,Inc. and to sign and issue new promissory notes with 7% interest in favor of Waterfront Philippines,Inc.

April 07, 2008

- a. Authorization of James Palit-Ang as attorney-in-fact for the Corporation to file a complaint for Nullity of Notice of Extra-judicial Sale, Reformation of Contract, Accounting, etc. with prayer for the Issuance of a Temporary Restraining Order and/or Preliminary Injunction before the proper Regional Trial Court against Philippine Trust Company.

April 25, 2008

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in September 26, 2008 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set August 15, 2008 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

July 14, 2008

- a. Authorization for Elvira A. Ting or Kenneth T. Gatchalian or Roger D. Garcia or Lamberto B. Mercado Jr. or James A. Palit-Ang, as attorney-in-fact for the Corporation to file a complaint for declaration of Nullity of Promissory Note, Increase in Interest Rate, Penalties, Service Charge, Attorney's fees, Accounting and Damages with prayer for the issuance of Temporary Restraining Order(TRO) and/or Writ of Preliminary Injunction (WPI) against the Philippine Veterans Bank, etc.

- b. Authorization for Mr. Renato B. Magadia as the Corporation's proxy, with full power of substitution and revocation, to represent the corporation, at the Special or Annual Stockholders' Meeting of the Waterfront Philippines, Inc.

August 14, 2008

- a. Appointment of KPMG Manabat Sanagustin & Co as external auditor of the Corporation for the ended December 31, 2007 and the engagement of Mr. Jose T. Valencia, KPMG Manabat Sanagustin & Co., partner for the examination of the company's financial statements.
- b. Deferment and rescheduling of the annual stockholders' meeting from any business day in September 26, 2008 to December 5, 2008 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set October 31, 2008 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

October 31, 2008

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in December 5, 2008 to March 27, 2009 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set February 27, 2009 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

December 19, 2008

- a. Resolution on the stand of the Corporation regarding the 60% interests of Polymax in NPC Alliance Corporation as "assets held for sale."
- b. Designation of Mr. Renato B. Magadia as Corporate representative of the Corporation to Valley Golf and Country Club.

February 26, 2009

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in March 27 to June 26, 2009 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set May 22, 2009 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.
- b. Authorization to Officers of the Corporation to transact business with BDO Stock Transfer Agency in the regular course of business and to sign and execute all the necessary documents required thereto.
- c. Authorization for Mr. Renato B. Magadia or Atty. Nestor S. Romulo as the Corporation's proxy to represent the Corporation, participate in deliberation and vote at the Special or Annual Stockholder's Meeting of subsidiaries/affiliates.

April 28, 2009

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in June 26, 2009 to September 30, 2009 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set August 15, 2009 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.
- b. Discussion by the Chairman and President, Mr. Renato B. Magadia, with the board members of the updates of the petrochemical project, status of the following: 1) pending court cases; 2) loans and advances; 3) investment in MVC; 4) sec and pse compliance; 5) bir cases and assessments

- c. Opening of CM Payroll facility with United Coconut Planters Bank (UCPB) – Main Branch, under such terms and conditions as may be beneficial to the corporation.

July 13, 2009

Authorization of Renato B. Magadia and/or Atty. Nestor S. Romulo to prepare and file the appeal from the order of revocation of registration and permit to sell securities dated June 25, 2009 with the SEC.

August 14, 2009

Deferment and rescheduling of the annual stockholders' meeting from any business day in September 30, 2009 to December 4, 2009 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set October 23, 2009 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

August 28, 2009

- a. Authorization for the Corporation to approve the Revised Listing Agreement which the Philippine Stock Exchange, Inc. has provided and to designate Mr. Renato B. Magadia as authorized signatory to sign and execute with the Philippine Stock Exchange, Inc. the said Revised Listing Agreement.
- b. Authorization for the Corporation to file with the Regional Trial Court of Makati City a complaint against Banco de Oro Unibank for specific performance, declaration of Nullity of application of payments and damages.
- c. Designation of Mr. Renato B. Magadia as Corporation's authorized signatory for Valley Golf & Country Club, Inc. in lieu of Michael Leo T. Luna.

September 14, 2009

Authorization for Elvira A. Ting and James Palit-Ang and/or any of their representative and/or designee to testify and appear for and represent Metro Alliance Holdings & Equities Corp. in the filing of petition for review on Certiorari by wellex Industries Incorporated, et al., vs. Philippine Veterans Bank, et al.

October 22, 2009

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in December 4, 2009 to June 10, 2009 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set April 23, 2010 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

October 27, 2009

- a. Nomination and Election of Reno I. Magadia as Director of the Corporation and also as member of the Corporation's Audit Committee, Compensation Committee and Nomination Committee.
- b. Discussion by the Chairman and President, Mr. Renato B. Magadia, with the board members of the updates of the petrochemical project, status of the following: 1) operations and company updates; 2) pending court cases; 3) loans and advances; 4) investment in MVC; 5) 2007 and 2008 Financial Statements audit; 6) Sec and PSE compliances; 7) BIR cases and Assessments.

January 2, 2010

Authorization for James B. Palit-Ang to represent the corporation in the filing of its Petition for Review on Certiorari against Philtrust Bank before the Honorable Supreme Court.

March 1, 2010

- a. Nomination and Election of New Directors in view of the vacancies created by the resignation of directors Elvira A. Ting and Kenneth T. Gatchalian on October 27, 2009.
- b. Discussion by the Chairman and President, Mr. Renato B. Magadia, with the board members of the updates of the petrochemical project, status of the following: 1) operations and company updates ; 2) pending court cases; 3) loans and advances; 3) sec and pse compliance; 4) bir cases and assessments.

April 12, 2010

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in June 4, 2010 to October 29, 2010 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set September 17, 2010 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.
- b. Resignation of Ms. Janice Concepcion A. Dungca as VP- Internal Audit and Compliance, and Compliance Officer effective April 16, 2010.
- c. Appointment of Ms. Imelda S. Reyes as the acting Compliance officer.

April 15, 2010

Authorization to issue shares of the Corporation in the form of Uncertificated Securities and to enter into Agreement with Pastra.Net.

September 14, 2010

Deferment and rescheduling of the annual stockholders' meeting from any business day in October 29, 2010 to March 4, 2011 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set February 21, 2010 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

December 23, 2010

Authorization of Atty. Nestor S. Romulo to file petition for review with the Supreme Court in the case of Marsman & Company, Inc. vs. Rodil Sta. Rita.

January 27, 2011

- a. Deferment and rescheduling of the annual stockholders' meeting from any business day in March 4, 2011 to October 28, 2011 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set September 25, 2011 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.
- b. Authorization of Ms. Imelda S. Reyes to represent the Corporation at the Metropolitan Club, Inc. to participate in deliberation and vote at the regular meeting or special member's meeting.
- c. Authorization for the Corporation to trade in Securities with any licensed and registered Stock Brokerage houses.

April 14, 2011

Authorization for Ms.Elvira A. Ting and/or Mr. James A. Palit-Ang to represent the Corporation to file the Petition for review with the Supreme Court in the case of CA-G.R. Sp.No.1106000, entitled Metro Alliance Holdings & Equities Corporation vs. Hon.Dina Pestano Teves, in her capacity as presiding Judge, Regional Trial Court, branch 142 et.al.

May 17, 2011

Authorization for Mr. Lamberto B. Mercado Jr., to represent the Corporation to question before the Court of appeals and/or the Supreme Court, the orders dated 03 June 2010 and 25 March 2011 of the RTC of Makati City in Civil Case No.09-972.

September 23, 2011

Deferment and rescheduling of the annual stockholders' meeting from any business day in October 28, 2011 to May 25, 2012 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set April 20, 2012 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

November 18, 2011

Authorization for Mr. James A. Palit-Ang to represent the Corporation in the case against Philippine Veterans Bank.

February 23, 2012

Authorization for James Palit-Ang as the Corporation's Atty-in-fact in Civil case no.BCV-2011-175, entitled Metro Alliance Holdings, et.,al. V. Philippine Veterans Bank.

April 18, 2012

Deferment and rescheduling of the annual stockholders' meeting from any business day in May 25, 2012 to November 23, 2012 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set October 22, 2012 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

May 22, 2012

Authorization for Mr. Renato B. Magadia to represent the Corporation in SCA No.TG-05-2519 entitled Metro Alliance Holdings & Equities Corporation and Philippine Estates Corporation versus Philippine Trust Company (PHILTRUST BANK).

June 14, 2012

- a. Authorization for Misons Industrial & Development Corp., to buy/acquire the Corporation's indebtedness of P3,313,997.00 from Banco de Oro together with the corresponding collateral consisting of 29,944,263 shares of stock of Mabuhay Vinyl Corporation.
- b. Authorization to honor contracts, obligations and agreements of GAC Logistics with Johnson and Johnson (PHILIPPINES), Inc.

July 03, 2012

Authorization for the Corporation to withdraw petition for Certiorari filed with the Court of Appeals.

October 22, 2012

Deferment and rescheduling of the annual stockholders' meeting from any business day in November 23, 2012 to May 23, 2013 at 2:00 in the afternoon at the Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The Corporation set April 26, 2013 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

January 23, 2013

Authorization of Atty. Ramon F. Aviado, Jr. and/or Andres S. Fidelino as counsels for the corporation, and authorize, and engage the said counsels' services to represent the company in Civil Case Number 08-555 entitled METRO ALLIANCE HOLDINGS & EQUITIES CORPORATION, POLYMAX WORLDWIDE LTD., WELLEX INDUSTRIES, INC. versus PHILIPPINE VETERANS BANK. ET AL., Brance 142, Regional Trial Court of Makati City.

April 12, 2013

Authorization of Peter S. Salud as the corporation's representative in the mediation proceeding in CA-G.R. SP NO. 127699 entitled Philippine Veterans Bank vs. Hon. Matias M. Garcia II, Metro Alliance Holding and Equities Corp. et. Al.

July 26, 2013

- a. Authorization of the Corporation to enter into a compromise agreement with NPC International Ltd. (NPCI), and Petrochemical Industries Investment Co. (PIIC), NPC Alliance Corporation (NPCA)
- b. Authorization of James B. Palit-Ang as representative of the company for the Judicial Dispute Resolution in Case Nos. No. 05-555 and 38-V-10 entitled Metro Alliance Holdings, et. Al. versus Philippine Veterans Bank, et. al.

October 21, 2013

Deferment and rescheduling of the annual stockholders' meeting from any business day in November 22, 2013 to May 30, 2014 at 2:00 in the afternoon at ONE CAFÉ, 6th Floor One Corporate Center, Julia Vargas Ave., cor Meralco Ave., Ortigas Center, Pasig City. The Corporation set April 28, 2014 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during said meeting.

Item 17. Amendment of Charter, By-Laws or Other Documents

Subject to ratification of the stockholders owning at least two-thirds (2/3) of the outstanding capital stock during the annual meeting, the Corporation will amend its articles of incorporation to change its principal office address from 22nd Floor Citibank Tower, 8741 Paseo De Roxas, Makati City to 35th Floor One Corporate Centre, Doña Julia Vargas corner Meralco Avenues, Ortigas Center, Pasig City.

Item 19. Voting Procedures

- (a) An affirmative vote by the stockholders owning at least a majority of the outstanding capital stock shall be sufficient for the approval of 1) Minutes of the Previous Stockholders' Meeting 2) Financial Statements 3) Ratification of Corporate Acts of the Board of Directors and Officers of the corporation as reflected in the minutes 4) Appointment of External Auditor.
- (b) An affirmative vote by the stockholders owning at least two-thirds of the outstanding capital stock shall be sufficient to approve the amendment of the Article III of the Articles of Incorporation (change of principal office address.)

- (c) The holders of a majority interest of all outstanding stocks of the Corporation entitled to vote at the meeting present in person or by proxy, shall constitute a quorum for the transaction of business.
- (d) The holders of common stock are entitled to one vote per share, but in connection with the cumulative voting feature applicable to the election of directors, each stockholder is entitled to as many votes as shall equal the number of shares held by such person at the close of business on the record date, multiplied by the number of directors to be elected. A stockholder may cast all of such votes for a single nominee or may apportion such votes among any two or more nominees. The shares shall be voted/cast by secret balloting and/or raising of hands. In all matters included in the agenda, except the election of directors, stockholders are entitled to one vote per share. For the election of directors, the counting will be cumulative. The counting of votes will be done by the Corporate Secretary with the assistance of the representatives of the Corporation's independent auditors, Uy Singson Abella & Co. and Stock Transfer Agent, BDO Unibank, Inc. All votes attaching to the shares owned by stockholders whose proxies were received by the Corporation will be cast in accordance with the instructions given or authority granted under the proxies.

PART II.

INFORMATION REQUIRED IN A PROXY FORM

(This form shall be prepared in accordance with paragraph (5) of SRC Rule 20)

NOT APPLICABLE

PART III.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on November 27, 2014.

METRO ALLIANCE HOLDINGS & EQUITIES CORP.

By:



ATTY. NESTOR S. ROMULO
Corporate Secretary

Upon the written request of the stockholder, the Corporation undertakes to furnish said stockholder a copy of the SEC Form 17-A free of charge, except for exhibits attached thereto which shall be charged at cost. Any written request for a copy of the SEC Form 17-A shall be addressed as follows:

Atty. Nestor S. Romulo
Corporate Secretary
Metro Alliance Holdings & Equities Corp.
35th Floor One Corporate Centre,
Doña Julia Vargas cor. Meralco Ave.,
Ortigas Center, Pasig City

CERTIFICATE OF INDEPENDENT DIRECTOR

I, **ROGELIO D. GARCIA**, Filipino, of legal age and resident of **Unit 91 Goldloop Towers, JM Escrivá Drive, Ortigas Center, Pasig City**, after having been duly sworn in accordance with law do hereby declare that:

1. I am NOMINEE for Independent Director of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.**
2. I am affiliated with the following companies or organizations:

Company	Position	Period of Service
Wellex Industries, Inc.	Chairman of the Board	Since 2005
Forum Pacific, Inc.	Chairman of the Board	Since October 3, 2014
	Director	Since 2004

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.**, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as an independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** of any changes in the above mentioned information within five days from its occurrence.

Done this ____ of ____, 2014 at _____.

ROGELIO D. GARCIA

Affiant

SUBSCRIBED AND SWORN TO before me this ____ at QUEZON CITY, affiant exhibiting his Community Tax no. 108-672-299 at Makati City, Metro Manila on _____.

Doc. No. 143
Page No. 29
Book No. 298
Series of my

ATTY. TOMAS F. DELA CRUZ
NOTARY PUBLIC
Until December 31, 2014
ADM MATTER #. NP-061-2014-2015
PTR# 904238301-02 /01-07-14 Q.C.
IBPH 915073-CY-2014 Q.C.
Roll No. 16583/03/13-61
TIN# 410275916
Add. 92 Legaspi St. Proj. 4 Q.C.
MCLE EXEMPTED# 000838

CERTIFICATE OF INDEPENDENT DIRECTOR

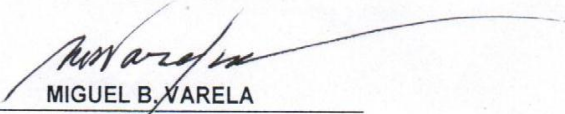
I, **MIGUEL B. VARELA**, Filipino, of legal age and resident of **126 Cordillera St., Sta. Mesa Heights, Quezon City** after having been duly sworn in accordance with law do hereby declare that:

1. I am **Nominee** for Independent Director of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.**
2. I am affiliated with the following companies or organizations:

Company	Position	Period of Service
Megaworld Corporation	Independent Director/Vice Chairman	2006 – Present
Global Estates Resorts, Inc.	Independent Director	2012 – Present
Emperador, Inc.	Independent Director	2012 – Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.**, as provided for in Section 38 of the Securities Regulation Code and its implementing Rules and Regulations.
4. I shall faithfully and diligently comply with my duties and responsibilities as an independent director under the Securities Regulation Code.
5. I shall inform the corporate secretary of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** of any changes in the above mentioned information within five days from its occurrence.

Done this NOV 26 2014 of NOV 26 2014, 2014 at PASIG CITY.


MIGUEL B. VARELA

Affiant

SUBSCRIBED AND SWORN TO before me this NOV 26 2014 at NOV 26 2014, affiant exhibiting his Community Tax no. 02302706 at Makati City, Metro Manila on 08/12/14.


ATTY. ADRIAN M. ABAIGAR
COMMISSION NO. 117 (2014-2015)
NOTARY PUBLIC FOR PASIG CITY
UNTIL DECEMBER 31, 2015
35TH FLR, ONE CORPORATE CENTER
JULIA VARGAS CORNER MERALCO AVENUE
ORTIGAS CENTER, PASIG CITY
ROLL NO. 49551
PTR NO. 9847149: 1/13/14 PASIG CITY
IBP NO. 956159: 1/13/14 PASIG CITY

Doc. No. 497
Page No. 105
Book No. 5
Series of 2014

Republic of the Philippines
QUEZON CITY) S.S.

CERTIFICATION

I, **NESTOR S. ROMULO**, Filipino, of legal age, with office address at Unit 202 20th Flr. Antel 2000 Corporate Center, 121 Valero St., Salcedo Village, Makati City, after having been duly sworn in accordance with law do hereby declare that:

1. I am the Corporate Secretary of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** (the 'Company'), a corporation organized and existing under Philippine law, with principal office address at 22nd Citibank Tower, 8741 Paseo De Roxas, Makati City;
2. All incumbent directors and officers of the Company are not connected with any government agency or its instrumentalities.


NESTOR S. ROMULO
Corporate Secretary

NOV 18 2014

SUBSCRIBED AND SWORN to before me this _____ of _____ 2014, in QUEZON CITY, affiant exhibiting to me her Tax Identification No. 107-200-723-000 issued by the Bureau of Internal Revenue.

Doc. No. 140 ;
Page No. 28 ;
Book No. 294 ;
Series of 2014.


ATTY. TOMAS F. DELA CRUZ JR.
NOTARY PUBLIC
Until December 31, 2014
ADM. MATTER #. NP-061-2014-2015
PTR# 904238301-02 / 01-07-14 Q.C.
BRP# 915073 CY 2014 Q.C.
Roll No. 16583/03/13-61
TIN# 410225916
Add. 92 Legaspi St. Proj. 4 Q.C.
MICLE EXEMPTED # 000838

**METRO ALLIANCE HOLDINGS & EQUITIES CORP.
MANAGEMENT REPORT
AS REQUIRED BY SRC RULE 20
INCLUDING FINANCIAL INFORMATION FOR 3RD QUARTER OF 2014**

NATURE AND SCOPE OF BUSINESS

Metro Alliance Holdings & Equities Corp. (MAHEC or the Company) is a holding company with investments in various subsidiaries. The Company and its subsidiaries (collectively referred to as "the Group") are involved in the manufacture of chemicals and contract logistics. In 2007, the Company's interest in certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management has ceased operations.

MAHEC was first incorporated in October 15, 1929 as a management and trading company called Marsman & Company, Inc. (Marsman). Marsman was listed on the Philippine Stock Exchange in 1947. The Company changed its name to Metro Alliance Holdings & Equities Corp. as approved by the stockholders on the annual meeting on April 6, 1999 and subsequently approved by Securities and Exchange Commission on October 11, 1999.

The registered address of the Company is at 22nd Citibank Tower, 8741 Paseo De Roxas, Makati City.

Status of Operation

The Company and Polymax Worldwide Limited (Polymax), its special purpose entity incorporated in British Virgin Island entered into a series of acquisition transactions (see details below) to acquire ownership of the petrochemical plant of NPC Alliance Corp. (NPCA), which resulted in a 2006 disputed sale of Polymax's 60% interest in NPCA to NPC International Limited (NPCI) and Petrochemical Industries Investment Company (PIIC). Subsequently on August 27, 2013 the Company and Polymax entered into a settlement agreement with NPCI, PII and NPC to resolve the dispute. On the basis of the settlement agreement, the previously issued 2006 consolidated financial statements of the Company and its subsidiaries were restated to reflect the sale of Polymax's 60% interest in the petrochemical plant.

The remaining 40% of Polymax's interest which is valued at P900 million, which is estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax (an unconsolidated special purpose entity in 2007) and the settlement Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Group's last audited consolidated financial statements was for the year ended December 31, 2006. Due to uncertainties surrounding the acquisition transactions of the Bataan petrochemical plant, as discussed on succeeding paragraphs, the scope of the 2007-2013 audit was completed by the independent auditors and the reports were approved by the Board of Directors on October 10, 2014.

Acquisition Transactions

On December 4, 2003, the Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Company; (b) the funding for the acquisition would be provided and arranged by the Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Company. In addition, the Company would make certain advances to Polymax.

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Company advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

To partially finance the Company's advances relating to the Petrochemical Project, the Company obtained short-term loans from local banks (see Note 9). With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Company was unable to pay the bank loans on maturity dates. As of December 31, 2006, the amounts payable to the banks totaled ₱866.7 million, consisting of the outstanding principal balance of ₱378.3 million and finance charges of ₱488.4 million. In 2007 these past due liabilities were transferred to and applied against the advances made to Polymax.

Pursuant to the Company's plan of acquiring full control of BPC, instead of exercising creditor rights, the Company, on April 16, 2004, entered into a Share Purchase Agreement (SPA) with BPC, Tybalt Investment Limited (TIL), BP Holdings International B.V. (BPHI) and Petronas Philippines, Inc. (PPI) with TIL as the purchase of the 83% interest of the foreign shareholders of BPC. As agreed by the parties, the SPA is to take effect as of March 31, 2004, subject to closing conditions, as defined in the SPA, which the parties have to comply with within a period of 60 days or later if the conditions are not met.

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 85 million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85 million.

On July 20, 2005, the Company, Polymax and NPC International Limited (NPCI) entered into an SPA which provided that, subject to certain conditions, including the transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPC Alliance, Corp. (NPCA) from Polymax.

On August 9, 2005, Polymax and NPCA executed a Deed of Conveyance, transferring to NPCA, under an asset for share swap, the same petrochemical plant in exchange for 4.8 million shares of common stock of NPCA with a total par value of ₱4.8 billion, resulting in 100% ownership interest of Polymax in NPCA.

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85 million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the

extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

On December 16, 2005, Polymax, NPCI, Petrochemical Industries Investment Company (PIIC) and the Company entered into an amended SPA whereby NPCI and PIIC will purchase 40% and 20% of NPCA's shares of common stock, respectively, from Polymax. In addition to the conditions set forth in the original SPA, the amended SPA also involves advances to be provided by NPCI amounting to US\$15 million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Company, NPCI and PIIC entered into a Guaranteed and Indemnity agreement whereby the Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

On March 18, 2006, Polymax, NPCI, PIIC and the Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement entered on December 16, 2005. Under the March 2006 Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

On the same date, Polymax and NPCI executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to NPCI all the rights, title and interest in 19,090,000 NPCA shares of common stock, equivalent to 40% ownership interest, for a consideration of ₱1.91 billion.

On September 11, 2006, Polymax, NPCI, PIIC, the Company and NPCA entered into another Agreement of Variation (September 2006 Variation Agreement) to further vary and amend the terms of the ARSPA and the Shareholders' Agreement (both initially amended and varied by the March 2006 Variation Agreement). Polymax, in accordance with its obligations under the ARSPA, had notified NPCI and PIIC that it is aware that certain conditions will not be fulfilled by April 30, 2006. As a result, the parties agreed to transfer to PIIC the 9,545,000 NPCA shares of common stock prior to completion, while certain conditions will become conditions subsequent to be completed on December 31, 2006.

On September 20, 2006, Polymax and PIIC executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to PIIC all the rights, title and interest in 9,545,000 NPCA shares of common stock, equivalent to 20% ownership interest, for a consideration of ₱954.5 million.

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the petrochemical plant resulting in a dispute with the Company and Polymax, which considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII as null and void.

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC.

Subsequently on August 27, 2013, the Company and Polymax (“Respondents”) entered into a settlement agreement with NPCI, PIIC and NPC (“Claimants”) to resolve the dispute arising from the uncompleted acquisition transactions described above.

By letter dated October 31, 2013, the Claimants informed the Tribunal that the Parties to all three arbitrations had settled their disputes and that they wished to cease the proceedings. A request was made, to which the Respondents concurred by letter dated November 21, 2013, that the Tribunal issue a procedural order to record that the proceedings be withdrawn by agreement.

By letter dated November 22, 2013, the Tribunal agreed to make the order requested and said that it would fix the cost of the arbitration. In response to the Tribunal’s enquiry about the Parties’ own legal costs and expenses, the Respondents said that no party was seeking an order that another party should contribute to its legal cost.

The Claimants requested time to seek instructions from their clients in response to the Tribunal’s enquiry. On October 2, 2014, the Claimants requested the Tribunal to issue Orders in each arbitration recording withdrawal of the Proceedings by agreement of the Parties, and fixing costs and returning the Claimants deposit against costs, following the deduction of any outstanding sums owing to the Tribunal. It is apparent from this letter as well as the response of the Respondent that none of the Parties are seeking an order in respect of their own cost.

It is also apparent from the Parties’ submissions to the Tribunal that they agreed that this arbitration should be terminated and that the Tribunal should fix the costs of the arbitration. Further, as only the Claimants have made deposits towards those costs, it is appropriate that, after deducting from those deposits the cost of the arbitration as fixed by this Order, the balance held by the London Court of International Arbitration (LCIA) should be returned to the Claimants.

Subsidiaries

Metro Combined Logistics Solutions, Inc. (MCLSI) (Formerly GAC Logistics, Inc. (GACL)

MCLSI is 51% owned by MAHEC, by virtue of a joint venture agreement with Gulf Agency Company (GAC) which owns the other 49%. MCLSI was registered with the Securities and Exchange Commission on September 30, 1998. MCLSI is primarily engaged in carrying on all or part of the business of contract logistics and supply chain management services, including third party warehousing and distribution, consultancy and project management and value added services to customers throughout the Philippines. MCLSI’s business is steadily growing with the entry of new principals and additional businesses from its existing principals.

Mabuhay Vinyl Corporation (MVC)

Mabuhay Vinyl Corporation (MVC) was 42.69% owned by MAHEC as of December 31, 2006. In 2007, the Company sold its 37.69% interest in MVC, retaining 5% which was reclassified to AFS investments and ceased to be a subsidiary as of December 31, 2007. The remaining 5% was subsequently sold in 2012.

Non-operating Subsidiaries

Consumer Products Distribution Services, Inc. (CPDSI) is a wholly owned subsidiary of Metro Alliance. It was first incorporated on November 11, 1993 as Metro Drug Distribution, Inc. (MDDI). In November 7, 1997, the Securities and Exchange Commission approved the renaming of MDDI to CPDSI. Prior to 2002, CPDSI was involved in providing logistics and administrative services in connection with the sale and distribution of principals' products. The last service agreement expired in 2002. In January 2002, CPDSI shifted into the business of importation and toll manufacturing of propylene and distribution of polypropylene in the local market. In April 2003, CPDSI ceased its polypropylene business operations due to the substantial increase in prices of imported raw materials. Management intends to continue pursuing the petrochemical business. Currently, CPDSI has no business operations. The six CPDSI employees handle the administrative function.

FEZ-EAC Holdings, Inc. became a wholly owned subsidiary of the Corporation in November 11, 2002. It was incorporated in February 3, 1994. It ceased operations at the end of 2001 following the expiration of the third party logistics contract of its subsidiary with Phillip Morris Philippines, Inc.

Zuellig Distributors, Inc. is a wholly owned subsidiary of the Corporation. It ceased operations in June 30, 1999 following the expiration of its exclusive distribution agreement with its single principal. It was incorporated in October 18, 1985.

Asia Healthcare, Inc. is 60% owned by the Corporation. AHI was first incorporated in July 2, 1918. In August 2000, the Corporation invested in AHI. However, in 2002, it ceased operations due to heavy losses. The low volume and minimal margin on the sales of pharmaceutical products have not been sufficient to cover the costs of the services and products provided by AHI. Consequently, AHI was constrained to terminate contracts with its clients and cease its business operations. On December 17, 2002, AHI filed a voluntary petition for insolvency with the Pasig City Regional Trial Court (RTC). On February 27, 2003, the Pasig City RTC declared AHI as insolvent.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

A copy of the Audited Consolidated Financial Statements as of December 31, 2013, and the Unaudited 3rd Quarter 2014 Financial Statements are herein attached.

a. Plan of Operation

The Group, having resolved its disputes with the foreign parties involved in the Bataan petrochemical project, will explore business opportunities for the next twelve months. The Group will reorganize its operations; evaluate its remaining assets; review all pending legal cases; and settle and resolve its outstanding issues with other regulatory government bodies. The Group assures the public that it will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

The Group still holds 40% interest in the petrochemical plant as of December 31, 2013. The Board will discuss on their succeeding meetings on how best to proceed on this investment. The Board will outline business target projects including possible investment in mining industry. MAHEC's remaining operating subsidiary, MCLSI, is steadily growing with additional businesses from its existing principals.

Projected Plan for the next 12 months:

- a) The Group will still outline its business target projects, including of which, is possible investment in mining industry. The Group has three options to infuse capital to finance its project: a) increasing the authorized capital stock to Php3.0 billion thereby requiring new subscription of Php456 million shares of both classes by way of fresh

cash by the company; b) offer rights issue at Php1 per share to fully subscribe the remaining 893,879,511 shares thus raise Php893,879,511; and entry of new investor by way of capital infusion amounting to P893,879,511 thus diluting the existing shareholders by 75%. This option will result to a new book value per share (Php 0.84 per share), the best option to meet the capital build up.

- b) The Group does not expect significant changes in the number of employees as it still in the stage of exploring new business opportunities. Manpower will be outsourced if needed.
- c) The Group will make purchases of equipment and machineries in the future if needed especially when investment in mining industry will materialize.

b. Management's Discussion and Analysis

Full calendar years

The following table shows the consolidated financial highlights of the Group for the years ended December 31, 2013, 2012 and 2011:

<i>Balance Sheet</i>	As of December 31 (In Php'000)		
	2013	2012	2011
Current assets	1,071,686	1,055,155	1,032,797
Noncurrent assets	12,613	16,311	58,411
Total Assets	1,084,299	1,071,466	1,091,208
Current liabilities	978,757	964,164	972,795
Noncurrent liabilities	5,571	6,286	5,543
Total Liabilities	984,329	970,540	978,339
Stockholder's Equity	99,970	101,016	112,869
Total Liabilities and Stockholder's Equity	1,084,299	1,071,466	1,091,208

<i>Income Statement</i>	As of December 31 (In Php'000)		
	2013	2012	2011
Sales and services	P 123,507	P 98,062	P 145,377
Cost of sales and services	(103,411)	(72,591)	(118,849)
Gross profit	20,097	25,471	26,528
Expenses	(23,270)	(21,479)	(47,079)
Net Income (Loss) Before Tax	(3,173)	3,992	(20,551)
Income Tax – Current	(2,985)	(523)	(592)
Deferred	2,186	(1,995)	1,504
Net Income (Loss) After Tax	(3,972)	1,474	(19,639)
Earnings (Loss) Per Share	(P 0.013)	P 0.005	(P 0.064)

The Group, having resolved its disputes with the foreign parties involved in the Bataan petrochemical project, will commence to explore business opportunities. As of report date, biggest contributor to the Group's revenue is its logistic arm, MCLSI when it steadily growing for the past several years after. The Group will reorganize its operations; evaluate its remaining assets; review all pending legal cases; and settle and resolve its outstanding issues with other regulatory government bodies. The Group assures the public that it will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

a) Key Performance Indicators

Metro Alliance and its majority-owned subsidiaries key performance indicators follow:

Metro Alliance

Metro Alliance's key performance indicators include the following:

1. Net income
2. Earnings per share – net income attributable to each share of common stock
(net income / weighted number of shares outstanding)
3. Return on average equity – ability to generate returns on investment of stockholders.
(net income / average equity)
4. Debt to total asset ratio – the proportion to total assets financed by creditors.
(total debt / total assets)
5. Debt to Equity ratio – an indicator of which group has the greater representation in
the assets of the company
(total debt / equity)

Comparative analysis of Metro Alliance's key performance indicators follows:

Performance indicator	Jan-Sept	December 31	
	2014	2013	2012
Earnings (loss) per share (in Php)	(0.003)	(0.013)	0.003
Return (loss) on average equity	(0.009)	(0.040)	0.009
Debt to total assets ratio	0.916	0.908	0.906
Debt to equity ratio	10.842	9.846	9.611

MCLSI's key performance indicators include the following:

1. Profitability
 - a. Gross profit margin – measures the profitability of revenues (services) in relation to the cost of services
(gross profit / revenues)
 - b. Net profit margin – ability to generate surplus for stockholders.
(net income / sales)
 - c. Return on assets – ability to generate returns from assets.
(net income / assets)
 - d. Return on equity – ability to generate returns on investment of stockholders.
(net income / stockholders equity)
2. Liquidity ratios
 - a. Current ratio – capacity to meet current obligations out of its liquid assets
(current assets / current liabilities)
 - b. Receivables turnover and days' sales in receivables – measures the ability to collect receivables
(net credit sales / average trade receivables)
(365 days / receivables turnover)

The decrease in MCLSI's gross profit and net profit margins resulted mainly from additional logistics service provided with lower gross profit rates lower than the existing principals.

With the decrease in operating income brought about by the additional business with lower gross profit rates, return on assets and return on equity decreased.

Current ratio increased due to the increase in prepayments related to the additional business.

Comparative analysis of MCLSI's key performance indicators follows:

Performance indicator	Jan.-Sept.	December 31	
	2014	2013	2012
Profitability			
a. Gross profit margin	0.664	0.163	0.252
b. Net profit margin	(0.011)	(0.032)	0.009
c. Return on assets	(0.001)	(0.004)	0.001
d. Return in equity	(0.009)	(0.004)	0.009
Liquidity			
a. Current ratio	1.083	1.095	1.094
b. Receivables turnover	1.128	1.653	1.167
c. Days' sales in receivables	323	221	313

CPDSI, FEZ-EAC, ZDI and AHI

Currently, CPDSI, FEZ-EAC, ZDI and AHI have no performance indicators because these are non-operating companies as mentioned above.

CHANGES IN OPERATING RESULTS

2013 COMPARED TO 2012

Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of P3.9 million in 2013 as against net income of P1.5 million in 2012 or a decrease of P5.4 million or 369%. Earnings (loss) per share for 2013 and 2012 are (P0.013) and P0.005, respectively. The decrease is net effect of the other income resulting from gain on sale of financial instrument, disposal of asset and dividends received during 2012, increase in delivery cost of products and services and additional logistics service provided with lower gross profit rates lower than the existing principals in 2013. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group. The Group was able to sell its financial assets at price higher than its book value resulting to gain on sale of these assets.

Sales and Services

The Group registered gross service revenue of P123.5 million and P98 million for the years ended December 31, 2013 and 2012. The increase in revenue of P25.5 million or 26% in 2013 is due to additional businesses from MCLSI's existing principal resulting to new service contracts on its logistics and warehousing operations.

Cost of Sales and Services And Operating Expenses

Total cost and operating expenses for the years 2013 and 2012 amounted to P126.9 million and P97.2 million, respectively. The increase of P29.7 million or 31% is net effect of increase in delivery cost of products and services in 2013 (P30 million), fixed expenses of non-operating subsidiaries such as decrease in professional fees (P0.3 million), decrease in business taxes and licenses (P0.5 million), decrease in salaries and wages and employee benefits (P5 million), increase in amortization and depreciation (P1.4 million) and increase in other operating expenses (P4.1 million).

Other income

Other income (charges) for the years 2013 and 2012 amounted to P0.2 million and P2.3 million, respectively or a decrease of P2.1 million or 1050%. The decrease represents gain realized from the sale of financial instruments, disposal of assets and dividends received during 2012.

CHANGES IN FINANCIAL CONDITION

2013 COMPARED TO 2012

As discussed in Note 3 to the Consolidated Financial Statements, the following companies are included in Metro Alliance consolidated financial statement: MCLSI, CPDSI, FEZ-EAC, ZDI and AHI. A subsidiary is an entity in which the Company has control. Subsidiaries are consolidated from the date on which control is transferred out of the Company.

Mabuhay Vinyl Corporation (MVC) was 42.69% owned by MAHEC as of December 31, 2006. In 2007, the Company sold its 37.69% interest in MVC, retaining 5% which was reclassified to AFS investments and ceased to be a subsidiary as of December 31, 2007.

Polymax is the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPCA which resulted in a 2006 disputed sale of Polymax's 60% interest in NPCA to NPC International Limited (NPCI) and Petrochemical Industries Investment Company (PIIC). Subsequently on August 27, 2013 the Company and Polymax entered into a settlement agreement with NPCI, PII and NPC to resolve the dispute. On the basis of the settlement agreement, the previously issued 2006 consolidated financial statements of the Company and its subsidiaries were restated to reflect the sale of Polymax's 60% interest in the petrochemical plant.

The remaining 40% of Polymax's interest which is valued at P900 million, which is estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax (an unconsolidated special purpose entity in 2007) and the settlement Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Assets

Cash and cash equivalents for the years 2013 and 2012 amounted to P14.4 million and P8.1 million, respectively. The increase by P6.3 million or 78% in 2013 is net effect of increase in revenue from MCLSI operations (P25 million), payment of advances to related parties (P22 million), advances to Polymax for its working capital requirements (P6 million) sale of available-for-sale financial asset and increase in other cost and operating expenses.

Receivables amounted to P75.9 million in 2013 and P73.6 million in 2012 (net of allowance for doubtful accounts of P10.3 million and P8.6 million as of December 31, 2013 and 2012). Trade and other receivables went up by P2.2 million due to the net effect of increase in credit sales from MCLSI operations (P3.9 million), decrease in other receivables (P0.1 million) and additional provision for doubtful accounts of P1.7 million in 2013. Other receivables represent non-interest bearing receivables from third party business partners of Polymax that are subject to liquidation and advances to related parties. The Group reviews the carrying amount of receivables at each balance sheet date to reduce the balance to their estimated recoverable amounts.

Prepaid expenses and other current assets amounts to P21 million in 2013 and P18.9 million in 2012 (net of allowance for probable losses of P14 million for both years 2013 and 2012). In 2013, the increase by P3.9 million is net effect of increase in creditable withholding taxes (P0.9 million), increase in input taxes (P0.1 million), decrease in refundable deposits (P0.1 million) and increase in other prepayments (P1.2 million). The Group reviews the carrying amount at each balance sheet to reduce the balance to their estimated recoverable amounts.

Asset held for sale amounting to P960.3 million and P954.7 million as of December 31, 2013 and 2012 (which constitute 89% respectively of the Group's total assets as of December 31, 2013 and 2012, respectively) represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA). The increase of P5.6 million in 2013 pertains to additional advances in relation to the expenses of Polymax for its pending litigation and outstanding loan from outside parties and past due liabilities.

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued at P900 million, which is the estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the major stockholders of the Company in favor of the Company.

Available-for-sale-investments amounted to P6 million in 2013 and P7 million in 2012. This account includes shares of stocks owned in publicly listed companies. The P1 million decrease in 2013 pertains to decline in the value of shares of stock in the market. The fair value of these shares has been determined directly by reference to published prices in the active market. Accumulated AFS reserve amounted to P2 million and P3 million as of December 31, 2013 and 2012.

Property, plant and equipment amounted to P1,869,689 million in 2013 and P2,047,005 million in 2012. Net reduction of property, plant and equipment in 2013 by P177,316 million pertains to depreciation charge for the year of P1,088,965 and additional acquisitions of transportation and office equipment of MCLSI amounting to P911,649. Transportation equipment of MCLSI with a carrying value of P79,310 and P173,040 as of December 31, 2013 and 2012, respectively, has been pledge to fulfill collateral requirements of the loan.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2013 and 2012. In 2013 and 2012, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Other non-current assets for the years 2013 and 2012 amounted to nil and P1.1 million, respectively. Other non-current assets pertain mainly to MCLSI's security and rental deposits on various leased properties. These lease contracts expire in 2013, thus the amount were collected.

Liabilities

Current Liabilities

Accounts payable and accrued expenses for the years 2013 and 2012 amounted to P426 million and P389 million, respectively. Trade payables are noninterest bearing and have credit terms of 30 to 60 days. Accrued expense and other liabilities mainly include accruals for manufacturing and operating expenses, other taxes payable, advances from customers and provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate

provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

The increase for year 2013 by P37 million or 10% is mainly due to (a) MAHEC recognition of finance costs on its loan for the petrochemical project (which were passed on to Polymax) and accrual of its fixed expenses such as legal and audit fee and administrative expenses; (b) MCLSI trade payables arising from its trucking and warehousing operations.

Due to related parties for the years 2013 and 2012 amounted to P552 million and P574 million, respectively. The Group, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties. The decrease of P22 million in 2013 pertains to Metro Alliance settlement of advances, fund of which come from disposal of its financial and fixed assets. Significant portion of these advances were used to finance its planned acquisition of petrochemical plant in prior years.

Loans payable (current and long term) amounted to P179,415 in 2013 and P367,604 in 2012. The account pertains to MCLSI's two loan agreements entered last July 21, 2009 for a total principal amount of P988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 for the (first contract) and August 22, 2014 (for the second contract).

The two loans are collateralized by transportation equipment with carrying value of P79,310 and P173,040 as of December 31, 2013 and 2012, respectively.

Accrued retirement benefit cost amounted to P5.5 million in 2013 and P6.1 million in 2012. MAHEC and MCLSI has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. The decrease of P0.6 million or 10% is due to lower provision for retirement benefit for 2013. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

CHANGES IN OPERATING RESULTS

2012 COMPARED TO 2011

Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net income of P0.9 million in 2012 as against net loss of P19.6 million in 2011. Earnings (loss) per share for 2012 and 2011 are P0.003 and (P0.064), respectively. The increase is net effect of decrease in general and administrative expenses specifically in personnel cost due to termination of employment contracts in 2012, decrease in delivery cost of products and services during 2012 and decrease in dividends received from financial instruments in 2012. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the sales of the Group.

Sales and Services

The Group registered gross service revenue of P98 million and P145 million for the years ended December 31, 2012 and 2011. The decrease in revenue of P47 million or 32% in 2012 is due to termination of various service contracts and non-renewal of contracts by old clients. The Board had discussed this issue and resolved to strive to improve sales on succeeding years.

Cost of Sales and Services And Operating Expenses

Total cost and operating expenses for the years 2012 and 2011 amounted to P97.2 million and P168.6 million, respectively. The decrease of P71.4 million or 41% is net effect of decrease in delivery cost of products and services in 2013 (P45 million), fixed expenses of non-operating subsidiaries such as decrease in professional fees (P0.5 million), decrease in business taxes and licenses (P5.3 million), decrease in salaries and wages and employee benefits (P11.1 million), decrease in amortization and depreciation (P1.8 million) and increase in other operating expenses (P7.7 million).

Other income

Other income (charges) for the years 2012 and 2011 amounted to P2.3 million and P2.6 million, respectively or a decrease of P0.3 million or 12%. Though there are gain realized from the sale of financial instruments and disposal of assets during 2012 (P0.7 million), dividends received during 2011 is higher by P1.1 million or 67% than received during 2012.

CHANGES IN FINANCIAL CONDITION

2012 COMPARED TO 2011

Assets

Cash and cash equivalents for the years 2012 and 2011 amounted to P8.1 million and P7.2 million, respectively. The increase by P0.9 million or 13% in 2012 is net effect of the decrease in revenue from GACL operations (P49 million), decrease in general and administrative expenses (P26 million), sale of available-for-sale financial assets and disposal of property and equipment (P27.5 million).

Receivables amounted to P73.6 million in 2012 and P94.5 million in 2011 (net of allowance for doubtful accounts of P8.6 million and P8.1 million as of December 31, 2013 and 2012). Trade and other receivables went down by P20.9 million due to the net effect of increase in credit sales from GACL operations (P5.8 million), decrease in other receivables (P26 million) and additional provision for doubtful accounts of P0.5 million in 2012. The Group had collected from advances to related parties during 2012. The Group reviews the carrying amount of receivables at each balance sheet date to reduce the balance to their estimated recoverable amounts.

Prepaid expenses and other current assets amounts to P18.9 million in 2012 and P18 million in 2012 (net of allowance for probable losses of P14 million for both years 2012 and 2011). In 2012, the increase by P0.9 million is net effect of increase in creditable withholding taxes (P1.3 million), increase in input taxes (P0.1 million), decrease in refundable deposits (P0.07 million) and decrease in other prepayments (P0.5 million). The Group reviews the carrying amount at each balance sheet to reduce the balance to their estimated recoverable amounts.

Asset held for sale amounting to P954.7 million and P946.7 million as of December 31, 2012 and 2011 (which constitute 89% respectively of the Group's total assets as of December 31, 2013 and 2012, respectively) represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA). The increase of P8 million in 2012 pertains to additional advances in relation to the expenses of Polymax for its pending litigation and outstanding loan from outside parties and past due liabilities.

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued

at P900 million, which is the estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the major stockholders of the Company in favor of the Company.

Available-for-sale-investments amounted to P7 million in 2012 and P47 million in 2011. This account includes shares of stocks owned in publicly listed companies. The P40 million decrease in 2012 pertains to the sale of the remaining Mabuhay Vinyl Corp. (MVC) shares. A gain of P0.6 million was recorded on the said sale. The fair value of the remaining shares has been determined directly by reference to published prices in the active market. Accumulated AFS reserve amounted to P3 million and P11 million as of December 31, 2012 and 2011.

Property, plant and equipment amounted to P2,047,005 million in 2012 and P2,568,166 million in 2011. Net reduction of property, plant and equipment in 2012 by P521,161 million pertains to depreciation charge for the year of P1,350,536, additional acquisitions of machinery, transportation and office equipment of MCLSI amounting to P911,649 and disposal of machinery and office furniture and equipment with a net book value of P97,392. Gain on sale of P82,097 was recognized on the said disposal. Transportation equipment of MCLSI with a carrying value of P173,040 and P271,920 as of December 31, 2012 and 2011, respectively, has been pledge to fulfill collateral requirements of the loan.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2012 and 2011. In 2012 and 2011, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Other non-current assets for the years 2013 and 2012 amounted to P1.1 million and nil million, respectively. Other non-current assets pertain mainly to MCLSI's security and rental deposits on various leased properties. MCLSI renew its lease contracts in 2012, thus payment of such security and rental deposits.

