

# COVER SHEET

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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)

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| Atty. Nestor S. Romulo |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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Contact Person

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| (632) 706-7888/706-5982 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| Any day in May |
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Fiscal Year

FORM TYPE

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

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| 818 |
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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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STAMPS

Remarks = pls. use black ink for scanning purposes

20-IS Preliminary Report: MAHEC



October 4, 2016

To All Shareholders:

Please be informed that the ANNUAL MEETING OF STOCKHOLDERS shall be held on November 22, 2016, Friday, at 2:00 p.m. at One Café and Events Place, 6<sup>th</sup> 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 August 29, 2015
4. Report of the President
5. Presentation and approval of the Annual Financial Statements
6. Ratifications of the actions and proceedings taken by the Board of Directors and Corporate Officers since August 29, 2015
7. Election of the Members of the Board of Directors
8. Appointment of External Auditor
9. Other business
10. Adjournment

As fixed by the Board of Directors, stockholders of record date as of October 27, 2016 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 October 28 to November 22, 2016.

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

## 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 \_\_\_\_\_, 2016 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 on August 28, 2015.<br/><input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>2. Approval of the annual financial statements.<br/><input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> 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 since December 20, 2014.<br/><input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>4. Ratification of the actions and proceedings taken by the Board of Directors and Corporate Officers since December 20, 2014.<br/><input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>5. Election of the Members of the Board of Directors<br/><input type="checkbox"/> Vote for all nominees listed below:<br/>Renato B. Magadia<br/>Reno I. Magadia<br/>Lamberto B. Mercado, Jr.<br/>Miguel B. Varela (Independent)<br/>Ricardo de la Torre<br/>Nestor S. Romulo<br/>Aristeo R. Cruz (Independent)</p> <p><input type="checkbox"/> Withhold authority for all nominees listed above</p> <p><input type="checkbox"/> Withhold authority to vote for the nominees listed below:<br/>_____<br/>_____<br/>_____<br/>_____</p> | <p>6. Election of Valdes Abad &amp; Associates, CPAs as external auditors.<br/><input type="checkbox"/> Yes    <input type="checkbox"/> No    <input type="checkbox"/> Abstain</p> <p>_____<br/>PRINTED NAME OF STOCKHOLDER</p> <p>_____<br/>SIGNATURE OF STOCKHOLDER/<br/>AUTHORIZED SIGNATORY</p> <p>_____<br/>DATE</p> |
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THIS PROXY SHOULD BE RECEIVED BY THE CORPORATE SECRETARY ON OR BEFORE **NOVEMBER 8, 2016**, 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. **35<sup>th</sup> Flr. One Corporate Center, Doña Julia Vargas cor. Meralco Aves,**  
**Ortigas Center, Pasig City**  
 Address of principal office **1605**  
Postal Code
7. Registrant's telephone number, including area code: **(632) 706-7888**
8. **November 22, 2016, Friday, 2:00 pm, One Café and Events Place**  
**35<sup>th</sup> 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: **October 28, 2016**
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<br>Outstanding or Amount of Debt Outstanding |
|-------------------------|-------------------------------------------------------------------------------|
| <b>Common Class A</b>   | <b>183,673,470</b>                                                            |
| <b>Common Class B</b>   | <b>122,448,979</b>                                                            |
| <b>Outstanding Debt</b> | <b>Php477,664,990</b>                                                         |
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**

|                |
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| <b>PART I.</b> |
|----------------|

**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: November 22, 2016**  
**Time: 2:00 pm**  
**Place: One Café and Events Place**  
**6<sup>th</sup> Floor One Corporate Centre, Doña Julia Vargas**  
**Cor. Meralco Aves., Ortigas Center, Pasig City**

Complete mailing address of the principal office of the corporation:  