Liabilities

Current liabilities

Accounts payable and accrued expenses for the years 2012 and 2011 amounted to P389 million and P380 million, respectively. Trade payables are noninterest bearing and have credit terms of 30 to 60 days. Accrued expense and other liabilities mainly include accruals for manufacturing and operating expenses, other taxes payable, advances from customers and provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

The increase for year 2012 by P9 million or 2% is mainly due to (a) MAHEC recognition of finance costs on its loan for the petrochemical project (which were passed on to Polymax) and accrual of its fixed expenses such as legal and audit fee and administrative expenses; (b) MCLSI trade payables arising from its trucking and warehousing operations.

Due to related parties for the years 2012 and 2011 amounted to P574 million and P626 million, respectively. The Group, in the normal course of business, has transactions with

related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties. The decrease of P52 million in 2013 pertains to Metro Alliance settlement of advances, fund of which come from disposal of its financial and fixed assets. Significant portion of these advances were used to finance its planned acquisition of petrochemical plant in prior years.

Loans payable (current and long term) amounted to P367,604 in 2012 and P654,668 in 2011. The account pertains to MCLSI's two loan agreements entered last July 21, 2009 for a total principal amount of P988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 for the (first contract) and August 22, 2014 (for the second contract).

The two loans are collateralized by transportation equipment with carrying value of P173,040 and P252,638 as of December 31, 2012 and 2011, respectively.

Accrued retirement benefit cost amounted to P6.1 million in 2012 and P5.1 million in 2011. MAHEC and MCLSI has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. The increase of P1 million or 20% is due to higher provision for retirement benefit for 2012. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

Full Calendar Years (2007 and 2006)

a) Key Performance Indicators

Metro Alliance and its majority-owned subsidiaries key performance indicators follow:

Metro Alliance

Metro Alliance's key performance indicators include the following:

1. Net income
2. Earnings per share – net income attributable to each share of common stock (net income / weighted number of shares outstanding)
3. Return on average equity – ability to generate returns on investment of stockholders. (net income / average equity)
4. Debt to total asset ratio – the proportion to total assets financed by creditors. (total debt / total assets)
5. Debt to Equity ratio – an indicator of which group has the greater representation in the assets of the company (total debt / equity)

Metro Alliance parent company registered a net loss of P24.7 million in 2007 as against P54.5 million net loss in 2006. The increase in net loss in 2007 by P29.8 million is due to reversal of management fee accrual, gain on disposal of subsidiary and sale of AFS investment and a decrease in administrative expenses.

Comparative analysis of Metro Alliance's key performance indicators follows:

Performance indicator	December 31	
	2007	2006
Net income (loss) - in millions Php	(24)	(54)
Earnings (loss) per share (in Php)	(0.08)	(0.18)
Return (loss) on average equity	(0.09)	(0.01)
Debt to total assets ratio	0.72	0.12
Debt to equity ratio	2.58	1.56

GACL

GACL's key performance indicators include the following:

1. Profitability
 - a. Gross profit margin – measures the profitability of revenues (services) in relation to the cost of services
(gross profit / revenues)
 - b. Net profit margin – ability to generate surplus for stockholders.
(net income / sales)
 - c. Return on assets – ability to generate returns from assets.
(net income / assets)
 - d. Return on equity – ability to generate returns on investment of stockholders.
(net income / stockholders equity)
2. Liquidity ratios
 - a. Current ratio – capacity to meet current obligations out of its liquid assets
(current assets / current liabilities)
 - b. Receivables turnover and days' sales in receivables – measures the ability to collect receivables
(net credit sales / average trade receivables)
(365 days / receivables turnover)

The decrease in GACL's gross profit and net profit margins resulted mainly from additional logistics service provided with lower gross profit rates lower than the existing principals.

With the decrease in operating income brought about by the additional business with lower gross profit rates, return on assets and return on equity decreased.

Current ratio increased due to the increase in prepayments related to the additional business.

Comparative analysis of GACL's key performance indicators follows:

Performance indicator		
	2007	2006
<u>Profitability</u>		
a. Gross profit margin	0.170	0.230
b. Net profit margin	0.062	0.043
c. Return on assets	0.135	0.127
d. Return in equity	0.199	0.205
<u>Liquidity</u>		
a. Current ratio	2.856	2.258
b. Receivables turnover	5.98	9.93
c. Days' sales in receivables	61	36

CPDSI, FEZ-EAC, ZDI and AHI

Currently, CPDSI, FEZ-EAC, ZDI and AHI have no performance indicators because these are non-operating companies as mentioned above.

Financial Highlights

The following companies are included in Metro Alliance consolidated financial statement: GACL, CPDSI, FEZ-EAC, ZDI and AHI. The Group's last audited consolidated financial statements was for the year ended December 31, 2006. Due to uncertainties surrounding the acquisition transactions of the Bataan petrochemical plant, the scope of the 2007-2013 audits was completed by the independent auditors and the reports was approved by the Board of Directors on October 10, 2014.

The table below shows the consolidated financial highlights of Metro Alliance for the years ended December 31, 2007, 2006 and 2005:

Balance Sheet	As of December 31		
	2007	2006(restated)	2005
Current assets	P 993,642,284	P 3,233,995,149	P 5,788,934,380
Noncurrent assets	69,638,435	643,294,057	718,972,775
Total Assets	1,063,280,719	3,877,289,206	6,507,907,155
Current liabilities	911,148,890	2,144,873,285	2,920,533,461
Noncurrent liabilities	1,117,839	77,319,375	112,168,609
Total Liabilities	912,266,729	2,222,192,660	3,032,702,070
Stockholder's Equity	151,013,990	1,655,096,546	3,745,205,085
Total Liabilities and Stockholder's Equity	1,063,280,719	3,877,389,206	6,507,907,155

Income Statement	As of December 31		
	2007	2006(restated)	2005
Sales and services	P 119,533,229	P 1,490,432,155	P 1,558,286,667
Cost of sales and services	(98,844,205)	(1,136,930,520)	(1,161,504,945)
Gross profit	20,689,024	353,501,635	396,781,722
Expenses	(318,530,183)	(511,502,725)	(835,966,939)
Net Income (Loss) Before Tax	(297,841,159)	(158,001,090)	(439,185,217)
Income Tax - Current	(4,205,804)	(25,099,500)	(30,333,067)
Deferred	33,865	2,451,128	8,869,270
Net Income (Loss) from Continuing Operations	(302,013,098)	(180,649,462)	(460,649,014)
Loss from Discontinued Operations	–	(1,647,170,950)	(13,357,753)
Net Income (Loss)	(302,013,098)	(1,827,820,412)	(474,006,767)
Loss for the year attributable to the equity holders of	(P 305,621,045)	(P1,854,266,988)	(P519,388,361)
Parent Company and Earnings (Loss) Per Share	(P 1.00)	(P 6.06)	(P 1.70)
Loss from continuing operations attributable to equity holders of Parent Company and Earnings (Loss) Per Share	(P305,621,045)	(P 207,096,038)	(P 506,030,608)
	(P 1.00)	(P 0.68)	(P 1.55)

The Group, having resolved its disputes with the foreign parties involved in the Bataan petrochemical project, will commence to explore business opportunities. As of report date, biggest contributor to the Group's revenue is its logistic arm, GACL when it steadily growing for the past several years after. The Group will reorganize its operations; evaluate its remaining assets; review all pending legal cases; and settle and resolve its outstanding issues with other regulatory government bodies. The Group assures the public that it will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

CHANGES IN OPERATING RESULTS

2007 COMPARED TO 2006

Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of P314.6 million in 2007 as against net loss of P1.828 billion in 2006 or a decrease of P1.513 billion or 83%. Earnings (loss) per share for 2007 and 2006 are (P1.03) and (P5.97), respectively. The decrease in net loss is net effect of the following:

- Decrease in revenue from sale of goods by P1.4 billion or 100% and corresponding cost of goods sold from this sale of P1.03 billion. This is due to sale of the Parent company's interest in MVC, which manifests loss of control over the company. Financial statements of MVC are no longer consolidated with that of the Group. The remaining 5% interest in MVC was reclassified to AFS investments.
- Decrease in expenses by P209.4 million or 57% resulting from sale of interest in MVC, expenses of which were no longer consolidated with that of the Group for the year 2007. These expenses which have significant decrease are: provision for doubtful account expense by P88.4 million due to impairment of notes receivable; personnel cost by P46.8 million or 90%; rent and utilities by P17 million or 94%; depreciation expense by P9.9 million or 99%; shipping and delivery expenses by P143.8 million or 100% and other expenses by P46 million. Other expenses include professional fees, communication, supplies, transportation and miscellaneous expenses.
- Decrease in finance cost by P182 million resulting from disposal of subsidiary (MVC). Loans payable and corresponding finance cost for 2007 are no longer consolidated with that of the Group.
- The Company incurred losses from sale of its interest in MVC by P152.3 million in 2007. The management has disposed its interest in MVC despite of lower market value to pay off liabilities that are already due to avoid further accruals of finance cost.
- Decrease in interest income by P7.4 million or 56% and other income by P51.4 million or 75%. Interest income in 2006 arose from notes receivable of MVC. Other income includes unrealized foreign exchange gain for restatement of balance sheet accounts from dollar to peso and .

Sales and Services

The Group registered gross service revenue of P119.5 million and P1.5 billion for the years ended December 31, 2007 and 2006, respectively. The decrease in revenue of P1.37 billion or 91% in 2007 is due to sale of MAHEC subsidiary in 2007, MVC, which involves in the manufacturing of chemicals for household applications. MVC revenue is no longer consolidated with that of the Group.

Cost of Sales

Total cost of services for the year 2007 is P98.8 million as against P1.1 billion for the year 2006, comprising of cost of goods and services. The decrease of P1.001 billion or 91% is due to sale of MAHEC subsidiary in 2007, MVC, which involves in the manufacturing of chemicals for household applications. MVC cost of goods sold is no longer consolidated with that of the Group.

Operating Expenses

Total operating expenses for the year 2007 amounted to P155.1 million as against P364.5 million for the year 2006. The decrease of P209.4 million or 57% is due to sale of interest in MVC, expenses of which were no longer consolidated with that of the Group for the year 2007. These expenses which have significant decrease are: provision for doubtful account expense by P88.4 million due to impairment of notes receivable; personnel cost by P46.8 million or 90%; rent and utilities by P17 million or 94%; depreciation expense by P9.9 million or 99%; shipping and delivery expenses by P143.8 million or 100% and other expenses by P46 million. Other expenses include professional fees, communication, supplies, transportation and miscellaneous expenses.

Finance Cost

Finance cost for the years 2007 and 2006 amounted to P46.4 million and P228.5 million, respectively. The decrease of P182.1 million or 80% is due to disposal of subsidiary, MVC. Loans payable and corresponding finance cost for 2007 are no longer consolidated with that of the Group.

Other Income (Charges)

Other income (charges) for the years 2007 and 2006 amounted to (P129.7 million) and P81.4 million, respectively. Other charges for 2007 pertains to net effect on loss incurred on sale of subsidiary and sale of available-for-sale investments (P152.3 million) and interest and other income (P22.6 million) The management has disposed its interest in MVC despite of lower market value to pay off liabilities that are already due to avoid further accruals of finance cost. Other income for 2006 pertains only to interest income from notes receivable of MVC and interest income from banks (P13.1 million) and other income from foreign exchange gain on restatement of balance sheet accounts from dollar to peso and gain from sale of available-for-sale investments (P68.3 million).

CHANGES IN FINANCIAL CONDITION

2007 COMPARED TO 2006

The following companies are included in Metro Alliance consolidated financial statement: GACL, CPDSI, FEZ-EAC, ZDI and AHI. A subsidiary is an entity in which the Company has control. Subsidiaries are consolidated from the date on which control is transferred out of the Company.

Mabuhay Vinyl Corporation (MVC) was 42.69% owned by MAHEC as of December 31, 2006. In 2007, the Company sold its 37.69% interest in MVC, retaining 5% which was reclassified to AFS investments and ceased to be a subsidiary as of December 31, 2007.

Polymax is the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPCA which resulted in a 2006 disputed sale of Polymax's 60% interest in NPCA to NPC International Limited (NPCI) and Petrochemical Industries Investment Company (PIIC). Subsequently on August 27, 2013 the Company and Polymax entered into a settlement agreement with NPCI, PII and NPC to resolve the dispute. On the basis of the settlement agreement, the previously issued 2006

consolidated financial statements of the Company and its subsidiaries were restated to reflect the sale of Polymax's 60% interest in the petrochemical plant.

The remaining 40% of Polymax's interest which is valued at P900 million, which is estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax (an unconsolidated special purpose entity in 2007) and the settlement Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Assets

Cash and cash equivalents for the years 2007 and 2006 amounted to P19.7 million and P120.9 million, respectively. The decrease by P101.2 million or 84% is due to not consolidating MVC financial statements with that of the Group since it was sold during 2007. Net cash used in operating activities for 2007 amounted to (P252.5 million), cash provided by investing activities such as proceeds from sale of AFS investment, acquisition of property and equipment, etc. amounted to P421.5 million and cash used in financing activities (payment of interest, dividend, long-term debt and finance lease) amounted to (P270.2 million). The MVC cash account also includes dollar savings and short-term investment for the year 2006 which were no longer consolidated in 2007.

Receivables amounted to P63.9 million in 2007 and P858.9 million in 2006 (net of allowance for doubtful accounts of P140.2 million and P10.4 million as of December 31, 2007 and 2006). Decrease by P795 million or 93% is mainly due to disposal of subsidiary, MVC, during 2007. In 2007, a substantial portion of notes receivables was considered impaired and covered with allowance for probable losses. Trade receivables from revenue of MVC and GACL for 2006 amounted to P395 million as against P25 million in 2007 or a decrease of P370 million or 94%. Other receivables in 2006 include P254.7 million noninterest-bearing receivables of Polymax from third business partners that are subject to liquidation.

The Group reviews the carrying amount of receivables at each balance sheet date to reduce the balance to their estimated recoverable amounts.

Inventory amounted to nil and P237.5 million in 2007 and 2006, respectively. Inventories in 2006 pertain to inventories of MVC, an entity that ceased to be a subsidiary in 2007. Under the terms of agreements covering liabilities under trust receipts, certain inventories have been released to the Group in trust for the banks. The Group is accountable to the banks for the said inventories. Liabilities under trust receipts in 2006 represent short-term borrowings from a local bank to finance inventory importations and bear average annual interest rate of 10%. Allowance for obsolescence as of December 31, 2006 amounted to P2.4 million.

Prepaid expenses and other current assets amounted to P7.8 million in 2007 and P32.8 million in 2006. The decrease of P25 million is due to MVC accounts that are no longer consolidated with that of the Group since it has ceased to be a subsidiary during 2007. The accounts include creditable withholding tax, input taxes, refundable deposits, etc. The Group reviews the carrying amount at each balance sheet to reduce the balance to their estimated recoverable amounts.

Asset held for sale as at December 31, 2007 amounting to P902.2 million (which constitute 86% of the Group's total assets as of December 31, 2007) represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA). The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities

held for sale, for which the Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale of Polymax's 40% interest in NPCA.

Asset held for sale at December 31, 2006 amounting to P1.98 billion represents the estimated recoverable value of Polymax's 40% interest in NPCA (from 100% in 2005), which is for sale. In 2007, since 90% of Polymax's assets pertain to its investments in NPCA, which is for sale, management decided to discontinue operating Polymax as a going concern and exclude its accounts from 2007 consolidated financial statements.

Available-for-sale-investments (AFS) amounted to P61.6 million in 2007 and P19.2 million in 2006. The AFS investments of the group consist of investments in shares of Mabuhay Vinyl Corporation (MVC), an entity that ceased to be a subsidiary in 2007, and others that are quoted in the local stock exchange as well as investments in unlisted shares. In 2007, shares of stock of the group in MVC totaling 59,254,263, representing 8.6% ownership interest in MVC, with a carrying value of ₱50,328,266, was transferred from investments in subsidiaries to AFS investments. The acquisition cost of ₱10.7 million at the end of 2006 includes ₱6.5 million pertaining to MVC which ceased to be a subsidiary in 2007.

Unrealized loss on AFS investments in 2007 amounted to ₱1,162,106 and unrealized gain amounted to ₱6,868,470 in 2006 and ₱1,620,600 in 2005. The carrying value of these investments include accumulated unrealized gains on AFS investments of ₱7.1 million and ₱8.5 million as of December 31, 2007 and 2006, respectively, which is deferred in equity section of the consolidated balance sheet. The cumulative fair value gains in equity at the end of 2006 of ₱8.5 million includes ₱254,789 pertaining to MVC which ceased to be a subsidiary in 2007.

Property, plant and equipment amounted to P4.7 million in 2007 and P616.8 million in 2006. Significant reduction in property, plant and equipment in 2007 by P612.1 million is mainly due to sale of subsidiary (MVC) which property, plant and equipment is no longer consolidated with that of the Group. Depreciation charge for 2007 and 2006 amounted to P5.1 million and P77.8 million, respectively. Acquisition for 2007 amounted to P0.3 million and retirement of fully depreciated office furniture and equipment amounted to P6,722.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2007 and 2006. In 2007 and 2006, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Other non-current assets for the years 2007 and 2006 amounted to P2.6 million and P6.6 million, respectively. Other non-current assets pertain mainly to GACL security and rental deposits on various leased properties. Other non-current asset of MVC in 2006 is no longer consolidated in 2007, thus a decrease of P4 million or 61%.

Liabilities

Current Liabilities

Accounts payable and accrued expenses for the years 2007 and 2006 amounted to P389.3 million and P906.9 million, respectively. The decrease for year 2007 by P517.6 million or 57% is mainly due to accrued finance charges totaling P488.4 million relating to past due loans obtained jointly and severally with Polymax to finance the acquisition by Polymax of 100% interest in NPCA which were transferred to and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead merely their legal forms. Trade payables decreased by P35.1 million

due to sale of subsidiary (MVC) in 2007, which payables are no longer consolidated with that of the Group.

Trade payables are noninterest bearing and have credit terms of 30 to 60 days. Accrued expense and other liabilities mainly include accruals for manufacturing and operating expenses, other taxes payable, advances from customers and provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

Due to related parties for the years 2007 and 2006 amounted to P492.4 million and P494.4 million, respectively or a decrease of P2 million. The Group, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties. The decrease of P2 million in 2007 pertains to Metro Alliance settlement of advances, fund of which come from disposal of its financial and fixed assets. Significant portion of these advances were used to finance its planned acquisition of petrochemical plant in prior years.

Obligation under finance lease (current and noncurrent) amounted to P2.7 million in 2007 and P5.4 million in 2006. The Group, under operating lease agreement, leases an office space with a term of one year for an annual rate of P0.3 million. The decrease of P2.7 million pertains to MVC's various operating lease agreements covering office spaces, parking slots, warehouse, storage tanks, piping system and pumps which were no longer consolidated with that of the Group.

Long-term debt amounted to P70,000 in 2007 and P203.4 million in 2006 (current and noncurrent portion). The account pertains to loan from local banks: (a) a 4-year secured loan with total add-on financing charges of 49%, payable monthly starting April 25, 2004, with remaining balance of P70,000 as of December 31, 2007; (b) a 3.5-year secured loan amounted to nil and P159.3 million as of December 31, 2007 and 2006. The loan is secured by a Deed of Chattel Mortgage over 264,536,654 MVC shares of stock owned by the Company. On June 2007, all the rights and interest over the said MVC shares of stocks were assigned and transferred to the local bank as full payment of the loan and accrued interest thereon; (c) a 5-year secured loan with an outstanding balance of P43.8 million as of December 31, 2006 which pertains to loan obtained by MVC, an entity that is no longer a subsidiary in 2007.

Loans payable amounted to P27 million and P431.3 million as of December 31, 2007 and 2006, respectively. The account pertains to loans obtained to: (a) partially finance acquisition of petrochemical plant: (1) a P280 million secured loan payable before June 14, 2004. This loan were transferred to and applied against the advances made to Polymax in 2007 in order to reflect the economic substance of the loan and acquisition transactions instead of merely their legal forms; (2) a P98.3 million secured loan payable on or April 6, 2004 which was transferred also to Polymax in 2007; (b) obtained for other purposes amounting to P53 million as of December 31, 2006. This loan pertains to loan of MVC, an entity that ceased to be a subsidiary in 2007.

Liabilities under trust receipts amounted to nil and P124.9 million as of December 31, 2007 and 2006, respectively. The account pertains to bank loans obtained by MVC in purchasing inventories. Since MVC ceased to be a subsidiary in 2007, the balance is no longer consolidated with that of the Group in 2007.

Customer deposits amounted to nil and P18 million as of December 31, 2007 and 2006, respectively. The account pertains to advances from customer of MVC on sale of its products. Since MVC ceased to be a subsidiary in 2007, the balance is no longer consolidated with that of the Group in 2007.

Asset retirement obligation amounted to nil and P0.6 million as of December 31, 2007 and 2006, respectively. The account represents obligation of MVC, an entity that ceased to be a subsidiary in 2007.

Accrued retirement benefit cost amounted to P0.8 million in 2007 and P3.1 million in 2006. MAHEC and GACL has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. The decrease of P2.3 million or 74% is due to retirement obligation of MVC which are no longer consolidated in 2007. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

Summary of Material Trends, Events and Uncertainties

Legal cases

Metro Alliance

Case Title	: Metro Alliance vs Commissioner of Internal Revenue
Factual basis	: Assessment for deficiency withholding taxes for the year 1989, 1990 and 1991
Status	: On July 5, 2002, the Parent Company received a decision from the Court of Tax Appeals (CTA) denying the Parent Company's Petition for Review and ordering the payment of ₱83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Parent Company filed a Motion for Reconsideration on July 31, 2002 but this was subsequently denied by the CTA. A Petition for Review was filed with the CTA on November 8, 2002, which was also denied by the CTA. The Parent Company then appealed the decision of the CTA to the Court of Appeals (CA), which likewise denied the appeal and upheld the assessment against the Parent Company. The Parent Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

On July 9, 2004, the Parent Company received the CA resolution denying the Motion for Reconsideration. On July 22, 2004, the Parent Company filed with the CA a Motion for Extension of time to file an appeal to the Supreme Court (SC). On August 20, 2004, the Parent Company filed said appeal. On October 20, 2004, the Parent Company received the resolution of the SC denying its Petition for Review for lack of reversible error. The Parent Company filed a Motion for Reconsideration. On January 10, 2005, the SC issued an Order stating that it found no ground to sustain the Parent Company's appeal and dismissed the Parent Company's petition with finality.

On April 26, 2006, the Parent Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Motion for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue. As of October 10, 2014, the Parent Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

Case Title	: Metro Alliance and Philippine Estate Corporation vs Philippine Trust Company, et al
Factual basis	: Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sales, plus Damages
Name of Court	: Regional Trial Court, Fourth Judicial Region Branch 18, Tagaytay City
Status	: On September 14, 2005, Metro Alliance and Philippine Estate Corporation filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sales, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. Damages sought are P1,000,000 as and by way or exemplary damages and P500,000 as and by way of attorney's fees; litigation expenses and cost of suit. The case is now pending with the Regional Trial Court of Tagaytay City, Branch 18 O SCA No. TG-05-2519.
	The case stemmed from the imminent extra-judicial foreclosure of properties covered by Transfer Certificate of Title Nos. T-35522, T-35524 and T-35552 subject to the real Estate Mortgage executed by Metro Alliance and Philippine Estate Corporation on the amount of P42,000,000 which amount was never received. On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction. Management believes that the same will be made permanent by the RTC.
Relief Sought	: Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction and damages sought are P1,000,000 and other charges of P500,000.

Case Title	: Securities and Exchange Commission (SEC) En Banc Case No. 07-09-169 For Review of Order of Revocation of Registration of and Permit to Sell Securities
Factual basis	: The records of the Commission revealed that the 2006 Annual Report (SEC Form 17-A) and 2007 1 st , 2 nd and 3 rd Quarter Report (SEC Form 17-Q) were due for submission. The Company filed its SEC Form 17-L or Notice of Inability to File its 2006 Annual Report (SEC Form 17-A) on May 11, 2007. In response to the Show-Cause Letter of CFD dated June 27, 2007, the Company explained that it had not been able to submit its 2006 Annual Report due to the legal issues involving the acquisition of the petrochemical plant and the surrounding circumstances. On July 30, 2007, the CFD, finding the Company's explanation unmeritorious, partially assessed the Company of P288,000 for its continued failure to file its 2006 Annual Report. Same scenario with its quarterly reports which the CFD assessed a penalty of P27,200 as of August 1, 2007.

Suspension of Registration of Securities

For the Company's continued failure to submit the required reports, a hearing for suspension was scheduled on October 24, 2007, which the Company failed to attend. Another hearing was held on February 18, 2008, wherein the Company reiterated its earlier explanation. Eventually, the Company's Registration of Securities was suspended for a period of sixty (60) days from the Company's receipt of the Suspension Order dated July 17, 2008, or until the company was able to submit the foregoing reports and fully pay the corresponding penalties.

Revocation of Registration of Securities

After the hearing on the revocation of the registration held on November 21, 2008, the Company was allowed by CFD to file on December 5, 2008 its explanation. The Company explained that its inability to file its report was due to the refusal of its External Auditor, Sycip Gorres and Velayo ("SGV"), to give an unqualified opinion on the Company's financial statements. On June 25, 2009, the CFD issued Revocation Order. It was issued due to the Company's failure to comply with the Suspension Order, that is, it failed to file the reports and pay the penalties within sixty (60) days from receipt of the Suspension Order. The records reveal that the Company filed the afore-said reports on August 12, 2008, which is well within the given sixty-day period for compliance with the Suspension Order. However, CFD deemed such reports as not filed considering that:

- a) 2006 Consolidated Audited Financial Statements of the Group which were attached to the 2006 Annual Report (SEC Form 17-A) contained a qualified opinion from the External Auditor in violation of SRC Rule 68.1(2) which

requires an unqualified opinion, rendering the same deemed not filed; and

- b) Since the said 2006 Consolidated Audited Financial Statements of the Company has been deemed not filed, the succeeding reports such as the 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q) could not be properly accomplished, as a comparative presentation with duly accomplished 2006 Consolidated Audited Financial Statements is required.

SRC Rule 68.1(2), which CFD invokes in support of the above conclusion, provides that:

“Audited financial statements of companies covered by this Rule with an auditor’s opinion that is other than unqualified because of departure(s) from the generally accepted accounting principles in the Philippines shall be deemed not filed and shall give rise to the imposition of appropriate sanctions on the company.

The Commission reserves the right to obtain clarification or to question other modifications in the report issued by the external auditor which it deems unreasonable.”

The Company’s Appeal

The ultimate issue to be resolved is whether CFD erred in revoking the Company’s registration of securities.

The Company filed an Appeal dated July 14, 2009 to the Commission. The Company argues that CFD erred in finding the reports as deemed not filed because the qualified opinion or disclaimer of opinion of the External Auditor was not due to a departure from the generally accepted accounting principles in the Philippines, which is what is required for SRC Rule 68.1(2) to apply, but was made due to a scope limitation that is beyond the control of the External Auditor and is not imposed by its management.

Relief Sought : The Office of the General Accountant (“OGA”) commented that Company’s subject Audited Financial Statements should be considered as filed because, based on the foregoing, SGV’s failure to complete the audit is by reason of limitation of scope, not a deviation from the generally accepted accounting principles as contemplated by SRC Rule 68.1(2). Further, such Audited Financial Statements contains sufficient disclosure on the legal issues on the acquisition transactions of the petrochemical plant.

The SEC en Banc, premises considered, granted the Order of Revocation of Registration of and Permit to Sell Securities dated June 25, 2009 be SET ASIDE.

However, the timeliness of the filing of the required reports is a totally different issue. The Commission en Banc directed the CFD to determine and impose, after proper proceedings,

penalties against the Company for its late filing of its 2006 Annual Report (SEC Form 17-A) and 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q). As of this report, final amount for all the penalties that accrue cannot be determined. The Company believes that it made provisions sufficient enough to cover the contingent liability.

Case Title	:	Metro Alliance vs The Philippine Stock Exchange (“PSE”)
Factual basis	:	The Company has an outstanding obligation to the PSE in the amount of P2,450,000 as of March 21, 2014 for the repeated violations of the rules and regulations of the PSE starting May 2007 until December 2012. The case was related to the same violation the Company has with the SEC where it also required submitting structured reports such as Annual and Quarterly Report from 2007 until 2012. (Please refer to preceding paragraph for the discussion of the Company’s inability to file such reports). The PSE suspend the trading of the Company last May 2007.
Relief Sought	:	The Company has made provisions on its financial statement sufficient enough to cover such liability.

Events that will Trigger Direct Contingent or Financial Obligation

Having resolved its disputes with foreign parties involved in the Bataan petrochemical project there are no additional known events that will trigger direct or contingent financial obligation that is material to Metro Alliance, including the default of acceleration of an obligation.

Material Off-balance Sheet Transactions, Arrangements, Obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of Metro Alliance with unconsolidated entities or other persons created during the reporting period. Completed transactions in connection with our investment in the petrochemical project were fully disclosed in the audited consolidated financial statements.

Commitment For Capital Expenditures

Since CPDSI has ceased operations and MVC ceased to be a subsidiary of MAHEC, the Group has no commitment for capital expenditures.

Any Known Trends, Events of Uncertainties (Impact On Net Sales / Net Income)

Since CPDSI, AHI, FEZ-EAC and ZDI have ceased commercial operations and MCLSI is the only operating subsidiary among the Group, sales will rely solely on MCLSI’s results of operations.

Significant Element of Income or Loss That Did Not Arise From Continuing Operations.

There is no significant element of income or loss that did not arise from continuing operations.

Material Changes on Line Items in the Financial Statements

Material changes on line items in the financial statements are presented under the captions “Changes in Financial Condition” and “Changes in Operating Results” above.

Effect of Seasonal Changes in the Financial Condition or Results of Operations of the Corporation

The financial condition or results of operations is not affected by any seasonal change.

Undertaking

A copy of the Annual Report for the year ended December 31, 2013 or SEC Form 17-A will be made available during the Annual Stockholders' Meeting.

Interim Report for the 3rd Quarter of 2014

a) The following table shows the consolidated financial highlights of the Group for the quarters ended September 30, 2014 and 2013 and December 31, 2013:

☐ **Unaudited Income Statement**

<i>Income Statement</i>	Amounts in P'000			
	Jul – Sept 2014	Jul – Sept 2013	Jan – Sept 2014	Jan – Sept 2013
Sales and services	P 26,938	P 29,272	P 80,815	P 87,817
Cost of sales and services	(9,058)	(7,745)	(27,173)	(23,236)
Gross profit	17,880	21,527	53,642	64,581
Expenses	(18,172)	(20,530)	(54,517)	(61,591)
Net Income (Loss)	(292)	997	(875)	2,990
Earnings (Loss) Per Share	(P 0.001)	P 0.003	(P 0.003)	P 0.010

☐ **Unaudited Balance Sheet**

<i>Balance Sheet</i>	Amounts in P'000		
	Sept. 30, 2014	Sept. 30, 2013	Dec. 31, 2013
Current assets	1,111,356	1,067,144	1,071,686
Noncurrent assets	15,029	16,631	12,613
Total Assets	1,126,385	1,083,775	1,084,299
Current liabilities	1,025,724	977,187	978,757
Noncurrent liabilities	5,541	6,916	5,572
Total Liabilities	1,031,265	984,103	984,329
Stockholder's Equity	95,120	99,672	99,970
Total Liabilities and Stockholder's Equity	1,126,385	1,083,775	1,084,299

The following companies are included in Metro Alliance consolidated financial statement: MCLSI, CPDSI, FEZ-EAC, ZDI and AHI. The Group's last audited consolidated financial statements was for the year ended December 31, 2006. Due to uncertainties surrounding the acquisition transactions of the Bataan petrochemical plant, the scope of the 2007-2013 audits was completed by the independent auditors and the reports was approved by the Board of Directors on October 10, 2014.

The Group, having resolved its disputes with the foreign parties involved in the Bataan petrochemical project, will commence to explore business opportunities. As of report date, biggest contributor to the Group's revenue is its logistic arm, MCLSI when it steadily growing for the past several years after. The Group will reorganize its operations; evaluate its remaining assets; review all pending legal cases; and settle and resolve its outstanding issues with other regulatory government bodies. The Group assures the public that it will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

b) Key Performance Indicators

Metro Alliance and its majority-owned subsidiaries key performance indicators follow:

Metro Alliance

Metro Alliance's key performance indicators include the following:

3. Net income
4. Earnings per share – net income attributable to each share of common stock
(net income / weighted number of shares outstanding)
Return on average equity – ability to generate returns on investment of stockholders.
(net income / average equity)
5. Debt to total asset ratio – the proportion to total assets financed by creditors.
(total debt / total assets)
6. Debt to Equity ratio – an indicator of which group has the greater representation in
the assets of the company
(total debt / equity)

The financial ratios of Metro Alliance are not stable due to its significant investment on the Petrochemical Project.

Metro Alliance parent company financial statements registered unaudited net loss of (P874,817) for the third quarter of 2014 as compared to the third quarter of 2013, net income amounts to P2.9 million due to MCLSI's decrease in lease contracts and aggravated further by its unfavorable cost.

The decrease in net income (or the incurrence of net loss in 2014) resulted to the increase in loss per share and loss on average equity.

Comparative analysis of Metro Alliance's key performance indicators follows:

Performance indicator	Sept 30 2014	Dec 31 2013	Sept 30 2013
Net income (loss) - in millions Php	(874,817)	(3,972,297)	2,990,485
Income (loss) per share (in Php)	(0.003)	(0.013)	0.010
Income (loss) on average equity (In Php)	(0.009)	(0.040)	0.030
Debt to total assets	0.912	0.908	0.908
Debt to equity	10.433	9.846	9.876

MCLSI Logistics, Inc.

MCLSI's key performance indicators include the following:

7. Profitability
 - a. Gross profit margin – measures the profitability of revenues (services) in relation to the cost of services
(gross profit / revenues)
 - b. Net profit margin – ability to generate surplus for stockholders.
(net income / sales)
 - c. Return on assets – ability to generate returns from assets.
(net income / assets)
 - d. Return on equity – ability to generate returns on investment of stockholders.
(net income / stockholders equity)
8. Liquidity ratios
 - a. Current ratio – capacity to meet current obligations out of its liquid assets
(current assets / current liabilities)

- b. Receivables turnover and days' sales in receivables – measures the ability to collect receivables
(net credit sales / average trade receivables)
(365 days / receivables turnover)

The decrease in MCLSI's gross profit resulted mainly from the termination of some contracts. With the decrease in operating income, net profit margin, return on assets and return on equity decreased. Current ratio decreased due to the increase in accruals and other payables. In addition, turnover of receivables resulted to a slower collections compared to last year.

Comparative analysis of MCLSI's key performance indicators follows:

Performance indicator	Sept 30 2014	Dec 31 2013	Sept 30 2013
Profitability			
a. Gross profit margin	0.664	0.163	0.735
b. Net profit margin	(0.011)	(0.032)	0.034
c. Return on assets	(0.001)	(0.004)	0.003
d. Return in equity	(0.009)	(0.004)	0.030
Liquidity			
a. Current ratio	1.083	1.095	1.092
b. Receivables turnover	1.128	1.653	1.263
c. Days' sales in receivables	323	221	289

Consumer Products Distribution Services, Inc. (CPDSI), FEZ-EAC Holdings, Inc.(FEZ-EAC), Zuellig Distributors, Inc. (ZDI) and Asia Healthcare, Inc. (AHI)

Currently, CPDSI, FEZ-EAC, ZDI and AHI have no performance indicators because these are non-operating companies.

b) Changes in Operating Results

Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of P0.2 million for the 3rd quarter of 2014 as against net income of P0.9 million for the 3rd quarter of 2013 or a decrease of P1.1 million or 122%. Earnings (loss) per share are (P0.001) for the 3rd quarter of 2014 and P0.003 for the 3rd quarter of 2013. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group. The decrease is due to net effect of reduction or termination of MCLSI's lease and logistics contracts amounting to P7.8 million, fixed expenses incurred by non-operating subsidiaries such as depreciation expense of remaining fixed assets, personnel cost, professional fees (legal fee for pending cases and retainer fee of stock transfer agent), etc.

Sales and Services

The Group registered gross service revenue of P26.9 million and P29.3 million for the quarters ended September 30, 2014 and 2013. The decrease in revenue of P2.4 million or 8% for the 3rd quarter of 2014 is due to reduction or termination of some of MCLSI's lease and logistics contracts.

Cost of Sales and Services

Total cost of sales and services for the quarters ended September 30, 2014 and 2013 amounted to P9.1 million and P7.7 million, respectively. The increase of P1.4 million or 18% is due to higher cost of delivery of products and services such as fluctuations in oil prices used by delivery trucks and electricity rates, security services and maintenance cost of warehouse facilities. With lower lease and logistics contracts, fixed expenses are still incurred contributing to the higher cost for the 3rd quarter of 2014.

Operating Expenses

Total operating expenses of the Group for the 3rd quarter of 2014 amounted to P18.2 million as compared to P20.5 million for the 3rd quarter of 2013 or a decrease of P2.3 million or 11%. The decrease is net effect of decrease in personnel cost (P.5 million), professional fees (P0.9 million), depreciation expense since some of the fixed assets already reached their useful life last year and general and administrative expenses (P0.9 million).

Other income (expenses)

Other income (charges) for the quarters ended September 30, 2014 and 2013 amounted to (P19,640) and (P29,615), respectively or a decrease of P9,975 or 34%. The account pertains to net balance from finance cost, interest income and dividend income. A lesser finance cost was recorded for the 3rd quarter of 2014.

b) Changes in Financial Condition

Assets

Cash and cash equivalents for the 3rd quarter of 2014 and 2013 and as of December 31, 2013 amounted to P22.5 million, P22.6 million and P14.4 million, respectively. Business operations are usual for both quarters of 2014 and 2013, thus level of cash is almost the same. The increase by P8.1 million or 56% as of 3rd quarter of 2014 is net effect of collection of receivables (P8.6 million), payment of advances to related parties (P1.4 million), and advances to Polymax for its working capital requirements (P0.1 million).

Receivables amounted to P67.3 million as of 3rd quarter of 2014, P75.9 million as of December 31, 2014 and P65.5 million as of 3rd quarter of 2013 (net of allowance for doubtful accounts of P10.3 million in 3rd quarter of 2014 and December 31, 2013 and P8.6 million as of September 30, 2013). Trade and other receivables went up by P1.8 million in 3rd quarter of 2014 as compared to 3rd quarter of 2013 due to the net effect of increase of trade receivables (P7.9 million), decrease in due from affiliates (P5.3 million), increase of in other receivables (P1 million) and additional provision for doubtful accounts (P1.8 million). The decrease of P8.5 million in 3rd quarter of 2014 as against December 31, 2013 is due to net effect of increase in trade receivables (P1.5 million) and decrease in other receivables (P10 million). Other receivables represent non-interest bearing receivables from third party business partners of Polymax that are subject to liquidation and advances to related parties. The Group reviews the carrying amount of receivables at each balance sheet date to reduce the balance to their estimated recoverable amounts.

Prepaid expenses and other current assets amounts to P27.4 million, P21 million and P23.4 million as of the 3rd quarter of 2014, December 31, 2013 and September 30, 2013 (net of allowance for probable losses of P14 million for all periods). The increase by P3.9 million in 3rd quarter of 2014 as against the 3rd quarter of 2013 is net effect of increase in creditable withholding taxes (P4.9 million), decrease in input taxes (P0.2 million), decrease in refundable deposits (P0.2 million) and decrease in other prepayments (P0.6 million).

The increase of P6.4 million in 3rd quarter of 2014 as against December 31, 2013 is due to net effect of increase in creditable withholding taxes (P4 million), increase in input tax (P0.8 million) and increase in other prepayments (P1.5 million). The Group reviews the carrying amount at each balance sheet to reduce the balance to their estimated recoverable amounts.

Asset held for sale amounting to P960.4 million, P960.3 million and P955.6 million as of September 30, 2014, December 31, 2013 and September 30, 2013 (which constitute 89% respectively of the Group's total assets as said periods) represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA). The increase of P4.8 million and P0.1 million in 3rd quarter of 2014 as against 3rd quarter of 2013 and December 31, 2013, respectively, pertains to additional advances in relation to the expenses of Polymax for its pending litigation and outstanding loan from outside parties and past due liabilities.

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued at P900 million, which is the estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the major stockholders of the Company in favor of the Company.

Available-for-sale-investments amounted to P6 million in September 30, 2014 and December 31, 2013 and P7.9 million in September 30, 2013. This account includes shares of stocks owned in publicly listed companies. The P1.9 million decrease in 3rd quarter pertains to decline in the value of shares of stock in the market. The fair value of these shares has been determined directly by reference to published prices in the active market.

Property, plant and equipment amounted to P4.3 million, P1.9 million and P2.3 million in September 30, 2014, December 31, 2013 and September 30, 2013, respectively. Net increase in property, plant and equipment in 3rd quarter of 2014 as against 3rd quarter of 2013 by P2 million pertains decrease in depreciation charge for the quarter of P0.8 due to property and equipment that was fully depreciated in 2013 and increase in additional acquisitions of transportation and office equipment of MCLSI amounting to P1.4 million.

The increase in 3rd quarter of 2014 as against December 31, 2013 by P2.4 million is due to MCLSI additional acquisition of transportation equipment in 3rd quarter of 2014.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2013 and 2012. In 2013 and 2012, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Liabilities

Current Liabilities

Accounts payable and accrued expenses for the quarter ended September 30, 2014, December 31, 2013 and September 30, 2013 amounted to P437 million, P426 million and P419 million, respectively. Trade payables are noninterest bearing and have credit terms of 30 to 60 days. Accrued expense and other liabilities mainly include accruals for manufacturing and operating expenses, other taxes payable, advances from customers and provisions for liabilities arising in the ordinary conduct of business, which are either pending

decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

The increase for the 3rd quarter of 2014 against 3rd quarter of 2013 by P18 million or 4% is mainly due to (a) MAHEC recognition of finance costs on its loan for the petrochemical project (which were passed on to Polymax) and accrual of its fixed expenses such as legal and audit fee and administrative expenses; (b) MCLSI trade payables arising from its trucking and warehousing operations.

Due to related parties for the 3rd quarter of 2014, December 2013 and September 30, 2013 amounted to P551 million, P553 million and P552 million, respectively. The Group, in the normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties. The decrease of P1 million in 3rd quarter of 2014 as against the 3rd quarter of 2013 and decrease of P2 million as against the end of 2013 pertains to Metro Alliance settlement of advances and offsetting of receivables and payables among the Group. Significant portion of these advances were used to finance its planned acquisition of petrochemical plant in prior years.

Loans payable (current and long term) amounted to P3.6 million, P0.1 million and P4.9 million for the period ended September 30, 2014, December 31, 2013 and September 30, 2013, respectively. The account balance for 3rd quarter of 2013 pertains to MCLSI's loan agreements entered last July 21, 2009 for a total principal amount of P988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 for the (first contract) and August 22, 2014 (for the second contract).

Two loan contracts were entered again by MCLSI last September 18, 2014 for the acquisition of machinery and transportation equipment. The loan is payable monthly with interest at 19% per annum up to September 30, 2019. The loans are collateralized by transportation equipment with carrying value of P63,448 and P138,432 as of September 30, 2014 and 2013.

Accrued retirement benefit cost amounted to P5.5 million as of September 30, 2014 and P6.7 million as of September 30, 2013. MAHEC and MCLSI has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. The decrease of P1.2 million or 18% is due to payment made on retired employees as of the 3rd quarter of 2014 and loss incurred from retirement plan. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

Summary of Material Trends, Events and Uncertainties

Except for the material trends, events and uncertainties described above, there are no material trends, events and uncertainties occurred subsequently.

Events that will Trigger Direct Contingent or Financial Obligation

Having resolved its disputes with foreign parties involved in the Bataan petrochemical project there are no additional known events that will trigger direct or contingent financial obligation that is material to Metro Alliance, including the default of acceleration of an obligation during the reporting period.

Material Off-balance Sheet Transactions, Arrangements, Obligations

There are no off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.

Commitment For Capital Expenditures

Since CPDSI has ceased operations and MVC ceased to be a subsidiary of MAHEC, the Group has no commitment for capital expenditures.

Any Known Trends, Events of Uncertainties (Impact On Net Sales / Net Income)

Since CPDSI, AHI, FEZ-EAC and ZDI have ceased commercial operations and MCLSI is the only operating subsidiary among the Group, sales will rely solely on MCLSI's results of operations.

Significant Element of Income or Loss That Did Not Arise From Continuing Operations.

There is no significant element of income or loss that did not arise from continuing operations.

Material Changes on Line Items in the Financial Statements

Material changes on line items in the financial statements are presented under the captions "Changes in Financial Condition" and "Changes in Operating Results" above.

Effect of Seasonal Changes in the Financial Condition or Results of Operations of the Corporation

The financial condition or results of operations is not affected by any seasonal change.

Undertaking

A copy of the Third Quarter Report for the period ended September 30, 2014 or SEC Form 17-Q will be made available during the Annual Stockholders' Meeting

Information on Independent Accountant and other Related Matters**(1) External Audit Fees and Services**

- (a) Audit and related fees for Metro Alliance is P300,000 in 2013 and 2012 for expressing an opinion on the financial statements and assistance in preparing the annual income tax return. In addition, to bring to the attention of management, any deficiencies in internal control and detected misstatements and fraudulent or illegal acts.
- (b) Tax fees - there is no tax fees paid for the years 2013 and 2012.
- (c) Other fees – there is no other fees paid for the years 2013 and 2012.
- (d) Audit committee's approval policies and procedures for the above services – the committee will evaluate the proposals from known external audit firms. The review will focus on quality of service, commitment to deadline and fees as a whole, and no one factor should necessarily be determinable.

(2) Changes in and disagreements with Accountants on Accounting and Financial Disclosure

No independent accountant who was previously engaged as the principal accountant to audit Metro Alliance financial statements, or an independent accountant on whom the principal accountant expressed reliance in its report regarding a significant subsidiary, has resigned (or indicated it has declined to stand for re-election after the completion of the current audit) or was dismissed in the two most recent fiscal years or any subsequent interim period. Furthermore, there was no disagreement with the former accountant on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

DIRECTORS AND EXECUTIVE OFFICERS

Please refer to Item 5, Directors and Executive Officers, of the SEC Form 20-IS.

MARKET PRICE OF AND DIVIDENDS ON REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER

Market Information

The principal market of Metro Alliance Holdings & Equities Corp.'s common equity is the Philippine Stock Exchange (PSE) where it was listed 1947. The high and low sales prices by quarter for the last two (2) years, including the first three quarters of 2014 are as follows:

		Class A		Class B	
		High	Low	High	Low
2014	First Quarter	-	-	-	-
	Second Quarter	-	-	-	-
	Third Quarter	-	-	-	-
2013	First Quarter	-	-	-	-
	Second Quarter	-	-	-	-
	Third Quarter	-	-	-	-
	Fourth Quarter	-	-	-	-
2012	First Quarter	-	-	-	-
	Second Quarter	-	-	-	-
	Third Quarter	-	-	-	-
	Fourth Quarter	-	-	-	-

As observed, there are no high and sales prices for the last three years since the Philippine Stock Exchange suspended the trading of the Company for non-compliance with the submission of structured reports such as annual and quarterly report since 2007. (Please refer to 'Summary of Material Trends, Events and Uncertainties').

The high, low and close market price of Class "A" and Class "B" were P0.70 and P0.84 as of May 17, 2007, the last practicable trading date before the PSE suspended the Company's trading last 2007.

Holders

a) There are 306,122,449 shares outstanding: 183,673,470 shares are Class “A” and 122,448,979 shares are Class “B”. As of September 30, 2014, there are 632 holders of Class “A” shares and 403 holders of Class “B” shares.

Metro Alliance’s Top 20 Stockholders as of October 31, 2014 are as follows:

	Stockholder's Name	Number of Shares		Percentage to Total
		Class A	Class B	
1	Creston Global Limited		5,678,388	18.42
2	PCD Nominee Corporation (Filipino)	16,190,768	26,779,182	14.04
3	Chesa Holdings, Inc.	40,500,000		13.23
4	Pacific Wide Realty & Development Corp.	31,498,000		10.29
5	Forum Holdings Corporation	16,376,856	13,432,644	9.11
6	Misons Industrial and Development Corp.	22,000,000		7.19
7	Pacific Concorde Corporation	6,329,500	9,503,908	5.17
8	Rexlon Realty Group, Inc.	12,200,000	2,673,112	4.86
9	Chartered Commodities Corp.	11,296,000		3.69
10	Mizpah Holdings, Inc.	10,128,700		3.31
11	William T. Gatchalian	2,091,000	1,481,500	1.17
12	Pacific Rehouse Corp.	1,258,000	1,670,000	0.96
13	Kenstar Industrial Corp.	2,312,331		0.76
14	PCD Nominee Corporation (Non-Filipino)		2,030,952	0.66
15	Nancy Saw		1,846,500	0.60
16	Tin Fu Or Trajano		820,000	0.27
17	Severin Haselmann		730,000	0.24
18	CTBC TA#5-C184; Zuellig Corp.	684,829		0.22
19	UBP Capital Corporation	645,000		0.21
20	Rexlon T. Gatchalian	600,000		0.20
	Others	9,562,486	55,802,793	5.40
	Total	183,673,470	122,448,979	100.00

Dividends

No dividends were declared in the last two fiscal years and in the interim period.

Restriction that limits the payment of Dividends on Common Shares

There are no restrictions that limit the ability to pay dividends.

Sales of unregistered or exempt securities

There are no recent sales of unregistered or exempt securities.

COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

- (a) Metro Alliance's Compliance Officer is mandated to monitor the compliance of all concerned to the provisions and requirements of the Manual on Corporate Governance, and to facilitate the monitoring, the Compliance Officer has established the "Corporate Governance Monitoring and Assessment" to measure or determine the level of compliance of the Corporation with the Amended Manual on Corporate Governance (Manual).
- (b) Metro Alliance believes that its Amended Manual on Corporate Governance is in line with the leading practices and principles on good governance, and as such, is in full compliance.
- (c) There were minor deviations from the Corporation's Manual during the period January to December 2005 due mainly to recent changes and business development plans.
- (d) Metro Alliance will improve its Amended Manual on Corporate Governance when appropriate and warranted, in the Board of Directors' best judgment. In addition, it will be improved when a regulatory agency such as the SEC requires the inclusion of a specific provision.

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

AND

INDEPENDENT AUDITOR'S REPORT



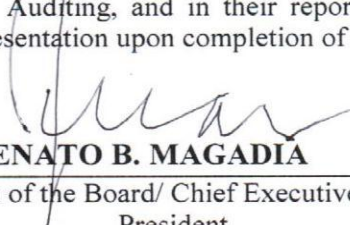
METRO ALLIANCE
HOLDINGS & EQUITIES CORP.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR
FINANCIAL STATEMENTS**

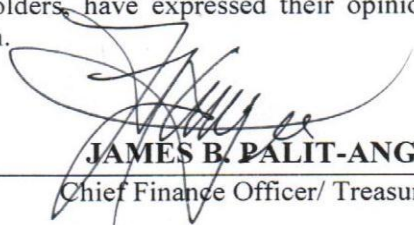
The management of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2007 and 2006, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

Uy, Singson, Abella & Co., CPAs and Sycip Gorres Velayo & Co., the independent auditors appointed by the stockholders for the years ended December 31, 2007 and 2006, respectively, have examined the consolidated financial statements of the Company and its subsidiaries in accordance with the Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinions on the fairness of presentation upon completion of such examination.


RENATO B. MAGADIA

Chairman of the Board/ Chief Executive Officer/
President


JAMES B. PALIT-ANG

Chief Finance Officer/ Treasurer

CTC No. 10843235
Issued at Makati City
On January 13, 2014

CTC No. 13783087
Issued at Quezon City
On January 04, 2014

SUBSCRIBED AND SWORN TO before me this NOV 17 2014 at the QUEZON CITY, Metro Manila, Philippines. Affiant exhibiting to me his/her Community Tax Certificate as indicated below his/her name and signature above.

Doc. No. 490 ;
Page No. 98 ;
Book No. 291 ;
Series of 2014


ATTY. TOMAS F. DULAY JR.
NOTARY PUBLIC
Until December 31, 2014
ADM. MATTER #. NP-061-2014-2015
PTR# 90423-01 02/01-07-14 Q.C.
RPR# 9154-01 02/01-07-14 Q.C.
Roll# 4100/01-01
TIN# 4100/01-01
Add. 02 General St. Proj. 4 Q.C.
MAY 11 2015 #000838

22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City, Metro Manila
Trunk Line: (632) 848-0848 • Fax: (632) 811-1998

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Metro Alliance Holdings & Equities Corp. and Subsidiaries
22nd Floor Citibank Tower
8741 Paseo de Roxas
Makati City

We have audited the accompanying consolidated financial statements of Metro Alliance Holdings & Equities Corp. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The accounts of a special purpose entity as shown in Note 11 were excluded from the 2007 consolidated financial statements because the entity is no longer operating as a going concern and is in the process of liquidation.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Metro Alliance Holdings & Equities Corp., and its subsidiaries as of December 31, 2007, and their financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

Without qualifying our opinion, we draw attention to Notes 2 and 11 to the consolidated financial statements, which indicate that the Parent Company has advances to Polymax Worldwide Limited (Polymax) of ₱902.2 million as of December 31, 2007, and on the other hand, Polymax has past due liabilities of ₱800.4 million as of December 31, 2007, for which the Parent Company is jointly and severally liable. The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPC Alliance Corporation and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company. These factors may cast significant doubt about the Parent Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern and do not include any adjustments that might result from the outcome of these uncertainties. Management's plan is to infuse additional capital to address these going concern uncertainties as explained in Note 21b to the consolidated financial statements.

Other Matter

The consolidated financial statements of Metro Alliance Holdings & Equities Corp. and its subsidiaries as of and for the years ended December 31, 2006 and 2005, were audited by other auditors whose report thereon dated December 13, 2007, expressed a disclaimer of opinion on the 2006 consolidated financial statements because of material uncertainties regarding disputed ownership interest of 60% of the assets held for sale and the Company's ability to settle past due obligations incurred in the acquisition of said assets for sale. As part of our audit of the 2007 consolidated financial statements, we also audited the adjustments described in Note 5 to the consolidated financial statements that were applied to amend the 2006 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2006 consolidated financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any form of assurance on the 2006 consolidated financial statements taken as a whole. The other auditors expressed a modified opinion on the 2005 consolidated financial statements because of a going concern uncertainty.

UY SINGSON ABELLA & CO.

Ma. Milagros F. Paderbal

MA. MILAGROS F. PADERBAL

Partner

CPA Certificate No. 28591

SEC Accreditation No. 0316-AR-2 (Group A),

June 21, 2012, valid until June 20, 2015

Tax Identification No. 119-768-075

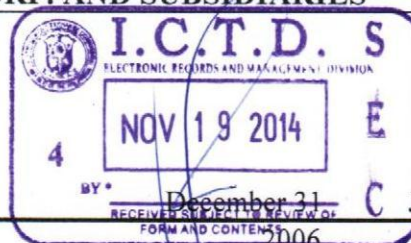
BIR Accreditation No. 07-000140-1-2013,

November 25, 2013, valid until November 24, 2016

PTR No. 9943752, February 6, 2014, Pasig City

October 10, 2014

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007
(With Figures for 2006 and 2005)



	Notes	2007	(As restated— see Note 5)	2006
ASSETS				
Current Assets				
Cash and cash equivalents	7	₱19,745,539	₱120,911,209	₱160,946,962
Receivables – net	8	63,866,681	858,900,208	523,646,462
Inventories – net	9	–	237,537,491	281,836,445
Other current assets – net	10	7,797,756	32,779,283	62,453,173
		91,409,976	1,250,128,191	1,028,883,042
Assets held for sale	5, 11	902,232,308	1,983,866,958	4,760,051,338
Total Current Assets		993,642,284	3,233,995,149	5,788,934,380
Noncurrent Assets				
Available-for-sale investments	12	61,583,713	19,221,947	12,115,128
Property, plant and equipment				
At cost – net	13	4,720,661	380,982,890	459,614,667
At revalued amounts – net	14	–	235,799,953	239,176,933
Deferred tax assets – net	24	698,422	664,557	1,282,352
Other noncurrent assets	15	2,635,639	6,624,710	6,783,695
Total Noncurrent Assets		69,638,435	643,294,057	718,972,775
TOTAL ASSETS		₱1,063,280,719	₱3,877,289,206	₱6,507,907,155
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	16	₱389,303,992	₱906,910,462	₱777,902,585
Due to related parties	20	492,427,204	494,443,670	600,808,371
Current portion of obligation under finance lease	26	2,347,694	2,684,334	3,466,643
Current portion of long-term debt	17	70,000	184,628,727	184,628,727
Loans payable	5, 18	27,000,000	431,278,949	915,000,000
Liabilities under trust receipts	9	–	124,927,143	173,277,135
Other current liabilities	5	–	–	265,450,000
Total Current Liabilities		911,148,890	2,144,873,285	2,920,533,461
Noncurrent Liabilities				
Accrued retirement benefits costs	25	799,005	3,125,957	1,383,651
Obligation under finance lease - net of current portion	26	318,834	2,666,528	5,381,387
Long-term debt - net of current portion	17	–	18,820,000	44,100,000
Deferred tax liabilities	24	–	34,065,393	44,002,059
Customer deposits		–	18,032,329	16,759,798
Asset retirement obligation	19	–	609,168	541,714
Total Noncurrent Liabilities		1,117,839	77,319,375	112,168,609
Total Liabilities		912,266,729	2,222,192,660	3,032,702,070

(Forward)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007
(With Figures for 2006 and 2005)

			December 31 2006 (As restated— see Note 5)	January 1 2006
	Notes	2007		
Equity				
Equity attributable to the equity holders of the Parent Company				
Capital stock	21	306,122,449	306,122,449	306,122,449
Additional paid-in capital		3,571,921	3,571,921	3,571,921
Excess of par value of retired treasury shares over cost	5	—	471,467,885	3,179,451,270
Retained earnings (deficit)	5	(180,756,203)	189,924,452	(680,050,645)
Asset revaluation reserve		—	30,329,391	30,298,499
Available-for-sale reserve	12	7,072,175	8,489,070	1,620,600
		136,010,342	1,009,905,168	2,841,014,094
Minority interests		15,003,648	645,191,378	634,190,991
Total Equity		151,013,990	1,655,096,546	3,475,205,085
TOTAL LIABILITIES AND EQUITY		₱1,063,280,719	₱3,877,289,206	₱6,507,907,155

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Figures for 2006 and 2005)

	Notes	2007	2006 (As restated— see Note 5)	2005
CONTINUING OPERATIONS				
NET SALES				
Services		₱119,533,229	₱140,404,610	₱132,804,129
Goods		—	1,350,027,545	1,425,482,538
		119,533,229	1,490,432,155	1,558,286,667
COST OF SALES AND SERVICES	22	98,844,205	1,136,930,520	1,161,504,945
GROSS PROFIT		20,689,024	353,501,635	396,781,722
Expenses	23	(155,070,024)	(364,484,115)	(450,560,040)
Finance costs	17, 18	(46,372,463)	(228,458,388)	(421,301,849)
Loss on sale of subsidiary	17	(139,661,586)	—	—
Interest income	8	5,703,643	13,106,019	21,660,026
Other income	20b	16,870,247	68,333,759	14,234,924
LOSS BEFORE INCOME TAX		297,841,159	158,001,090	439,185,217
PROVISION FOR INCOME TAX				
Current	24	4,205,804	25,099,500	30,333,067
Deferred		(33,865)	(2,451,128)	(8,869,270)
		4,171,939	22,648,372	21,463,797
LOSS FROM CONTINUING OPERATIONS		302,013,098	180,649,462	460,649,014
DISCONTINUED OPERATION	5, 11	—	1,647,170,950	13,357,753
NET LOSS		₱302,013,098	₱1,827,820,412	₱474,006,767
Net Loss Attributable to:				
Equity holders of the Parent Company		₱305,621,045	₱1,854,266,988	₱519,388,361
Minority interests		(3,607,947)	(26,446,576)	(45,381,594)
		₱302,013,098	₱1,827,820,412	₱474,006,767
Basic Loss Per Share				
Loss for the year attributable to equity holders of Parent Company	28	₱1.00	₱6.06	₱1.70
Loss from continuing operations attributable to equity holders of the Parent Company		₱1.00	₱0.68	₱1.65

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Figures for 2006 and 2005)

			2006 (As restated - see Note 5)	2005
	Notes	2007		
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax and after discontinued operation		(P297,841,159)	(P1,805,172,040)	(P452,542,970)
Adjustments for:				
Interest expense	17, 18	46,372,463	205,208,514	191,164,014
Depreciation	22, 23	5,130,728	101,256,555	99,134,285
Interest income	8	(5,703,643)	(13,106,018)	(21,660,026)
Dividends		(431,384)	(471,503)	—
Unrealized foreign exchange gain		(92,823)	(57,538,060)	(14,393,193)
Loss on discontinued operation	11	—	1,647,170,950	13,357,753
Amortization of deferred lease payment	26	154,411	136,332	128,712
Gain on sale of available-for-sale investments		—	(3,538,420)	—
Decrease (increase) in:				
Receivables		(24,093,669)	(287,723,811)	(64,071,257)
Other current assets		4,252,850	(518,147,216)	(4,166,561)
Inventories		—	44,298,954	(89,146,117)
Pension assets		—	(528,737)	—
Restricted cash		—	700	(27,572,280)
Increase (decrease) in:				
Accounts payable and accrued expenses		9,865,132	988,150,528	291,487,224
Liabilities under trust receipts		—	(80,349,992)	17,059,640
Accrued retirement benefits costs		382,475	1,326,046	(4,005,938)
Income taxes paid		(7,869,419)	(17,296,140)	(42,184,989)
Dividends received		9,246,184	15,141,333	—
Net cash flows provided by (used in) operating activities		(260,627,854)	218,817,975	(107,411,703)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net asset of special purpose entity no longer included in consolidation	11	471,467,885	—	—
Interest received		5,685,970	3,963,958	4,824,573
Decrease (increase) in other noncurrent assets	15	1,137,578	526,848	(188,995)
Dividends		431,384	471,503	—
Acquisitions of:				
Available-for-sale investments	12	(50,328,266)	—	—
Asset held for sale	11	(23,439,201)	—	—
Property and equipment	13	(315,471)	(19,292,574)	(74,052,157)
Proceeds from sale of available-for-sale investments		—	3,676,042	—
Disposal of property and equipment		—	1,000	733,521
Net cash flows provided by (used in) investing activities		404,639,879	(10,653,223)	(68,683,058)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Figures for 2006 and 2005)

			2006	
	Notes	2007	(As restated - see Note 5)	2005
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(96,013,686)	(88,132,040)	(122,790,652)
Proceeds from (payment of):				
Long-term debt	17	(159,628,727)	(25,280,000)	(25,280,000)
Obligation under finance lease	26	(2,684,334)	(3,497,168)	(2,819,740)
Amounts due to related parties	20	(2,016,466)	648,384,042	(8,746,940)
Other current liabilities	16, 20	—	(264,450,000)	279,271,449
Loans payable	18	27,000,000	(483,721,051)	—
Dividends paid		(11,834,482)	(31,504,288)	—
Net cash flows provided by (used in) financing activities		(245,177,695)	(248,200,505)	119,634,117
NET DECREASE IN CASH AND CASH EQUIVALENTS		(101,165,670)	(40,035,753)	(56,460,644)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		120,911,209	160,946,962	217,407,606
CASH AND CASH EQUIVALENTS AT END OF YEAR		₱19,745,539	₱120,911,209	₱160,946,962

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Figures for 2006 and 2005)

	Attributable to Equity Holders of the Parent Company								
	Capital Stock	Additional Paid in Capital	Excess of Par Value of Retired Treasury Shares Over Cost	Retained Earnings (Deficit)	Asset Revaluation Reserve	Available-for- sale Reserve	Subtotal	Minority Interests	Total Equity
As at December 31, 2006 - As previously reported	₱306,122,449	₱3,571,921	₱3,179,451,270	(₱965,505,682)	₱30,329,391	₱8,489,070	₱2,562,458,419	₱645,191,378	₱3,207,649,797
Additional loss from discontinued operations	—	—	—	(1,565,911,004)	—	—	(1,565,911,004)	—	(1,565,911,004)
Elimination of deficit of special purpose entity against its capital reserve (Note 11)	—	—	(2,707,983,385)	2,707,983,385	—	—	—	—	—
Reduction of interest in subsidiary of special purpose entity due to sale	—	—	—	13,357,753	—	—	13,357,753	—	13,357,753
As at January 1, 2007 - As restated	306,122,449	3,571,921	471,467,885	189,924,452	30,329,391	8,489,070	1,009,905,168	645,191,378	1,655,096,546
Net income (loss)	—	—	—	(302,013,098)	—	—	(302,013,098)	3,607,947	(298,405,151)
Net loss of subsidiary prior to sale	—	—	—	(50,662,877)	—	—	(50,662,877)	(40,265,696)	(90,928,573)
Dividends declared by subsidiary prior to sale	—	—	—	(8,814,800)	—	—	(8,814,800)	(11,834,482)	(20,649,282)
Remaining net assets of subsidiary after sale	—	—	—	(9,189,880)	(30,329,391)	(254,789)	(39,774,060)	(581,695,499)	(621,469,559)
Remaining net assets of special purpose entity no longer included in consolidation (Note 11)	—	—	(471,467,885)	—	—	—	(471,467,885)	—	(471,467,885)
Fair value adjustments (Note 12)	—	—	—	—	—	(1,162,106)	(1,162,106)	—	(1,162,106)
As at December 31, 2007	₱306,122,449	₱3,571,921	₱ —	(₱180,756,203)	₱ —	₱7,072,175	₱136,010,342	₱15,003,648	₱151,013,990
As at January 1, 2006	₱306,122,449	₱3,571,921	₱3,179,451,270	(₱680,050,645)	₱30,298,499	₱1,620,600	₱2,841,014,094	₱634,190,991	3,475,205,085
Net loss (restated from ₱261,909,408)	—	—	—	(1,854,266,988)	—	—	(1,854,266,988)	26,446,576	(1,827,820,412)
Elimination of deficit of special purpose entity against its capital reserve (restated from nil) (Note 11)	—	—	(2,707,983,385)	2,707,983,385	—	—	—	—	—
Reduction of interest in subsidiary of special purpose entity due to sale (restated from nil) (Note 11)	—	—	—	13,357,753	—	—	13,357,753	—	13,357,753
Transfer of realized asset revaluation reserve to retained earnings	—	—	—	2,060,163	(2,060,163)	—	—	—	—
Effect of change in tax rates on asset revaluation reserve	—	—	—	—	2,931,839	—	2,931,839	3,935,902	6,867,741
Reduction of interest in a subsidiary due to reacquisition of its own shares	—	—	—	840,784	(840,784)	—	—	—	—
Dividends of subsidiary	—	—	—	—	—	—	—	(19,724,137)	(19,724,137)
Fair value adjustments (Note 12)	—	—	—	—	—	6,868,470	6,868,470	342,046	7,210,516
As at December 31, 2006 - As restated	₱306,122,449	₱3,571,921	₱471,467,885	₱189,924,452	₱30,329,391	₱8,489,070	₱1,009,905,168	₱645,191,378	₱1,655,096,546

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Figures for 2006 and 2005)

	Attributable to Equity Holders of the Parent							Minority Interests	Total Equity
	Capital Stock	Additional Paid in Capital	Excess of Par Value of Retired Treasury Shares Over Cost	Retained Earnings (Deficit)	Asset Revaluation Reserve	AFS Reserve	Subtotal		
As at January 1, 2005	₱306,122,449	₱3,571,921	₱ —	(₱170,047,019)	₱41,678,992	₱ —	₱181,326,343	₱591,408,984	₱772,735,327
Net loss	—	—	—	(519,388,361)	—	—	(519,388,361)	45,381,594	(474,006,767)
Retirement of treasury shares of special purpose entity in exchange for property and equipment	—	—	3,179,451,270	—	—	—	3,179,451,270	—	3,179,451,270
Transfer of realized asset revaluation reserve to retained earnings	—	—	—	2,160,578	(2,160,578)	—	—	—	—
Effect of change in tax rates on asset revaluation reserve	—	—	—	—	(1,995,758)	—	(1,995,758)	(2,599,587)	(4,595,345)
Reduction of interest in subsidiary due to reacquisition of its own shares	—	—	—	7,224,157	(7,224,157)	—	—	—	—
Fair value adjustments (Note 12)	—	—	—	—	—	1,620,600	1,620,600	—	1,620,600
As at December 31, 2005	₱306,122,449	₱3,571,921	₱3,179,451,270	(₱680,050,645)	₱30,298,499	₱1,620,600	₱2,841,014,094	₱634,190,991	₱3,475,205,085

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Corporate Information

Metro Alliance Holdings & Equities Corp. (MAHEC or the Parent Company) is incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Group”) are involved in the manufacture of chemicals and contract logistics. Certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management had ceased operations. In 2007, the Parent Company’s interest in the subsidiary engaged in the manufacture of chemicals was sold.

The registered office address of the Parent Company is 22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City.

Approval of Financial Statements

The accompanying consolidated financial statements as of December 31, 2007 were approved and authorized for issue by the Board of Directors (BOD) on October 10, 2014.

2. Status of Operations

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern. As of December 31, 2007, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, amounting to ₱902.2 million, relating to the acquisition of the petrochemical plant of Bataan Polyethylene Corporation (BPC) involving a series of acquisition transactions described in the next section below. On the other hand, Polymax (jointly and severally with the Parent Company) has past due liabilities, including interest and penalties amounting to ₱800.4 million as of December 31, 2007, which were obtained to partially finance the acquisition of petrochemical plant, resulting from the transfer of past due bank loans as discussed in the next paragraph.

The Parent Company has also two significant past due bank loans, including accrued interest and penalties, which were obtained, jointly and severally with Polymax, to partially finance the acquisition of the petrochemical plant. In 2007, in order to reflect the economic substance of the acquisition and related loan transactions, the outstanding balances of the past due liabilities totaling ₱866.7 million as of December 31, 2006 were unilaterally transferred to Polymax and applied against the Parent Company’s advances to Polymax (see Note 11).

As explained in Note 11, the remaining 40% of Polymax’s interest in the petrochemical plant is for sale. The realization of the Parent Company’s advances to Polymax (an unconsolidated special purpose entity in 2007) and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, depend on whether sufficient cash flows can be generated from the sale of Polymax’s remaining 40% interest in NPC Alliance (NPCA) and from the letter of comfort issued by the Parent Company’s major stockholders in favor of the Parent Company. The consolidated financial statements do not include any adjustments that might

result from the outcome of these uncertainties. As explained in Note 21b, management's plan is to infuse additional capital to address this going concern uncertainty.

Acquisition Transactions

On December 4, 2003, the Parent Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Parent Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Parent Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Parent Company; (b) the funding for the acquisition would be provided and arranged by the Parent Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Parent Company. In addition, the Parent Company would make certain advances to Polymax.

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Parent Company advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

To partially finance the Parent Company's advances relating to the Petrochemical Project, the Parent Company obtained short-term loans from local banks (see Note 18). With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Parent Company was unable to pay the bank loans on maturity dates. As of December 31, 2006, the amounts payable to the banks totaled ₱866.7 million, consisting of the outstanding principal balance of ₱378.3 million and finance charges of ₱488.4 million. In 2007, these past due liabilities were transferred to and applied against the advances made to Polymax as discussed in Note 11.

Pursuant to the Parent Company's plan of acquiring full control of BPC, instead of exercising creditor rights, the Parent Company, on April 16, 2004, entered into a Share Purchase Agreement (SPA) with BPC, Tybalt Investment Limited (TIL), BP Holdings International B.V. (BPHI) and Petronas Philippines, Inc. (PPI), with TIL as the purchaser of the 83% interest of the foreign shareholders of BPC. As agreed by the parties, the SPA is to take effect as of March 31, 2004, subject to closing conditions, as defined in the SPA, which the parties have to comply with within a period of 60 days or later if the conditions are not met.

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 85 million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85 million.

On July 20, 2005, the Parent Company, Polymax and NPC International Limited (NPCI) entered into an SPA which provided that, subject to certain conditions, including the transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPCA from Polymax.

On August 9, 2005, Polymax and NPCA executed a Deed of Conveyance, transferring to NPCA, under an asset for share swap, the same petrochemical plant in exchange for 4.8

million shares of common stock of NPCA with a total par value of ₱4.8 billion, resulting in 100% ownership interest of Polymax in NPCA.

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85 million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

On December 16, 2005, Polymax, NPCI, Petrochemical Industries Investment Company (PIIC) and the Parent Company entered into an amended SPA whereby NPCI and PIIC will purchase 40% and 20% of NPCA's shares of common stock, respectively, from Polymax. In addition to the conditions set forth in the original SPA, the amended SPA also involves advances to be provided by NPCI amounting to US\$15 million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Parent Company, NPCI and PIIC entered into a Guarantee and Indemnity Agreement whereby the Parent Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Parent Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

On March 18, 2006, Polymax, NPCI, PIIC and the Parent Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement entered on December 16, 2005. Under the March 2006 Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

On the same date, Polymax and NPCI executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to NPCI all the rights, title and interest in 19,090,000 NPCA shares of common stock, equivalent to 40% ownership interest, for a consideration of ₱1.91 billion.

On September 11, 2006, Polymax, NPCI, PIIC, the Parent Company and NPCA entered into another Agreement of Variation (September 2006 Variation Agreement) to further vary and amend the terms of the ARSPA and the Shareholders' Agreement (both initially amended and varied by the March 2006 Variation Agreement). Polymax, in accordance with its obligations under the ARSPA, had notified NPCI and PIIC that it is aware that certain conditions will not be fulfilled by April 30, 2006. As a result, the parties agreed to transfer to PIIC the 9,545,000 NPCA shares of common stock prior to completion, while certain conditions will become conditions subsequent to be completed on December 31, 2006.

On September 20, 2006, Polymax and PIIC executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to PIIC all the rights, title and interest in 9,545,000 NPCA shares of common stock, equivalent to 20% ownership interest, for a consideration of ₱954.5 million.

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the petrochemical plant resulting in a dispute with the Parent Company and Polymax who considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII, respectively, as null and void.

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC.

Subsequently on August 27, 2013, the Parent Company and Polymax entered into a Settlement Agreement with NPCI, PIIC and NAC to resolve fully and finally the dispute arising from the uncompleted acquisition transactions described above. Under the agreement, NPCI shall, among others, pay Polymax the remaining balance of the purchase price of the 60% NPCA shares, net of deductions agreed by the parties. Simultaneous with the execution of the agreement, Polymax shall also sell to NPCI an additional 20% of Polymax's interest in NPCA from the remaining 40% equity holding in NPCA for US\$8 million or its equivalent in Philippine peso. In September 2013 and August 2014, the remaining balance due to Polymax was paid by NPCI and the 20% interest of Polymax in NPCA was sold to NPCI, respectively, in accordance with the agreement.

As a result of the foregoing settlement, the arbitration tribunal issued on October 2, 2014 an order for withdrawal of the arbitration cases (under the United Nations Commission on International Trade Law Rules of Arbitration), which were earlier filed by the parties due to the dispute arising from their various agreements.

3. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) approved by the Philippine Financial Reporting Standards Council (PFRSC) and the SEC.

The consolidated financial statements have been prepared on accrual basis using historical cost basis, except for available-for-sale (AFS) financial assets that are measured at fair value and land and land improvements and buildings and improvements, which are stated at appraised value in 2006. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. All values are rounded to the nearest million, except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company, Metro Alliance Holdings and Equities Corp., and the following subsidiaries and a special purpose entity:

	Percentage of Ownership	
	2007	2006
Operating subsidiaries:		
GAC Logistics, Inc. (GAC)	51.00	51.00
Mabuhay Vinyl Corporation (MVC)	-	42.69
Non-operating subsidiaries:		
Consumer Products Distribution Services, Inc. (CPDSI)	100.00	100.00
FEZ-EAC Holdings, Inc. (FEZ-EAC)	100.00	100.00
Zuellig Distributors, Inc. (ZDI)	100.00	100.00
Asia Healthcare, Inc. (AHI)	60.00	60.00
Special purpose entity:		
Polymax	-	100.00

A subsidiary is an entity in which the Parent Company has control. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company. An SPE is consolidated from the date on which the substance of the relationship between the Parent Company and the SPE indicates that the SPE is controlled by the Parent Company.

In 2007, the Parent Company sold its 34.08% interest in MVC, retaining 8.61% which was reclassified to AFS investments. In 2006 and 2005, the Parent Company was the single biggest stockholder in MVC and holds the chairmanship of MVC's BOD. Also in 2007, management decided to exclude Polymax from the 2007 consolidated financial statements because it has ceased operating as a going concern.

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

Minority Interests

Minority interest represents the interest in subsidiaries which are not owned, directly or indirectly through subsidiaries, by the Parent Company. If losses applicable to the minority interest in a consolidated subsidiary exceed the minority interest's equity in the subsidiary, the excess and any further losses applicable to minority interest, are charged against the majority interest, except to the extent that the minority has a binding obligation to, and is able to, make good of the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the interest's share of losses previously absorbed by the majority interest has been recovered.

Adoption of New Standards, Amendments to Standards and Interpretations

The PFRSC approved the adoption of new standards, amendments to standards, and interpretations.

Amendments to Standards and Interpretations Adopted in 2007

Starting January 1, 2007, the Group adopted the following new and amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures about the significance of financial instruments relative to an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks. Adoption of this standard resulted in the inclusion of additional disclosures such as credit risk concentrations, contractual maturity analysis of financial liabilities and market sensitivity analysis (Notes 29 and 30).
- Amendment to PAS 1, *Presentation of Financial Statements - Capital Disclosures*, requires additional disclosures regarding the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. Adoption of this standard resulted in the inclusion of additional disclosures in the consolidated financial statements (Note 30).
 - Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, prohibits the reversal of impairment losses on goodwill and available-for-sale investments recognized in interim financial reports even if the impairment is no longer present at the balance sheet date. This interpretation has no impact on the consolidated financial statements.

Future Changes in Accounting Policies

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2008, and have not been early adopted. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below.

Effective 2009

- PFRS 8, *Operating Segments*. It will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Group will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its consolidated financial statements with a securities commission or similar party.
- Amendment to PAS 1, *Presentation of Financial Statements*. It introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income' (OCI). Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the consolidated balance sheet and equity as well as additional disclosures to be included in the consolidated financial statements.
- Amendment to PAS 23, *Borrowing Costs*. The Standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying

asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Effective 2011

PAS 24 (Amended), *Related Party Disclosures*. The amendment clarified the definition of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

Effective 2013

- PFRS 10 *Consolidated Financial Statements*. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.
- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*. The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled.
- PAS 19, *Employee Benefits (Revised)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period. The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements

for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

- PFRS 13, *Fair Value Measurement*. PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

Annual Improvements to PFRSs (2009 - 2011 Cycle)

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The Group has included comparative information in respect of the opening statement of financial position as at January 1, 2006, due to a retrospective restatement of the 2006 financial statements.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*. The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

Effective 2014

PAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*. These Amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these Amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

Effective in 2015

PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*. The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual Improvements to PFRSs (2010 - 2012 Cycle)

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*. The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure

should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*. The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- PAS 24, *Related Party Disclosures – Key Management Personnel*. The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, AFS investments, FVPL financial assets and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market.

Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options, pricing models and other relevant valuation models.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 Profit) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' profit amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of income.

Financial assets may be designated by management at initial recognition at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group has no financial assets at FVPL as of December 31, 2007 and 2006.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

The Group's cash and cash equivalents, receivables and refundable deposits (included in other current assets and other noncurrent assets) are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that is an integral part of the effective interest rate.

Gains and losses are recognized in the consolidated statements of operations when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no HTM investments as of December 31, 2007 and 2006.

AFS Investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheet. Changes in the fair value of such assets are reported in the equity section of the consolidated balance sheet until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statement of income. Interest earned on holding AFS investments are recognized in the consolidated statement of income using effective interest rate.

The Group's investments in equity securities recognized under the available-for-sale investments account are classified under this category.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group has no derivative assets as of December 31, 2007 and 2006.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of

amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Included in this category are the Group's accounts payable and accrued expenses (excluding government payables and reserves for contingencies), due to affiliates, obligation under finance lease, long-term debt, loans payable, liabilities under trust receipts and customer deposits.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statements of income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective

evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income, is transferred from equity to the consolidated statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Asset Held for Sale

An asset is classified as asset held for sale when its carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is highly probable. Asset held for sale is stated at the lower of its carrying amount and fair value less costs to sell.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Net realizable value for finished goods, work-in-process and raw materials is the estimated costs necessary to make the sale, while net realizable value for other materials and supplies is the replacement cost. In determining the net realizable value, the Group considers any adjustment necessary for obsolescence.

Property, Plant and Equipment

Property, plant and equipment (except for land and improvements and buildings and improvements) are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation specifically for property and equipment installed/constructed on the leased properties. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period such 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.

Land and buildings and improvements are stated at revalued amounts based on the fair market value of the property, as determined by an independent firm of appraisers as of December 16, 2006. The increase in the valuation of land, net of deferred income tax liability, is credited to the "Asset Revaluation Reserve" account in the consolidated statement of changes in stockholder's equity. Upon disposal, the relevant portion of the revaluation increment realized in respect of the previous valuation will be released from the revaluation increment directly to retained earnings. Decreases that offset previous increases in respect of the same property are charged against the revaluation increment; all other decreases are charged against current operations.

As the revalued asset is realized through depreciation, the revaluation increment, net of the related deferred income tax liability, is transferred to retained earnings at an amount equal to the difference between the depreciation on the revalued asset and the depreciation based on the cost of the same asset.

Depreciation of property, plant and equipment commences once the fixed assets are available for use and is calculated on a straight-line basis over the following estimated useful lives:

	Number of Years
Land and improvements	5-10
Buildings and improvements	5-20
Machinery and equipment	3-10
Office furniture, fixtures and equipment	2-5

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

When an asset is sold or retired, its cost and related accumulated depreciation and any impairment in value are eliminated from the accounts. Any gain or loss resulting from its disposal is credited to or charged against current operations.

Construction in Progress

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. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use. Interest costs on borrowings used to finance the construction of the project are accumulated under this account. Interest costs are capitalized until the project is completed and becomes operational. The capitalized interest is amortized over the estimated useful life of the related assets.

Asset Retirement Obligation

MVC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease contract term. MVC recognizes the fair value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment accounts, which are being depreciated on a straight-line basis over the lower of the useful life of the related asset or the lease term.

Impairment of Non-financial Asset with Definite Useful Life

The carrying value of equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. 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 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 of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital stock is measured at par value for all shares issued. Proceeds of consideration received in excess of par value are recognized as additional paid-in capital.

Revenue

Revenue is recognized to the extent that is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Revenue is recognized as follows:

Sale of Goods

Revenue from sale of goods is recognized when the goods are delivered to and accepted by customers.

Logistics and Other Services

Revenue is recognized when the related services are rendered.

Interest

Interest income is recognized as it accrues. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Rental Income

Rental income is recognized on a straight-line basis over the lease term.

Dividend Income

Dividend income is recognized when the right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Retirement Benefits Costs

The Parent Company, MVC and GAC provide for estimated retirement benefits to be paid under Republic Act (RA) No. 7641 to their permanent employees. MVC and GAC have funded, non-contributory defined benefit retirement plans, administered by trustees, covering their permanent employees. The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit actuarial valuation method.

This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Retirement benefit costs include current service cost, interest cost, expected return on any plan assets, amortization of actuarial gains and losses, past services cost and the effect of any curtailment or settlement.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

The net retirement benefits liability recognized by the Group is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

The net retirement benefits assets recognized by GAC in respect of defined pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service cost that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Actuarial gains and losses from retirement benefit costs are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are

recognized over the expected average remaining working life of the employees participating in the plan.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine peso using the prevailing exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated to Philippine peso using the prevailing exchange rate at balance sheet date. Foreign exchange gains or losses arising from the translation at balance sheet date or settlement of monetary items at rates different from those at which they were initially recorded are credited to or charged against current operations.

Income Tax

Income tax for the year comprises current and deferred income tax. Income tax is recognized in the consolidated statement of income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authority. The tax rates and tax laws used to compute the current tax are those that are enacted and substantively enacted as of balance sheet date.

Deferred Tax

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO and MCIT can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of outstanding shares. The Parent Company has no dilutive potential common shares that would require disclosure of diluted earnings per share in the consolidated statement of income.

Segments

The Group's operating businesses are recognized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serve different markets. Financial information on business segments are presented in Note 6.

Provisions

Provisions are recognized only when the Group has (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

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 are disclosed when an inflow of economic benefits is probable.

Events After the End of Reporting Period

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

4. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Consolidation of SPE

An entity is considered a SPE and included in consolidation even in cases when the Parent Company owns less than one-half or none of the SPE's equity, when the substance of the relationship between the Parent Company and the SPE indicates that the SPE is controlled by the Parent Company. While the Parent Company has no ownership interest in Polymax, this SPE was included in the 2006 and 2005 consolidated financial statements. Starting in 2007, the SPE was no longer consolidated because it has ceased operating as a going concern (see Note 11).

Operating Lease Commitments – Group as Lessee

The Group has various operating lease agreements for their respective offices and warehouses. The Group has determined that the risks and rewards of ownership of the underlying properties have been retained by their respective lessors. Accordingly, these leases are accounted for as operating leases (see Note 26).

Finance Lease Commitments – GAC as Lessee

GAC has lease agreements for certain warehouse equipment. GAC has determined that the risks and rewards of ownership of the underlying properties have been transferred to GAC. Accordingly, these leases are accounted for as finance leases (see Notes 13 and 26).

Contingencies

The Group is currently involved in various legal proceedings, which are normal to its business, as discussed in Note 33. The Group's estimate of the probable costs for these proceedings and resolution of these claims have been developed in consultation with outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group does not believe that these legal proceedings will have a material adverse effect on its consolidated financial statements. It is possible however, that changes in estimates relating to these proceedings may materially affect results of operations.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, which have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimating Allowance for Probable Losses

The Group reviews the carrying amounts of receivables, creditable withholding and input taxes (under other current assets) and advances to Polymax (under asset held for sale in 2007) at each balance sheet date and reduces the balance of these assets to their estimated recoverable amounts.

Provisions for probable losses amounted to ₱138.3 million in 2007, ₱49.8 million in 2006 and ₱4.6 million in 2005 (see Note 23).

Receivables (net of allowance for doubtful accounts of ₱140.2 million and ₱10.4 million as of December 31, 2007 and 2006, respectively) amounted to ₱63.9 million and ₱858.9 million as of December 31, 2007 and 2006, respectively (see Note 8).

The carrying amount of other current assets amounted to ₱7.8 million and ₱32.8 million as of December 31, 2007 and 2006, respectively, as discussed in Note 10. Allowance on

probable losses, mainly pertaining to creditable withholding and input taxes, amounted to ₱16.2 million and ₱7.7 million as of December 31, 2007 and 2006, respectively, as shown also in Note 10.

Advances to Polymax (under asset held for sale) amounting to ₱902.2 million as of December 31, 2007 constitute 85% of the Group's total assets at the end of 2007. The realization of the Parent Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company, as discussed in Note 11.

Estimating Allowance for Inventory Obsolescence

Adequate provision for inventory obsolescence is made by management. The amount of estimate made by management is based on a number of factors such as age and status of inventories and the Group's past experience (see Note 9).

Estimating Useful Lives and Residual Values of Property, Plant and Equipment

The Group estimated the useful lives and residual values of its property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives and residual values of equipment based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of equipment would increase depreciation expense, while an increase in the estimated useful lives would decrease depreciation expense. As of December 31, 2007 and 2006, property, plant and equipment, net of accumulated depreciation, amounted to ₱4.7 million and ₱616.8 million, respectively, and total depreciation expense charged to operations amounted to ₱5.1 million in 2007, ₱101.3 million in 2006 and ₱99.1 million in 2005 (see Notes 13 and 14).

Evaluation of Impairment of Noncurrent Nonfinancial Assets

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash generating unit to which the asset belongs. Management believes that there was no indication of impairment on property, plant and equipment as of December 31, 2007 and 2006.

Asset Retirement Obligation

Property, plant and equipment in 2006 include the estimated cost of dismantlement and restoration of depot facilities, for which MVC is liable. The estimated dismantling cost was based on a recent cost to dismantle facilities in North Harbor and estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an

instrument with a term similar to the term of the lease. Asset retirement obligation amounted to ₱0.609 million as of December 31, 2006 (see Note 19).

Fair Value of Financial Assets and Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted market prices and interest rates). In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity. The fair value of financial assets and liabilities are enumerated in Note 29.

Impairment of AFS Investments

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as a decline of 20% or more below the original cost of the investment, and “prolonged” as period longer than 12 months. In addition, the Group evaluates other factors for AFS investments with no quoted bid prices such as changes in the issuer’s industry and sector performances, legal and regulatory framework, technology, and other factors that affect the recoverability of the investments.

Deferred Tax Assets

The Group reviews the carrying amounts of deferred taxes at each balance sheet date and reduces deferred income tax assets 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.

The recognized net deferred tax assets amounted to ₱0.7 million as of December 31, 2007 and 2006, respectively (see Note 24).

The Group did not recognize deferred income tax assets of the Parent Company and its non-operating subsidiaries amounting to ₱93.2 million and ₱77.5 million as of December 31, 2007 and 2006, respectively, as management believes that the Parent Company and its non-operating subsidiaries may not have sufficient future taxable profits available to allow utilization of these deferred income tax assets as discussed in Note 24.

Retirement Benefits

The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 25 and include, among others, discount rates, salary increase rates and expected rates of return on plan assets. Actual results that differ from the Group’s assumptions are accumulated and amortized over future periods and therefore, will generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Group’s unrecognized net actuarial losses amounted to ₱0.9 million and ₱20.1 million as of December 31, 2007 and 2006, respectively. The accrued retirement benefits costs amounted to

₱0.8 million and ₱3.1 million as of December 31, 2007 and 2006, respectively (see Note 25).

5. Restatement of the 2006 Consolidated Financial Statements

As stated in Note 2 on Status of Operations, the previously issued 2006 consolidated financial statements of the Parent Company and its subsidiaries were restated to reflect the following adjustments:

- a. Recognition of loss from a previously disputed 2006 sale of a special purpose entity's 60% (out of 100%) interest in a petrochemical plant, which was ultimately resolved in 2013, and recognition of impairment loss on the remaining 40% interest;
- b. Reduction of the special purpose entity's interest in the petrochemical plant from 100% to 40% interest due to the sale as mentioned above; and
- c. Elimination of the deficit of a special purpose entity against its other capital reserve.

The 2006 accounts affected by the restatement are as follows:

Account	As Previously Reported	Adjustments Add (Deduct)	As Restated
Consolidated Balance Sheet			
Assets held for sale	₱5,250,819,964	(a) (₱2,791,386,972) (b) (475,566,034)	₱1,983,866,958
Loans payable	725,458,949	(a) (294,180,000)	431,278,949
Other current liabilities	1,420,219,755	(a) (882,540,000) (b) (537,679,755)	—
Equity attributable to equity holders of the Parent Company	2,562,458,419	(a) (1,614,666,972) (b) 62,113,721	1,009,905,168
Consolidated Statement of Income			
Loss from discontinued operation	81,259,946	(a) 1,614,666,972 (b) (48,755,968)	1,647,170,950
Consolidated Statement of Changes in Equity			
Excess of par value of treasury shares over costs	3,179,451,270	(c) (2,707,983,385)	471,467,885
Retained earnings (deficit)	(965,505,682)	(a) (1,614,666,972) (b) 62,113,721 (c) 2,707,983,385	189,924,452

The foregoing restatements have no effect on the assets, liabilities and equity as of January 1, 2006.

6. Segment Information

The Group's business activities are conducted in the Philippines and it is primarily in the contract logistics and supply chain management segment in 2007. The Group has

previously divested majority of its interest in chemical manufacturing and in the petrochemical industry.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, receivables, inventories, other current assets, asset held for sale, available-for-sale investments and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities, as well as loan and advances payable to related and other parties.

The financial information with regard to the Group's significant business segments as of December 31, 2007 and 2006 and for the years then ended is presented below.

2007	Distribution and Contract Logistics	Others	Eliminations	Total
Sales				
External sales	₱119,533,229	₱ –	₱ –	₱119,533,229
Results				
Segment result	₱11,219,514	(₱145,600,514)	₱ –	(₱134,381,000)
Other income (expense)	208,062	(196,531,907)	32,863,686	(163,460,159)
Provision for income tax	(4,064,419)	(107,520)	–	(4,171,939)
Net income (loss)	₱7,363,157	(₱342,239,941)	₱32,863,686	(₱302,013,098)
Other Information				
Segment assets	₱54,367,200	₱1,008,913,519	₱ –	₱1,063,280,719
Segment liabilities	17,343,142	894,923,587	–	912,266,729
Capital expenditures	254,171	61,300	–	315,471
Depreciation	4,836,413	294,315	–	5,130,728
Noncash items other than depreciation	61,588	(129,376,097)	–	(129,314,509)

	Continuing Operations							
2006	Chemical Manufacturing	Distribution and Contract Logistics	Special Purpose Entity	Others	Eliminations	Subtotal	Discontinued Operation	Total
Sales								
External sales	₱1,350,027,545	₱140,404,610	₱ –	₱ –	₱ –	₱1,490,432,155	₱ –	₱1,490,432,155
Results								
Segment result	₱67,430,256	₱10,939,663	(₱62,224,924)	(₱19,843,305)	(₱7,284,170)	(₱10,982,480)	(₱1,647,170,950)	(₱1,658,153,430)
Other expense	(490,540)	(593,462)	(92,195,121)	(53,178,543)	(560,944)	(147,018,610)	–	(147,018,610)
Provision for income tax	(20,781,819)	(4,255,177)	–	(167,459)	2,556,083	(22,648,372)	–	(22,648,372)
Net income (loss)	₱46,157,897	₱6,091,024	(₱154,420,045)	(₱73,189,307)	(₱5,289,031)	(₱180,649,462)	(₱1,647,170,950)	(₱1,827,820,412)
Other Information								
Segment assets	₱1,375,385,908	₱48,648,667	₱2,265,975,412	₱187,279,219	–	₱3,877,289,206	₱ –	₱3,877,289,206
Segment liabilities	244,244,081	18,987,764	1,794,507,527	164,453,288	–	2,222,192,660	–	2,222,192,660
Capital expenditures	17,801,086	1,491,488	–	–	–	19,292,574	–	19,292,574
Depreciation	88,100,462	5,385,031	–	467,969	7,303,093	101,256,555	–	101,256,555
Noncash items other than depreciation	–	(563,537)	(49,030,000)	(15,061,709)	15,715,401	(48,939,845)	–	(48,939,845)
2005								
Sales								
External sales	₱1,425,482,538	₱132,804,129	₱ –	₱ –	₱ –	₱1,558,286,667	₱ –	₱1,558,286,667
Results								
Segment result	₱106,770,278	₱10,210,323	(₱141,506,875)	(₱79,473,871)	₱50,221,827	(₱53,778,318)	(₱13,357,753)	(₱67,136,071)
Other income (expense)	1,434,915	(2,675,181)	(340,585,562)	(43,785,940)	204,869	(385,406,899)	–	(385,406,899)
Benefit from (provision for) income tax	(26,901,022)	(2,351,716)	–	5,415,436	2,373,505	(21,463,797)	–	(21,463,797)
Net income (loss)	₱81,304,171	₱5,183,426	(₱482,092,437)	(₱117,844,375)	₱52,800,201	(₱460,649,014)	(₱13,357,753)	(₱474,006,767)
Other Information								
Segment assets	₱1,492,188,640	₱43,996,154	₱26,566,454	₱3,243,407,201	(₱3,058,302,632)	₱1,747,855,817	₱4,760,051,338	₱6,507,907,155
Segment liabilities	370,366,233	20,426,277	2,526,916,665	2,620,650,842	(2,505,657,947)	3,032,702,070	–	3,032,702,070
Capital expenditures	69,502,137	8,708,102	–	–	–	78,210,239	4,760,000,000	4,838,210,239
Depreciation	89,247,918	9,280,635	–	605,732	–	99,134,285	–	99,134,285
Noncash items other than depreciation	–	(128,712)	–	(62,316,271)	57,729,790	(4,715,193)	–	(4,715,193)

7. Cash and Cash Equivalents

Details of this account are as follows:

	2007	2006
Cash on hand and in banks	₱7,662,329	₱57,116,310
Short-term investments	12,083,210	63,794,899
	₱19,745,539	₱120,911,209

Cash in banks earn interest at the respective bank deposit rates. Short-term placements are made for varying periods of up to three months. These placements earn interest at the respective short-term placement rates.

The Group has no foreign currency denominated accounts as of December 31, 2007. The following are the details of US dollar (US\$) savings deposits and short-term placements as of December 31, 2006.

Cash on hand and in banks	US\$20,025
Short-term placements	296,529
Total	316,554
Exchange rate	49.03
Amount in Peso	₱15,520,643

8. Receivables

The details of receivables are as follows:

	2007	2006
Notes	₱138,282,345	₱149,316,480
Trade	24,983,083	395,288,995
Interest	3,576,429	3,588,756
Due from related party (Note 20)	—	27,354,337
Others	37,206,467	293,764,190
	204,048,324	869,312,758
Less allowance for probable losses	140,181,643	10,412,550
	₱63,866,681	₱858,900,208

The notes receivable is payable in 365 days on demand, subject to renewal upon mutual consent. The notes bear interest at 3.5% in 2007 and from 3.5% to 9% in 2006. Interest income from notes receivable amounted to ₱5.3 million in 2007, ₱8.2 million in 2006 and ₱6 million in 2005. In 2007, a substantial portion of the notes receivable are considered impaired and covered with allowance for probable losses.

Trade receivables are non-interest bearing and have normal credit terms of 30 to 60 days.

Due from related party in 2006 represents amount receivable by Polymax from WPI.

Other receivables pertain to advances subject for liquidation, which in 2006 include ₱ 254.7 million noninterest-bearing receivables of Polymax from third party business partners that are subject to liquidation in 2007.

9. Inventories

The inventories as of December 31, 2006, as shown below, pertain to inventories of MVC, an entity that ceased to be a subsidiary in 2007.

At cost:	
Finished goods	₱135,112,209
Work in process	5,079,073
Raw materials and supplies	49,916,685
Others materials and supplies	41,933,329
	<u>232,041,296</u>
At net realizable value:	
Other materials and supplies	5,496,195
	<u>₱237,537,491</u>

Under the terms of agreements covering liabilities under trust receipts, certain inventories have been released to the Group in trust for the banks. The Group is accountable to the banks for the said inventories. Liabilities under trust receipts in 2006 represent short-term borrowings from a local bank to finance inventory importations and bear average annual interest rate of 10%.

Allowance for obsolescence as of December 31, 2006 amounted to ₱2.4 million.

10. Other Current Assets

Details of this account are as follows:

	2007	2006
Creditable withholding taxes	₱10,673,821	₱15,045,155
Input taxes	4,735,655	3,247,482
Refundable deposits (Note 26)	2,000,000	2,000,000
Prepayments and others	6,566,887	20,152,001
	<u>23,976,363</u>	<u>40,444,638</u>
Less allowance for probable losses	16,178,607	7,665,355
	<u>₱7,797,756</u>	<u>₱32,779,283</u>

11. Assets Held for Sale

Asset held for sale at December 31, 2007 amounting to ₱902,232,308, which constitutes 85% of the Group's total assets as of December 31, 2007, represents advances to Polymax, the Parent Company's special purpose entity incorporated in British Virgin Islands solely for the purpose of acquiring the petrochemical plant of NPCA as discussed in Note 2.

On March 18 and September 20, 2006, Polymax's interest in NPCA of 40% and 20%, respectively, was sold. Thereafter, Polymax's management decided to discontinue operations, cease operating as a going concern, and exclude the accounts of Polymax in the Group's consolidated financial statements. Accordingly, the remaining 40% interest of Polymax in NPCA is being offered for sale (see Note 2 for details).

The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities related to asset held for sale, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA. In this regard and to ensure the recoverability of the Parent Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, the Parent Company's major stockholders issued a letter of comfort in favor of the Parent Company on September 30, 2014.

Asset held for sale at December 31, 2006 amounting to ₱1,983,866,958 represents the estimated recoverable value of Polymax's 40% interest in NPCA (from 100% interest in 2005), which is for sale.

The details of loss from discontinued operations in 2006 are shown below.

Loss on sale of 60% interest in NPCA (including expenses)	₱957,627,150
Impairment loss on the remaining 40% interest in NPCA	605,914,122
Foreign exchange loss on receivable arising from sale of interest in NPCA	51,125,700
Share in net loss of NPCA	32,503,978
	₱1,647,170,950

Condensed unaudited financial information of Polymax as of December 31, 2007 and 2006 is shown in the table below, with the 2006 figures restated to reflect the settlement of the previously disputed sale of Polymax's 60% interest in NPCA as discussed in Note 2.

	2007	2006 (As restated)
Assets		
Assets held for sale	₱1,601,925,995	₱1,983,866,958
Due from related parties	290,644,212	281,456,151
Cash	—	652,304
Total assets	1,892,570,207	2,265,975,413
Liabilities		
Liabilities related to asset held for sale	800,398,137	—
Due to Metro Alliance Holdings and Equities Corp.	902,232,308	1,745,477,528
Other payable	49,030,000	49,030,000
Total liabilities	1,751,660,445	1,794,507,528
Net equity	₱140,909,762	₱471,467,885

Assets held for sale of Polymax include its 40% interest in NPCA carried at ₱1.404 billion and ₱1.714 billion as of December 31, 2007 and 2006, respectively.

Due from related parties of Polymax represents amount due from the Wellex group of companies.

Liabilities related to asset held for sale of Polymax as of December 31, 2007 pertain to the balances of the past due loans which were obtained to finance the purchase of 100% ownership interest in NPCA. The Parent Company is jointly and severally liable with Polymax with respect to these past due liabilities. As discussed in Note 18, these past due liabilities amounting to ₱866.7 million inclusive of accrued interest, as of December 31, 2006 were previously carried in the books of the Parent Company but were unilaterally transferred to Polymax in 2007 and partially applied against the advances made to Polymax in 2007 to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms, as discussed in Note 2.

The decrease in net equity by ₱330.5 million in 2007 pertains to:

Share in net loss of NPCA	₱310.0 million
Foreign exchange loss on dollar denominated assets held for sale	36.7
Impairment loss on due from related parties	26.7
Interest and penalties on past due liabilities held for sale	23.6
Reversal of overaccrual of finance cost	(80.7)
Other costs and expenses	14.2
	₱330.5 million

12. Available-for-sale Investments

Available-for-sale investments of the Group consist of investments in shares of Mabuhay Vinyl Corporation (MVC), an entity that ceased to be a subsidiary in 2007, and others that are quoted in the local stock exchange as well as investments in unlisted shares.

	2007	2006
At acquisition cost	₱54,511,538	₱10,732,877
Cumulative fair value gains - in equity	7,072,175	8,489,070
	₱61,583,713	₱19,221,947

In 2007, shares of stock of the group in MVC totaling 59,254,263, representing 8.6% ownership interest in MVC, with a carrying value of ₱50,328,266, was transferred from investments in subsidiaries to AFS investments. The acquisition cost of ₱10.7 million at the end of 2006 includes ₱6.5 million pertaining to MVC which ceased to be a subsidiary in 2007.

Unrealized loss on AFS investments in 2007 amounted to ₱1,162,106 and unrealized gain amounted to ₱6,868,470 in 2006 and ₱1,620,600 in 2005. The carrying value of these investments include accumulated unrealized gains on AFS investments of ₱7.1 million and ₱8.5 million as of December 31, 2007 and 2006, respectively, which is deferred in equity section of the consolidated balance sheet. The cumulative fair value gains in equity at the end of 2006 of ₱8.5 million includes ₱254,789 pertaining to MVC which ceased to be a subsidiary in 2007.

13. Property, Plant and Equipment - At Cost

Details of this account are as follow:

2007

	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Construction in Progress	Total
Cost				
January 1	₱ 1,184,878,323	₱40,112,058	₱5,010,131	₱1,230,000,512
Acquisitions	—	315,471	—	315,471
Disposals/retirement	(1,153,322,838)	(31,057,310)	(5,010,131)	(1,189,390,279)
December 31	31,555,485	9,370,219	—	40,925,704
Accumulated Depreciation				
January 1	812,314,333	36,703,289	—	849,017,622
Depreciation	4,598,962	531,766	—	5,130,728
Disposals/retirement	(789,669,088)	(28,274,219)	—	(817,943,307)
December 31	27,244,207	8,960,836	—	36,205,043
Net Book Value	₱4,311,278	₱409,383	₱ —	₱4,720,661

2006

	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Construction in Progress	Total
Cost				
January 1	₱1,170,878,773	₱39,407,988	₱22,125,400	₱1,232,412,161
Acquisitions	3,167,729	652,647	14,857,295	18,677,671
Disposals/retirements	(1,175,825)	(409,952)	—	(1,585,777)
Reclassification	12,007,646	461,375	(31,972,564)	(19,503,543)
December 31	1,184,878,323	40,112,058	5,010,131	1,230,000,512
Accumulated Depreciation				
January 1	737,748,831	35,048,663	—	772,797,494
Depreciation	75,696,568	2,064,561	—	77,761,129
Disposals/retirements	(1,131,066)	(409,935)	—	(1,541,001)
December 31	812,314,333	36,703,289	—	849,017,622
Net Book Value	₱372,563,990	₱3,408,769	₱5,010,131	₱380,982,890

The carrying value of warehouse equipment that GAC leases under finance lease agreements, included under “Machinery and Equipment,” are as follows:

	2007	2006
Cost	₱15,053,636	₱15,053,636
Less accumulated depreciation	12,301,166	8,774,537
Net Book Value	₱2,752,470	₱6,279,099

14. Property, Plant and Equipment – At Revalued Amounts

The property, plant and equipment at revalued amounts as of December 31, 2006 pertain to MVC, an entity that ceased to be a subsidiary in 2007.

	Land and Improvements	Buildings and Improvements	Total
Cost and Appraisal Increase			₱
January 1	₱193,216,242	₱196,702,917	389,919,159
Acquisitions	–	614,903	614,903
Disposals/retirements	–	(191,182)	(191,182)
Reclassifications	677,668	18,825,875	19,503,543
December 31	193,893,910	215,952,513	409,846,423
Accumulated Depreciation			
January 1	22,372,306	128,369,920	150,742,226
Depreciation	8,216,828	15,278,598	23,495,426
Disposals/retirements	–	(191,182)	(191,182)
December 31	30,589,134	143,457,336	174,046,470
Net Book Value	₱163,304,776	₱72,495,177	235,799,953

If the foregoing property, plant and equipment were carried at historical cost less accumulated depreciation, the amounts would be as follows:

	Land and Improvements	Buildings and Improvements	Total
			₱
Cost	₱33,065,988	215,952,513	249,018,501
Less accumulated depreciation and impairment loss	14,419,116	143,457,336	157,876,452
	₱18,646,872	₱72,495,177	₱91,142,049

15. Other Noncurrent Assets

Details of this account are as follows:

	2007	2006
Refundable deposits (Note 26)	₱1,609,059	₱1,609,059
Pension assets (Note 25)	—	528,737
Other noncurrent assets	1,026,580	4,486,914
	₱2,635,639	₱6,624,710

16. Accounts Payable and Accrued Expenses

Details of this account are shown below.

	2007	2006
Trade payables	₱15,390,712	₱50,461,075
Accrued expenses (Note 20)	340,829,343	317,296,818
Accrued finance charges		
Related parties (Note 20)	23,506,304	946,880
Local banks (Note 18)	—	531,040,077
Other liabilities	9,577,633	7,165,612
	₱389,303,992	₱906,910,462

Trade payables are noninterest bearing and have credit terms of 30 to 60 days.

Accrued expenses and other liabilities include provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcomes of which are not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been provided in the consolidated financial statements, which are recorded as part of accrued expenses, to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

Provisions relate to pending claims jointly and severally against the Parent Company and Polymax and pending claims and tax assessment solely against the Parent Company. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the related claims and tax assessments.

In 2007, accrued finance charges totaling ₱488.4 million (see Note 18) relating to past due loans obtained jointly and severally with Polymax to finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred to and partially applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead of merely their legal forms.

Other liabilities mainly pertain to payable to government agencies.

17. Long-term Debt

Details of this account are shown below.

	2007	2006
a. Secured loan from a local bank – with total add-on financing charges of 49% over 48 months; payable in monthly installments starting April 25, 2004	₱70,000	₱350,000
b. Secured three and a half-year loan from a local bank - with annual interest rate at 5% above the 91-day treasury bill rate; payable quarterly	–	159,348,727
c. Secured five-year loan from a local bank - with interest rate at 8.50% for the first 92 days, subject to quarterly adjustments thereafter, payable in 16 equal quarterly installments until July 18, 2008	–	43,750,000
	70,000	203,448,727
Less current portion	70,000	184,628,727
	₱ –	₱18,820,000

- a. The loan with an original principal of ₱0.9 million was obtained by the Parent Company to finance the acquisition of a transportation equipment. The loan is secured by a chattel mortgage over the said transportation equipment included under office furniture, fixture and equipment account in Note 13, with a carrying value of ₱ 363,636 and ₱654,545 as of December 31, 2007 and 2006, respectively.
- b. In 2003, the Parent Company converted the remaining balance of a ₱200 million unsecured short-term loan in 2002 into the secured three and a half-year loan. The loan is secured by a Deed of Chattel Mortgage over 264,536,654 MVC shares of stock owned by the Parent Company.

The principal payment shall be based on 100% of the cash dividends (with a minimum annual cash dividend of ₱0.10 per share) declared over MVC shares of stock mortgaged, with a minimum annual principal payment based on the following schedule:

Date of Payment	Amount
July 31, 2004	₱55,000,000
July 31, 2005	40,000,000
July 31, 2006	84,433,141
	₱179,433,141

The loan agreement provides for certain restrictions, with respect to, among others, change in ownership structure, merger and disposition of assets, encumbrance of assets, incurrence debt, maintenance of certain financial ratios, declaration and payment of cash dividends and management bonus and the sale of MVC shares mortgaged to the bank.

In February 2005, the Parent Company and the local bank entered into a MOA whereby the Company offered to settle the obligation by way of assignment and transfer to the local bank of all its rights and interests over 234,592,391 MVC shares of stock. However, it was only in June 2007 that all the rights and interests on the 234,592,391 MVC shares of stock were finally assigned and transferred to the local bank as full payment of the loan and accrued interest thereon, resulting in a loss of ₱ 139.7 million and in the Parent Company's control over MVC.

- c. The five-year loan with an outstanding balance of ₱43.8 million as of December 31, 2006, pertains to a loan obtained by MVC, an entity that is no longer a subsidiary in 2007. The loan is secured by the former subsidiary's properties (land, machinery, equipment and furniture) in Iligan with carrying values of ₱179.4 million as of December 31, 2006 in Notes 13 and 14. The proceeds of the loan were used to partially finance the construction of the first IEM plant and the acquisition of the related machinery and equipment. Payment of principal has a grace period of one year. Thereafter, it is payable in 16 equal quarterly installments of ₱6.2 million starting October 31, 2004 until final maturity in July 2008. Average interest rate in 2006 is 8%.

18. Loans Payable

The loans payable as of December 31 are as follows:

	2007	2006 (As restated – see Note 5)
Obtained for operations:		
a. Secured loans from MVC (Note 20)	₱27,000,000	₱ –
b. Unsecured loans from a local bank – with interest rate at 12.25%; payable on or March 31, 2004	–	35,000,000
c. Unsecured loans from a local bank – with interest rate of 9.61% in 2006 renewed on January 23, 2006 for another year	–	18,000,000
Obtained to partially finance acquisition of petrochemical plant:		
d. Secured loans from a local bank – with interest rate at the bank's prevailing lending rates; payable on or before June 15, 2004	–	280,000,000
e. Secured loans from a local bank – with interest rate ranging from 14% to 15%; payable on or April 6, 2004	–	98,278,949
	₱27,000,000	₱431,278,949

Obtained for Operations

- a. Loan payable of ₱27 million as of December 31, 2007 pertains to the remaining balance of the Parent Company's loan obligations from MVC, an entity that ceased to be a subsidiary in 2007, which is the subject of a Memorandum of Agreement (MOA) executed by the parties on January 28, 2005. The MOA provides, among others, that the Parent Company's 36 million MVC shares of stock shall be assigned

or transferred to MVC in payment of the Parent Company's loan obligations to MVC amounting to ₱39.4 million, inclusive of interest. By virtue of a Dacion en Pago executed by the Parent Company and MVC in 2006, the Parent Company assigned, transferred and conveyed its rights, interest and participation to 9 million shares in favor of MVC in partial payment of the Parent Company's loans and interest. Subsequently on January 29, 2010, the Parent Company and MVC executed a Deed of Assignment with respect to these remaining 27 million shares (presented as AFS investments in Note 12) as full payment of the ₱27.4 million outstanding obligations (inclusive of interest) of the Parent Company. The balance of this loan amounting to ₱27 million as of December 31, 2006 was eliminated in the 2006 consolidated balance sheet.

- b. The unsecured loans from a local bank amounting to ₱35 million also have a provision for penalties in case of default in payment. An additional amount equivalent to 2% per month or a fraction of a month of the amount due, but in no case less than ₱10,000, until fully paid shall be charged to the Parent Company as liquidating damages. If the loans are referred to an attorney-at-law or collection agency for collection, the further sum of 15% of the total amount due, but in no case less than ₱10,000, exclusive of costs and other judicial or extra judicial expenses, shall also be charged. On December 6, 2005, these unsecured loans were sold by the creditor bank to an SPV company. In 2007, the loan and the related interest thereon totaling ₱52.9 million were reclassified to the accrued expenses account.
- c. The unsecured loan from a local bank amounting to ₱18 million was obtained by MVC, an entity that ceased to be a subsidiary in 2007.

Related to Acquisition of Petrochemical Plant

- d. The loans amounting to ₱280 million from a local bank are secured by shares of stock and real estate mortgage on properties owned by certain stockholders, directors and officers of the Parent Company. In case of default in payment of these loans, penalty for delinquency and liquidation damages of 2% per month based on the outstanding principal and total amount of unpaid interest shall be charged from the date of default until full payment of the obligation.
- e. The ₱550 million secured loans from a local bank, with a remaining balance of ₱98.3 million as of December 31, 2006, were obtained jointly and severally by the Parent Company and Polymax to partially finance the acquisition of the secured debt papers of IFC (see Note 2). The loans are secured by real estate and chattel mortgages on certain properties and shares of stock owned by certain stockholders and directors of the Parent Company and a third party, a deed of assignment on a portion of the IFC debt papers, and suretyship of certain stockholders.

As consideration for the additional security provided by the third party to fully collateralize the said secured loans, in January 2004, the Parent Company executed a Deed of Assignment in favor of the third party, which provides that the Parent Company and Polymax assign, in favor, of the third party, 29.42% of the US\$150.7 million senior debt papers of IFC, and to said extent of 29.42%, the Parent Company and Polymax's rights and interest in the land of BPC of the landholding company for the polyethylene manufacturing facilities located in Mariveles, Bataan. Both assignments are effective upon non-payment of the loans. The assignments, however, shall be null and void upon full payment of the loans.

The loan agreements provide for certain restrictions with respect to, among others, purchase of treasury shares, encumbrance of assets, dissolution, and declaration and payment of cash dividends. It also provides that the bank shall have the option, at its sole discretion, to convert the loans or a portion thereof, into equity ownership of a proportionate number of shares of the Parent Company.

In case of non-payment on due or date or violation of any of the terms and conditions of the loans agreements, the whole sum outstanding and unpaid amount shall become immediately due and payable without need for demand or notice. Penalty charges equivalent to 1.5% per month (a fraction of a month shall be counted as one month) of principal, interest or any other amount due but unpaid shall also be charged.

On January 5, 2006, the BOD authorized the Parent Company to give consent to Polymax to pledge and/or mortgage Polymax's shares in NPCA equivalent to 40% of the total issued and outstanding shares of NPCA to secure the Parent Company's loan obligation with the local bank.

On January 10, 2006, the Parent Company and Polymax made a partial payment to the local bank amounting to ₱225 million of the principal and ₱28.1 million of the accrued interest. On the same date, the Parent Company and Polymax entered into an amendment of the loan agreement with a local bank whereby the Parent Company and Polymax shall provide additional collateral for the remaining balance of the principal of the loan, amounting to ₱325 million, in exchange for the release of the deed of assignment on a portion of the IFC debt papers. The additional collateral consists of a deed of pledge over 40% shares of stock of NPCA equivalent to 19.1 million shares, hold-out of Polymax's US\$ time deposit account with the local bank amounting to US\$2 million and deed of assignment over the proceeds of the sale of NPCA shares by Polymax to NPCI and PIIC up to the extent of ₱325 million.

In February 2006, the Parent Company was able to seek extension from the bank up to December 29, 2006 and made a total of ₱451.7 million principal payments for the year ended December 31, 2006.

As agreed with Polymax, all finance charges incurred or may be incurred by the Parent Company from the above loans will be for the account of Polymax as these loans were obtained in relation to the Petrochemical Project (see Note 2).

In 2007, the past due loans of ₱378.3 million and accrued interest and penalties thereon totaling ₱488.4 million (see Note 16) or a total of ₱866.7 million as of December 31, 2006 (see Note 11), which were obtained to partially finance the acquisition of the petrochemical plant, were unilaterally transferred and applied against the advances made to Polymax in order to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms.

19. Asset Retirement Obligation

This represents obligation of MVC, an entity that ceased to be a subsidiary in 2007, as follows:

	2007	2006
Balance at beginning of year	₱609,168	₱541,714
Sale of subsidiary	(609,168)	–
Accretion expense during the year	–	67,454
	₱ –	₱609,168

The accretion in 2006 is presented as part of “Finance costs” in the consolidated statement of income.

20. Related Party Transactions

Significant transactions with related parties include the following:

a. Past due bank loans and accrued interest

Past due bank loans and accrued interest totaling ₱866.7 million, which were obtained to partially finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred to and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead of merely their legal forms.

b. Management consultancy agreement

The agreement, which is for an initial period of five years up to March 31, 2004, is between a stockholder and the Parent Company, whereby the Parent Company pays the amount mutually agreed upon based on the nature of services rendered. On April 1, 2004, a new agreement was signed for an indefinite term until terminated by either party by giving six months prior written notice. Management fees charged to operations amounted to ₱6 million annually from 2004. In 2007, the management agreement was terminated and the unpaid management fee as of December 31, 2006 totaling ₱16.1 million (included under accounts payable and accrued expenses) was waived and extinguished by the stockholder.

c. Advances to and from related parties

The amount due from a related party is unsecured, non-interest bearing and has no definite repayment terms.

The amounts due to related parties pertain to advances provided to the Group to finance its working capital requirements, capital expenditures, and Petrochemical Project support and for other investments and have no definite repayment terms. These are unsecured and noninterest bearing, except the liability to WPI which is interest bearing but the related finance charges are being charged to Polymax, since the corresponding liabilities were obtained in relation to the Petrochemical Project as discussed in Note 18.

d. Purchases from Mitsubishi Corporation

MVC, an entity that ceased to be a subsidiary in 2007, purchased inventories from Mitsubishi, one of its stockholders, based on agreed commercial terms and conditions. Total purchases from Mitsubishi amounted to ₱350.7 million in 2006. As of December 31, 2006, MVC has no outstanding trade payable to Mitsubishi.

e. Interest-bearing short-term loans from MVC (Note 18)

The secured loans of ₱27 million as of December 31, 2007 was obtained from MVC, an entity that ceased to be a subsidiary in 2007, and collateralized by 27 million shares of the Parent Company in MVC as discussed in Note 18.

f. Payables for shared operating expenses

- GAC, an operating subsidiary, is billed by a stockholder and an affiliate for its share in marketing and information technology services. Total expense included in other expenses (Note 23) amounted to ₱1,273,176 in 2007, ₱1,919,789 in 2006 and ₱1,636,349 in 2005. The outstanding payable (included in due to related parties) amounted to ₱1,061,297 and ₱1,821,107 as of December 31, 2007 and 2006, respectively.
- Starting in 2006, GAC Shipping & Cargo Systems (Phils.), Inc, an affiliate, bills GAC, an operating subsidiary, for share in the lease of office space, accounting services, and other office expenses. Total charges (included in rent and utilities and other expenses) amounted to ₱1,917,758 in 2007 and ₱303,412 in 2006 (Notes 22 and 23). GAC has outstanding payable of ₱509,035 and ₱127,542 as of December 31, 2007 and 2006, respectively, included under due to related parties.

g. Compensation of key management personnel follows:

	2007	2006	2005
Short-term employee benefits	₱3,599,652	₱16,454,376	₱22,640,539
Retirement benefits (Note 25)	179,500	753,552	777,282
	₱3,779,152	₱17,207,928	₱23,417,821

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the respective entity's retirement plan.

The related amounts applicable to the Parent Company's transactions with related parties follow:

	2007	2006
<u>Asset Held For Sale</u>		
Advances to Polymax (special purpose entity) (Note 11)	₱902,232,308	₱ —
<u>Due from Related Party (Note8)</u>		
WPI	₱ —	₱27,354,337

	2007	2006
<u>Due to Related Parties</u>		
<i>Under Common Control</i>		
Waterfront Philippines, Inc. (WPI)	₱303,497,205	₱292,758,618
Acesite (Phils.) Hotel Corporation	5,971,374	4,287,681
Philippine Estate Corporation (PEC)	—	13,487,612
<i>Stockholders</i>	182,308,158	183,447,505
<i>Others</i>	650,467	462,254
	₱492,427,204	₱494,443,670
<u>Accrued Finance Charges</u> (Note 16)		
WPI	₱23,104,804	₱ —
MVC	401,500	—
Other	—	946,880
	₱23,506,304	₱946,880
<u>Due payable</u> (Note 18a)		
MVC	₱27,000,000	₱ —

21. Capital Stock

- a. The Parent Company's capital stock as of December 31, 2007 and 2006 consists of the following common shares:

Class "A" – ₱1 par value	
Authorized – 720,000,000 shares	
Issued and outstanding – 183,673,470 shares	
Number of equity holders – 676 in 2007 and 2006	₱183,673,470
Class "B" – ₱1 par value	
Authorized – 480,000,000 shares	
Issued and Outstanding – 122,448,979 shares	
Number of equity holders – 421 in 2007 and 2006	122,448,979
	₱306,122,449

The two classes of common shares are identical in all respects, except that Class "A" shares are restricted to Philippine nationals and the total number of Class "B" shares is limited to two-thirds of the total outstanding Class "A" shares.

- b. On July 25, 2003, the Parent Company's stockholders approved the increase in authorized capital stock from ₱1.2 billion consisting of 1.2 billion shares to ₱5 billion consisting of 5 billion shares, both with par value of ₱1 per share. The increase was held in abeyance because of the dispute in the acquisition of the Petrochemical Project, which was finally settled in 2013 as discussed in Note 2. After the final settlement of the dispute, the Parent Company's management has decided to pursue the said increase in the authorized capital stock of the Parent Company.

22. Cost of Sales and Services

Details of this account are shown below.

	2007	2006	2005
Cost of services			
Rent and utilities (Notes 20 and 26)	P 41,265,535	₱40,555,364	₱35,418,877
Personnel cost (Note 25)	27,934,668	31,433,450	32,212,949
Outside services	13,813,909	16,532,102	12,043,610
Depreciation and amortization (Notes 13 and 14)	4,573,544	5,231,564	8,419,296
Repairs and maintenance	2,090,479	2,502,320	1,954,590
Communication and office supplies	1,979,110	2,724,102	2,607,927
Others	7,186,960	9,417,272	9,483,839
	98,844,205	108,396,174	102,141,088
Cost of goods sold	–	1,028,534,346	1,059,363,857
	P 98,844,205	₱1,136,930,520	₱1,161,504,945

Cost of goods sold pertains to MVC, an entity that ceased to be a subsidiary in 2007, and includes depreciation amounting to ₱61.2 million in 2006 and ₱59 million in 2005.

23. Expenses

Details of this account are shown below.

	2007	2006	2005
Provision for probable losses (Notes 8 and 10)	₱138,282,345	₱49,830,526	₱4,586,481
Personnel cost (Note 25)	4,966,668	51,805,145	53,597,528
Rent and utilities (Notes 20 and 26)	1,033,469	17,998,009	18,115,618
Depreciation (Notes 13 and 14)	557,184	34,805,629	31,754,172
Taxes and licenses	15,200	10,042,337	87,232,185
Shipping and delivery	–	143,830,467	154,324,281
Others (Note 20)	10,215,158	56,172,002	100,949,775
	₱155,070,024	₱364,484,115	₱450,560,040

Other expenses in 2007 include professional fees, communication, supplies, transportation, entertainment and others

24. Income Taxes

- a. The components of the Group's provision for income tax consists of the following:

	2007	2006	2005
Current income tax			
RCIT	₱4,157,885	₱23,517,438	₱28,698,099
Final tax	47,919	1,416,948	901,953
MCIT	—	165,114	733,015
	4,205,804	25,099,500	30,333,067
Deferred tax benefit	(33,865)	(2,451,128)	(8,869,270)
	₱4,171,939	₱22,648,372	₱21,463,797

- b. The reconciliation of the provision for income tax computed at the statutory tax rate on loss before income tax to the provision for income tax shown in the consolidated statements of income is as follows:

	2007	2006	2005
Benefit from income tax loss at statutory tax rate	(₱104,244,406)	(₱55,300,382)	(₱142,735,196)
Additions to (reduction in) income tax resulting from:			
Nondeductible interest and other expenses	60,938,440	63,268,496	158,702,446
Expired NOLCO	36,144,377	15,315,782	12,237,623
Change in unrecognized deferred income tax assets	15,715,464	7,913,234	2,134,363
Expired MCIT	489,857	100,828	29,189
Effect of change in tax rate applicable to GAC	52,023	—	(791,999)
Income tax holiday	—	(1,693,286)	(7,356,221)
Interest and dividends	(4,923,816)	(6,956,300)	(756,408)
	₱4,171,939	₱22,648,372	₱21,463,797

- c. The components of GAC's net deferred tax assets are the tax effects of the following:

	2007	2006
Deferred tax assets:		
Unamortized past service costs	₱372,835	₱485,551
Accrued leases and other nondeductible expenses	136,201	207,216
Allowance for probable losses	115,576	163,378
Accrued retirement benefits costs	106,298	—
	730,910	856,145
Deferred tax liabilities:		
Unrealized foreign exchange gain	32,488	6,530
Pension assets	—	185,058
	32,488	191,588
Net deferred tax assets	₱698,422	₱664,557

- d. The net deferred tax liabilities as of December 31, 2006 pertain to MVC, an entity that ceased to be a subsidiary in 2007.

Deferred tax liabilities:

Revaluation increment in property	₱43,762,527
Capitalized asset retirement costs	108,423
	<u>43,870,950</u>

Deferred tax assets:

Accrued retirement benefits costs and unamortized past service costs	4,242,709
Allowance for doubtful accounts	3,046,226
Accrued leases and other nondeductible expenses	1,463,466
Allowance for inventory obsolescence	839,947
Asset retirement obligation	213,209
	<u>9,805,557</u>

Net deferred tax liabilities	<u>₱34,065,393</u>
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- e. Deferred tax assets of the Parent Company and its non-operating subsidiaries of ₱ 93,233,921 and ₱77,518,457 as of December 31, 2007 and 2006, respectively, have not been recognized as management believes that the Parent Company and its non-operating subsidiaries may not have sufficient taxable profits or tax liabilities against which these deferred tax assets may be utilized.

The following summarizes the deductible temporary differences, NOLCO and MCIT as of December 31 for which no deferred income tax assets have been recognized.

	2007	2006
Allowance for probable losses	₱148,488,215	₱10,203,178
NOLCO	114,833,038	206,893,501
Accrued retirement benefits costs	495,295	416,260
Unrealized foreign exchange loss	–	2,694
	263,816,548	217,515,633
MCIT	898,129	1,387,986
	₱264,714,677	₱218,903,619

The MCIT may be used as credit against future income tax payable as follows:

Year Incurred	Year Expiring	2007	2006
2003	2006	₱ –	₱100,828
2004	2007	489,857	489,857
2005	2008	733,015	733,015
2006	2009	165,114	165,114
		1,387,986	1,488,814
Expired MCIT		(489,857)	(100,828)
		₱898,129	₱1,387,986

The NOLCO can be claimed as deduction from regular taxable income as follows:

Year Incurred	Year Expiring	2007	2006
2003	2006	₱ –	₱43,759,376
2004	2007	103,269,648	103,269,648
2005	2008	37,557,093	37,557,093
2006	2009	66,066,760	66,066,760
2007	2010	11,209,185	–
		218,102,686	250,652,877
Expired NOLCO		(103,269,648)	(43,759,376)
		₱114,833,038	₱206,893,501

- f. On May 24, 2005, RA No. 9337 was passed into law amending various provisions in the existing National Internal Revenue Code, initially effective July 1, 2005. Among the changes provided for in RA No. 9337, which became effective on November 1, 2005, are as follows:
- Increase in the corporate income tax rate from 32% to 35% until January 1, 2009 when it will be reduced to 30%;
 - Grant of authority to the President of the Philippines to increase the value-added tax (VAT) rate from 10% to 12% effective February 1, 2006;
 - Expanded scope of transactions subject to VAT; and
 - Setting of limitations on the amounts of VAT credits that can be claimed.

The deferred tax assets and liabilities have been adjusted to reflect the relevant corporate income tax rates.

On October 10, 2007, the Bureau of Internal Revenue issued Revenue Regulation (RR) No. 12-2007 amending certain provisions of RR No. 9-98 relative to the due date within which to pay the MCIT. The computation and payment of MCIT now applies to quarterly corporate income tax of companies.

25. Retirement Benefits Costs

The Parent Company has an unfunded, non-contributory defined benefit retirement plan providing retirement benefits to its regular employee. GAC has a funded, non-contributory defined benefit retirement plan providing retirement benefits to all its regular employees. MVC, on the other hand, 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 projected unit credit method, conducts an actuarial valuation of the funds. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date.

The following tables summarize the components of net retirement expense recognized in the consolidated statement of income and the funding status and amounts recognized in the consolidated balance sheet.

The components of retirement expense which were charged to operations are as follows:

	2007	2006	2005
Current service cost	₱633,434	₱4,587,044	₱3,475,765
Interest cost on benefit obligation	210,394	9,114,195	8,518,917
Net actuarial loss recognized	110,000	97,942	379,700
Expected return on plan assets	(173,126)	(7,151,262)	(5,287,549)
Past service cost	–	1,223,047	–
Net retirement benefits costs	780,702	7,870,966	7,086,833
Curtailment gain (loss)	130,780	(194,622)	–
Total retirement expense	₱911,482	₱7,676,344	₱7,086,833

In 2006 and 2005, the retirement expense includes that of MVC, an entity that ceased to be a subsidiary in 2007. The details of the retirement asset (liability) benefits recognized in the consolidated balance sheet are as follows:

	2007	2006
Present value of benefit obligation	₱3,223,573	₱117,001,131
Present value of plan assets	(1,562,833)	(94,304,773)
	1,660,740	22,696,358
Unrecognized net actuarial losses	(861,735)	(20,099,138)
Net liability of the Group	₱799,005	₱2,597,220
Asset recognized	₱ –	₱528,737
Liability recognized	₱799,005	₱3,125,957

Changes in present value of retirement obligation are as follows:

	2007	2006
Present value of obligation at beginning of year	₱117,001,131	₱83,056,857
Disposal of subsidiary – MVC	(113,300,972)	–
Current service cost	633,434	4,587,044
Interest cost on benefit obligation	210,394	9,114,195
Benefits paid	(298,132)	(6,841,969)
Past service cost	–	3,218,881
Actuarial (gain) loss on benefit obligation		
Experience adjustments	(699,786)	5,542,656
Change in assumptions	–	18,323,467
Effect of curtailment	(322,496)	–
Present value of obligation at end of year	₱3,223,573	₱117,001,131

Significant decrease in present value of obligation pertains to MVC, an entity that ceased to be subsidiary in 2007.

Changes in the fair value of plan assets and actual return on plan assets are as follows:

	2007	2006
Fair value of plan assets at beginning of year	₱94,304,773	₱69,871,823
Disposal of subsidiary – MVC	(92,140,693)	–
Expected return on plan assets	173,126	7,151,262
Benefits paid due to resignation and retrenchment	(611,608)	(6,647,347)
Actuarial loss (gain)	(162,765)	17,129,035
Contributions	–	6,800,000
Fair value of plan assets at end of year	₱1,562,833	₱94,304,773
Actual return on plan assets	₱10,361	₱24,280,297

The major categories of plan assets are as follows:

	2007	2006
Cash and cash equivalents	₱1,626	₱159,818
Investments in:		
Common trust fund	1,561,207	2,161,403
Government securities	–	75,670,421
Bonds	–	10,028,840
Loans and receivables	–	4,301,821
Interest receivables	–	2,101,246
Accrued trust fees	–	(118,776)
	₱1,562,833	₱94,304,773

Relevant amounts for December 31, 2007 and 2006 are as follows:

	2007	2006
Present value of obligation	₱3,223,573	₱117,001,131
Fair value of plan assets	1,562,833	94,304,773
Deficit	1,660,740	22,696,358
Experience adjustment	699,786	5,542,656

The assumptions used to determine retirement benefits costs for the Group for the years ended December 31, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
Discount rate	10%	7%	11% to 12 %
Salary increase rate	3%	3% to 6 %	5% to 8%
Expected rate of return on plan assets	6%	8% to 10 %	10%

The expected rate of return on plan assets assumed at a range of 6% was based on a reputable fund trustee's indicative yield rate for a risk portfolio similar to that of the fund with consideration of the fund's past performance.

26. Leases

- a. The Parent Company, under an operating lease agreement, leases an office space with a term of one year for an annual rate of ₱0.3 million.
- b. CPDSI and GAC also lease office spaces and several warehouses under various agreements with terms ranging from two to three years. MVC, an entity that ceased to be a subsidiary in 2007, has various operating lease agreements covering the office spaces, parking slots, warehouse, storage tanks, piping systems and pumps for a period of three to ten years expiring on various dates up to 2017. These leases are renewable upon mutual agreement of the parties and subject to an escalation rate ranging from 2.5% to 10% annually. The covering agreements of these leases require MVC to pay certain amounts of security and rental deposits, which are included under “Other current and noncurrent assets” in the consolidated balance sheet.

Future minimum rental commitments under these operating lease agreements follow:

	2007	2006
Within one year	₱4,624,275	₱17,848,465
After one year but not more than five years	—	29,192,647
More than five years	—	22,890,880
	₱4,624,275	₱69,931,992

- c. GAC has finance leases over various items of warehouse equipment. The lease agreements provide for the turnover of ownership of the equipment to GAC at the end of the lease term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2007		2006	
	Minimum Payments	Present Value of Payments	Minimum Payments	Present Value of Payments
Within one year	₱2,521,382	₱2,347,694	₱3,134,437	₱2,684,334
After one year but not more than five years	324,787	318,834	2,846,168	2,666,528
Total minimum lease payments	2,846,169	2,666,528	5,980,605	5,350,862
Less amounts representing finance charges	179,641	—	629,743	—
Present value of minimum lease payments	₱2,666,528	₱2,666,528	₱5,350,862	₱5,350,862

27. Logistics Agreements

GAC has agreements with principals to provide logistics operations services, specifically warehousing and managing delivery of the principals’ products to their key accounts and sub-distributors nationwide. Under the terms of these agreements, the principals shall pay GAC the agreed monthly fees plus reimbursement of certain warehouse expenses.

28. Basic Loss Per Share

The following table presents the information necessary to compute the basic loss per share:

Loss per share on net loss attributable to equity holders of the Parent Company:

	2007	2006	2005
Net loss attributable to equity holders of Parent Company	₱305,621,045	₱1,854,266,988	₱519,388,361
Weighted average number of common shares	306,122,449	306,122,449	306,122,449
Basic Loss Per Share	₱1.00	₱6.06	₱1.70

Loss per share on net loss from continuing operations attributable to equity holders of the Parent Company:

	2007	2006	2005
Net loss attributable to equity holders of Parent Company	₱305,621,045	₱207,096,038	₱506,030,608
Weighted average number of common shares	306,122,449	306,122,449	306,122,449
Basic Loss Per Share	₱1.00	₱0.68	₱1.65

29. Financial Assets and Financial Liabilities

The following table summarizes the carrying and fair values of the Group's financial assets and financial liabilities as of December 31, 2007 and 2006:

	2007		2006 (As restated)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	₱19,745,539	₱19,745,539	₱120,911,209	₱120,911,209
Receivables - net	63,866,681	63,866,681	858,900,208	858,900,208
Refundable deposits	3,609,059	3,452,936	4,452,934	4,357,797
AFS investments	61,583,713	61,583,713	19,221,947	19,221,947
	₱148,804,992	₱148,648,869	₱1,003,486,298	₱1,003,391,161
Financial Liabilities				
Accounts payable and accrued expenses	₱44,147,606	₱44,147,606	₱823,220,310	₱823,220,310
Due to related parties	492,427,204	492,427,204	494,443,670	494,443,670
Obligation under finance lease (including current portion)	2,666,528	2,637,740	5,350,862	5,290,447
Long-term debt (including current portion)	70,000	70,000	203,448,727	203,448,727
Loans payable	27,000,000	27,000,000	431,278,949	431,278,949
Liabilities under trust receipts			124,927,143	124,927,143
Customer deposits	—	—	18,032,329	not determinable
	₱566,311,338	₱566,282,550	₱2,100,701,990	₱2,082,609,246

The following methods and assumptions were used to estimate the fair value of each class of financial instrument, for which it is practicable to estimate such value:

Current Financial Assets and Financial Liabilities

Due to the short-term nature of the transactions, the carrying values of cash and cash equivalents, receivables, current refundable deposits, accounts payable and accrued expenses, due to affiliates, current portion of long-term debt, loans payable and liabilities under trust receipts approximate their fair values.

AFS Investments

The fair values of publicly traded instruments and similar investments are based on quoted bid prices. Unquoted AFS equity securities are carried at cost, subject to impairment.

Long-term Debt

The carrying value approximate the fair value, which is determined to be present value of future cash flows using the prevailing market rate as the discount rate.

Refundable Deposits and Obligation under Finance Lease

The fair values of noncurrent refundable deposits and obligation under finance lease have been determined by discounting the expected future cash flows at prevailing interest rates.

Customer Deposits

The fair value of customer deposits is not determinable because there is no reasonable basis as to the timing of the return of the cylinders by the customers and the refund of deposits to customers.

30. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, AFS investments, due to affiliates, long-term debt, loans payable and liabilities under trust receipts. The main purpose of these financial instruments is to finance the Group's operations. The Group's other financial assets and financial liabilities include receivables, accounts payable and accrued expenses, other current liabilities and customer deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The entities' BOD reviews and approves the policies for managing these risks which are summarized below.

Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates to its loans payable and long-term debt, which principally bear floating interest rates.

The sensitivity to reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱0.27 million and ₱5.2 million as of December 31, 2007 and 2006, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

The following table sets out the principal amount, by maturity, of the Group's loans and other payable as of December 31, 2007 that are exposed to interest rate risk:

	2007	2006
Within 1 year	₱27,070,000	₱740,834,819
1 - 2 years	—	18,820,000
	₱27,070,000	₱759,654,819

Liquidity Risk

The Group's objective is to maintain a balance between flexibility and continuity of funding. However, because of the default on the payment of interest and principal amortizations on existing debts, the Group's access to funds has been limited to those of its related parties in the form of advances. Current working capital requirements will continue to be sourced from short-term loans and advances from related parties.

Credit Risk

It is the Group's policy to require all concerned affiliates and/or third party to comply and undergo a credit verification process with emphasis on their capacity, character and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized. The Group deals only with legitimate parties. As to other financial assets of the Group like cash and cash equivalents, the credit risk arises only in case of default of the counterparty and the maximum exposure is limited to the carrying amount of the instruments. Money market placements are limited to banks duly approved by the BOD.

Financial information on the Parent Company's maximum exposure to credit risk as of December 31, 2007, without considering the effects of collaterals and other risk mitigation techniques, are presented below.

	2007	2006
Cash and cash equivalents	₱19,745,539	₱120,911,209
Receivables	63,866,681	858,900,208
Refundable deposits	3,609,059	4,452,934
	₱87,221,279	₱984,264,351

The table below present the credit quality of financial assets and analysis of past due accounts as of December 31, 2007.

Financial assets	High Grade	Past Due but not Impaired			Impaired Financial Assets	Allowance for Doubtful Accounts		Total
		Over 30 days	Over 60 days	Over 90 days				
Cash and cash equivalents	₱19,745,539	₱ —	₱ —	₱ —	₱ —	₱ —	₱ —	₱19,745,539
Receivables:								
Trade	14,669,680	4,405,906	1,282,642	3,996,155	628,700	(628,700)		24,354,383
Notes		—	—	—	138,282,345	(138,282,345)		—
Interest		—	—	3,576,429	—	—		3,576,429
Others	231,832	—	—	35,704,037	1,270,598	(1,270,598)		35,935,869
Refundable deposits	3,609,059	—	—	—	—	—		3,609,059
	₱38,256,110	₱4,405,906	₱1,282,642	₱43,276,621	₱140,181,643	(₱140,181,643)		₱87,221,279

The credit quality of receivables is managed by the Group using internal credit quality ratings. High and medium grade accounts consist of receivables from debtors with good financial standing and with relatively low defaults. The Group constantly monitors the receivables from these customers in order to identify any adverse changes in credit

quality. The allowance for doubtful accounts is provided for those receivables that have been identified as individually impaired.

Foreign Currency Risk

The exposure to foreign currency risk arises from purchases of finished goods and raw materials made by MVC, an entity that ceased to be a subsidiary in 2007. Purchase of finished goods is subject to an open account from foreign suppliers and is settled immediately through a peso trust receipts financing from a local bank once all the documentation requirements are complete.

31. Capital Management

The primary objectives of the Group's capital management are to safeguard the ability of the entities in the Group to continue as a going concern and to maintain the appropriate capital structure that supports the business. The Group manages its capital structure in light of changes in economic conditions and in close coordination with its major stockholders and other related parties by making adjustments on payments to its related parties and issuing new shares. The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry.

The Group is not subject to externally-imposed capital requirements.

The Group's interest bearing loans from third parties amounted to ₱29,736,528 and ₱765,005,681 as of December 31, 2007 and 2006, respectively, while the equity attributable to equity holders of the Parent Company less any reserves is shown in the following table.

	2007	2006
Capital stock	₱306,122,449	₱306,122,449
Additional paid-in capital	3,571,921	3,571,921
Excess of par value of retired treasury shares over cost	—	471,467,885
Deficit	(180,756,203)	189,924,452
	₱128,938,167	₱971,086,707

32. Notes to Consolidated Statements of Cash Flows

The principal non-cash financing and investing activities consist of:

- Settlement of advances obtained from affiliates, which were used to partially finance the Petrochemical Project, through the application of advances made to other affiliates;
- Loans payable to local banks amounting to ₱378.3 million and related accrued finance charges amounting to ₱488.4 million as of December 31, 2006 transferred to Polymax in 2007 (see Note 18);

- c. Loan payable to a local bank amounting to ₱35 million reclassified to the accrued expenses account in 2007 (see Note 18b);
- d. Reversal of accrued management fees recorded under accrued expenses in 2007 amounting to ₱16.1 million (see Note 20b);
- e. Accrued finance costs charged to Polymax (see Note 20); and
- f. Assignment of MVC shares to a local bank as full payment of a loan obligation (see Note 17).

33. Other Matters

- a. On July 5, 2002, the Parent Company received a decision from the Court of Tax Appeals (CTA) denying the Parent Company's Petition for Review and ordering the payment of ₱83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Parent Company filed a Motion for Reconsideration on July 31, 2002 but was subsequently denied by the CTA. A Petition for Review was filed with the CTA on November 8, 2002, which was also denied by the CTA. The Parent Company then appealed the decision of the CTA to the Court of Appeals. The Parent Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

On July 9, 2004, the Parent Company received the CA resolution denying the Motion for Reconsideration. On July 22, 2004, the Parent Company filed with the CA a Motion for Extension of time to file an appeal to the Supreme Court (SC). On August 20, 2004, the Parent Company filed said appeal. On October 20, 2004, the Parent Company received the resolution of the SC denying its Petition for Review for lack of reversible error. The Parent Company filed a Motion for Reconsideration. On January 10, 2005, the SC issued an Order stating that it found no ground to sustain the Parent Company's appeal and dismissed the Parent Company's petition with finality.

On April 26, 2006, the Parent Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Motion for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue. As of October 10, 2014, the Parent Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

- b. On September 14, 2005, the Parent Company and a third party filed a civil action against a local bank for the imminent extra-judicial foreclosure of the properties of the third party which are used as real estate mortgage for additional loans from the local bank amounting to ₱42 million, which the Parent Company maintains has never been received.

On October 6, 2005, the Regional Trial Court of Tagaytay City (RTC) issued and granted the Writ of Preliminary Injunction (first injunction). As of, October 10, 2014,

the case is still pending with the same court. Trial on the merits of the case has not been started as the Parent Company, through its counsel, filed an Amended Complaint with an Urgent Application for the Issuance of Writ of Preliminary Injunction after the first injunction was nullified by the Court of Appeals and affirmed by the SC. The Parent Company and its legal counsel are positive that the court will sustain their position.

- c. On January 23, 1998, MVC, an entity that is no longer a subsidiary in 2007, received assessment notices from the BIR for alleged deficiency withholding taxes on interest incurred on borrowings totaling ₱454.4 million, including basic surcharge and interest, for the taxable years 1998 and 1989.

On March 6, 1998, MVC likewise received pre-assessment notices for deficiency income taxes amounting to ₱322.6 million for the taxable years 1988 and 1989 resulting from disallowance of interest expenses for failure to withholding taxes.

On September 31, 1998, MVC filed a Petition for Review of the above assessments with the CTA.

On January 9, 2003, MVC received CTA's decision on the assessments, ordering MVC to pay the BIR an amount totaling ₱119.2 million representing deficiency withholding taxes on borrowings, including surcharge and interest for the taxable years 1988 and 1989 computed up to February 1998 until fully paid. The CTA also ruled that pre-assessment notices on deficiency income taxes are 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, MVC filed a Motion for Reconsideration (Motion) with the CTA appealing its position that (1) the right of the BIR to assess has already prescribed; (2) MVC is not liable to pay 50% surcharges on fraud as MVC was able to comply with the filing of necessary returns; and (3) MVC is not liable to pay the total amount of ₱119.2 million.

On November 17, 2003, the CTA issued a Resolution denying the Motion. MVC then responded with the filing of Petition for Review (Petition) with the CA on December 29, 2003. In the Petition, MVC reiterated the position it raised in the Motion filed with the CTA. The CA directed BIR to file its comments on the Petition with 10 days from the receipt thereof.

On February 4, 2005, the BIR submitted to the CA its motion to admit its comment contesting MVC's petition. The BIR further pleaded for dismissal of the Petition and for the court to render MVC liable to pay the withholding taxes. MVC, through its legal counsel, filed its opposition to the BIR's motion due to the belated filing. On December 23, 2005, the CA admitted the BIR's comment and directed the parties to submit their memoranda.

On January 30, 2006, MVC filed the memorandum for the petitioner and accordingly, on February 15, 2006, the CA resolved that the case is now submitted for decision. On June 29, 2007, MVC availed of the BIR's one-time abatement program and was allowed on September 11, 2007 to settle the ₱95.2 million adjusted assessment.

There are also other pending legal cases against the Parent Company and certain subsidiaries. Based on the facts of these cases, management of the Parent Company and the subsidiaries

believes that their positions have legal merits and the resolution thereof will not materially affect their financial position and result of operations.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
AS AT DECEMBER 31, 2007**

I. Supplemental schedules required by Annex 68-E	
A. Financial assets	<u>Attached</u>
B. Amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties)	<u>Attached</u>
C. Amounts of receivables and payable from/to related parties which are eliminated during consolidation process of financial statements	<u>Attached</u>
D. Intangible assets – other asset	<u>Not applicable</u>
E. Long-term debt	<u>Attached</u>
F. Indebtedness to related parties (Long-term loans from related parties)	<u>Not applicable</u>
G. Guarantees of securities of other issuers	<u>Not applicable</u>
H. Capital stock	<u>Attached</u>
II. Schedule of all the effective standards and interpretations	<u>Attached</u>
III. Reconciliation of retained earnings available for dividend declaration	<u>Not applicable</u>
IV. Map of the relationships of the Company within the Group	<u>Attached</u>
V. Schedule of Financial Ratios	<u>Attached</u>

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

I. SUPPLEMENTAL SCHEDULES REQUIRED BY ANNEX 68-E

AS AT DECEMBER 31, 2007

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and rates	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
Cash	P –	P7,662,329	P7,662,329	P –
Short-term Cash Investments	–	P12,083,210	P12,083,210	–
AFS Financial Assets				
Mabuhay Vinyl Corporation	–	P46,298,873	P46,298,873	–
Waterfront Philippines, Inc.	–	14,511,948	14,511,948	–
Others	–	772,892	772,892	–
	–	P61,583,713	P61,583,713	–

Schedule B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other Than Related Parties)

Name and designation of debtor	Balance at beginning of period	Amounts collected/ transferred	Amounts written-off	Current	Non-current	Balance at end of period
Polymax Worldwide Limited (special purpose entity)	P1,745,477,528	P 843,245,220	P –	P902,232,308		P – P902,232,308

Schedule C. Amounts of Receivable from and Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements

Account	January 1, 2007	Additions	Deductions		Current	Non-Current	December 31, 2007
			Amount Collected	Amount Written Off			
Advances to Consumer Products Distribution Services, Inc.	₱3,691,811	₱ –	₱ –	₱ –	₱ –	₱ –	₱ – ₱3,691,811

Schedule D. Intangible Assets – Other Asset

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Not Applicable						

Schedule E. Long-term Debt

Title of issue	Amount authorized by indenture	Amount shown under caption “Current portion of long term debt” in related balance sheet	Amount shown under caption “Long term debt” in related balance sheet
Secured bank loan	₱900,000	₱70,000	₱ –

Schedule F. Indebtedness to Related Parties (Long Term Loans from Related Parties)

Name of related party	Balance at beginning of period	Balance at end of period
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Not Applicable

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
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Not Applicable

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common - Class A	720,000,000	183,673,470	–	156,590,387	126,213	26,956,870
Common - Class B	480,000,000	122,448,979	–	85,139,552	21,999,902	15,309,525
	1,200,000,000	306,122,449	–	241,729,939	22,126,115	42,266,395

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
**II. SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
AS AT DECEMBER 31, 2007**

The following table summarizes the effective standards and interpretations as at December 31, 2007:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as at December 31, 2007				
Philippine Financial Reporting Standards				
PFRS 2	Share-based Payment			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendment to PFRS 7: Transition			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Amendments to PAS 1: Capital Disclosures	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 28	Investments in Associates			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2007		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Cooperative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 – Group and Treasury Share			✓
SIC 7	Introduction of the Euro			✓
SIC 10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC 12	Consolidation – Special Purpose Entities			✓
	Amendment to SIC 12: Scope of SIC 12			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2007		Adopted	Not Adopted	Not Applicable
SIC 13	Jointly Controlled Entities – Non-monetary Contributions by Venturers			✓
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Asset	✓		
SIC 15	Operating Leases – Incentives			✓
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC 29	Service Concession Arrangements: Disclosures			✓
SIC 31	Revenue – Barter Transactions Involving Advertising Services			✓
SIC 32	Intangible Assets – Web Site Costs			✓

Note: Standards and interpretations tagged as “Not applicable” are those standards which were adopted but the entity has no significant covered transactions as at and for the year ended December 31, 2007.

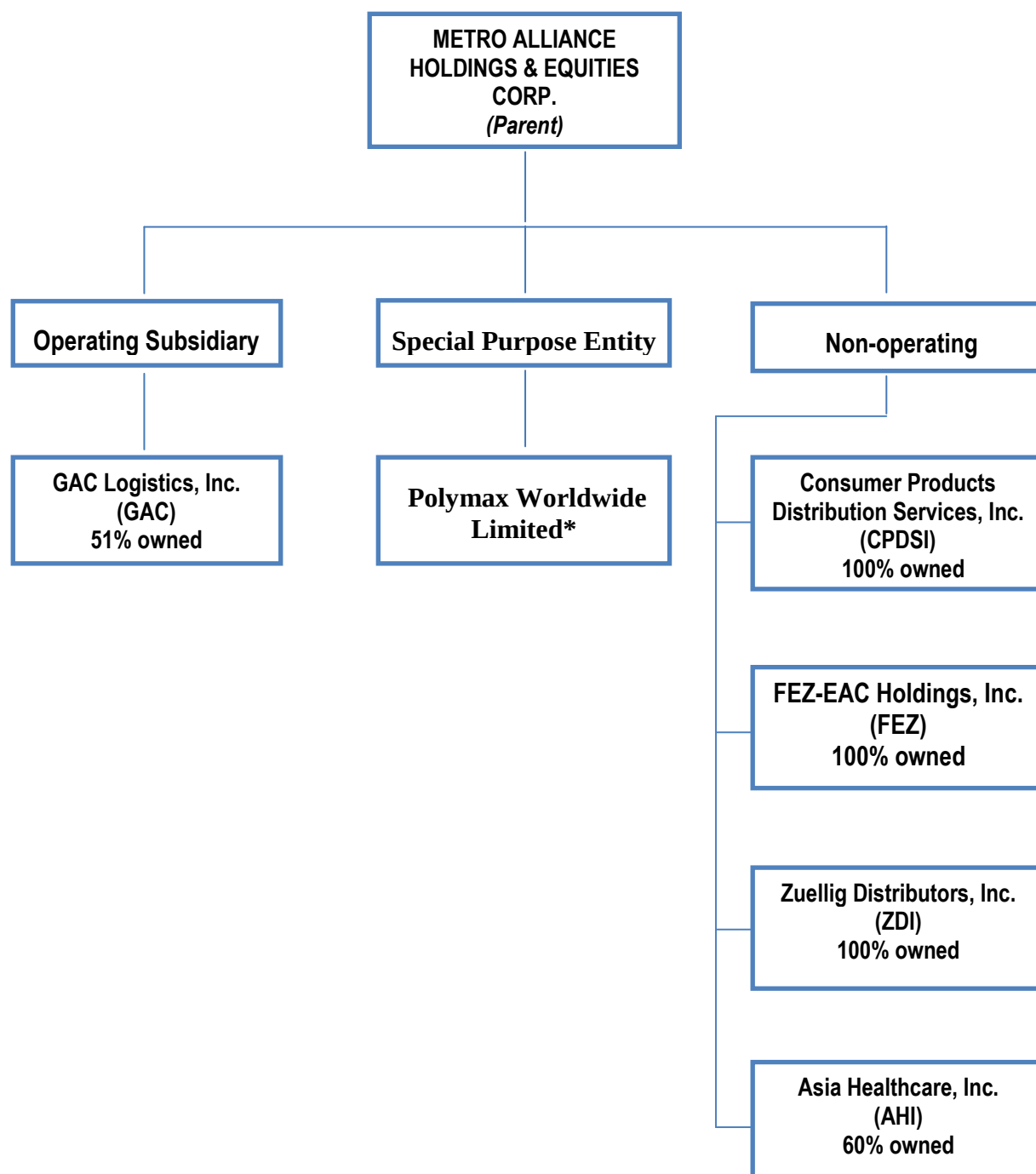
METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

III. RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION FOR THE YEAR ENDED DECEMBER 31, 2007

Not Applicable*

*The Parent Company’s Retained Earnings as of December 31, 2007 did not exceed its 100% of Paid-in Capital Stock since it is in a deficit position.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
IV. MAP OF THE RELATIONSHIP OF THE COMPANY WITHIN THE GROUP
FOR THE YEAR ENDED DECEMBER 31, 2007



*Starting in 2007, Polymax Worldwide Limited was excluded from the consolidated financial statements because the entity is no longer operating as a going concern and is in the process of liquidation.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**V. SCHEDULE OF FINANCIAL RATIOS****FOR THE YEAR ENDED DECEMBER 31, 2007**

Financial Ratios	Description	2007	2006	2005
Current/liquidity ratio	Current assets over current liabilities	1.09	1.51	1.98
Asset to equity ratio	Total asset over total equity	7.04	2.34	1.87
Net debt to equity ratio	Interest – bearing loans and borrowings less cash and cash equivalents over total equity	(0.11)	0.39	0.34
Debt-to-equity ratio	Short-term loans over total equity	0.18	0.34	0.32
Solvency ratio	After tax net profit plus depreciation over total liabilities	(0.33)	(0.78)	(0.12)
Interest rate coverage ratio	Earnings (loss) before interest, tax over interest expense	(5.42)	0.31	(0.07)
Gross profit margin	Gross profit over net revenues	17%	24%	25%
Net income margin	Net income over net revenues	(253%)	(123%)	(30%)

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND
SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

AND

INDEPENDENT AUDITOR'S REPORT

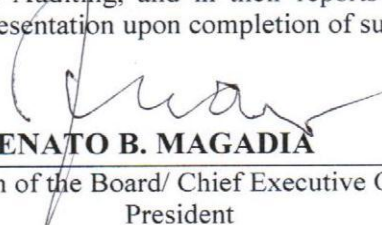


STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

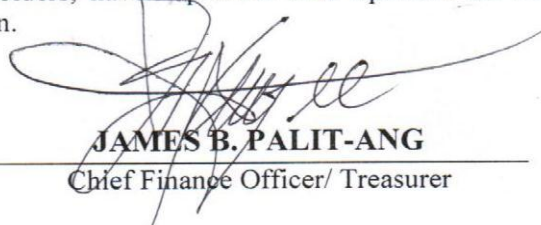
The management of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated financial statements and submits the same to the stockholders.

Uy, Singson, Abella & Co., CPAs and Valdes Abad & Associates., the independent auditors appointed by the stockholders for the years ended December 31, 2013 and 2012, respectively, have examined the consolidated financial statements of the Company and its subsidiaries in accordance with the Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinions on the fairness of presentation upon completion of such examination.


RENATO B. MAGADIA

Chairman of the Board/ Chief Executive Officer/
President


JAMES B. PALIT-ANG

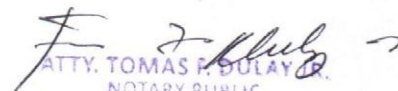
Chief Finance Officer/ Treasurer

CTC No. 10843235
Issued at Makati City
On January 13, 2014

CTC No. 13783087
Issued at Quezon City
On January 04, 2014

SUBSCRIBED AND SWORN TO before me this NOV 18 2014 at the QUEZON CITY, Metro Manila, Philippines. Affiant exhibiting to me his/her Community Tax Certificate as indicated below his/her name and signature above.

Doc. No. 137 ;
Page No. 28 ;
Book No. 294 ;
Series of 2014


ATTY. TOMAS R. BULAY JR.
NOTARY PUBLIC
Until December 31, 2014
ADM MATTER #. NP-061-2014-2015
PTR# 904238301-02 / 01-07-14 Q.C.
IBP# 915073 CY-2014 Q.C.
Roll No. 16583/03/13-61
TIN# 410225916
Add. 92 Legaspi St. Proj. 4 Q.C.
MCLE EXEMPTED # 000839

22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City, Metro Manila
Trunk Line: (632) 848-0848 • Fax: (632) 811-1998

INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Metro Alliance Holdings & Equities Corp. and Subsidiaries
22nd Floor Citibank Tower
8741 Paseo de Roxas
Makati City

We have audited the accompanying consolidated financial statements of Metro Alliance Holdings & Equities Corp. and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The accounts of a special purpose entity as shown in Note 9 were excluded in the consolidated financial statements since 2007 because the entity is no longer operating as a going concern and is in the process of liquidation.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of Metro Alliance Holdings & Equities Corp., and its subsidiaries as of December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of a Matter

Without qualifying our opinion, we draw attention to Notes 2 and 9 to the consolidated financial statements, which indicate that the Parent Company has advances to Polymax Worldwide Limited (Polymax) of ₱960.3 million as of December 31, 2013, and on the other hand, Polymax has past due liabilities of ₱994.7 million as of December 31, 2013, for which the Parent Company is jointly and severally liable. The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPC Alliance Corporation and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company. These factors may cast significant doubt about the Parent Company's ability to continue as a going concern. The consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern and do not include any adjustments that might result from the outcome of these uncertainties. Management's plan is to infuse additional capital to address these going concern uncertainties as explained in Note 16b to the consolidated financial statements.

Other Matter

The consolidated financial statements of Metro Alliance Holdings & Equities Corp. and its subsidiaries as of and for the years ended December 31, 2012 and 2011 were audited by other auditors whose report thereon dated October 10, 2014, expressed a qualified opinion because the accounts of a special purpose entity were excluded from the consolidated financial statements.

UY SINGSON ABELLA & CO.

Ma. Milagros F. Padernal

MA. MILAGROS F. PADERNAL

Partner

CPA Certificate No. 28591

SEC Accreditation No. 0316-AR-2 (Group A),

June 21, 2012, valid until June 20, 2015

Tax Identification No. 119-768-075

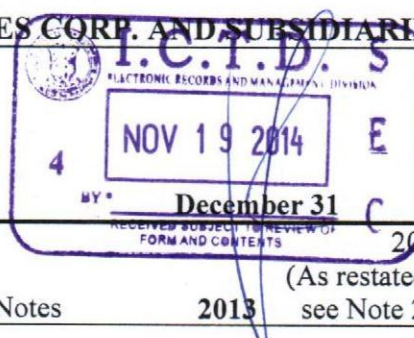
BIR Accreditation No. 07-000140-1-2013,

November 25, 2013, valid until November 24, 2016

PTR No. 9943752, February 6, 2014, Pasig City

October 10, 2014

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2013
(With Comparative Figures for 2012)



		December 31	2012	January 1
	Notes	2013	(As restated – see Note 24)	(As restated – see Note 24)
ASSETS				
Current Assets				
Cash	6	₱14,448,429	₱8,066,729	₱7,253,154
Receivables – net	7	75,886,415	73,568,350	60,867,289
Other current assets – net	8	21,061,390	18,877,134	18,055,581
		111,396,234	100,512,213	86,176,024
Asset held for sale	9	960,289,978	954,643,066	946,620,679
Total Current Assets		1,071,686,212	1,055,155,279	1,032,796,703
Noncurrent Assets				
Available-for-sale investments	10	6,133,013	7,179,274	47,902,783
Property and equipment – net	11	1,869,689	2,047,005	2,568,166
Deferred tax assets – net	19	4,609,814	5,946,172	7,940,614
Intangible assets	12	–	1,138,639	–
Total Noncurrent Assets		12,612,516	16,311,090	58,411,563
TOTAL ASSETS		₱1,084,298,728	₱1,071,466,369	₱1,091,208,266
LIABILITIES AND EQUITY				
Current Liabilities				
Accounts payable and accrued expenses	13	₱403,616,777	₱389,882,769	₱391,469,229
Due to related parties	15	574,961,241	574,076,093	581,120,631
Current portion of long-term debt	14	179,415	204,815	204,815
Total Current Liabilities		978,757,433	964,163,677	972,794,675
Noncurrent Liabilities				
Accrued retirement benefits costs	20	5,571,489	6,123,864	5,093,958
Long-term debt – net of current portion	14	–	162,789	449,853
Total Noncurrent Liabilities		5,571,489	6,286,653	5,543,811
Total Liabilities		984,328,922	970,450,330	978,338,486
Equity				
Equity attributable to equity holders of Parent Company				
Capital stock	16	306,122,449	306,122,449	306,122,449
Additional paid-in capital		3,571,921	3,571,921	3,571,921
Deficit		(220,699,716)	(215,807,027)	(215,153,286)
Remeasurement gain on retirement plan	24	2,347,003	321,117	32,874
Available-for-sale reserve	10	2,362,050	3,408,311	16,736,304
		93,703,707	97,616,771	111,310,262
Non-controlling interests		6,266,099	3,399,268	1,559,518
Total Equity		99,969,806	101,016,039	112,869,780
TOTAL LIABILITIES AND EQUITY		₱1,084,298,728	₱1,071,466,369	₱1,091,208,266

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Comparative Figures for 2012 and 2011)

			2012	2011
	Notes	2013	(As restated – see Note 24)	(As restated – see Note 24)
SALES OF SERVICES		₱123,507,591	₱98,062,261	₱145,377,482
COST OF SERVICES	17	103,411,399	73,398,403	118,849,010
GROSS PROFIT		20,096,192	24,663,858	26,528,472
Expenses	18	(23,442,443)	(23,712,319)	(49,678,835)
Finance costs	14	(48,960)	(49,300)	(46,920)
Interest income	6	86,243	28,341	23,545
Loss on disposal of available-for-sale investment	10	–	(11,672,743)	–
Other income	10	135,545	13,926,586	2,622,311
INCOME (LOSS) BEFORE INCOME TAX		(3,173,423)	3,184,423	(20,551,427)
BENEFIT FROM (PROVISION FOR) INCOME TAX	19			
Current		(2,985,313)	(523,133)	(592,403)
Deferred		2,186,439	(1,752,220)	1,504,248
		(798,874)	(2,275,353)	911,845
NET INCOME (LOSS)		(3,972,297)	909,070	(19,639,582)
OTHER COMPREHENSIVE INCOME				
<i>Item to be reclassified to profit or loss in subsequent periods:</i>				
Unrealized gain (loss) on available-for-sale investment	10	(1,046,261)	(1,050,766)	7,249,742
<i>Item not to be reclassified to profit or loss in subsequent periods:</i>				
Remeasurement gain on retirement plan, net of deferred income tax	20	3,972,325	565,182	64,459
		2,926,064	(485,584)	7,314,201
TOTAL COMPREHENSIVE INCOME (LOSS)		(₱1,046,233)	₱423,486	(₱12,325,381)
Net income (loss) attributable to:				
Equity holders of the Parent Company		(₱4,892,689)	(₱930,787)	(₱11,315,852)
Non-controlling interests		920,392	1,839,857	(8,323,730)
		(₱3,972,297)	₱909,070	(₱19,639,582)
Other comprehensive income (loss) attributable to:				
Equity holders of the Parent Company		₱979,625	(₱762,523)	₱7,282,616
Non-controlling interests		1,946,439	276,939	31,585
		₱2,926,064	(₱485,584)	₱7,314,201
Basic Loss Per Share	23			
Loss for the year attributable to equity holders of the Parent Company		(₱0.02)	(₱0.003)	(₱0.04)

See accompanying Notes to Consolidated Financial Statements

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Comparative Figures for 2012 and 2011)

	Notes	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax		(₱3,173,423)	₱3,184,423	(₱20,551,427)
Adjustments for:				
Provision for probable losses	7	1,739,762	1,416,530	3,965,344
Unrealized foreign exchange loss (gain)		1,640,269	(479,437)	(744,095)
Amortization of intangible assets	12, 18	1,412,513	32,532	–
Depreciation and amortization	11, 17, 18	1,088,965	1,350,536	3,930,378
Provision for retirement benefits costs	20	5,122,375	1,837,309	2,495,065
Interest expense	14	48,960	49,300	46,920
Interest income	6	(86,243)	(28,341)	(23,545)
Dividends	10	–	(1,562,537)	(2,622,311)
Gain on sale of property and equipment	11	–	(94,747)	–
Loss on disposal of available-for-sale investment	10	–	11,672,743	–
Unrealized gain on available-for-sale investment transferred to profit and loss	10	–	(12,277,227)	–
Decrease (increase) in:				
Receivables	7	(4,057,827)	(14,117,591)	8,840,184
Other current assets	8	(3,349,197)	(821,553)	(837,262)
Increase (decrease) in accounts payable and accrued expenses	13	13,734,008	(2,158,892)	(9,184,959)
Income taxes paid		–	–	(1,952,045)
Net cash flows provided by (used in) operating activities		14,120,162	(11,996,952)	(16,637,753)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	6	86,243	28,341	23,545
Increase in asset held for sale	9	(5,646,912)	(8,022,387)	(9,342,850)
Acquisitions of:				
Property and equipment	11	(911,649)	(926,768)	(1,079,581)
Intangible assets	12	(273,874)	(1,171,171)	–
Dividends received		–	1,562,537	2,622,311
Proceeds from:				
Sale of available-for-sale investments	10	–	28,000,000	–
Disposal of property and equipment	11	–	192,140	–
Decrease in other noncurrent assets		–	–	418,377
Net cash flows provided by (used in) investing activities		(6,746,192)	19,662,692	(7,358,198)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in due to related parties	15	(755,121)	(6,565,101)	20,409,885
Payment of long-term debt:	14			
Long-term debt		(188,189)	(237,764)	(145,327)
Interest paid		(48,960)	(49,300)	(46,920)
Net cash flows provided by (used in) financing activities		(992,270)	(6,852,165)	20,217,638
NET INCREASE (DECREASE) IN CASH		6,381,700	813,575	(3,778,313)
CASH AT BEGINNING OF YEAR		8,066,729	7,253,154	11,031,467
CASH AT END OF YEAR		₱14,448,429	₱8,066,729	₱7,253,154

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Comparative Figures for 2012 and 2011)

	Attributable to Equity Holders of the Parent Company						Non-controlling	Total Equity
	Capital Stock	Additional Paid-in Capital	Deficit	Remeasurement Gain (Loss) on Retirement Plan (Note 20)	AFS Reserve (Note 10)	Subtotal	Interests	
Balances at January 1, 2013, as previously restated	P306,122,449	P3,571,921	(P215,518,672)	P –	P3,408,311	P97,584,009	P3,367,790	P100,951,799
Effect of adoption of PFRS 19 (Note 24)	–	–	(288,355)	321,117	–	32,762	31,478	64,240
Balances at January 1, 2013, as restated	306,122,449	3,571,921	(215,807,027)	321,117	3,408,311	97,616,771	3,399,268	101,016,039
Net income (loss)	–	–	(4,892,689)	–	–	(4,892,689)	920,392	(3,972,297)
Other comprehensive income (loss)	–	–	–	2,025,886	(1,046,261)	979,625	1,946,439	2,926,064
As at December 31, 2013	P306,122,449	P3,571,921	(220,699,716)	P2,347,003	P2,362,050	P93,703,707	P6,266,099	P99,969,806
Balances at January 1, 2012, as previously stated	P306,122,449	P3,571,921	(P215,153,286)	P –	P16,736,304	P111,277,388	P1,527,933	P112,805,321
Effect of adoption of PRFS 19 (Note 24)	–	–	–	32,874	–	32,874	31,585	64,459
Balances at January 1, 2012, as restated	306,122,449	3,571,921	(215,153,286)	32,874	16,736,304	111,310,262	1,559,518	112,869,780
Net income, as previously stated	–	–	(365,386)	–	–	(365,386)	1,839,857	1,474,471
Effect of adoption of PFRS 19 (Note 24)	–	–	(288,355)	–	–	(288,355)	(277,046)	(565,401)
Net income, as restated	–	–	(653,741)	–	–	(653,741)	1,562,811	909,070
Other comprehensive income, as previously stated (Note 10)	–	–	–	–	(1,050,766)	(1,050,766)	–	(1,050,766)
Effect of adoption of PFRS 19 (Note 24)	–	–	–	288,243	–	288,243	276,939	565,182
Total comprehensive income, as restated	–	–	–	288,243	(1,050,766)	(1,416,264)	1,839,750	423,486
Unrealized gain on AFS investment transferred to profit and loss (Note 10)	–	–	–	–	(12,277,227)	(12,277,227)	–	(12,277,227)
Balances at December 31, 2012, as restated	P306,122,449	P3,571,921	(P215,807,027)	P321,117	P3,408,311	P97,616,771	P3,399,268	P101,016,039

(Forward)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013
(With Comparative Figures for 2012 and 2011)

	Attributable to Equity Holders of the Parent Company					Subtotal	Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Deficit	Remeasurement Gain (Loss) on Retirement Plan (Note 20)	AFS Reserve (Note 10)			
Balances at January 1, 2011, as previously stated	₱306,122,449	₱3,571,921	(₱203,837,434)	₱ –	₱9,486,562	₱115,343,498	₱9,851,663	₱125,195,161
Net income	–	–	(11,315,852)	–	–	(11,315,852)	(8,323,730)	(19,639,582)
Other comprehensive income, as previously stated	–	–	–	–	7,249,742	7,249,742	–	7,249,742
Effect of adoption of PFRS 19 (Note 24)	–	–	–	32,874	–	32,874	31,585	64,459
Total comprehensive income, as restated	–	–	(11,315,852)	32,874	7,249,742	(4,033,236)	(8,292,145)	(12,325,381)
Balances at December 31, 2011, as restated	₱306,122,449	₱3,571,921	(₱215,153,286)	₱32,874	₱16,736,304	₱111,310,262	₱1,559,518	₱112,869,780

See accompanying Notes to Consolidated Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting Entity

Corporate Information

Metro Alliance Holdings & Equities Corp. (MAHEC or the Parent Company) is incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Group”) are involved in contract logistics. Certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management had ceased operations.

The registered office address of the Parent Company is 22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City.

Approval of Financial Statements

The accompanying consolidated financial statements as of December 31, 2013 were approved and authorized for issue by the Board of Directors (BOD) on October 10, 2014.

2. Status of Operations

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern. As of December 31, 2013 and 2012, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, amounting to ₱ 960.3 million and ₱954.6 million, respectively, relating to the acquisition of the petrochemical plant of Bataan Polyethylene Corporation (BPC) involving a series of acquisition transactions described in the next section below. On the other hand, Polymax (jointly and severally with the Parent Company) has past due liabilities, including interest and penalties, amounting to ₱994.7 million and ₱993.6 million as of December 31, 2013 and 2012, respectively, which were obtained to partially finance the acquisition of the petrochemical plant, resulting from the transfer of past due loans as discussed in the next paragraph.

In 2007, the Parent Company unilaterally transferred to Polymax two significant past due liabilities totaling ₱866.7 million as of December 31, 2006 that were obtained (jointly and severally with Polymax) to partially finance the acquisition of the petrochemical plant, and applied these against the Parent Company’s advances to Polymax, in order to reflect the economic substance of the acquisition and related loan transactions as discussed in Note 9.

As explained in Note 9, the remaining 40% of Polymax’s interest in the petrochemical plant is for sale. The realization of the Parent Company’s advances to Polymax (an unconsolidated special purpose entity starting in 2007) and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, depend on whether sufficient cash flows can be generated from the sale

of Polymax's remaining 40% interest in NPC Alliance Corporation (NPCA) and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. As explained in Note 16b, management's plan is to infuse additional capital to address the going concern uncertainty.

Acquisition Transactions

On December 4, 2003, the Parent Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Parent Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Parent Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Parent Company; (b) the funding for the acquisition would be provided and arranged by the Parent Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Parent Company. In addition, the Parent Company would make certain advances to Polymax.

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Parent Company advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

To partially finance the Parent Company's advances relating to the Petrochemical Project, the Parent Company obtained short-term loans from local banks. With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Parent Company was unable to pay the bank loans on maturity dates. As of December 31, 2006, the amounts payable to the banks totaled ₱866.7 million, consisting of the outstanding principal balance of ₱378.3 million and finance charges of ₱488.4 million. In 2007, these past due liabilities were unilaterally transferred to and applied against the advances made to Polymax as discussed in Note 9.

Pursuant to the Parent Company's plan of acquiring full control of BPC, instead of exercising creditor rights, the Parent Company, on April 16, 2004, entered into a Share Purchase Agreement (SPA) with BPC, Tybalt Investment Limited (TIL), BP Holdings International B.V. (BPHI) and Petronas Philippines, Inc. (PPI), with TIL as the purchaser of the 83% interest of the foreign shareholders of BPC. As agreed by the parties, the SPA is to take effect as of March 31, 2004, subject to closing conditions, as defined in the SPA, which the parties have to comply with within a period of 60 days or later if the conditions are not met.

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 85 million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85 million.

On July 20, 2005, the Parent Company, Polymax and NPC International Limited (NPCIL) entered into an SPA which provided that, subject to certain conditions, including the

transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPCA from Polymax.

On August 9, 2005, Polymax and NPCA executed a Deed of Conveyance, transferring to NPCA, under an asset for share swap, the same petrochemical plant in exchange for 4.8 million shares of common stock of NPCA with a total par value of ₱4.8 billion, resulting in 100% ownership interest of Polymax in NPCA.

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85 million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

On December 16, 2005, Polymax, NPCI, Petrochemical Industries Investment Company (PIIC) and the Parent Company entered into an amended SPA whereby NPCI and PIIC will purchase 40% and 20% of NPCA's shares of common stock, respectively, from Polymax. In addition to the conditions set forth in the original SPA, the amended SPA also involves advances to be provided by NPCI amounting to US\$15 million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Parent Company, NPCI and PIIC entered into a Guarantee and Indemnity agreement whereby the Parent Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities, which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Parent Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

On March 18, 2006, Polymax, NPCI, PIIC and the Parent Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement entered on December 16, 2005. Under the March 2006 Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

On the same date, Polymax and NPCI executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to NPCI all the rights, title and interest in 19,090,000 NPCA shares of common stock, equivalent to 40% ownership interest, for a consideration of ₱1.91 billion.

On September 11, 2006, Polymax, NPCI, PIIC, the Parent Company and NPCA entered into another Agreement of Variation (September 2006 Variation Agreement) to further vary and amend the terms of the ARSPA and the Shareholders' Agreement (both initially

amended and varied by the March 2006 Variation Agreement). Polymax, in accordance with its obligations under the ARSPA, had notified NPCI and PIIC that it is aware that certain conditions will not be fulfilled by April 30, 2006. As a result, the parties agreed to transfer to PIIC the 9,545,000 NPCA shares of common stock prior to completion, while certain conditions will become conditions subsequent to be completed on December 31, 2006.

On September 20, 2006, Polymax and PIIC executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to PIIC all the rights, title and interest in 9,545,000 NPCA shares of common stock, equivalent to 20% ownership interest, for a consideration of ₱954.5 million.

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the petrochemical plant resulting in a dispute with the Parent Company and Polymax, who considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII, respectively, as null and void.

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC.

Subsequently on August 27, 2013, the Parent Company and Polymax entered into a settlement agreement with NPCI, PIIC and NAC to resolve, fully and finally, the dispute arising from the uncompleted acquisition transactions described above. Under the agreement, NCPI shall, among others, pay Polymax the remaining balance of the purchase price of the 60% NPCA shares net of deductions agreed by the parties. Simultaneous with the execution of the agreement, Polymax shall also sell to NPCI an additional 20% of Polymax's interest in NPCA from the remaining 40% equity holding in NPCA at US\$8 million or its equivalent in Philippine peso. In September 2013 and August 2014, the remaining balance due to Polymax was paid by NCPI and the 20% interest of Polymax in NPCA was sold to NCPI, respectively, in accordance with the agreement.

As a result of the foregoing settlement, the arbitration tribunal issued on October 2, 2014 an order for withdrawal of the arbitration cases (under the United Nations Commission on International Trade Law Rules of Arbitration), which were earlier filed by the parties due to the dispute arising from their various agreements.

3. Summary of Significant Accounting Policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) approved by the Philippine Financial Reporting Standards Council (PFRSC) and the SEC.

The consolidated financial statements have been prepared on the accrual basis using historical cost basis, except for available-for-sale (AFS) financial assets that are measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional and presentation currency. All values are rounded to the nearest million, except when otherwise indicated.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company, Metro Alliance Holdings and Equities Corp., and the following subsidiaries:

	Percentage of Ownership	
	2013	2012
Operating subsidiaries:		
Metro Combined Logistics Solutions, Inc. (MCLSI) (formerly GAC Logistics, Inc.)	51.00	51.00
Non-operating subsidiaries:		
Consumer Products Distribution Services, Inc. (CPDSI)	100.00	100.00
FEZ-EAC Holdings, Inc. (FEZ-EAC)	100.00	100.00
Zuellig Distributors, Inc. (ZDI)	100.00	100.00
Asia Healthcare, Inc. (AHI)	60.00	60.00

A subsidiary is an entity in which the Parent Company has control. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company.

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

Non-controlling Interests

Non-controlling interests represent the interests in subsidiaries which are not owned, directly or indirectly through subsidiaries, by the Parent Company. If losses applicable to the non-controlling interest in a consolidated subsidiary exceed the non-controlling interest's equity in the subsidiary, the excess, and any further losses applicable to non-controlling interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good of the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the interest's share of losses previously absorbed by the majority interest has been recovered.

Adoption of New Standards, Amendments to Standards and Interpretations

The PFRSC approved the adoption of new standards, amendments to standards, and interpretations.

Amendments to Standards and Interpretations Adopted in 2013

Starting January 1, 2013, the Group adopted the following new and amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- PFRS 10, *Consolidated Financial Statements*. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which

entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. Adoption of this standard has no significant impact on the consolidated financial statements.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*. The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. Adoption of this standard is reflected in the consolidated statement of comprehensive income.
- PAS 19, *Employee Benefits (Revised)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period. The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. Adoption of this standard resulted in the inclusion of additional disclosures in the consolidated financial statements (Note 20) and restatement of December 31 and January 1, 2012 accounts (Note 24).

- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). Adoption of this standard has no significant impact on the consolidated financial statements.
- PFRS 13, *Fair Value Measurement*. PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Adoption of this standard resulted in the inclusion of additional disclosures in the consolidated financial statements (see Note 25).

Annual Improvements to PFRSs (2009-2011 Cycle)

- *PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information.* These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has included comparative information in respect of the opening consolidated balance sheet as at January 1, 2012 since there is a retrospective application of an accounting policy.
- *PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments.* The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. This has no impact on the consolidated financial statements.

Future Changes in Accounting Policies

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been early adopted. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below.

Effective 2014

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments). These Amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these Amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

Effective in 2015

PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments). The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual Improvements to PFRSs (2010-2012 Cycle)

- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure

should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*. The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- PAS 24, *Related Party Disclosures – Key Management Personnel*. The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

Cash

Cash include cash on hand and in banks.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, AFS investments, FVPL financial assets and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 Profit) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' profit amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statement of comprehensive income.

Financial assets may be designated by management at initial recognition at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or
- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group has no financial assets at FVPL as of December 31, 2013 and 2012.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not

entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method. The Group's cash, receivables and refundable deposits (included under other current assets) are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that is an integral part of the effective interest rate.

Gains and losses are recognized in the consolidated statement of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no HTM investments as of December 31, 2013 and 2012.

AFS Investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are measured at fair value with unrealized gains or losses recognized as other comprehensive income in the unrealized gain (loss) on AFS investments account until the investment is derecognized, at which time the cumulative gain or loss is recognized in other income, or the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the unrealized gain (loss) on AFS investments account to profit or loss under other expense.

The Group's investments in equity securities included under the available-for-sale investments account are classified under this category.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group has no derivative liabilities as of December 31, 2013 and 2012.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Included in this category are the Group's accounts payable and accrued expenses (excluding payable to government agencies and reserves for contingencies), due to related parties and long-term debt.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an

impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of comprehensive income, is transferred from equity to the consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

Asset Held for Sale

An asset is classified as asset held for sale when its carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is highly probable. Asset held for sale is stated at the lower of its carrying amount and fair value less costs to sell.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period such 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization of property and equipment commences once the fixed assets are available for use and is calculated on a straight-line basis over the following estimated useful lives:

	Number of Years
Leasehold improvements	5 years or lease term, whichever is shorter
Machinery and equipment	3 to 10
Office furniture, fixtures and equipment	2 to 5

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

When an asset is sold or retired, its cost and related accumulated depreciation and amortization and any impairment in value are eliminated from the accounts. Any gain or loss resulting from its disposal is credited to or charged against current operations.

Intangible Assets

Intangible assets pertaining to software license costs that are acquired separately are initially carried at cost. Subsequently, intangible assets with definite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which do not exceed three years in 2012.

The remaining useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Non-financial Asset with Definite Useful Life

The carrying values of property and equipment and intangible 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 if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. 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 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 of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital stock is measured at par value for all shares issued. Proceeds of consideration received in excess of par value are recognized as additional paid-in capital.

Revenue

Revenue is recognized to the extent that is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Revenue is recognized as follows:

Logistics and Other Services

Revenue is recognized when the related services are rendered.

Interest

Interest income is recognized as it accrues, taking into account the effective yield of the asset.

Dividend Income

Dividend income is recognized when the right to receive the payment is established.

Expenses

Expenses are recognized as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Borrowing Costs

Borrowing costs are generally expensed as incurred, unless there are qualifying assets that require capitalization of borrowing costs.

Retirement Benefits Costs

The Parent Company and MCLSI provide for estimated retirement benefits to be paid under Republic Act (RA) No. 7641, Retirement Law, to all their permanent employees. MCLSI has a funded, non-contributory defined benefit retirement plan, administered by a trustee, covering its permanent employees. The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit actuarial valuation method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur.

The net defined liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period, reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Retirement benefits costs include service cost, net interest on the net defined obligation or asset and remeasurements of net defined benefit obligation or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as part of cost of services and expenses in the consolidated statements of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined obligation or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined

benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

The net retirement benefits liability recognized by the Group is the aggregate of the present value of the defined benefit obligation at the end of the balance sheet date reduced by the fair value of plan assets, adjusted for any effect of limiting a net pension asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine peso using the prevailing exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated to Philippine peso using the prevailing exchange rate at balance sheet date. Foreign exchange gains or losses arising from the translation at balance sheet date or settlement of monetary items at rates different from those at which they were initially recorded are credited to or charged against current operations.

Income Tax

Income tax for the year comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authority. The tax rates and tax laws used to compute the current tax are those that are enacted and substantively enacted as of balance sheet date.

Current income tax relating to items recognized directly in equity, if any, is recognized in equity and not in profit or loss.

Deferred Tax

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at reporting date. A

deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO and MCIT can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax relating to other comprehensive income, if any, is recognized in the other comprehensive income section of the consolidated statements of comprehensive income.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of outstanding shares. The Parent Company has no dilutive potential common shares that would require disclosure of diluted earnings per share in the consolidated statement of comprehensive income.

Segments

The Group's operating businesses are recognized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serve different markets. Financial information on business segments are presented in Note 5.

Provisions

Provisions are recognized only when the Group has (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

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 are disclosed when an inflow of economic benefits is probable.

Events After the End of Reporting Period

Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial

statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as these become reasonably determinable.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Consolidation of SPE

An entity is considered a SPE and included in consolidation even in cases when the Parent Company owns less than one-half or none of the SPE's equity, when the substance of the relationship between the Parent Company and the SPE indicates that the SPE is controlled by the Parent Company. While the Parent Company has no ownership interest in Polymax, this SPE was included in the 2006 consolidated financial statements and prior years. However starting in 2007, the SPE was no longer consolidated because it had ceased operating as a going concern (see Note 9).

Operating Lease Commitments – Group as Lessee

The Group has various operating lease agreements for their respective offices and warehouses. The Group has determined that the risks and rewards of ownership of the underlying properties have been retained by their respective lessors. Accordingly, these leases are accounted for as operating leases (see Note 21).

Contingencies

The Group is currently involved in various legal proceedings, which are normal to its business as discussed in Note 28. The Group's estimate of the probable costs for these proceedings and resolution of these claims have been developed in consultation with outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group does not believe that these legal proceedings will have a material adverse effect on its consolidated financial statements. It is possible, however, that changes in estimates relating to these proceedings may materially affect results of operations.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting period, which have a significant risk of causing material

adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimating Allowance for Probable Losses

The Group reviews the carrying amounts of receivables, creditable withholding and input taxes (under other current assets) and advances to Polymax (under asset held for sale) at each balance sheet date and reduces the balance of these assets to their estimated recoverable amounts.

Receivables (net of allowance for doubtful accounts of ₱149.1 million and ₱147.4 million as of December 31, 2013 and 2012, respectively) amounted to ₱75.9 million and ₱73.6 million as of December 31, 2013 and 2012, respectively (see Note 7).

The carrying amount of other current assets amounted to ₱21 million and ₱18.9 million as of December 31, 2013 and 2012, respectively, as discussed in Note 8. Allowance on probable losses, mainly pertaining to creditable withholding and input taxes, amounted to ₱14.1 million as of December 31, 2013 and 2012 as shown also in Note 8.

Advances to Polymax (under asset held for sale) amounting to ₱960.3 million and ₱954.6 million as of December 31, 2013 and 2012, respectively, constitute 89% of the Group's total assets at the end of 2013 and 2012. The realization of the Parent Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company, as discussed in Note 9.

Estimating Useful Lives and Residual Values of Property and Equipment and Intangible Assets

The Group estimates the useful lives and residual values of its property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives and residual values based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment and intangible assets would increase depreciation and amortization expenses, while an increase in the estimated useful lives would decrease depreciation and amortization expenses.

There has been no change in the Group's estimate of the useful lives and residual values of its property and equipment in 2013 and 2012.

In 2013, MCLSI's management assessed that there is a significant change from the previous estimates and estimated useful life of its intangible assets to one year, since the assets will no longer provide future economic benefit to the Company as disclosed in Note 12.

Evaluation of Impairment of Noncurrent Nonfinancial Assets

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash generating unit to which the asset belongs.

Management believes that there was no indication of impairment on property and equipment as of December 31, 2013 and 2012. As of December 31, 2013 and 2012, property and equipment, net of accumulated depreciation and amortization, amounted to ₱1.9 million and ₱2 million, respectively, as shown in Note 11 and total depreciation and amortization charged to operations amounted to ₱1.1 million in 2013, ₱1.4 million in 2012 and ₱3.9 million in 2011 (see Notes 17 and 18).

Intangible assets as of December 31, 2013 have been fully depreciated as a result of the change in the estimated useful lives of the assets, while the carrying value amounted to ₱1.1 million as of December 31, 2012 as shown in Note 12.

Fair Value of Financial Assets and Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted market prices and interest rates). In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity. The fair value of financial assets and liabilities are enumerated in Note 25.

Impairment of AFS Investments

The Group treats AFS financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Group treats "significant" generally as a decline of 20% or more below of the original cost of the investment, and "prolonged" as period longer than 12 months. In addition, the Group evaluates other factors for AFS investments with no quoted bid prices such as changes in the issuer's industry and sector performances, legal and regulatory framework, technology, and other factors that affect the recoverability of the investments.

Deferred Tax Assets

The Group reviews the carrying amounts of deferred taxes at each reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The recognized net deferred tax assets amounted to ₱4.6 million and ₱6 million as of December 31, 2013 and 2012, respectively (see Note 19).

The Group did not recognize deferred tax assets of the Parent Company and its non-operating subsidiaries amounting to ₱48.6 million and ₱48.8 million as of December 31,

2013 and 2012, respectively, as management believes that the Parent Company and its non-operating subsidiaries may not have sufficient future taxable profits available to allow utilization of these deferred tax assets as discussed in Note 19.

Retirement Benefits

The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. These assumptions are describe in Note 20 to the consolidated financial statements and include, among others, discount rates, salary increase rates and expected rates of return on plan assets. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, will generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Accrued retirement benefits costs amounted to ₱5.6 million and ₱6.1 million as of December 31, 2013 and 2012, respectively (see Note 20).

5. Segment Information

The Group's business activities are conducted in the Philippines and it is primarily in the contract logistics and supply chain management segment in 2013 and 2012.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, other current assets, asset held for sale and property and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses, due to related parties and long-term debt.

The financial information with regard to the Group's significant business segments as of December 31, 2013 and 2012 and for the years then ended is presented below.

2013

	Distribution and Contract Logistics	Other Businesses	Total
External Sales	₱123,507,591	₱ –	₱123,507,591
Results			
Segment result	₱4,147,695	(₱5,853,677)	(₱1,705,982)
Other income (expense)	(1,471,228)	3,787	(1,467,441)
Provision for income tax	(798,117)	(757)	(798,874)
Net income (loss)	₱1,878,350	(₱5,850,647)	(₱3,972,297)
Other Information			
Segment assets	₱67,684,247	₱1,016,614,481	₱1,084,298,728
Segment liabilities	47,926,521	936,402,401	984,328,922
Capital expenditures	911,649	–	911,649
Depreciation and amortization	1,082,681	6,284	1,088,965
Noncash items other than depreciation and amortization	9,835,854	79,065	9,914,919

2012

	Distribution and Contract Logistics	Other Businesses	Total (As restated – see Note 24)
External Sales	₱98,062,261	₱ –	₱98,062,261
Results			
Segment result	₱5,487,495	(₱5,036,001)	₱451,494
Other income	542,425	2,190,504	2,732,929
Provision for income tax	(2,275,110)	(243)	(2,275,353)
Net income (loss)	₱3,754,810	(₱2,845,740)	₱909,070
Other Information			
Segment assets	₱55,110,373	₱1,016,803,024	₱1,071,913,397
Segment liabilities	41,203,322	929,694,036	970,897,358
Capital expenditures	926,768	12,650	939,418
Depreciation and amortization	1,344,251	6,285	1,350,536
Noncash items other than depreciation and amortization	1,838,058	(546,027)	1,292,031

2011

	Distribution and Contract Logistics	Other Businesses	Total (As restated – see Note 24)
External Sales	₱145,377,482	₱ –	₱145,377,482
Results			
Segment result	(₱18,618,076)	(₱4,532,287)	(₱23,150,363)
Other income	718,602	1,880,334	2,598,936
Benefit from (provision for) income tax	912,269	(424)	911,845
Net loss	(₱16,987,205)	(₱2,652,377)	(₱19,639,582)
Other Information			
Segment assets	₱50,377,573	₱1,040,830,693	₱1,091,208,266
Segment liabilities	40,854,973	937,483,513	978,338,486
Capital expenditures	1,073,375	6,205	1,079,580
Depreciation and amortization	3,928,310	2,068	3,930,378
Noncash items other than depreciation and amortization	5,638,592	79,065	5,717,657

6. Cash

Details of cash are as follows:

	2013	2012
Cash on hand	₱76,000	₱84,520
Cash in banks	14,372,429	7,982,209
	₱14,448,429	₱8,066,729

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱86,243 in 2013, ₱28,341 in 2012 and ₱23,545 in 2011.

7. Receivables

Details of receivables are as follows:

	2013	2012
Notes	₱138,710,706	₱138,710,706
Trade	32,530,015	28,607,221
Due from related parties (Note 15)	11,094,487	16,362,908
Others	42,655,653	37,252,199
	224,990,861	220,933,034
Less allowance for probable losses	149,104,446	147,364,684
	₱75,886,415	₱73,568,350

The notes receivable bear interest at 3.5% per annum and are payable in 365 days on demand, subject to renewal upon mutual consent. Notes receivable are considered impaired and covered with allowance for probable losses; accordingly, no interest income was recognized in 2013, 2012 and 2011.

Trade receivables are non-interest bearing and are generally on 30 to 60 days' credit terms.

Due from related parties are noninterest bearing and have no fixed repayment terms.

Other receivables pertain to advances subject for liquidation.

The movements in the allowance for probable losses follow:

	2013	2012
Balance at beginning of year	₱147,364,684	₱146,877,514
Provision for the year	1,739,762	1,416,530
Write-off of accounts	—	(929,360)
Balance at end of year	₱149,104,446	₱147,364,684

8. Other Current Assets

Details are as follows:

	2013	2012
Creditable withholding taxes	₱22,527,724	₱21,589,609
Input taxes	8,942,359	8,756,944
Refundable deposits	713,285	856,167
Prepayments and others	3,005,503	1,801,895
	35,188,871	33,004,615
Less allowance for probable losses	14,127,481	14,127,481
	₱21,061,390	₱18,877,134

9. Asset Held for Sale

Asset held for sale amounting to ₱960,289,978 and ₱954,643,066 as of December 31, 2013 and 2012, respectively, which constitutes 89% of the Group's total assets as of December 31, 2013 and 2012, represents advances to Polymax, the Parent Company's special purpose entity incorporated in British Virgin Islands solely for the purpose of acquiring the petrochemical plant of NPCA as discussed in Note 2.

On March 18 and September 20, 2006, Polymax's interest in NPCA of 40% and 20%, respectively, was sold. Thereafter, Polymax's management decided to discontinue operations, cease operating as a going concern, and exclude the accounts of Polymax in the Group's consolidated financial statements. The remaining 40% interest of Polymax in NPCA, which is for sale, is valued at ₱900 million, which is the estimated recoverable amount from sale of the investment (see Note 2 for details).

The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities related to the asset for sale, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA. In this regard and to ensure the recoverability of the Parent Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, the Parent Company's major stockholders issued a letter of comfort in favor of the Parent Company on September 30, 2014.

Condensed unaudited financial information of Polymax as of December 31, 2013 and 2012 prepared on the liquidation basis of accounting is shown in the table below.

	2013	2012
Assets		
Asset held for sale	₱900,000,000	₱900,000,000
Due from related parties	485,685,120	485,685,120
Total assets	1,385,685,120	1,385,685,120
Liabilities		
Liabilities related to asset held for sale	994,668,446	993,637,892
Due to Metro Alliance Holdings & Equities Corp.	960,289,978	954,643,066
Other payable	49,030,000	49,030,000
Total liabilities	2,003,988,424	1,997,310,958
Capital deficiency	₱618,303,304	₱611,625,838

Asset held for sale of Polymax pertains to the estimated recoverable value of Polymax's remaining 40% interest in NPCA.

Due from related parties represents amount due from the Wellex group of companies.

Liabilities related to asset held for sale of Polymax as of December 31, 2013 and 2012 pertain to past due liabilities, which were obtained to finance the purchase of 100% ownership interest in NPCA. The Parent Company is jointly and severally liable with Polymax with respect to these past due liabilities. These liabilities were previously carried

in the books of the Parent Company but were unilaterally transferred to Polymax in 2007 and partially applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms, as discussed in Note 2.

The increase in Polymax's capital deficiency by ₱6.8 million in 2013 and ₱37.4 million in 2012 pertains to:

	(In Million)	
	2013	2012
Interest and penalties	₱6.8	₱24.8
Foreign exchange loss on dollar denominated assets held for sale	–	12.6
Net loss	₱6.8	₱37.4

Polymax's share in the net loss of NPCA amounted to ₱201.9 million in 2013 and ₱233.2 million in 2012; however, this was not recognized in both years so that the carrying value of Polymax's investment in NPCA will not fall below its estimated recoverable amount from sale of ₱900 million.

10. Available-for-sale Investments

Available-for-sale investments consist of investments in shares of Mabuhay Vinyl Corporation (MVC) and others that are quoted in the local stock exchange, as well as investments in unlisted shares. Movements of the account follow:

	2013	2012
Balance at beginning of year	₱7,179,274	₱47,902,783
Disposal	–	(39,672,743)
Net change in the fair value gain (loss) of AFS investments	(1,046,261)	(1,050,766)
Balance at end of year	₱6,133,013	₱7,179,274

The movements in net unrealized gain on AFS investments are as follows:

	2013	2012
Balance at beginning of year	₱3,408,311	₱16,736,304
Loss due to changes in fair market value of AFS investments	(1,046,261)	(1,050,766)
Unrealized gain on AFS investments transferred to profit and loss	–	(12,277,227)
Balance at end of year	₱2,362,050	₱3,408,311

The net unrealized gain on AFS investments are deferred and presented separately as AFS reserve under the equity section of the consolidated balance sheet.

In 2012, AFS investment with a carrying value of ₱39,672,743 was sold to a major stockholder for ₱28 million, resulting to a loss on sale of AFS investment of ₱11,672,743.

Dividends earned from AFS investments, which are included in other income, amounted to ₱1,562,537 in 2012 and ₱2,622,311 in 2011.

11. Property and Equipment

2013

	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
January 1	₱694,644	₱18,339,405	₱14,620,036	₱33,654,085
Acquisitions	–	345,020	566,629	911,649
December 31	694,644	18,684,425	15,186,665	34,565,734
Accumulated Depreciation and Amortization				
January 1	694,644	17,540,750	13,371,686	31,607,080
Depreciation and amortization	–	581,683	507,282	1,088,965
December 31	694,644	18,122,433	13,878,968	32,696,045
Net Book Value	₱ –	₱561,992	₱1,307,697	₱1,869,689

2012

	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
January 1	₱694,644	₱18,150,754	₱14,438,598	₱33,283,996
Acquisitions	–	428,059	498,709	926,768
Disposals	–	(239,408)	(317,271)	(556,679)
December 31	694,644	18,339,405	14,620,036	33,654,085
Accumulated Depreciation and Amortization				
January 1	678,084	16,988,381	13,049,365	30,715,830
Depreciation and amortization	16,560	693,405	640,571	1,350,536
Disposals	–	(141,036)	(318,250)	(459,286)
December 31	694,644	17,540,750	13,371,686	31,607,080
Net Book Value	₱ –	₱798,655	₱1,248,350	₱2,047,005

Transportation equipment included under office furniture, fixtures and equipment with a carrying value of ₱79,310 and ₱173,040 as of December 31, 2013 and 2012, respectively, is mortgaged as collateral for long-term debt as discussed in Note 14.

12. Intangible Assets

Intangible assets pertain to non-exclusive software license costs for use in MCLSI's warehouse management system. The carrying amount of intangible assets as of December 31, 2013 and 2012 are as follows:

2013

	Short Messaging	Warehouse Management System	Total
Cost			
January 1	₱ –	₱1,171,171	₱1,171,171
Acquisitions	135,135	138,739	273,874
December 31	135,135	1,309,910	1,445,045
Accumulated Amortization			
January 1	–	32,532	32,532
Amortization	135,135	1,277,378	1,412,513
December 31	135,135	1,309,910	1,445,045
Net Book Value	₱ –	₱ –	₱ –

Intangible asset in 2012 pertains to warehouse management system as shown below.

Cost	
January 1	₱ –
Acquisitions	1,171,171
December 31	1,171,171
Accumulated Amortization	
January 1	–
Amortization	32,532
December 31	32,532
Net Book Value	₱1,138,639

Intangible assets have been fully amortized in 2013 as MCLSI's management assessed that these will no longer provide a future economic benefit to MCLSI.

13. Accounts Payable and Accrued Expenses

Details of this account are as follows:

	2013	2012
Trade payables	₱28,625,491	₱24,810,298
Accrued expenses	353,844,337	344,551,947
Accrued finance charges – related parties (Note 15)	7,034,470	6,896,540
Other liabilities	14,112,479	13,623,984
	₱403,616,777	₱389,882,769

Trade payables are noninterest bearing and have credit terms of 30 to 60 days.

Accrued expenses and other liabilities include provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

Provisions relate to pending claims jointly and severally against the Parent Company and Polymax and pending claims and tax assessment solely against the Parent Company. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the related claims and tax assessments.

Other liabilities mainly pertain to payable to government agencies.

14. Long-term Debt

Long-term debt represents loans obtained by MCLSI and is classified as follows:

	2013	2012
Current portion	₱179,415	₱204,815
Noncurrent portion	—	162,789
	₱179,415	₱367,604

On July 21, 2009, MCLSI entered into two loan agreements for a total principal amount of P988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 (for the first contract) and August 22, 2014 (for the second contract). The two loans are collateralized by transportation equipment as discussed in Note 11. Total interest expense on the loans amounted to ₱48,960 in 2013, ₱49,300 in 2012 and P46,920 in 2011.

15. Related Party Transactions

a. Due from/to related parties

The amounts due from related parties included under receivables are unsecured and noninterest bearing advances, which have no definite repayment terms.

The amounts due to related parties mainly pertain to advances provided to the Parent Company to finance its working capital requirements, capital expenditures, Petrochemical Project support and for other investments and have no definite repayment terms. Amounts due to related parties also include advances obtained by MCLSI from Gulf Agency Company Holdings (BV), its foreign stockholder, to be used in carrying out its operations. These are unsecured and noninterest bearing, except the liability to WPI, which is interest bearing but the related finance charges

are being charged to Polymax, since the corresponding liability were obtained in relation to the Petrochemical Project.

b. Compensation of key management personnel follows:

	2013	2012	2011
Short-term employee benefits	₱10,147,884	₱6,577,210	₱7,685,211
Retirement benefits (Note 20)	1,656,702	954,256	1,078,248
	₱11,804,586	₱7,531,466	₱8,763,459

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under their respective entity's retirement plan.

c. The related amounts applicable to the Group's transactions with related parties are as follows:

	Amount of Transactions Increase (Decrease)		Outstanding Receivable/Payable	
	2013	2012	2013	2012
<u>Asset Held For Sale</u>				
Advances to Polymax (special purpose entity) (Note 9)	₱5,646,912	₱8,022,387	₱960,289,978	₱954,643,066
<u>Due from Related Parties (Note 7)</u>				
The Wellex Group, Inc.	(₱5,268,421)	₱7,668,421	₱10,801,000	₱16,069,421
Others	—	—	293,487	293,487
	(₱5,268,421)	₱7,668,421	₱11,094,487	₱16,362,908
<u>Due to Related Parties under Common Control</u>				
Waterfront Philippines, Inc. (WPI)	₱6,896,540	₱6,761,314	₱368,976,125	₱362,079,585
Acesite (Phils.) Hotel Corporation	—	—	6,239,733	6,239,733
Wellex Mining Corp.	—	—	225,000	225,000
Gulf Agency Company Holdings (BV)	1,640,269	(1,541,105)	22,567,469	20,927,200
The Wellex Group, Inc.	—	(16,692,965)	—	—
GAC Shipping and Cargo System (Phils.), Inc.	—	(158,109)	—	—
Stockholders	—	—	181,753,940	181,753,940
Others	(7,651,661)	4,586,327	(4,801,026)	2,850,635
	₱885,148	(₱7,044,538)	₱574,961,241	₱574,076,093
<u>Accrued Finance Charges (Note 13)</u>				
WPI	₱137,930	₱135,227	₱7,034,470	₱6,896,540

16. Capital Stock

- a. The Group's capital stock as of December 31, 2013 and 2012 consists of the following common shares:

Class "A" – ₱1 par value	
Authorized – 720,000,000 shares	
Issued and outstanding – 183,673,470 shares	
Number of equity holders – 676 in 2013 and 2012	₱183,673,470
Class "B" – ₱1 par value	
Authorized – 480,000,000 shares	
Issued and outstanding – 122,448,979 shares	
Number of equity holders – 421 in 2013 and 2012	122,448,979
	<u>₱306,122,449</u>

The two classes of common shares are identical in all respects, except that Class "A" shares are restricted to Philippine nationals and the total number of Class "B" shares is limited to two-thirds of the total outstanding Class "A" shares.

- b. On July 25, 2003, the Parent Company's stockholders approved the increase in authorized capital stock from ₱1.2 billion consisting of 1.2 billion shares to ₱5 billion consisting of 5 billion shares, both with par value of ₱1 per share. The increase did not push through because of dispute in the acquisition of the Petrochemical Project, which was finally settled in 2013 as discussed in Note 2. After final settlement of the dispute, the Parent Company's management has decided to pursue the said increase in authorized capital stock of the Parent Company.

17. Cost of Services

Details of this account are shown below.

	2013	2012 (As restated – see Note 24)	2011
Personnel costs (Note 20)	₱47,541,272	₱43,689,222	₱75,544,370
Transportation and travel	18,598,302	10,161,152	8,911,615
Rent and utilities (Note 21)	17,743,639	10,144,763	15,579,507
Outside services	6,111,552	3,617,612	5,274,484
Communication and office supplies	1,987,168	1,922,590	3,630,016
Security services	705,030	790,225	4,162,106
Depreciation and amortization (Note 11)	530,749	867,297	1,607,469
Others	10,193,687	2,205,542	4,139,443
	<u>₱103,411,399</u>	<u>₱73,398,403</u>	<u>₱118,849,010</u>

Others mainly pertain to amortization of auxiliary materials, insurance, marketing expenses, repairs and maintenance and dues and subscriptions.

18. Expenses

Details of this account are shown below.

	2013	2012	2011
Personnel costs (Note 20)	₱7,846,973	₱11,765,274	₱22,847,109
Entertainment	3,467,271	1,964,499	1,769,764
Professional fees	2,531,495	2,854,257	3,436,668
Provision for probable losses (Notes 7 and 8)	1,739,762	1,416,530	3,965,344
Amortization of intangible assets (Note 12)	1,412,513	32,532	–
Rent and utilities (Note 21)	1,199,467	1,255,923	2,044,972
Taxes and licenses	789,464	1,332,109	6,669,055
Communication and supplies	745,487	718,336	1,090,949
Transportation and travel	662,406	771,385	2,398,180
Depreciation and amortization (Note 11)	558,216	483,239	2,322,909
Others	2,489,389	1,118,235	3,133,885
	₱23,442,443	₱23,712,319	₱49,678,835

19. Income Taxes

- a. The components of the Group's provision for (benefit from) income tax are as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Current income tax			
RCIT	₱2,984,556	₱ –	₱ –
Final tax	757	243	4,339
MCIT	–	522,890	588,064
	2,985,313	523,133	592,403
Deferred tax expense (benefit)	(2,186,439)	1,752,220	(1,504,248)
	₱798,874	₱2,275,353	(₱911,845)

- b. The reconciliation of the provision for (benefit from) income tax loss computed at the statutory tax rate with the provision for (benefit from) income tax shown in the consolidated statements of comprehensive income is as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Provision for (benefit from) income tax loss at statutory tax rate	(P952,027)	P955,327	(P6,165,428)
Tax effects of:			
Expired NOLCO applicable to:			
Parent Company and its non-operating subsidiaries	1,172,624	683,277	4,234,073
Nondeductible interest and other expenses	867,825	4,114,959	2,210,247
Change in unrecognized deferred tax assets	(264,811)	(224,046)	(597,299)
Unrealized gain on available-for-sale investment transferred to profit and loss	–	(3,683,168)	–
Expired MCIT applicable to MCLSI	–	436,784	195,979
Interest and dividends	(24,737)	(7,780)	(789,417)
	P798,874	P2,275,353	(P911,845)

- c. The components of MCLSI's net deferred tax assets are the tax effects of the following:

	2013	2012 (As restated – see Note 24)
Deferred tax assets:		
Allowance for probable losses	P2,737,193	P2,215,264
Accrued retirement benefits costs	1,380,540	1,569,973
Unrealized foreign exchange loss	492,081	–
NOLCO	–	524,920
MCIT	–	1,820,373
Past service costs	–	262,670
	4,609,814	6,393,200
Deferred tax liability:		
Unrealized foreign exchange gain	–	447,028
Net deferred tax assets	P4,609,814	P5,946,172

- d. Deferred tax assets of the Parent Company and its non-operating subsidiaries amounting to P48,564,052 and P48,828,863 as of December 31, 2013 and 2012, respectively, pertaining to the items shown below, have not been recognized as management believes that the Parent Company and its non-operating subsidiaries may not have sufficient taxable profits or tax liabilities against which these deferred tax assets may be utilized.

	2013	2012
Allowance for probable losses	₱152,462,352	₱152,462,352
NOLCO	8,448,136	9,409,905
Accrued retirement benefits costs	969,685	890,620
	₱161,880,173	₱162,762,877

The NOLCO can be claimed as deduction from regular taxable income as follows:

Year Incurred	Year Expiring	2013	2012
2009	2012	₱ –	₱2,277,590
2010	2013	3,908,748	3,908,748
2011	2014	3,710,548	3,710,548
2012	2015	1,790,609	1,790,609
2013	2016	2,946,979	–
		12,356,884	11,687,495
Expired NOLCO		(3,908,748)	(2,277,590)
		₱8,448,136	₱9,409,905

20. Retirement Benefits Costs

The Parent Company has an unfunded, non-contributory defined benefit retirement plan providing retirement benefits to its regular employee. MCLSI has a funded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of MCLSI's fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date.

The following tables summarize the components of net retirement expense recognized in the consolidated statement of comprehensive income and the funding status and amounts recognized in the consolidated balance sheet.

The components of retirement expense which were charged to operations are as follows:

	2013	2012	2011
		(As restated – see Note 24)	(As restated – see Note 24)
Current service cost	₱4,762,327	₱1,542,680	₱1,960,479
Interest cost	360,048	294,629	677,831
Net actuarial loss recognized	–	–	261,497
Expected return on plan assets	–	–	(4,742)
Total retirement expense	₱5,122,375	₱1,837,309	₱2,895,065

The details of the retirement obligation recognized in the consolidated balance sheets are as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Present value of benefit obligation	₱5,652,947	₱6,202,300	₱5,168,955
Fair value of plan assets	(81,458)	(78,436)	(74,997)
Liability recognized in the balance sheet	₱5,571,489	₱6,123,864	₱5,093,958

The changes in present value of retirement obligation are as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Present value of obligation at beginning of year	₱6,202,300	₱5,168,955	₱7,935,790
Current service cost	4,762,327	1,542,680	1,960,479
Interest cost on benefit obligation	365,444	299,789	677,831
Benefits paid	–	–	(407,748)
Actuarial gain loss on benefit obligation	(5,677,124)	(809,124)	(4,997,397)
Present value of obligation at end of year	₱5,652,947	₱6,202,300	₱5,168,955

The changes in the fair value of plan assets and actual return on plan assets are as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Fair value of plan assets at beginning of year	₱78,436	₱74,997	₱79,028
Expected return on plan assets	5,396	5,160	4,742
Actuarial loss on plan assets	(2,374)	(1,721)	(1,025)
Benefits paid	–	–	(7,748)
Fair value of plan assets at end of year	₱81,458	₱78,436	₱74,997
Actual return on plan assets	₱3,022	₱3,439	₱3,717

Movements in the net liability recognized in the current period are as follows:

	2013	2012 (As restated – see Note 24)	2011 (As restated – see Note 24)
Liability recognized at beginning of the year	₱6,123,864	₱5,093,958	₱2,690,977
Retirement expense	5,122,375	1,837,309	2,895,065
Other comprehensive income	(5,674,750)	(807,403)	(92,084)
Benefits paid	–	–	(400,000)
	₱5,571,489	₱6,123,864	₱5,093,958

The movement in the recognized actuarial gain in the financial positions over the year is as follows:

	2013	2012 (As restated – see Note 24)	2012 (As restated – see Note 24)
Retirement benefits costs – OCI, beginning	₱899,487	₱92,084	(₱5,165,785)
Actuarial gain on defined benefit obligations	5,677,124	809,124	4,997,397
Actuarial loss on plan assets	(2,374)	(1,721)	(1,025)
Loss recognized	–	–	261,497
Retirement benefits costs – OCI, ending	₱6,574,237	₱899,487	₱92,084

The major categories of plan assets are as follows:

	2013	2012	2011
Cash and cash equivalents	₱2,076	₱1,552	₱2,892
Investment in Unit Investment Trust Funds	79,382	76,884	72,105
	₱81,458	₱78,436	₱74,997

Relevant amounts for December 31, 2013 and 2012 are as follows:

	2013	2012	2011
Present value of obligation	₱5,652,947	₱6,202,300	₱5,168,955
Fair value of plan assets	81,458	78,436	74,997
Deficit	5,571,489	6,123,864	5,093,958
Experience adjustment gain (loss) on:			
Benefit obligation	5,677,124	809,124	4,997,397
Plan assets	(2,374)	(1,721)	(1,025)

The assumptions used to determine retirement benefits costs for the years ended December 31 are as follows:

	2013	2012	2011
Discount rate	5.78%	6.88%	9%
Salary increase rate	5%	5%	10%
Expected rate of return on plan assets	5%	5%	6%

The expected rate of return on plan assets assumed at a range of 5% to 6% was based on a reputable fund trustee's indicative yield rate for a risk portfolio similar to that of the fund with consideration of the fund's past performance.

A quantitative sensitivity analysis for significant assumption as at December 31, 2013 is as shown below:

Impact on Net Defined Benefit Obligation	Sensitivity Level			
	2% Increase		2% Decrease	
	In %	Amount	In %	Amount
Discount rate	6.78%	₱3,882,414	6.00%	₱5,664,232
Future salary increases	4.78%	5,693,261	4.00%	3,888,239

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The discount rate and the future salary increase rate assumed was 5.78% and 5%, respectively.

The average duration of the defined plan obligation at the end of the reporting period is 21.12 years.

21. Leases

Operating leases pertains to the leases entered into by MCLSI of a warehouse, which is renewable upon agreement of the parties, and office space, both for a period of two years. The lease contract for the warehouse provides for prepaid rent and rental security deposits equivalent to one month rental amounting to ₱354,640.

At reporting date, MCLSI has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013	2012
Within one year	₱5,556,000	₱4,396,439
After one year but not more than five years	63,000	123,000
	₱5,619,000	₱4,519,439

Rentals incurred during the year on the above leases are recognized as follows:

	2013	2012
Cost of services	₱17,469,092	₱9,958,343
Operating expense	761,929	717,369
	₱18,231,021	₱10,675,712

In 2013, MCLSI also entered into a new lease contract for its office space for a period of one year up to January 31, 2015, which is renewable subject to terms and conditions as may be mutually agreed upon by the parties. The contract also provides for deposit equivalent to two months' rental representing one month security deposit and one month advance rental. The advance rental shall be applied to the first month of the lease term. The deposit shall be non-interest bearing and shall apply to whatever valid claims in case of the pre-termination of the lease term.

22. Logistics Agreements

MCLSI has agreements with principals to provide logistics operations services, specifically warehousing and managing delivery of the principals' products to their key accounts and sub-distributors nationwide. Under the terms of these agreements, the principals shall pay MCLSI the agreed monthly fees plus reimbursement of certain warehouse expenses.

23. Basic Loss Per Share

The following table presents the information necessary to compute the basic loss per share attributable to equity holders of the Parent Company:

	2013	2012 (As restated - Note 24)	2011 (As restated- Note 24)
Net loss attributable to equity holders of the Parent Company	₱4,892,689	₱930,787	₱11,315,852
Weighted average number of common shares	306,122,449	306,122,449	306,122,449
Basic Loss Per Share	₱0.02	₱0.003	₱0.04

24. Restatement of Accounts

PAS 19 (Revised) introduces changes to the recognition, measurement, presentation and disclosure of retirement benefits. The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of year.

- a. Reconciliation of Accrued Retirement Benefits Costs, Deferred Tax Assets and Equity.

	Accrued Retirement Benefits Costs		Deferred Tax Assets – Net		Equity	
	December 31	January 1	December 31	January 1	December 31	January 1
As previously reported	₱6,215,637	₱5,186,042	₱5,973,705	₱7,968,239	₱100,951,799	₱112,805,321
Effect of change in accounting policy	(91,773)	(92,084)	(27,533)	(27,625)	64,240	64,459
As Restated	₱6,123,864	₱5,093,958	₱5,946,172	₱7,940,614	₱101,016,039	₱112,869,780

- b. Reconciliation of Net Income.

	December 31, 2012
Net income as previously reported	₱1,474,471
Effect of change in accounting policy - net of tax	(565,401)
Net income as restated	₱909,070

25. Financial Assets and Liabilities

The following table summarizes the carrying and fair values of the Group's financial assets and liabilities as of December 31, 2013 and 2012:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash	₱14,448,429	₱14,448,429	₱8,066,729	₱8,066,729
Receivables	75,886,415	75,886,415	73,568,350	73,568,350
AFS investments	6,133,013	6,133,013	7,179,274	7,179,274
Refundable deposits	713,285	713,285	856,167	856,167
	₱97,181,142	₱97,181,142	₱89,670,520	₱89,670,520
Financial Liabilities				
Accounts payable and accrued expenses	₱34,907,183	₱34,907,183	₱38,098,334	₱38,098,334
Due to related parties	574,961,241	574,961,241	574,076,093	574,076,093
Long-term debt	179,415	179,415	367,604	367,604
	₱610,047,839	₱610,047,839	₱612,542,031	₱612,542,031

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Current Financial Assets and Liabilities

Due to the short-term nature of the transactions, the carrying values of cash, receivables, refundable deposits, accounts payable and accrued expenses, due to related parties and current portion of long-term debt approximate their fair values.

AFS Investments

The fair values of publicly traded instruments and similar investments are based on quoted bid prices. Unquoted AFS equity securities are carried at cost, subject to impairment.

Long-term Debt

The carrying value of the noncurrent portion of long-term debt approximates the fair value, which is determined to be the present value of future cash flows using the prevailing market rate as the discount rate.

26. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash, AFS investments, due from (to) related parties and long-term debt. The main purpose of these financial instruments is to finance the Group's operations. The Group's other financial assets and liabilities include receivables, refundable deposits and accounts payable and accrued expenses, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The BOD reviews and approves the policies for managing these risks which are summarized below:

Credit Risk

It is the Group's policy to require all concerned related and/or third party to comply and undergo a credit verification process with emphasis on their capacity, character and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized. The Group deals only with legitimate parties. As to other financial assets of the Group like cash, the credit risk arises only in case of default of the counterparty and the maximum exposure is limited to the carrying amount of the instruments.

Financial information on the Company's maximum exposure to credit risk as of December 31, 2013 and 2012, without considering the effects of collaterals and other risk mitigation techniques are presented below.

	2013	2012
Cash	₱14,448,429	₱8,066,729
Receivables	75,886,415	73,568,350
Refundable deposits	713,285	856,167
	₱91,048,129	₱82,491,246

The table below presents the credit quality of financial assets and an analysis of past due accounts.

2013

	High Grade	Medium Grade	Past due but not impaired	Total
Cash	₱14,448,429	₱ –	₱ –	₱14,448,429
Receivables	19,488,604	12,206,963	44,190,848	75,886,415
Refundable deposits	713,285	–	–	713,285
	₱34,650,318	₱12,206,963	₱44,190,848	₱91,048,129

2012

	High Grade	Medium Grade	Past due but not impaired	Total
Cash	₱8,066,729	₱ –	₱ –	₱8,066,729
Receivables	13,773,980	10,341,514	49,452,856	73,568,350
Refundable deposits	856,167	–	–	856,167
	₱22,696,876	₱10,341,514	₱49,452,856	₱82,491,246

The credit quality of receivables is managed by the Group using internal credit quality ratings. High and medium grade accounts consist of receivables from debtors with good financial standing and with relatively low defaults. The Group constantly monitors the receivables from these customers in order to identify any adverse changes in credit quality. The allowance for doubtful accounts is provided for those receivables that have been identified as individually impaired.

Liquidity Risk

The Group's objective is to maintain a balance between flexibility and continuity of funding. However, because of the default on the payment of interest and principal amortizations on existing debts, the Group's access to funds has been limited to those of its related parties in the form of advances. Current working capital requirements will continue to be sourced from short-term loans and advances from related parties.

2013				
	On Demand	Within 1 Year	More than 1 Year	Total
Cash	₱14,448,429	₱ –	₱ –	₱14,448,429
Receivables	–	75,828,750	–	75,828,750
Refundable deposits	–	713,285	–	713,285
	14,448,429	76,542,035	–	90,990,464
AFS investments	–	–	6,133,013	6,133,013
	₱14,448,429	₱76,542,035	₱6,133,013	₱97,123,477
Accounts payable and accrued expenses	₱ –	₱34,907,183	₱ –	₱34,907,183
Due to related parties	–	574,961,241	–	574,961,241
Long-term debt	–	179,415	–	179,415
	₱ –	₱610,047,839	₱ –	₱610,047,839

2012				
	On Demand	Within 1 Year	More than 1 Year	Total
Cash	₱8,066,729	₱ –	₱ –	₱8,066,729
Receivables	–	73,568,350	–	73,568,350
Refundable deposits	–	856,167	–	856,167
	8,066,729	74,424,517	–	82,491,246
AFS investments	–	–	7,179,274	7,179,274
	₱8,066,729	₱74,424,517	₱7,179,274	₱89,670,520
Accounts payable and accrued expenses	₱ –	₱38,098,334	₱ –	₱38,098,334
Due to related parties	–	574,076,093	–	574,076,093
Long-term debt	–	204,815	162,789	367,604
	₱ –	₱612,379,242	₱162,789	₱612,542,031

27. Capital Management

The primary objectives of the Group's capital management are to safeguard the ability of the entities in the Group to continue as a going concern and maximize shareholder value by maintaining the appropriate capital structure that supports the business objective of the entities. The BOD of the Group's entities has overall responsibility for monitoring capital in proportion to risk. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions, by issuing new shares and making adjustments on payments to related parties, existing debts and dividends to shareholders.

The Group is not subject to externally-imposed capital requirements.

The Group's interest bearing loans from third parties amounted to ₱179,415 and ₱367,604 as of December 31, 2013 and 2012, respectively, while the equity attributable to equity holders of the Parent Company less any reserves is shown in the table below.

	2013	2012
Capital stock	₱306,122,449	₱306,122,449
Additional paid-in-capital	3,571,921	3,571,921
Deficit	(220,699,716)	(215,807,027)
	₱88,994,654	₱93,887,343

28. Other Matters

- d. On July 5, 2002, the Parent Company received a decision from the Court of Tax Appeals (CTA) denying the Parent Company's Petition for Review and ordering the payment of ₱83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Parent Company filed a Motion for Reconsideration on July 31, 2002 but this was subsequently denied by the CTA. A Petition for Review was filed with the CTA on November 8, 2002, which was also denied by the CTA. The Parent Company then appealed the decision of the CTA to the Court of Appeals (CA), which likewise denied the appeal and upheld the assessment against the Parent Company. The Parent Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

On July 9, 2004, the Parent Company received the CA resolution denying the Motion for Reconsideration. On July 22, 2004, the Parent Company filed with the CA a Motion for Extension of time to file an appeal to the Supreme Court (SC). On August 20, 2004, the Parent Company filed said appeal. On October 20, 2004, the Parent Company received the resolution of the SC denying its Petition for Review for lack of reversible error. The Parent Company filed a Motion for Reconsideration. On January 10, 2005, the SC issued an Order stating that it found no ground to sustain the Parent Company's appeal and dismissed the Parent Company's petition with finality.

On April 26, 2006, the Parent Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Motion for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue. As of October 10, 2014, the Parent Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

- e. On September 14, 2005, the Parent Company and a third party filed a civil action against a local bank for the imminent extra-judicial foreclosure of the properties of the third party which are used as real estate mortgage for additional loans from the local bank amounting to ₱42 million, which the Parent Company maintains has never been received.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction (first injunction). As of October 10, 2014, the case is still pending with the same court. Trial on the merits of the case has not been started as the Parent Company, through its counsel, filed an Amended Complaint with an Urgent Application for the Issuance of Writ of Preliminary Injunction after the first injunction was nullified by the Court of Appeals and affirmed by the SC. The Parent Company and its legal counsel are positive that the court will sustain their position.

There are also other pending legal cases against the Parent Company and certain subsidiaries. Based on the facts of these cases, management of the Parent Company and certain subsidiaries believes that their positions have legal merits and the resolution thereof will not materially affect the Company's financial position and result of operations.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
AS AT DECEMBER 31, 2013

I. Supplemental schedules required by Annex 68-E	
A. Financial assets	Attached
B. Amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties)	Attached
C. Amounts of receivables and payable from/to related parties which are eliminated during consolidation process of financial statements	Attached
D. Intangible assets – other asset	Attached
E. Long-term debt	Attached
F. Indebtedness to related parties (Long-term loans from related parties)	Not applicable
G. Guarantees of securities of other issuers	Not applicable
H. Capital stock	Attached
II. Schedule of all the effective standards and interpretations	Attached
III. Reconciliation of retained earnings available for dividend declaration	Not applicable
IV. Map of the relationships of the Company within the Group	Attached
V. Schedule of Financial Ratios	Attached

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
I. SUPPLEMENTAL SCHEDULES REQUIRED BY ANNEX 68-E
AS AT DECEMBER 31, 2013

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and rates	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
Cash	–	₱14,448,429	₱14,448,429	₱86,243
AFS Financial Assets				
Waterfront Philippines, Inc.	–	₱5,101,350	₱5,101,350	–
Valley Golf Country Club	–	369,100	369,100	–
Philippine Long Distance Telephone Company	–	296,188	296,188	–
Capitol Golf Club	–	140,000	140,000	–
Marlan Research Corp.	–	87,500	87,500	–
Others	–	138,875	138,875	–
	–	₱6,133,013	₱6,133,013	–

Schedule B. Amounts of Receivable from Directors Officers Employees Related Parties and Principal Stockholders (Other Than Related Parties)

Name and designation of debtor	Balance at beginning of period	Amounts (collected) /transferred	Amounts written-off	Current	Non-current	Balance at end of period
Polymax Worldwide Limited (special purpose entity)	₱954,643,066	₱5,646,912 (5,268,421)	₱–	₱960,289,978	₱–	₱960,289,978
The Wellex Group, Inc.	16,069,421	)	–	10,801,000	–	10,801,000
Others	293,487	–	–	293,487	–	293,487
	₱971,005,974	₱378,491	₱–	₱971,384,465	₱–	₱971,384,465

Schedule C. Amounts of Receivable from and Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements

Account	January 1, 2013	Additions	Deductions		Current	Non Current	December 31, 2013
			Amount Collected	Amount Written Off			
Due to related party - Metro Combined Logistics Solutions, Inc.	P-	P500,000	P-	P-	P500,000	P-	P500,000

Schedule D. Intangible Assets – Other Asset

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
Short messaging	P -	P135,135	(P135,135)	P-	P-	P-
Warehouse management system	1,138,639	138,739	(1,277,378)	-	-	-
Total	P1,138,639	P273,874	(P1,412,513)	P-	P-	P-

Schedule E. Long-term Debt

Title of issue	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long term debt" in related balance sheet
Bank loans	P988,800	P179,415	P-

Schedule F. Indebtedness to Related Parties (Long Term Loans from Related Parties)

Name of related party	Balance at beginning of period	Balance at end of period
-----------------------	--------------------------------	--------------------------

Not Applicable

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
--	---	---	---	---------------------

Not Applicable

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common – Class A	720,000,000	183,673,470	–	156,590,387	125,115	26,957,968
Common - Class B	480,000,000	122,448,979	–	85,139,552	22,001,000	15,308,427
	1,200,000,000	306,122,449	–	241,729,939	22,126,115	42,266,395

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
**II. SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
AS AT DECEMBER 31, 2013**

The following table summarizes the effective standards and interpretations as at December 31, 2013:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements				
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRS*	Not Early Adopted		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition*	Not Early Adopted		
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination*	Not Early Adopted		
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements*	Not Early Adopted		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Asset*	Not Early Adopted		
PFRS 9	Financial Instruments*	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Investment Entities*	Not Early Adopted		
PFRS 11	Joint Arrangements			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Investment Entities*	Not Early Adopted		
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivables and payables*	Not Early Adopted		
	Amendments to PFRS 13: Investment portfolio*	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Presentation of financial statements – Clarification of the requirements for comparative information	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
	Amendments to PAS 12 - Deferred Taxes: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Classification of Servicing Equipment			✓
	Amendments to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation*	Not Early Adopted		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures*	Not Early Adopted		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution*	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel*	Not Early Adopted		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities*	Not Early Adopted		
PAS 28	Investments in Associates			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 32: Classification of Right			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
	Issues			
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments*	Not Early Adopted		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets*	Not Early Adopted		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization*	Not Early Adopted		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting*	Not Early Adopted		
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or owner Occupied Property*	Not Early Adopted		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning,			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
	Restoration and Similar Liabilities			
IFRIC 2	Members' Share in Cooperative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2-Group and Treasury Share Transactions			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC 14: Prepayments to a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate*	Not Early Adopted		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distribution of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of Surface Mine			✓
IFRIC 21	Levies (IFRIC 21)*	Not Early Adopted		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
SIC 7	Introduction of the Euro			✓
SIC 10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC 12	Consolidation – Special Purpose Entities			✓
	Amendment to SIC 12: Scope of SIC 12			✓
SIC 13	Jointly Controlled Entities – Non-monetary Contributions by Venturers			✓
SIC 15	Operating Leases – Incentives			✓
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC 29	Service Concession Arrangements: Disclosures			✓
SIC 31	Revenue – Barter Transactions Involving Advertising Services			✓
SIC 32	Intangible Assets – Web Site Costs			✓

Note: Standards and interpretations tagged as “Not applicable” are those standards which were adopted but the entity has no significant covered transactions as at and for the year ended December 31, 2013.

**Standards and interpretations which will become effective subsequent to December 31, 2013*

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

III. RECONCILIATION OF RETAINED EARNINGS AVAILABLE

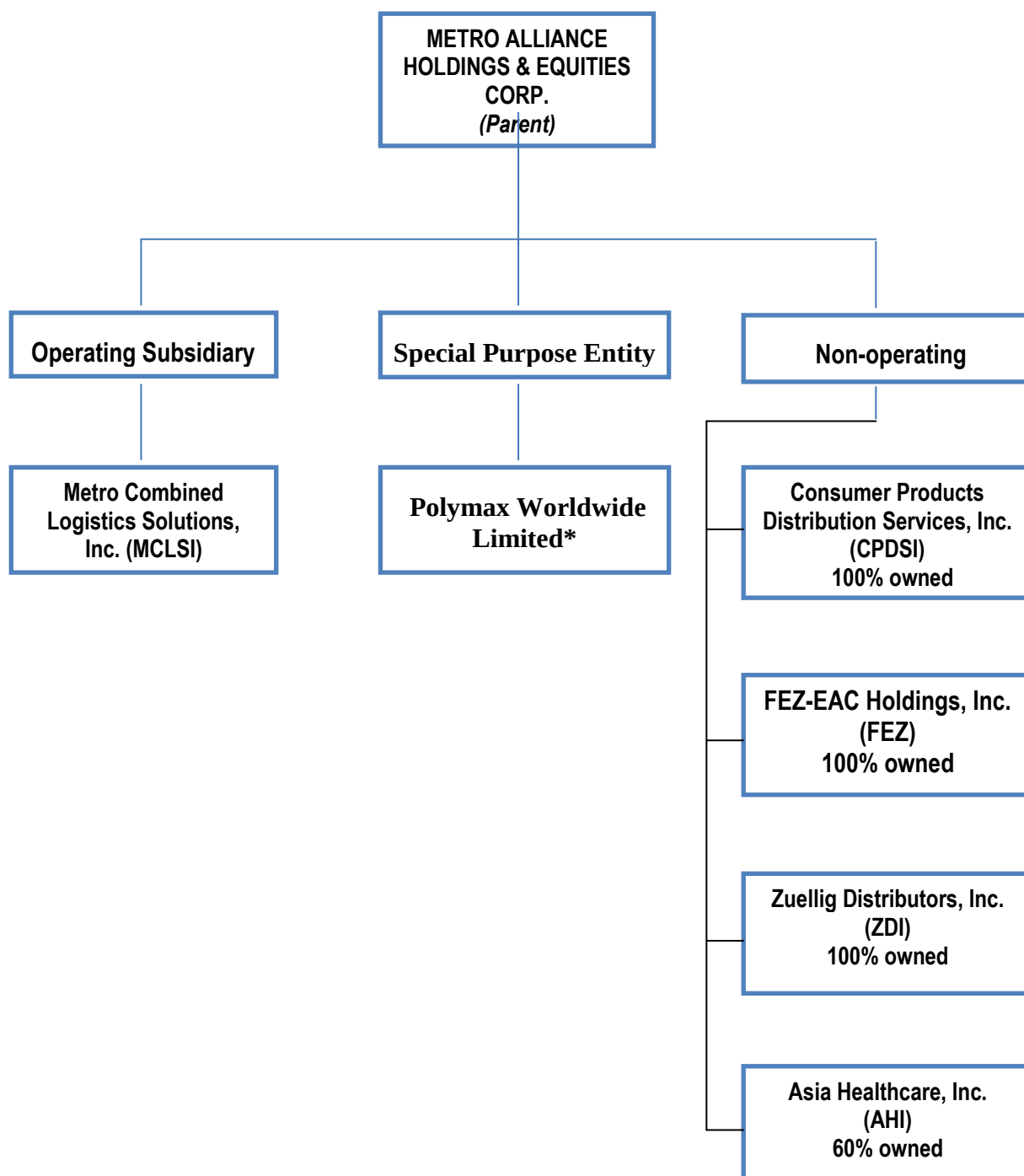
FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2013

Not Applicable*

*The Parent Company’s Retained Earnings as of December 31, 2013 did not exceed its 100% of paid-in capital stock since it is in a deficit position.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
IV. MAP OF THE RELATIONSHIP OF THE COMPANY WITHIN THE GROUP
FOR THE YEAR ENDED DECEMBER 31, 2013



*Polymax Worldwide Limited was excluded from the consolidated financial statements since 2007 because the entity is no longer operating as a going concern and is in the process of liquidation.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
V. SCHEDULE OF FINANCIAL RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2013

Financial Ratios	Description	2013	2012	2011
Current/liquidity ratio	Current assets over current liabilities	1.09	1.09	1.06
Asset to equity ratio	Total asset over total equity	10.85	10.61	9.67
	Interest – bearing loans and borrowings less cash			
Net debt to equity ratio	and cash equivalents over total equity	(0.14)	(0.08)	(0.06)
Debt-to-equity ratio	Short-term loans over total equity	–	–	–
	After tax net profit plus depreciation over total liabilities	(0.001)	0.00	(0.02)
Solvency Ratio				
Interest rate coverage ratio	Earnings before interest and taxes over interest expense	(63.82)	65.59	(437.01)
Gross profit margin	Gross profit over net revenues	16%	25%	18%
Net income margin	Net income over net revenues	(3%)	1%	(14%)

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND
SUBSIDIARIES**

**INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED
SEPTEMBER 30, 2014 AND 2013**

(UNAUDITED)

COVER SHEET

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SEC Registration No.

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(Company's Full Name)

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P	A	S	E	O		D	E		R	O	X	A	S	,		M	A	K	A	T	I		C	I	T	Y			
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(Business Address : No. Street City / Town / Province)

Atty. Nestor S. Romulo																			
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Contact Person

(632) 706-7888									
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Contact Telephone No.

1	2		3	1
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Fiscal Year

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FORM TYPE

Any day in May									
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Month Day
Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

820

Total No. of Stockholders

Total Amount of Borrowings

Php 984,328,922

Domestic

-

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Cashier

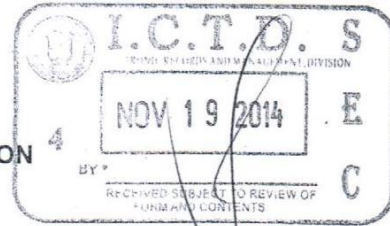
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SECURITIES AND EXCHANGE COMMISSION

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 endedSeptember 30, 2014
2. Commission identification number...296 3. BIR Tax Identification No.....000-130-411-000.
4. Metro Alliance Holdings & Equities Corp.
Exact name of issuer as specified in its charter
5. Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: SEC use Only)
7. 22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City 1226
Address of issuer's principal office Postal Code
8. (632) 848-0848
Issuer's telephone number, including area code
9. Not applicable
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Class A	183,673,470
Common Class B	122,448,979
Outstanding Debt	P984,328,922

11. Are any or all of the securities listed on a Stock Exchange?

Yes [☒] No [☐]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippines Stock Exchange

Common Class A and Class B

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or 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 twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes ☐ No ☒

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

Yes ☒ No ☐

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Please see attached Consolidated Balance Sheets, Income Statements, Changes in Stockholders' Equity, Cash Flows and Notes to Interim Consolidated Financial Statements (Annex A.1 to 5).

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

☐ Unaudited Income Statement

Income Statement	Amounts in P'000			
	Jul – Sept 2014	Jul – Sept 2013	Jan – Sept 2014	Jan – Sept 2013
Sales and services	P 26,938	P 29,272	P 80,814	P 87,817
Cost of sales and services	(9,058)	(7,745)	(27,173)	(23,236)
Gross profit	17,880	21,527	53,641	64,581
Expenses	(18,172)	(20,530)	(54,517)	(61,591)
Net Income (Loss)	(292)	997	(875)	2,990
Earnings (Loss) Per Share	(P 0.001)	P 0.003	(P 0.003)	P 0.010

☐ Unaudited Balance Sheet

Balance Sheet	Amounts in P'000		
	Sept. 30, 2014	Sept. 30, 2013	Dec. 31, 2013
Current assets	1,111,356	1,067,144	1,071,686
Noncurrent assets	15,029	16,631	12,613
Total Assets	1,126,385	1,083,775	1,084,299
Current liabilities	1,025,724	977,187	978,757
Noncurrent liabilities	5,541	6,916	5,572
Total Liabilities	1,031,265	984,103	984,329
Stockholder's Equity	95,120	99,672	99,970
Total Liabilities and Stockholder's Equity	1,126,385	1,083,775	1,084,299

The following companies are included in Metro Alliance consolidated financial statement: MCLSI, CPDSI, FEZ-EAC, ZDI and AHI. The Group's last audited consolidated financial statements was for the year ended December 31, 2006. Due to uncertainties surrounding the acquisition transactions of the Bataan petrochemical plant, the scope of the 2007-2013 audits was completed by the independent auditors and the reports was approved by the Board of Directors on October 10, 2014.

The Group, having resolved its disputes with the foreign parties involved in the Bataan petrochemical project, will commence to explore business opportunities. As of report date, biggest contributor to the Group's revenue is its logistic arm, MCLSI when it steadily growing for the past several years after. The Group will reorganize its operations; evaluate its remaining assets; review all pending legal cases; and settle and resolve its outstanding issues with other regulatory government bodies. The Group assures the public that it will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

b) Key Performance Indicators

Metro Alliance and its majority-owned subsidiaries key performance indicators follow:

Metro Alliance

Metro Alliance's key performance indicators include the following:

6. Net income
7. Earnings per share – net income attributable to each share of common stock
(net income / weighted number of shares outstanding)
Return on average equity – ability to generate returns on investment of stockholders.
(net income / average equity)
8. Debt to total asset ratio – the proportion to total assets financed by creditors.
(total debt / total assets)
9. Debt to Equity ratio – an indicator of which group has the greater representation in
the assets of the company
(total debt / equity)

The financial ratios of Metro Alliance are not stable due to its significant investment on the Petrochemical Project.

Metro Alliance parent company financial statements registered unaudited net loss of (P874,817) for the third quarter of 2014 as compared to the third quarter of 2013, net income amounts to P2.9 million due to MCLSI's decrease in lease contracts and aggravated further by its unfavorable cost.

The decrease in net income (or the incurrence of net loss in 2014) resulted to the increase in loss per share and loss on average equity.

Comparative analysis of Metro Alliance's key performance indicators follows:

Performance indicator	Sept 30 2014	Dec 31 2013	Sept 30 2013
Net income (loss) - in millions Php	(874,817)	(3,972,297)	2,990,485
Income (loss) per share (in Php)	(0.003)	(0.013)	0.010
Income (loss) on average equity (In Php)	(0.009)	(0.040)	0.030
Debt to total assets	0.912	0.908	0.908
Debt to equity	10.433	9.876	9.846

MCLSI Logistics, Inc.

MCLSI's key performance indicators include the following:

29. Profitability
 - a. Gross profit margin – measures the profitability of revenues (services) in relation to the cost of services
(gross profit / revenues)
 - b. Net profit margin – ability to generate surplus for stockholders.
(net income / sales)
 - c. Return on assets – ability to generate returns from assets.
(net income / assets)
 - d. Return on equity – ability to generate returns on investment of stockholders.
(net income / stockholders equity)
30. Liquidity ratios
 - a. Current ratio – capacity to meet current obligations out of its liquid assets
(current assets / current liabilities)
 - b. Receivables turnover and days' sales in receivables – measures the ability to collect receivables
(net credit sales / average trade receivables)
(365 days / receivables turnover)

The decrease in MCLSI's gross profit resulted mainly from the termination of some contracts. With the decrease in operating income, net profit margin, return on assets and return on equity decreased. Current ratio decreased due to the increase in accruals and other payables. In addition, turnover of receivables resulted to a slower collections compared to last year.

Comparative analysis of MCLSI's key performance indicators follows:

Performance indicator	Sept 30 2014	Dec 31 2013	Sept 30 2013
Profitability			
a. Gross profit margin	0.664	0.163	0.735
b. Net profit margin	(0.011)	(0.032)	0.034
c. Return on assets	(0.001)	(0.004)	0.003
d. Return in equity	(0.009)	(0.004)	0.030
Liquidity			
a. Current ratio	1.083	1.095	1.092
b. Receivables turnover	1.128	1.653	1.263
c. Days' sales in receivables	323	221	289

Consumer Products Distribution Services, Inc. (CPDSI), FEZ-EAC Holdings, Inc.(FEZ-EAC),
Zuellig Distributors, Inc. (ZDI) and Asia Healthcare, Inc. (AHI)

Currently, CPDSI, FEZ-EAC, ZDI and AHI have no performance indicators because these are non-operating companies.

b) Changes in Operating Results

Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of P0.2 million for the 3rd quarter of 2014 as against net income of P0.9 million for the 3rd quarter of 2013 or a decrease of P1.1 million or 122%. Earnings (loss) per share are (P0.001) for the 3rd quarter of 2014 and P0.003 for the 3rd quarter of 2013. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group. The decrease is due to net effect of reduction or termination of MCLSI's lease and logistics contracts amounting to P7.8 million, fixed expenses incurred by non-operating subsidiaries such as depreciation expense of remaining fixed assets, personnel cost, professional fees (legal fee for pending cases and retainer fee of stock transfer agent), etc.

Sales and Services

The Group registered gross service revenue of P26.9 million and P29.3 million for the quarters ended September 30, 2014 and 2013. The decrease in revenue of P2.4 million or 8% for the 3rd quarter of 2014 is due to reduction or termination of some of MCLSI's lease and logistics contracts.

Cost of Sales and Services

Total cost of sales and services for the quarters ended September 30, 2014 and 2013 amounted to P9.1 million and P7.7 million, respectively. The increase of P1.4 million or 18% is due to higher cost of delivery of products and services such as fluctuations in oil prices used by delivery trucks and electricity rates, security services and maintenance cost of warehouse facilities. With lower lease and logistics contracts, fixed expenses are still incurred contributing to the higher cost for the 3rd quarter of 2014.

Operating Expenses

Total operating expenses of the Group for the 3rd quarter of 2014 amounted to P18.2 million as compared to P20.5 million for the 3rd quarter of 2013 or a decrease of P2.3 million or 11%. The decrease is net effect of decrease in personnel cost (P.5 million), professional fees (P0.9 million), depreciation expense since some of the fixed assets already reached their useful life last year and general and administrative expenses (P0.9 million).

Other income (expenses)

Other income (charges) for the quarters ended September 30, 2014 and 2013 amounted to (P19,640) and (P29,615), respectively or a decrease of P9,975 or 34%. The account pertains to net balance from finance cost, interest income and dividend income. A lesser finance cost was recorded for the 3rd quarter of 2014.

c) Changes in Financial Conditions

Assets

Cash and cash equivalents for the 3rd quarter of 2014 and 2013 and as of December 31, 2013 amounted to P22.5 million, P22.6 million and P14.4 million, respectively. Business operations are usual for both quarters of 2014 and 2013, thus level of cash is almost the same. The increase by P8.1 million or 56% as of 3rd quarter of 2014 is net effect of collection of receivables (P8.6 million), payment of advances to related parties (P1.4 million), and advances to Polymax for its working capital requirements (P0.1 million).

Receivables amounted to P67.3 million as of 3rd quarter of 2014, P75.9 million as of December 31, 2014 and P65.5 million as of 3rd quarter of 2013 (net of allowance for doubtful accounts of P10.3 million in 3rd quarter of 2014 and December 31, 2013 and P8.6 million as of September 30, 2013). Trade and other receivables went up by P1.8 million in 3rd quarter of 2014 as compared to 3rd quarter of 2013 due to the net effect of increase of trade receivables (P7.9 million), decrease in due from affiliates (P5.3 million), increase of in other receivables (P1 million) and additional provision for doubtful accounts (P1.8 million). The decrease of P8.5 million in 3rd quarter of 2014 as against December 31, 2013 is due to net effect of increase in trade receivables (P1.5 million) and decrease in other receivables (P10 million). Other receivables represent non-interest bearing receivables from third party business partners of Polymax that are subject to liquidation and advances to related parties. The Group reviews the carrying amount of receivables at each balance sheet date to reduce the balance to their estimated recoverable amounts.

Prepaid expenses and other current assets amounts to P27.4 million, P21 million and P23.4 million as of the 3rd quarter of 2014, December 31, 2013 and September 30, 2013 (net of allowance for probable losses of P14 million for all periods). The increase by P3.9 million in 3rd quarter of 2014 as against the 3rd quarter of 2013 is net effect of increase in creditable withholding taxes (P4.9 million), decrease in input taxes (P0.2 million), decrease in refundable deposits (P0.2 million) and decrease in other prepayments (P0.6 million).

The increase of P6.4 million in 3rd quarter of 2014 as against December 31, 2013 is due to net effect of increase in creditable withholding taxes (P4 million), increase in input tax (P0.8 million) and increase in other prepayments (P1.5 million). The Group reviews the carrying amount at each balance sheet to reduce the balance to their estimated recoverable amounts.

Asset held for sale amounting to P960.4 million, P960.3 million and P955.6 million as of September 30, 2014, December 31, 2013 and September 30, 2013 (which constitute 89% respectively of the Group's total assets as said periods) represents advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA). The increase of

P4.8 million and P0.1 million in 3rd quarter of 2014 as against 3rd quarter of 2013 and December 31, 2013, respectively, pertains to additional advances in relation to the expenses of Polymax for its pending litigation and outstanding loan from outside parties and past due liabilities.

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued at P900 million, which is the estimated recoverable amount from the sale of investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the major stockholders of the Company in favor of the Company.

Available-for-sale-investments amounted to P6 million in September 30, 2014 and December 31, 2013 and P7.9 million in September 30, 2013. This account includes shares of stocks owned in publicly listed companies. The P1.9 million decrease in 3rd quarter pertains to decline in the value of shares of stock in the market. The fair value of these shares has been determined directly by reference to published prices in the active market.

Property, plant and equipment amounted to P4.3 million, P1.9 million and P2.3 million in September 30, 2014, December 31, 2013 and September 30, 2013, respectively. Net increase in property, plant and equipment in 3rd quarter of 2014 as against 3rd quarter of 2013 by P2 million pertains decrease in depreciation charge for the quarter of P0.8 due to property and equipment that was fully depreciated in 2013 and increase in additional acquisitions of transportation and office equipment of MCLSI amounting to P1.4 million. The increase in 3rd quarter of 2014 as against December 31, 2013 by P2.4 million is due to MCLSI additional acquisition of transportation equipment in 3rd quarter of 2014. The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2013 and 2012. In 2013 and 2012, the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

Liabilities

Current Liabilities

Accounts payable and accrued expenses for the quarter ended September 30, 2014, December 31, 2013 and September 30, 2013 amounted to P437 million, P426 million and P419 million, respectively. Trade payables are noninterest bearing and have credit terms of 30 to 60 days. Accrued expense and other liabilities mainly include accruals for manufacturing and operating expenses, other taxes payable, advances from customers and provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered.

The increase for the 3rd quarter of 2014 against 3rd quarter of 2013 by P18 million or 4% is mainly due to (a) MAHEC recognition of finance costs on its loan for the petrochemical project (which were passed on to Polymax) and accrual of its fixed expenses such as legal and audit fee and administrative expenses; (b) MCLSI trade payables arising from its trucking and warehousing operations.

Due to related parties for the 3rd quarter of 2014, December 2013 and September 30, 2013 amounted to P551 million, P553 million and P552 million, respectively. The Group, in the

normal course of business, has transactions with related parties. Such transactions are unsecured, non-interest bearing and with no definite terms of repayment period. The Group did not provide nor received any guarantee on its transaction with related parties. The decrease of P1 million in 3rd quarter of 2014 as against the 3rd quarter of 2013 and decrease of P2 million as against the end of 2013 pertains to Metro Alliance settlement of advances and offsetting of receivables and payables among the Group. Significant portion of these advances were used to finance its planned acquisition of petrochemical plant in prior years.

Loans payable (current and long term) amounted to P3.6 million, P0.1 million and P4.9 million for the period ended September 30, 2014, December 31, 2013 and September 30, 2013, respectively. The account balance for 3rd quarter of 2013 pertains to MCLSI's loan agreements entered last July 21, 2009 for a total principal amount of P988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 for the (first contract) and August 22, 2014 (for the second contract).

Two loan contracts were entered again by MCLSI last September 18, 2014 for the acquisition of machinery and transportation equipment. The loan is payable monthly with interest at 19% per annum up to September 30, 2019. The loans are collateralized by transportation equipment with carrying value of P63,448 and P138,432 as of September 30, 2014 and 2013.

Accrued retirement benefit cost amounted to P5.5 million as of September 30, 2014 and P6.7 million as of September 30, 2013. MAHEC and MCLSI has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. The decrease of P1.2 million or 18% is due to payment made on retired employees as of the 3rd quarter of 2014 and loss incurred from retirement plan. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation.

Summary of Material Trends, Events and Uncertainties

Petrochemical Project

On December 4, 2003, the Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Company; (b) the funding for the acquisition would be provided and arranged by the Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Company. In addition, the Company would make certain advances to Polymax.

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Company advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

To partially finance the Company's advances relating to the Petrochemical Project, the Company obtained short-term loans from local banks (see Note 9). With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Company was unable to pay the bank loans on maturity dates. As of December 31, 2006,

the amounts payable to the banks totaled ₱866.7 million, consisting of the outstanding principal balance of ₱378.3 million and finance charges of ₱488.4 million. In 2007 these past due liabilities were transferred to and applied against the advances made to Polymax.

Pursuant to the Company's plan of acquiring full control of BPC, instead of exercising creditor rights, the Company, on April 16, 2004, entered into a Share Purchase Agreement (SPA) with BPC, Tybalt Investment Limited (TIL), BP Holdings International B.V. (BPHI) and Petronas Philippines, Inc. (PPI) with TIL as the purchase of the 83% interest of the foreign shareholders of BPC. As agreed by the parties, the SPA is to take effect as of March 31, 2004, subject to closing conditions, as defined in the SPA, which the parties have to comply with within a period of 60 days or later if the conditions are not met.

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 85 million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85 million.

On July 20, 2005, the Company, Polymax and NPC International Limited (NPCI) entered into an SPA which provided that, subject to certain conditions, including the transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPC Alliance, Corp. (NPCA) from Polymax.

On August 9, 2005, Polymax and NPCA executed a Deed of Conveyance, transferring to NPCA, under an asset for share swap, the same petrochemical plant in exchange for 4.8 million shares of common stock of NPCA with a total par value of ₱4.8 billion, resulting in 100% ownership interest of Polymax in NPCA.

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85 million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

On December 16, 2005, Polymax, NPCI, Petrochemical Industries Investment Company (PIIC) and the Company entered into an amended SPA whereby NPCI and PIIC will purchase 40% and 20% of NPCA's shares of common stock, respectively, from Polymax. In addition to the conditions set forth in the original SPA, the amended SPA also involves advances to be provided by NPCI amounting to US\$15 million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Company, NPCI and PIIC entered into a Guaranteed and Indemnity agreement whereby the Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

On March 18, 2006, Polymax, NPCI, PIIC and the Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement

entered on December 16, 2005. Under the March 2006 Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

On the same date, Polymax and NPCI executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to NPCI all the rights, title and interest in 19,090,000 NPCA shares of common stock, equivalent to 40% ownership interest, for a consideration of ₱1.91 billion.

On September 11, 2006, Polymax, NPCI, PIIC, the Company and NPCA entered into another Agreement of Variation (September 2006 Variation Agreement) to further vary and amend the terms of the ARSPA and the Shareholders' Agreement (both initially amended and varied by the March 2006 Variation Agreement). Polymax, in accordance with its obligations under the ARSPA, had notified NPCI and PIIC that it is aware that certain conditions will not be fulfilled by April 30, 2006. As a result, the parties agreed to transfer to PIIC the 9,545,000 NPCA shares of common stock prior to completion, while certain conditions will become conditions subsequent to be completed on December 31, 2006.

On September 20, 2006, Polymax and PIIC executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to PIIC all the rights, title and interest in 9,545,000 NPCA shares of common stock, equivalent to 20% ownership interest, for a consideration of ₱954.5 million.

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the petrochemical plant resulting in a dispute with the Company and Polymax, which considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII as null and void.

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC.

Subsequently on August 27, 2013, the Company and Polymax ("Respondents") entered into a settlement agreement with NPCI, PIIC and NPC ("Claimants") to resolve the dispute arising from the uncompleted acquisition transactions described above.

By letter dated October 31, 2013, the Claimants informed the Tribunal that the Parties to all three arbitrations had settled their disputes and that they wished to cease the proceedings. A request was made, to which the Respondents concurred by letter dated November 21, 2013, that the Tribunal issue a procedural order to record that the proceedings be withdrawn by agreement.

By letter dated November 22, 2013, the Tribunal agreed to make the order requested and said that it would fix the cost of the arbitration. In response to the Tribunal's enquiry about the Parties' own legal costs and expenses, the Respondents said that no party was seeking an order that another party should contribute to its legal cost.

The Claimants requested time to seek instructions from their clients in response to the Tribunal's enquiry. On October 2, 2014, the Claimants requested the Tribunal to issue Orders in each arbitration recording withdrawal of the Proceedings by agreement of the Parties, and fixing costs and returning the Claimants deposit against costs, following the deduction of any outstanding sums owing to the Tribunal. It is apparent from this letter as well as the response of the Respondent that none of the Parties are seeking an order in respect of their own cost.

It is also apparent from the Parties' submissions to the Tribunal that they agreed that this arbitration should be terminated and that the Tribunal should fix the costs of the arbitration. Further, as only the Claimants have made deposits towards those costs, it is appropriate that, after deducting from those deposits the cost of the arbitration as fixed by this Order, the balance held by the London Court of International Arbitration (LCIA) should be returned to the Claimants.

Legal case

Case Title	: Metro Alliance vs. Commissioner of Internal Revenue
Factual basis	: Assessment for deficiency withholding taxes for the years 1989, 1990 and 1991
Principal parties	: Commissioner of Internal Revenue
Name of Court	: Court of Appeals
Date Instituted	: November 8, 2002
Status	: Metro Alliance sought a reconsideration of the assessment from the Bureau but the same was denied. This prompted Metro Alliance to file a Petition for Review with the Court of Tax Appeals, which was also denied. Metro Alliance then appealed to the Court of Appeals but the same was also denied. Metro Alliance filed a Motion for Reconsideration in December 2003. On July 9, 2004, Metro Alliance received the Court of Appeals resolution denying the Motion for Reconsideration. On July 22, 2004 Metro Alliance filed with the Court of Tax Appeals a Motion for Extension of time to file and appeal to the Supreme Court. On October 20, 2004, Metro Alliance received the resolution of the Supreme Court denying its Petition of Review for lack of reversible error. Metro Alliance filed a Motion for Reconsideration. On November 22, 2004, the Supreme Court resolved to deny the motion, as no substantial arguments were raised to warrant reconsideration thereof. The denial is final. On March 28, 2006, the Second Division of the Court of Tax Appeals (CTA) rendered a resolution on Metro Alliance's Motion for Reconsideration denying the same and holding that the Court no longer has the authority to amend or alter its decision. Pursuant to Rule 4, Section 2 of the Revised Rules of the CTA Metro Alliance filed a Petition for Review before the CTA en banc. Said Petition for Review raised several issues pertaining to the Resolutions promulgated by the Second Division of the CTA on (a) January 2, 2006, which granted CIR's Motion for Issuance of Writ of Execution; and (b) March 28, 2006, which denied Metro Alliance's Motion for Reconsideration.
Relief Sought	: Metro Alliance has sought a reconsideration of the assessment from the BIR amounting to P83,757,397.

Case Title : **Metro Alliance and Philippine Estate Corporation vs Philippine Trust Company, et al**

Factual basis : Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sales, plus Damages

Principal parties : Philippine Trust Company, et al

Name of Court : Regional Trial Court, Fourth Judicial Region
: Branch 18, Tagaytay City

Date Instituted : September 14, 2005

Status : On September 14, 2005, Metro Alliance and Philippine Estate Corporation filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sales, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. Damages sought are P1,000,000 as and by way or exemplary damages and P500,000 as and by way of attorney's fees; litigation expenses and cost of suit. The case is now pending with the Regional Trial Court of Tagaytay City, Branch 18 O SCA No. TG-05-2519.

The case stemmed from the imminent extra-judicial foreclosure of properties covered by Transfer Certificate of Title Nos. T-35522, T-35524 and T-35552 subject to the real Estate Mortgage executed by Metro Alliance and Philippine Estate Corporation on the amount of P42,000,000 which amount was never received.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction. Management believes that the same will be made permanent by the RTC.

Relief Sought : Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction and damages sought are P1,000,000 and other charges of P500,000.

Case Title : **Securities and Exchange Commission (SEC) En Banc Case No. 07-09-169 For Review of Order of Revocation of Registration of and Permit to Sell Securities**

Factual basis : The records of the Commission revealed that the 2006 Annual Report (SEC Form 17-A) and 2007 1st, 2nd and 3rd Quarter Report (SEC Form 17-Q) were due for submission. The Company filed its SEC Form 17-L or Notice of Inability to File its 2006 Annual Report (SEC Form 17-A) on May 11, 2007. In response to the Show-Cause Letter of CFD dated June 27, 2007, the Company explained that it had not been able to submit its 2006 Annual Report due to the legal issues involving the acquisition of the petrochemical plant and the surrounding circumstances. On July 30, 2007, the CFD, finding the Company's explanation unmeritorious, partially assessed the Company of P288,000 for its continued failure to file its 2006 Annual Report. Same scenario with its quarterly reports which the CFD assessed a penalty of P27,200 as of August 1, 2007.

Suspension of Registration of Securities

For the Company's continued failure to submit the required reports, a hearing for suspension was scheduled on October 24, 2007, which the Company failed to attend. Another hearing was held on February 18, 2008, wherein the Company reiterated its earlier explanation. Eventually, the Company's Registration of Securities was suspended for a period of sixty (60) days from the Company's receipt of the Suspension Order dated July 17, 2008, or until the company was able to submit the foregoing reports and fully pay the corresponding penalties.

Revocation of Registration of Securities

After the hearing on the revocation of the registration held on November 21, 2008, the Company was allowed by CFD to file on December 5, 2008 its explanation. The Company explained that its inability to file its report was due to the refusal of its External Auditor, Sycip Gorres and Velayo ("SGV"), to give an unqualified opinion on the Company's financial statements. On June 25, 2009, the CFD issued Revocation Order. It was issued due to the Company's failure to comply with the Suspension Order, that is, it failed to file the reports and pay the penalties within sixty (60) days from receipt of the Suspension Order. The records reveal that the Company filed the afore-said reports on August 12, 2008, which is well within the given sixty-day period for compliance with the Suspension Order. However, CFD deemed such reports as not filed considering that:

- c) 2006 Consolidated Audited Financial Statements of the Group which were attached to the 2006 Annual Report (SEC Form 17-A) contained a qualified opinion from the External Auditor in violation of SRC Rule 68.1(2) which requires an unqualified opinion, rendering the same deemed not filed; and
- d) Since the said 2006 Consolidated Audited Financial Statements of the Company has been deemed not filed, the succeeding reports such as the 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q) could not be properly accomplished, as a comparative presentation with duly accomplished 2006 Consolidated Audited Financial Statements is required.

SRC Rule 68.1(2), which CFD invokes in support of the above conclusion, provides that:

"Audited financial statements of companies covered by this Rule with an auditor's opinion that is other than unqualified because of departure(s) from the generally accepted accounting principles in the Philippines shall be deemed not filed and shall give rise to the imposition of appropriate sanctions on the company.

The Commission reserves the right to obtain clarification or to question other modifications in the report issued by the external auditor which it deems unreasonable."

The Company's Appeal

The ultimate issue to be resolved is whether CFD erred in revoking the Company's registration of securities.

The Company filed an Appeal dated July 14, 2009 to the Commission. The Company argues that CFD erred in finding the reports as deemed not filed because the qualified opinion or disclaimer of opinion of the External Auditor was not due to a departure from the generally accepted accounting principles in the Philippines, which is what is required for SRC Rule 68.1(2) to apply, but was made due to a scope limitation that is beyond the control of the External Auditor and is not imposed by its management.

Relief Sought : The Office of the General Accountant ("OGA") commented that Company's subject Audited Financial Statements should be considered as filed because, based on the foregoing, SGV's failure to complete the audit is by reason of limitation of scope, not a deviation from the generally accepted accounting principles as contemplated by SRC Rule 68.1(2). Further, such Audited Financial Statements contains sufficient disclosure on the legal issues on the acquisition transactions of the petrochemical plant.

The SEC en Banc, premises considered, granted the Order of Revocation of Registration of and Permit to Sell Securities dated June 25, 2009 be SET ASIDE.

However, the timeliness of the filing of the required reports is a totally different issue. The Commission en Banc directed the CFD to determine and impose, after proper proceedings, penalties against the Company for its late filing of its 2006 Annual Report (SEC Form 17-A) and 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q). As of this report, final amount for all the penalties that accrue cannot be determined. The Company believes that it made provisions sufficient enough to cover the contingent liability.

Case Title : **Metro Alliance vs The Philippine Stock Exchange ("PSE")**

Factual basis : The Company has an outstanding obligation to the PSE in the amount of P2,450,000 as of March 21, 2014 for the repeated violations of the rules and regulations of the PSE starting May 2007 until December 2012.

The case was related to the same violation the Company has with the SEC where it also required submitting structured reports such as Annual and Quarterly Report from 2007 until 2012. (Please refer to preceding paragraph for the discussion of the Company's inability to file such reports). The PSE suspend the trading of the Company last May 2007.

Relief Sought : The Company has made provisions on its financial statement sufficient enough to cover such liability.

Events that will Trigger Direct Contingent or Financial Obligation

Having resolved its disputes with foreign parties involved in the Bataan petrochemical project there are no additional known events that will trigger direct or contingent financial obligation that is material to Metro Alliance, including the default or acceleration of an obligation during the reporting period.

Material Off-balance Sheet Transactions, Arrangements, Obligations

There are no off-balance sheet transactions, arrangements, obligations, and other relationships of the Corporation with unconsolidated entities or other persons created during the reporting period.

Commitment For Capital Expenditures

Since CPDSI has ceased operations and MVC ceased to be a subsidiary of MAHEC, the Group has no commitment for capital expenditures.

Any Known Trends, Events of Uncertainties (Impact On Net Sales / Net Income)

Since CPDSI, AHI, FEZ-EAC and ZDI have ceased commercial operations and MCLSI is the only operating subsidiary among the Group, sales will rely solely on MCLSI's results of operations.

Significant Element of Income or Loss That Did Not Arise From Continuing Operations.

There is no significant element of income or loss that did not arise from continuing operations.

Material Changes on Line Items in the Financial Statements

Material changes on line items in the financial statements are presented under the captions "Changes in Financial Condition" and "Changes in Operating Results" above.

Effect of Seasonal Changes in the Financial Condition or Results of Operations of the Corporation

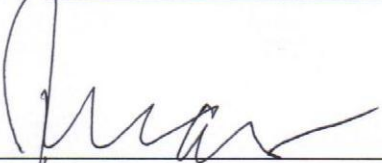
The financial condition or results of operations is not affected by any seasonal change.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on NOV 18 2014.

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized, in the City of Makati on NOV 18 2014.

By:



RENATO B. MAGADIA
Chairman of the Board and President
(Principal Executive and Operating Officer)



NESTOR S. ROMULO
Corporate Secretary



JAMES B. PALIT-ANG
Corporate Treasurer

SUBSCRIBED AND SWORN to before me this NOV 18 2014 day of _____, affiants exhibiting to me their Tax Identification No. as follows:

AFFIANTS

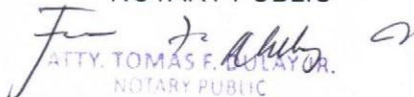
Renato B. Magadia
Nestor S. Romulo
James Palit-Ang

TAX IDENTIFICATION NO.

100-942-390
107-200-723
151-671-333

Doc. No. 142
Page No. 29
Book No. 294
Series of Long

NOTARY PUBLIC


ATTY. TOMAS F. LULAYOR
NOTARY PUBLIC
Until December 31, 2014
AUGI MAT TER #. NP-061-2014-2015
PCH# 904238301 02 /01-07-14 Q.C.
IB# 915074 CY-2014 Q.C.
Roll No. 16583/03/13-61
TIN# 210375616

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

“Annex A.1”

	30-Sept-2014 Unaudited	30-Sept-2013 Unaudited	31-Dec-2013 Audited
ASSETS			
Current Assets			
Cash and cash equivalents	22,544,241	22,646,183	14,448,429
Receivables - net	67,338,707	65,487,078	75,886,415
Prepaid expenses and other current assets	27,396,683	23,378,061	21,061,390
Assets held for sale	960,441,200	955,632,447	960,289,978
Total Current Assets	1,077,720,831	1,067,143,770	1,071,686,212
Noncurrent Assets			
Available-for sale-investments	6,133,013	7,930,131	6,133,013
Property, plant and equipment – net	4,284,389	2,279,898	1,869,689
Deferred income tax assets - net	4,609,820	6,393,200	4,609,814
Total Noncurrent Assets	15,027,222	16,630,229	12,612,516
TOTAL ASSETS	1,092,748,053	1,083,746,999	1,084,298,728
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable and accrued expenses	437,038,602	419,366,178	426,184,246
Due to related parties	551,024,226	552,982,658	552,393,772
Loans Payable – Current portion	3,567,650	4,838,560	179,415
Total Current Liabilities	991,630,478	977,187,396	978,757,433
Noncurrent Liabilities			
Accrued retirement benefit costs	5,540,655	6,774,936	5,571,489
Loans payable – net of current portion	–	140,344	–
Total Noncurrent Liabilities	5,540,655	6,915,280	5,571,489
Total Liabilities	997,171,133	984,102,677	984,328,922
Stockholders' Equity			
Attributable to the equity interest of the Parent Company	88,010,756	92,450,522	93,415,357
Minority Interest	7,566,164	7,193,799	6,554,449
Total Stockholders' Equity	95,576,920	99,644,321	99,969,806
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,092,748,053	1,083,746,999	1,084,298,728

(The accompanying notes are integral part of these financial statements)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

“Annex A.2”

	Jul – Sept 2014	Jul – Sept 2013	Unaudited Jan. – Sept 2014	Jan. – Sept 2013
NET SALES				
Services	26,938,395	29,272,352	80,813,888	87,817,057
COST OF SALES AND SERVICES	(9,057,372)	(7,745,503)	(27,172,115)	(23,236,509)
GROSS PROFIT	17,881,023	21,526,849	53,641,773	64,580,548
Expenses	(18,165,650)	(20,520,149)	(54,496,949)	(61,560,447)
Finance cost	(6,980)	(10,506)	(20,939)	(31,518)
Other income	433	634	1,298	1,903
LOSS BEFORE INCOME TAX	(291,174)	996,828	(874,817)	2,990,486
PROVISION FOR INCOME TAX				
Current	–	–	–	–
Deferred	–	–	–	–
NET INCOME (LOSS)	(291,174)	996,828	(874,817)	2,990,486
Net income (loss) attributable to:				
Equity holders of the parent company	(634,187)	(176,469)	(1,902,561)	(529,408)
Minority interests	343,013	1,173,297	1,027,744	3,519,894
	(291,174)	996,828	(874,817)	2,990,486
Basic/Diluted Loss Per Share				
Net loss for the year attributable to the Equity holders of the Parent Company*	(P 0.001)	P 0.003	(P 0.003)	(P 0.010)

*Based on the weighted average number of shares of 306,122,449

(The accompanying notes are integral part of these financial statements)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

“Annex A.3”

	Unaudited September 30 2014	Unaudited September 30 2013	Audited December 31 2013
CASH FROM OPERATING ACTIVITIES			
Loss before income tax and discontinued operations	(P 874,817)	P 2,990,486	(P 3,713,423)
Adjustments for:			
Provision for doubtful accounts	—	—	1,739,762
Provision for retirement benefit cost	—	—	79,065
Unrealized foreign exchange gain (loss)	—	—	1,640,269
Amortization of intangible asset	—	—	1,412,513
Depreciation	929,056	1,688,795	1,088,965
Interest expense	20,939	31,518	48,960
Interest income	(1,298)	(1,904)	(86,243)
Operating income (loss) before working capital changes:	73,880	4,708,895	2,209,868
Decrease (increase) in receivables	8,547,708	8,081,272	(2,318,065)
Decrease (increase) in prepaid expense and other current assets	(6,335,293)	4,500,927	(2,184,256)
Increase (decrease) in accounts payable and accrued expense	7,336,287	14,081,344	39,325,581
Cash generated (used in) operations	9,622,582	31,372,438	37,033,128
Income tax paid	—	—	(2,047,198)
Net cash flows provided (used in) operating activities	9,622,582	31,372,438	34,985,930
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received	1,298	1,904	86,243
Decrease (increase) in assets held for sale	(151,222)	989,381	(5,646,911)
Advances from (to) related parties	(1,369,552)	(21,093,435)	(21,682,321)
Acquisition of property and equipment	(3,343,756)	(1,921,688)	(911,648)
Net cash flows provided by (used in) investing activities	(4,863,232)	(22,023,838)	(27,814,706)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payment of):			
Long-term debt (including current portion)	3,388,235	4,611,300	(188,189)
Accrued benefit cost	(30,834)	651,072	(552,375)
Interest expense paid	(20,939)	(31,518)	(48,960)
Net cash flows provided by (used in) financing activities	3,336,462	5,230,854	(789,524)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,095,812	14,579,454	6,381,700
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	14,448,429	8,066,729	8,066,729
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	P22,544,241	P22,646,183	P14,448,429

(The accompanying notes are integral part of these financial statements)

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Quarter Ended September 30

	2014	2013
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock - P1 par value		
Common shares		
Class "A"		
Authorized - 720,000,000 shares		
Issued and outstanding - 183,673,470 shares		
Class "B"		
Authorized - 480,000,000 shares		
Issued and outstanding - 122,449,979	306,122,449	306,122,449
Additional Paid-in Capital	3,571,921	3,571,921
Deficit		
Balance at beginning of the year	(220,976,762)	(216,084,073)
Net loss	(874,817)	2,990,486
Balance at end of the period	(221,851,579)	(213,093,587)
Other Reserves:		
Revaluation reserve on available-for-sale financial assets	892,234	(2,681,119)
Remeasurement Gain (Loss) on Retirement Plan	(724,269)	(1,469,142)
	167,965	(4,150,261)
EQUITY ATTRIBUTABLE TO HOLDERS OF PARENT COMPANY	88,010,756	92,450,522
MINORITY INTERESTS	7,566,164	7,193,799
TOTAL STOCKHOLDERS' EQUITY	95,576,920	99,644,321

(The accompanying notes are integral part of these financial statements)

1. Corporate Information

Metro Alliance Holdings & Equities Corp. (MAHEC or the Company) is incorporated in the Philippines. The Company and its subsidiaries (collectively referred to as “the Group”) are involved in the manufacture of chemicals and contract logistics. In 2007, the Company’s interest in the subsidiary engaged in the manufacture of chemicals was sold. Certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management have ceased operations.

The registered office address of the Company is 22nd Floor, Citibank Tower, 8741 Paseo de Roxas, Makati City.

Status of Operation

The Company and Polymax Worldwide Limited (Polymax), its special purpose entity incorporated in British Virgin Island entered into a series of acquisition transactions (see details below) to acquire ownership of the petrochemical plant of NPC Alliance Corp. (NPCA), which resulted in a 2006 disputed sale of Polymax’s 60% interest in NPCA to NPC International Limited (NPCI) and Petrochemical Industries Investment Company (PIIC). Subsequently on August 27, 2013 the Company and Polymax entered into a settlement agreement with NPCI, PII and NPC to resolve the dispute. On the basis of the settlement agreement, the previously issued 2006 consolidated financial statements of the Company and its subsidiaries were restated to reflect the sale of Polymax’s 60% interest in the petrochemical plant.

The remaining 40% of Polymax’s interest which is valued at P900 million, which is estimated recoverable amount from the sale of investment. The realization of the Company’s advances to Polymax (an unconsolidated special purpose entity in 2007) and the settlement Polymax’s past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax’s 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Group’s last audited consolidated financial statements was for the year ended December 31, 2006. Due to uncertainties surrounding the acquisition transactions of the Bataan petrochemical plant, as discussed on succeeding paragraphs, the scope of the 2007-2013 audit was completed by the independent auditors and the reports was approved by the Board of Directors on October 10, 2014.

Acquisition Transactions

On December 4, 2003, the Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Company; (b) the funding for the acquisition would be provided and arranged by the Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Company. In addition, the Company would make certain advances to Polymax.

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Company advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC

confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

To partially finance the Company's advances relating to the Petrochemical Project, the Company obtained short-term loans from local banks (see Note 9). With the delay in the completion of the activities and the conditions required for the Petrochemical Project, the Company was unable to pay the bank loans on maturity dates. As of December 31, 2006, the amounts payable to the banks totaled P=866.7 million, consisting of the outstanding principal balance of P=378.3 million and finance charges of P=488.4 million. In 2007 these past due liabilities were transferred to and applied against the advances made to Polymax.

Pursuant to the Company's plan of acquiring full control of BPC, instead of exercising creditor rights, the Company, on April 16, 2004, entered into a Share Purchase Agreement (SPA) with BPC, Tybalt Investment Limited (TIL), BP Holdings International B.V. (BPHI) and Petronas Philippines, Inc. (PPI) with TIL as the purchase of the 83% interest of the foreign shareholders of BPC. As agreed by the parties, the SPA is to take effect as of March 31, 2004, subject to closing conditions, as defined in the SPA, which the parties have to comply with within a period of 60 days or later if the conditions are not met.

On July 7, 2005, Polymax and BPC executed a Deed of Conveyance, transferring to Polymax under an asset for share swap, the petrochemical plant of BPC in exchange for 85 million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85 million.

On July 20, 2005, the Company, Polymax and NPC International Limited (NPCI) entered into an SPA which provided that, subject to certain conditions, including the transfer of the petrochemical plant of BPC free from encumbrances, NPCI will acquire 60% of the issued share capital of NPC Alliance, Corp. (NPCA) from Polymax.

On August 9, 2005, Polymax and NPCA executed a Deed of Conveyance, transferring to NPCA, under an asset for share swap, the same petrochemical plant in exchange for 4.8 million shares of common stock of NPCA with a total par value of P=4.8 billion, resulting in 100% ownership interest of Polymax in NPCA.

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85 million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

On December 16, 2005, Polymax, NPCI, Petrochemical Industries Investment Company (PIIC) and the Company entered into an amended SPA whereby NPCI and PIIC will purchase 40% and 20% of NPCA's shares of common stock, respectively, from Polymax. In addition to the conditions set forth in the original SPA, the amended SPA also involves advances to be provided by NPCI amounting to US\$15 million representing an advance payment which may be used to fund the bona fide third party costs of NPCA or BPC for the recommissioning, operation and maintenance of the petrochemical plant or such other third party cost or expenses, taxes or duties as agreed between Polymax and NPCI.

On the same date, the Company, NPCI and PIIC entered into a Guaranteed and Indemnity agreement whereby the Company irrevocably and unconditionally guaranteed the prompt performance and observance by Polymax and the payment on demand by Polymax of all moneys, obligations and liabilities which are now or at any time after the execution of the agreement become due from or owing or incurred by Polymax under or in connection with any of the SPA and the Shareholders' Agreement. The Company also guaranteed that it shall be liable for Polymax's obligations, as if it were a principal debtor, if Polymax's obligations are no longer recoverable from Polymax.

On March 18, 2006, Polymax, NPCI, PIIC and the Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and

Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement entered on December 16, 2005. Under the March 2006 Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

On the same date, Polymax and NPCI executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to NPCI all the rights, title and interest in 19,090,000 NPCA shares of common stock, equivalent to 40% ownership interest, for a consideration of P=1.91 billion.

On September 11, 2006, Polymax, NPCI, PIIC, the Company and NPCA entered into another Agreement of Variation (September 2006 Variation Agreement) to further vary and amend the terms of the ARSPA and the Shareholders' Agreement (both initially amended and varied by the March 2006 Variation Agreement). Polymax, in accordance with its obligations under the ARSPA, had notified NPCI and PIIC that it is aware that certain conditions will not be fulfilled by April 30, 2006. As a result, the parties agreed to transfer to PIIC the 9,545,000 NPCA shares of common stock prior to completion, while certain conditions will become conditions subsequent to be completed on December 31, 2006.

On September 20, 2006, Polymax and PIIC executed a Deed of Absolute Sale whereby Polymax sold, transferred and conveyed to PIIC all the rights, title and interest in 9,545,000 NPCA shares of common stock, equivalent to 20% ownership interest, for a consideration of P=954.5 million.

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the petrochemical plant resulting in a dispute with the Company and Polymax, which considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII as null and void.

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC.

Subsequently on August 27, 2013, the Company and Polymax ("Respondents") entered into a settlement agreement with NPCI, PIIC and NPC ("Claimants") to resolve the dispute arising from the uncompleted acquisition transactions described above.

By letter dated October 31, 2013, the Claimants informed the Tribunal that the Parties to all three arbitrations had settled their disputes and that they wished to cease the proceedings. A request was made, to which the Respondents concurred by letter dated November 21, 2013, that the Tribunal issue a procedural order to record that the proceedings be withdrawn by agreement.

By letter dated November 22, 2013, the Tribunal agreed to make the order requested and said that it would fix the cost of the arbitration. In response to the Tribunal's enquiry about the Parties' own legal costs and expenses, the Respondents said that no party was seeking an order that another party should contribute to its legal cost.

The Claimants requested time to seek instructions from their clients in response to the Tribunal's enquiry. On October 2, 2014, the Claimants requested the Tribunal to issue Orders in each arbitration recording withdrawal of the Proceedings by agreement of the Parties, and fixing costs and returning the Claimants deposit against costs, following the deduction of any outstanding sums owing to the Tribunal. It is apparent from this letter as well as the response of the Respondent that none of the Parties are seeking an order in respect of their own cost.

It is also apparent from the Parties' submissions to the Tribunal that they agreed that this arbitration should be terminated and that the Tribunal should fix the costs of the arbitration. Further, as only the Claimants have made deposits towards those costs, it is appropriate that, after deducting from those deposits the cost of the arbitration as fixed by this Order, the balance held by the London Court of International Arbitration (LCIA) should be returned to the Claimants.

Consequently, the consolidated financial statements have been prepared assuming that the Group will continue as a going concern.

2. Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these interim consolidated financial statements are summarized below and in the succeeding pages and the same as those followed in the most recent audited financial statements, unless otherwise stated.

Basis of Preparation

The consolidated financial statements have been prepared on accrual basis using the historical cost basis, except for available-for-sale (AFS) financial assets that are measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱), the Group's functional and presentation currency. All amounts are rounded to nearest peso except when indicated otherwise.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in accordance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee, the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the parent company, Metro Alliance Holdings and Equities Corp., and the following subsidiaries:

	Percentage of Ownership	
	Sept 30 2014	Dec 31 2013
Operating subsidiaries:		
Metro Combined Logistics Solutions, Inc. (MCLSI) (Formerly: GAC Logistics, Inc)	51.00	51.00
Non-operating subsidiaries:		
Consumer Products Distribution Services, Inc. (CPDSI)	100.00	100.00
FEZ-EAC Holdings, Inc. (FEZ-EAC)	100.00	100.00
Zuellig Distributors, Inc. (ZDI)	100.00	100.00
Asia Healthcare, Inc. (AHI)	60.00	60.00

A subsidiary is an entity in which the Company has control. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Company.

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

Minority Interests

Minority interest represents the interest in subsidiaries which are not owned, directly or indirectly through subsidiaries, by the Company. If losses applicable to the minority interest in a consolidated subsidiary exceed the minority interest's equity in the subsidiary, the excess, and any further losses applicable to minority interest, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good of the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the interest's share of losses previously absorbed by the majority interest has been recovered.

Adoption of New Standards, Amendments to Standards and Interpretations

The PFRSC approved the adoption of new standards, amendments to standards, and interpretations.

Amendments to Standards and Interpretations Adopted in 2013

Starting January 1, 2013, the Group adopted the following new and amended PAS and Philippine Interpretations from International Financial Reporting Interpretation Committee (IFRIC):

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)*. The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. Adoption of this standard is reflected in the statement of comprehensive income.
- PAS 19, *Employee Benefits (Revised)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period. The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized. Adoption of this standard resulted in the inclusion of additional disclosures in the separate financial statements (Note 19).

- PFRS 13, *Fair Value Measurement*. PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

The Group has assessed that the application of PFRS has not materially impacted the fair value measurements of the Group. Adoption of this standard resulted in the inclusion of additional disclosures in the separate financial statements (Note 22).

Annual Improvements to PFRSs (2009-2011 cycle)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the separate financial statements of the Group, except the following set out below.

- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*. These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Group has included comparative

information in respect of the opening statement of financial position as at January 1, 2012 since there is a retrospective application of an accounting policy.

- PAS 32, *Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments*. The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

Effective 2014

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*. These Amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these Amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

Effective in 2015

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*. The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

Annual Improvements to PFRSs (2010-2012 cycle)

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*. The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after *July 1, 2014* and are applied retrospectively.
- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*. The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- PAS 24, *Related Party Disclosures – Key Management Personnel*. The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after *July 1, 2014* and are applied retrospectively.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities. The initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, AFS investments, FVPL financial assets and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Day 1 Profit. Where the transaction price in a non-active market is different from the fair value of the other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 Profit) in the consolidated statements of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'day 1' profit amount.

Financial Assets

Financial Assets at FVPL. Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition at FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the consolidated statements of comprehensive income.

Financial assets may be designated by management at initial recognition at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis; or

- the assets are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group has no financial assets at FVPL as of September 30, 2014 and December 31, 2013.
Cash. Cash includes cash on hand and in banks.

Receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial asset at FVPL. Receivables are carried at cost or amortized cost, less impairment in value. Amortization is determined using the effective interest method.

The Group's cash and receivables are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that is an integral part of the effective interest rate.

Gains and losses are recognized in the consolidated statements of comprehensive income when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Group has no HTM investments as of September 30, 2014 and December 31, 2013.

AFS Investments. AFS investments are non-derivative financial assets that are designated in this category or are not classified in any of the other categories. Subsequent to initial recognition, AFS investments are carried at fair value in the consolidated balance sheets. Changes in the fair value of such assets are reported in the equity section of the consolidated balance sheets until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the consolidated statements of comprehensive income. Interest earned on holding AFS investments are recognized in the consolidated statements of comprehensive income using effective interest rate.

The Group's investments in equity securities included under the "AFS Investments" account are classified under this category.

Financial Liabilities

Financial Liabilities at FVPL. Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Group has no derivative liabilities as of September 30, 2014 and December 31, 2013.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Included in this category are the Group's accounts payable and accrued expenses, due to related parties and loans payable.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets

The Group assesses at balance sheet date whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of loss shall be recognized in the consolidated statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost. If there is objective evidence of an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or of a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between the cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statements of comprehensive income, is transferred from equity to the consolidated statements of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheets if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation specifically for property and equipment installed/constructed on the leased properties. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period such 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 and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation of property and equipment commences once the fixed assets are available for use and is calculated on a straight-line basis over the following estimated useful lives:

	Number of Years
Machinery and equipment	3-10
Office furniture, fixtures and equipment	2-5
Leasehold improvements	5 years or lease term, whichever is shorter

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

When an asset is sold or retired, its cost and related accumulated depreciation and any impairment in value are eliminated from the accounts. Any gain or loss resulting from its disposal is credited to or charged against current operations.

Impairment of Non-financial Asset with Definite Useful Life

The carrying values of property and equipment and idle 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 if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. 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 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 of continuing operations are recognized in the consolidated statements of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue

Revenue is recognized to the extent that is probable that the economic benefits associated with the transaction will flow to the Group and the revenue can be measured reliably. Revenue is recognized as follows:

Logistics and other services

Revenue is recognized when the related services are rendered.

Interest

Interest income is recognized as it accrues. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income

Dividend income is recognized when the right to receive the payment is established.

Operating Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of comprehensive income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance, are expensed as incurred.

Borrowing Costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of

borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized.

Retirement Benefits Costs

The Group provides for estimated retirement benefits to be paid under Republic Act (RA) No. 7641 to all its permanent employees. MCLSI have a funded, non-contributory defined benefit retirement plan, administered by a trustee, covering its permanent employees. The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit actuarial valuation method.

This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Retirement benefit costs include current service cost, interest cost, expected return on any plan assets, amortization of actuarial gains and losses, past services cost and the effect of any curtailment or settlement.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognized immediately.

The net retirement benefits liability recognized by the Group is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest rates of government bonds that have terms to maturity approximating the terms of the related retirement benefits liability.

The net retirement benefits assets recognized by MCLSI in respect of defined pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service cost that shall be recognized in later periods; or (b) the total of any cumulative unrecognized net actuarial losses and past service cost and present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Actuarial gains and losses from retirement benefit costs are recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working life of the employees participating in the plan.

Foreign Currency Transaction and Translations

Transactions denominated in foreign currency are recorded in Philippine peso using the prevailing exchange rate at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are translated to Philippine peso using the prevailing exchange rate at balance sheet date. Foreign exchange gains or losses arising from the translation at balance sheet date or settlement of monetary items at rates different from those at which they were initially recorded are credited to or charged against current operations.

Income Tax

Income tax for the year comprises current and deferred income tax. Income tax is recognized in the consolidated statements of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authority. The tax rates and tax laws used to

compute the current tax are those that are enacted and substantively enacted as of balance sheet date.

Deferred Tax

Deferred income tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and the carry forward tax benefits of the net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over the regular corporate income tax. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the carryforward benefits of unused NOLCO and MCIT can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm's length basis in a manner similar to transactions with non-related parties.

Provisions

Provisions are recognized only when the Group has (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

The Group is currently involved in various legal proceedings, which are normal to its business. The Group's estimate of the probable costs for these proceedings and resolution of these claims have been developed in consultation with outside counsel handling the prosecution and defense of these cases and is based upon an analysis of potential results. The Group does not believe that these legal proceedings will have a material adverse effect on its consolidated financial statements. It is possible however, that changes in estimates relating to these proceedings may materially affect results of operations.

Events After the End of Reporting Period

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

3. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates, judgment and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. Future events may occur

which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the consolidated financial statements as these become reasonably determinable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods if the revision affects both current and future periods.

Estimated Allowance for Doubtful Accounts and Probable Losses

The Group reviews the carrying amounts of receivables, creditable withholding taxes and input taxes (under other current assets) and advances to Polymax (under asset held for sale) at each balance sheet date and reduces the balance of these assets to their estimated recoverable amounts.

Provision for doubtful accounts and other losses are determined at the end each balance sheet date. There are no provisions

Receivables (net of allowance for doubtful accounts of ₱10.4 million and ₱8.6 million as of September 30, 2014 and 2013, respectively), amounted to ₱67.3 million and ₱65.5 million as of September 30, 2014 and 2013, respectively (see Note 7).

Creditable withholding taxes and input taxes, included under "Prepaid expenses and other current assets" in the consolidated balance sheets, totaling ₱41.5 million and ₱37.5 million as of September 31, 2014 and 2013, respectively, are covered with allowance for doubtful accounts of ₱14.1 million as of September 30, 2014 and 2013.

Advances to Polymax (under assets held for sale) amounting to ₱960.4 million and ₱955.6 million as of September 30, 2014 and 2013, respectively, constitute 85% of the Group's total assets as at September 30, 2014 and 2013. The realization of the Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax for which the Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale Polymax's 40% interest in NPCA (see Note 10), which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company.

Estimated Useful Lives and Residual Values of Property and Equipment

The Group estimated the useful lives and residual values of its property and equipment based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives and residual value of equipment based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of equipment would increase depreciation expense, while an increase in the estimated useful lives would decrease depreciation expense.

As of September 30, 2014 and 2013, property and equipment, net of accumulated depreciation, amounted to ₱4.3 million and ₱2.3 million, respectively (see Note 11). Total depreciation expense charged to operations amounted to ₱0.9 million, ₱1.1 million and ₱1.6 million for the period ended September 30, 2014, December 31, 2013 and September 30, 2013, respectively (see Notes 16 and 17).

Impairment of Noncurrent Nonfinancial Assets

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash generating unit to which the

asset belongs. Management believes that there was no indication of impairment on property and equipment as of September 30, 2014 and 2013.

Financial Assets and Financial Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., quoted market prices and interest rates). In the case of those financial assets and financial liabilities that have no active markets, fair values are determined using an appropriate valuation technique. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity.

The fair value of the AFS financial assets with available market prices was determined based on quoted bid prices. Any significant change in the selling price of the AFS investments may impact the consolidated financial statements. AFS financial assets amounted to ₱6 million, ₱7.8 million and ₱6.1 million as of September 30, 2014, December 31, 2013 and September 30, 2013, respectively (see Note 10).

Impairment of AFS Financial Assets

The Group performs its impairment analysis of AFS financial assets with no quoted bid prices by considering changes in the issuer's industry and sector performances, legal and regulatory framework, technology, and other factors that affect the recoverability of the investments.

Classification of Financial Instruments

The Group classifies a financial instrument, or its component parts, on initial recognition, as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets.

The Group determines the classification at initial recognition and reevaluates this designation at every financial reporting date.

Deferred Income Tax Assets

The Group reviews the carrying amounts of deferred income taxes at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable (or recognizes deferred income tax assets to the extent that it is probable) that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

The net deferred income tax assets amounted to ₱4.6 million and ₱6.4 million as of September 30, 2014 and 2013, respectively (see Note 18).

The Group did not recognize deferred income tax assets on certain deductible temporary differences and NOLCO as management believes that the Group may not have sufficient future taxable profits available to allow utilization of these deferred income tax assets (see Note 18).

Retirement benefits

The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. These assumptions are describe in Note 19 to the consolidated financial statements and include, among others, discount rates, salary increase rates and expected rates of return on plan assets. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The accrued retirement benefit costs amounted to ₱5.5 million and ₱6.8 million as of September 30, 2014 and 2013, respectively (see Note 19).

Operating Lease Commitments – Group as lessee

The Group has various operating lease agreements for their respective offices and warehouses. The Group has determined that the risks and rewards of ownership of the underlying properties have been retained by their respective lessors. Accordingly, these leases are accounted for as finance leases (See Notes 12 and 20).

4. Cash and Cash Equivalents

	Sept 30, 2014	Dec 31, 2013	Sept 30, 2013
Cash on hand	₱ 76,000	₱ 76,000	₱ 76,000
Cash in banks	22,468,241	14,372,429	22,570,183
	<u>₱ 22,544,241</u>	<u>₱14,448,429</u>	<u>₱ 22,646,183</u>

As of September 30, 2014, December 31, 2013 and September 30, 2013, US Dollar denominated cash, as stated in Philippine Peso amounted to ₱24,150, ₱23,849 and ₱23,258.

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱1,298 in September 30, 2014, ₱1,136 in 2013 and ₱970 in September 30, 2013.

5. Receivables

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Trade	₱33,176,510	₱31,695,567	₱25,262,892
Due from affiliates (Note 14)	11,094,487	11,094,487	16,362,908
Others	33,461,450	43,490,101	32,515,256
	77,732,447	86,280,155	74,141,056
Less allowance for doubtful accounts	(10,393,740)	(10,393,740)	(8,653,978)
	<u>₱67,338,707</u>	<u>₱75,886,415</u>	<u>₱65,487,078</u>

Trade receivables pertain to logistics and warehouse rental receivables which are collectible monthly based on terms of the contract.

Other receivables include advances to employees and associates. The credit quality and aging to trade and other receivables are fully disclosed in Note 22. Provision for allowance for doubtful accounts is provided at the end of each balance sheet date. The Group's receivables are not held as collateral for its liabilities and are free from any encumbrances.

6. Prepaid Expenses and Other Current Assets

Details are as follows:

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Creditable withholding taxes	₱26,551,461	₱22,527,742	₱21,643,975
Input taxes	9,741,167	8,942,359	9,856,944
Refundable deposits	713,285	713,285	883,598
Prepayments and others	4,518,250	3,005,503	5,121,025
	41,524,163	35,188,871	37,505,542
Less allowance for probable losses	14,127,481	14,127,481	14,127,481
	<u>₱27,396,682</u>	<u>₱21,061,390</u>	<u>₱23,378,061</u>

The carrying amounts of the creditable withholding tax and input taxes are reduced to the extent that they are no longer probable that the sufficient income tax due and revenue subject to VAT, respectively, will be available to allow all or part of the creditable withholding and input taxes to be utilized.

7. Assets Held for Sale/Discontinued Operation

Asset held for sale amounting to ₱960.4 million, ₱960.3 million and ₱955.6 million as of September 30, 2014, December 31, 2013 and September 30, 2013 (which constitute 89% respectively of the Group's total assets as of September 30, 2014, December 31, 2013 and September 30, 2013, respectively) represent advances to Polymax, the Group's special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA).

On March 18, 2006 and September 20, 2006, 40% and 20%, respectively, of Polymax's interest in NPCA was sold. Thereafter management decided to discontinue operations and cease operating as a going concern. The remaining 40% interest which is for sale is valued at ₱900 million, which is the estimated recoverable amount from the sale of the investment. The realization of the Company's advances to Polymax and the settlement of Polymax's past due liabilities for which the Company is jointly and severally liable, depends on whether sufficient cash flows can be generated from Polymax's 40% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Company.

Condensed unaudited financial information of Polymax as of September 30, 2014, December 31, 2013 and September 30, 2013 prepared on the liquidation basis of accounting (where assets are stated at estimated recoverable value and all known liabilities are recognized) is shown in the table below.

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Assets			
Assets held for sale	₱900,000,000	₱900,000,000	₱900,000,000
Due from related parties	485,685,120	485,685,120	485,685,120
Total assets	1,385,685,120	1,385,685,120	1,385,685,120
Liabilities			
Liabilities related to assets held for sale	994,668,446	994,668,446	993,637,892
Due to Metro Alliance Holdings and Equities Corp.	960,441,200	960,289,978	955,632,447
Other payable	49,030,000	49,030,000	49,030,000
Total liabilities	2,004,139,646	2,003,988,424	1,998,300,339
Net equity	(₱618,454,526)	(₱618,303,304)	(₱612,615,219)

Assets held for sale pertains to the estimated recoverable value of Polymax's 40% interest in NPCA.

Liabilities related to assets held for sale pertain to past due liabilities which were obtained to finance the acquisition of 100% ownership interest in NPCA. The Company is jointly and severally liable with Polymax with respect to these past due liabilities.

8. Available-for-sale Investments

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Listed	₱6,133,013	₱6,133,013	₱7,930,131
Unlisted	—	—	—
	₱6,133,013	₱6,133,013	₱7,930,131

Accumulated AFS reserve amounted to ₱892,234, ₱2,362,050 and (₱2,681,119) as of September 30, 2014, December 31, 2013 and September 30, 2013.

9. Property and Equipment - At Cost

September 30, 2014

	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
Balances at beginning of year	₱1,078,126	₱18,684,425	₱15,186,664	₱34,949,215
Additions	—	2,557,822	785,934	3,343,756
Balances at end of year	₱1,078,126	₱21,242,247	₱15,972,598	₱38,292,971
Accumulated Depreciation and Impairment Loss				
	1,078,126			
Balances at beginning of year		18,122,433	13,878,967	33,079,526
Depreciation	—	670,291	258,765	929,056
Balances at end of year	1,078,126	18,792,724	14,137,732	34,008,582
Net book value	₱ —	₱ 2,449,523	₱ 1,834,866	₱ 4,284,389

September 30, 2013

	Leasehold Improvements	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Total
Cost				
Balances at beginning of year	₱1,078,126	₱18,339,405	₱14,620,035	₱34,037,566
Additions	—	1,345,182	576,506	1,921,688
Balances at end of year	₱1,078,126	₱ 19,684,587	₱15,196,541	₱35,959,254
Accumulated Depreciation and Impairment Loss				
Balances at beginning of year	₱1,078,126	₱17,540,750	₱13,371,685	₱31,990,561
Depreciation	—	884,656	804,139	1,688,795
Balances at end of year	1,078,126	18,425,406	14,175,824	33,679,356
Net book value	₱ —	₱ 1,259,181	₱ 1,020,717	₱ 2,279,898

Transportation equipment of MCLSI with a carrying value of ₱63,448 and ₱138,432 as of September 30, 2014 and 2013, respectively, has been pledged to fulfill collateral requirements of the loan (see Note 13). The loan was fully settled as of September 30, 2014.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of September 30, 2014 and 2013.

In 2014 and 2013, the Group carried out a review of the recoverable amounts of its property and equipment.

The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

10. Accounts Payable and Accrued Expenses

Details of this account are shown below.

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Accrued expenses	₱368,680,009	₱353,844,337	₱356,362,127
Trade payables	47,113,347	28,625,491	40,745,328
Accrued finance charges – related party	7,188,162	7,034,470	6,921,918
Other liabilities	14,057,084	36,679,948	15,336,805
	₱437,038,602	₱426,184,246	₱419,366,178

Trade payables are noninterest bearing and have credit terms of 30 to 60 days.

Accrued expenses and other liabilities include provisions for liabilities arising in the ordinary conduct of business, which are either pending decision by government authorities or are being contested, the outcome of which is not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been made to cover tax and other liabilities that may arise as a result of an adverse decision that may be rendered. The information usually required by PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is not disclosed as it may prejudice the outcome of the related claims and tax assessments.

11. Loans Payable

On July 21, 2009, MCLSI entered into two loan agreements for a total principal amount of ₱ 988,800 covering the acquisition of transportation equipment. The loan is payable monthly with interest at 19% per annum up to July 30, 2014 (for the first contract) and August 22, 2014 (for the second contract). Another loan was entered by MCLSI on September 18, 2014 for the acquisition of machinery and equipment. The loan is payable monthly with interest at 19% per annum up to September 30, 2019.

Movements of loans payable are as follows:

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Balance at beginning of year	₱ 179,415	₱ 367,604	₱ 367,604
Additions	3,567,650	–	4,799,489
Payments	(179,415)	(188,189)	(188,189)
	₱3,567,650	₱ 179,415	₱4,978,904

The two loans are collateralized by transportation equipment with carrying value of ₱63,448 and ₱138,432 as of September 30, 2014 and 2013, respectively (see Note 11).

12. Related Party Transactions

Significant transactions with related parties include the following:

The related amounts applicable to the Company's transactions with related parties are as follows:

Related Party	Category	Period	Amount/ Volume of Transactions	Receivables (Payables)	Terms	Conditions
<u>Entity with significance influence over the entity</u>						
Polymax	Non-interest bearing under asset held for sale (Note 6)	12/31/13	₱5,646,912	₱960,289,978	Non-interest bearing	Unsecured; not impaired
		09/30/14	151,222	960,441,200		
<u>Associates (entities under common control)</u>						
The Wellex Group, Inc.	Non-interest bearing due from related parties	12/31/13	–	5,768,422	Non-interest bearing	Unsecured; not impaired
		09/30/14	(913,668)	4,854,754		
Waterfront Philippines, Inc.	Non-interest bearing due to related parties	12/31/13	7,034,470	(368,976,125)	Non-interest bearing	Unsecured; not impaired
		09/30/14	–	(368,976,125)		
Acesite (Phils.) Hotel Corporation	Non-interest bearing due to related parties	12/31/13	–	6,239,733	Non-interest bearing	Unsecured; not impaired
		09/30/14	–	6,239,733		
<u>Other related parties</u>						
Stockholder	Non-interest bearing due to related parties	12/31/13	–	(181,753,940)	Non-interest bearing	Unsecured; not impaired
		09/30/14	–	(181,753,940)		
Others	Non-interest bearing due to related parties	12/31/13	(21,682,321)	(1,663,707)	Non-interest bearing	Unsecured; not impaired
		09/30/14	(1,369,566)	(294,141)		

Compensation of Key Management Personnel

Key management personnel are those person having authority and responsibility for planning and directing and controlling the activities of the Group, directly or indirectly
Details of compensation of key management personnel are as follows.

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Short-term employee benefits	₱7,327,540	₱6,577,210	₱7,685,211
Retirement benefits (Note 16)	954,256	954,256	1,078,248
	₱8,281,796	₱7,531,466	₱8,763,459

In the stockholder's meeting of MCLSI held on May 30, 2012, it was resolved that each director shall be paid a reasonable per diem in the amount of ₱3,000 for every meeting attended beginning May 30, 2012.

Per diem of directors of MCLSI amounted to ₱21,434 and ₱15,750 as of September 30, 2014 and 2013, respectively.

The compensation of key management personnel and per diem are presented in the statement of comprehensive income as part of cost of services.

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under their respective group's retirement plan.

13. Capital Stock

- c. The Group's capital stock as of September 30, 2014 and 2013 consists of the following common shares:

Class "A" – ₱1 par value	
Authorized – 720,000,000 shares	
Issued and Outstanding – 183, 673,470 shares	
Number of equity holders – 676 in 2013 and 2012	₱183,673,470
Class "B" – ₱1 par value	
Authorized – 480,000,000 shares	
Issued and Outstanding – 122,448,979 shares	
Number of equity holders – 421 in 2013 and 2012	₱122,448,979
	<u>₱306,122,449</u>

The two classes of common shares are identical in all respects, except that Class "A" shares are restricted to Philippine nationals and the total number of Class "B" shares is limited to two-thirds of the total outstanding Class "A" shares.

- d. On July 25, 2003, the Group's stockholders approved the increase in authorized capital stock from ₱1.2 billion consisting of 1.2 billion shares to ₱5.0 billion consisting of 5.0 billion shares, both with par value of ₱1.0 per share. However the increase was held in abeyance because of the dispute in the acquisition of the Petrochemical Project, which was settled in 2007 (see Note 2).

14. Cost of Sales and Services

Details of this account are shown below.

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Personnel costs	₱12,491,823	₱47,541,272	₱10,682,509
Rent and utilities (Note 20)	4,662,273	17,743,639	3,986,990
Transportation and Travel	4,886,843	18,598,302	4,179,033
Outside services	1,605,856	6,111,552	1,373,264
Security services	185,252	705,030	154,420
Communication and office supplies	522,143	1,987,168	446,516
Depreciation (Note 11)	139,458	530,749	119,259
Repairs and maintenance	21,575	82,111	18,450
Others	2,656,892	10,111,576	2,272,068
	<u>₱27,172,115</u>	<u>₱103,411,399</u>	<u>₱23,236,509</u>

15. Expenses

Details of this account are shown below.

	Sept 30 2014	Sept 30 2013
Salaries, wages and employee		
Benefits	₱32,703,508	₱37,180,291
General and administrative expenses	10,078,734	11,557,071
Rent and utilities	1,199,467	1,365,287
Depreciation (Note 11)	789,598	1,569,536
Taxes and licenses	49,073	42,456
Professional fee	881,071	831,071
Others	8,795,318	9,014,555
	<u>₱54,496,769</u>	<u>₱61,560,267</u>

Others include professional fees, communication, supplies, transportation, entertainment and others.

16. Retirement Benefits Costs

The Company has an unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. MCLSI has a funded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date.

The following tables summarize the components of net retirement expense recognized in the consolidated statements of income and the funding status and amounts recognized in the consolidated balance sheets.

The assumptions used to determine retirement benefits costs for the Group for the years ended December 31, 2013, and 2012 are as follows:

	2013	2012	2011
Discount rate	5.78%	6.88%	9%
Salary increase rate	5%	5%	10%
Expected rate of return on plan assets*	5%	5%	6%

**The expected rate of return on plan assets assumed at a range of 5% was based on a reputable fund trustee's indicative yield rate for a risk portfolio similar to that of the fund with consideration of the fund's past performance.*

The components of retirement expense which were charged to operations are as follows:

	Sept 30 2014	Dec 31 2013	Sept 30 2013
Current service cost	₱ —	₱4,762,327	₱ —
Interest cost on benefit obligation	—	360,048	—
Net actuarial loss recognized	—	—	—
Expected return on plan assets	—	—	—
Total retirement expense	₱ —	₱5,122,375	₱ —

17. Leases

Operating leases of MCLSI relate of leases of a warehouse, renewable upon agreement of parties, and office space, both for a period of two years. Operating lease payments represent rentals payable by the MCLSI for its warehouse and office space. The lease contract for warehouse provided for prepaid rent and rental security deposits equivalent to one month rental ₱ 354,640.

At reporting date, the MCLSI had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Sept 30 2014
Within one year	₱5,556,000
After one year but not more than five years	63,000
	₱5,619,000

Rental are distributed as follows:

Cost of services	₱ 4,662,273
Operating expense	1,199,467
Rental expense for the year	₱ 5,861,740

During the year, the Company entered into a new lease contract for its office space. The term of the contract is one (1) year, commencing on February 1, 2014 and ending on January 31, 2015, renewable subject to terms and conditions as may be mutually agreed upon. The contract also provided for prepaid rent and rental security deposits equivalent to two months rental of ₱134,820.00 representing one month deposit and one month advance rental. The advance rental shall be applied to the first month of lease term. Deposit shall be non-interest bearing and shall apply to whatever valid claims in case of the pre-termination of the lease term.

18. Logistics Agreements

MCLSI has agreements with principals to provide logistics operations services, specifically warehousing and managing delivery of the principals' products to their key accounts and sub-distributors nationwide. Under the terms of these agreements, the principals shall pay MCLSI the agreed monthly fees plus reimbursement of certain warehouse expenses.

19. Financial Assets and Financial Liabilities

The following table summarizes the carrying and fair values of the Group's financial assets and financial liabilities as of September 30, 2014 and December 31, 2013:

	September 30 2014		December 31 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	₱22,544,241	₱22,544,241	₱14,448,429	₱14,448,429
Receivables	67,338,707	67,338,707	75,886,416	75,886,416
AFS investments	6,133,013	6,133,013	6,133,013	6,133,013
Refundable deposits (included in "Other noncurrent assets")	713,285	713,285	713,285	713,285
	₱96,729,246	₱96,729,246	₱97,181,143	₱97,181,143
Financial Liabilities				
Accounts payable and accrued expenses*	₱237,444,414	₱237,444,414	₱226,590,058	226,590,058
Due to affiliates	551,024,226	551,024,226	552,393,772	552,393,772
Loans payable	3,567,650	3,567,650	179,415	179,415
	₱792,036,290	₱792,036,290	₱779,163,245	₱779,163,245

**Excluding payable to government agencies and reserve for contingencies which are not considered as financial liabilities*

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Current Financial Assets and Financial Liabilities

Due to the short-term nature of the transactions, the carrying values of cash, receivables, loans payable, due to affiliates, accounts payable and accrued expenses approximate their fair values.

AFS Investments

The fair values of publicly traded instruments and similar investments are based on quoted bid prices.

Long-term Debt

The carrying value approximate the fair value, which is determined to be present value of future cash flows using the prevailing market rate as the discount rate.

Refundable Deposits

The fair values of refundable deposits and obligation under finance lease have been determined by discounting the expected future cash flows at prevailing interest rates.

20. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash, due from (to) affiliates AFS investments and loans payable. The main purpose of these financial instruments is to finance the Group's operations. The Group's other financial assets and financial liabilities include receivables, accoaccrued expenses and other current liabilities, which arise directly from its operations.

The main risk arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The BOD reviews and approves the policies for managing these risks which are summarized below:

Cash Flow Interest Rate Risk

The Group's exposure to the risk for changes in market interest rates relates to its loans payable, which principally bear floating interest rates.

The sensitivity to reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by ₱986 and ₱1,794 as of September 30, 2014 and December 31, 2013. A 1% decrease in the interest rate would have had the equal but opposite effect.

The following table sets out the principal amount, by maturity, of the Group's loans payable that are exposed to interest rate risk:

	Sept 30 2014	Dec 31 2013
Within 1 year	₱ 713,530	₱179,415
1 - 4 years	2,944,120	—
	₱ 3,657,650	₱179,415

Liquidity Risk

The Group's objective is to maintain a balance between flexibility and continuity of funding. However, because of the default on the payment of interest and principal amortizations on existing debts, the Group's access to funds has been limited to those of its related parties in the form of advances. Current working capital requirements will continue to be sourced from short-term loans and advances from related parties.

	September 30 2014			
	On Demand	Within 1 Year	More than 1 Year	Total
Cash and cash equivalents	₱22,544,241	₱ —	₱ —	₱22,544,241
Receivables	—	33,176,510	34,162,197	67,338,707
Refundable deposits	—	713,285	—	713,285
	22,544,241	33,889,795	34,162,197	90,596,233
AFS financial assets	—	—	6,133,013	6,133,013
	₱22,544,241	₱33,889,795	₱40,295,210	₱96,729,246
Due to related parties	₱ —	₱ —	₱551,024,226	₱551,024,226
Accrued expenses and other current liabilities	—	39,333,474	397,705,128	437,038,602
Loans payable	—	713,530	2,854,120	3,567,650
	₱ —	₱40,047,004	₱951,583,474	₱991,630,478

December 31 2013

	On Demand	Within 1 Year	More than 1 Year	Total
Cash and cash equivalents	₱14,448,429	₱ –	₱ –	₱14,448,429
Receivables	–	31,753,232	44,133,183	75,886,415
Refundable deposits	–	713,285	–	713,285
	14,448,429	32,466,517	44,133,183	91,048,129
AFS financial assets	–	–	6,133,013	6,133,013
	₱14,448,429	₱32,466,517	₱50,266,196	₱97,181,142
Due to related parties	₱ –	₱ –	₱552,393,772	₱552,393,772
Accrued expenses and other current liabilities	–	39,097,798	387,086,448	426,184,246
Loans payable	–	179,415	–	179,415
	₱ –	₱39,277,213	₱939,480,220	₱978,757,433

Credit Risk

It is the Group's policy to require all concerned affiliates and/or third party to comply and undergo a credit verification process with emphasis on their capacity, character and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized. The Group deals only with legitimate parties. As to other financial assets of the Group like cash, the credit risk arises only in case of default of the counterparty and the maximum exposure is limited to the carrying amount of the instruments.

Financial information on the Company's maximum exposure to credit risk as of September 30, 2014 and December 31, 2013, without considering the effects of collaterals and other risk mitigation techniques are presented below. (see next page)

	September 30 2014	December 31 2013
Cash and cash equivalents	₱ 22,544,241	₱ 14,448,429
Receivables	67,338,707	75,886,415
Refundable deposits	713,285	713,285
	₱90,596,233	₱ 91,048,129

The table below present the credit quality of financial assets and an analysis of past due accounts.

September 30 2014

	High Grade	Medium Grade	Past due but not impaired	Total
Cash and cash equivalents	₱22,544,241	₱ –	₱ –	₱22,544,241
Receivables	17,508,064	15,668,446	34,162,197	67,338,707
Refundable deposits	713,285	–	–	713,285
	₱40,765,590	₱15,668,963	₱34,162,197	₱90,596,233

December 31 2013

	High Grade	Medium Grade	Past due but not impaired	Total
Cash and cash equivalents	₱14,448,429	₱ –	₱ –	₱14,448,429
Receivables	19,488,604	12,264,628	44,133,183	75,886,415
Refundable deposits	713,285	–	–	713,285
	₱34,650,318	₱12,264,628	₱44,133,183	₱91,048,129

21. Capital Management

The primary objective of the Company's capital management is to maintain a strong credit rating and healthy capital ratios to maximize shareholders equity and for future business expansion.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debts, return capital to shareholders or issue new shares.

The Group defines capital as paid-in capital stock, additional paid-in capital and retained earnings. Other components of equity such as unrealized gains are excluded from capital for purposes of capital management.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Parent Company's business, operation and industry.

As of December 31, 2008, the Parent Company's authorized and issued capital stock amounted to ₱306 million and there were no changes from prior period.

The Parent Company is not subject to externally-imposed capital requirements.

The Group monitors its capital gearing by measuring the ratio of interest-bearing loan to total equity. Interest-bearing loan includes all short-term and long-term loans. The Group's interest-bearing loans amounted to ₱3,567,650, ₱179,415 and ₱4,838,560 as of September 30, 2014, December 31 and September 30, 2013, respectively. The Group's total equity attribute to equity holders of the Parent Company as at September 30, 2014, December 31 and September 30, 2013 amounted to ₱88 million, ₱92.4 million and ₱93.4 million, respectively.

22. Other Matters

- f. On July 5, 2002, the Company received a decision from the Court of Tax Appeals (CTA) denying the Company's Petition for Review and ordering the payment of P83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Company filed a Motion for Reconsideration on July 31, 2002 but was subsequently denied by the CTA. A Petition for Review was filed with the CTA on November 8, 2002, which was also denied by the CTA. The Company then appealed the decision of the CTA to the Court of Appeals (CA), which likewise denied the appeal and upheld the assessment against the Company. The Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

On July 9, 2004, the Company received the CA resolution denying the Motion for Reconsideration. On July 22, 2004, the Company filed with the CA a Motion for Extension of time of file and appeal to the Supreme Court (SC). On August 20, 2004, the Company filed said appeal. On October 20, 2004, the Company received the resolution of the SC denying its Petition for Review for lack of reversible error. The Company filed a Motion for Reconsideration. On January 10, 2005, the SCC issued an Order stating that it found no ground to sustain the Company's appeal and dismissed the Company's petition with finality.

On April 26, 2006, the Company filed a Petition for Review before the CTA en banc. On March 7, 2007, the CTA en banc dismissed the Petition for lack of merit. The CTA en banc affirmed the CTA's decision granting the Monitor for Issuance of Writ of Execution filed by the Commissioner of Internal Revenue. As of September 30, 2014, the Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable. Management believes, however, that the ultimate outcome of the case will not have a material effect on the consolidated financial statements.

- g. On September 14, 2005, the Company and a third party filed a civil action against a local bank for the imminent extra-judicial foreclosure of the properties of the third party which are used as real estate mortgage for additional loans from the local bank amounting to ₱42.0 million, which the Company maintains has ever been received.

On October 6, 2005, the Regional Trial Court of Tagaytay City (RTC) issued and granted the Writ of Preliminary Injunction (first injunction). As of September 30, 2014, the case is still pending with the same court. Trial on the merits of the case has not been started as the Company, through its counsel, filed an Amended Complaint with an Urgent Application for the Issuance of Writ of Preliminary Injunction after the first injunction was nullified by the Court of Appeals and affirmed by the SC. The Company and its legal counsel are positive that the court will sustain their position.

- h. There are also other pending legal cases against the Company. Based on the facts of these cases, management believes that its positions have legal merits and the resolution thereof will not materially affect the Company's financial position and result of operations.

**METRO ALLIANCE HOLDINGS & EQUITIES CORP.
AND SUBSIDIARIES
APPENDIX A – FINANCIAL SOUNDNESS
SEPTEMBER 30, 2014**

	September 30 2014	September 30 2013	December 31 2013
Profitability ratios:			
Return on assets	(0.08%)	0.28%	(0.37%)
Return on equity	(0.92%)	0.30%	(3.97%)
Net profit margin	(1.08%)	3.41%	(3.22%)
Solvency and liquidity ratios:			
Current ratio	108.68%	109.21%	109.49%
Debt to equity ratio	1043.32%	987.62%	984.63%
Quick ratio	105.92%	106.81%	107.34%
Cash-flow liquidity ratio	8.34%	8.26%	8.43%
Financial leverage ratio:			
Asset to equity ratio	1143.32%	1087.62%	1084.63%
Debt to asset ratio	91.25%	90.81%	90.78%
Interest rate coverage ratio	(40.78%)	93.88%	(63.82%)

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**TRADE RECEIVABLES AGING SUMMARY**

As of September 30, 2014

in Php '000s

Principal/Customer	Credit Terms	Total	Amount				
			Current	1-30	31-60	61-90	Over 90
<u>MCLSI Logistics</u>							
Rustans Supermarkets	30 days	12,806	1,067	3,913	3,913	3,913	—
Johnson & Johnson	30	6,512	543	5,969	—	—	—
Zuellig Pharma Corp.	60	6,118	510	2,804	2,804	—	—
Interphil Laboratories Inc.	30	3,240	270	990	990	990	—
ZPC Repacking	60	2,418	201	616	616	—	985
Bayer Animal Health (Phils)	30	1,598	533	533	532	—	—
Others	60	484	—	—	—	—	484
		33,176	3,124	14,825	8,855	4,903	1,469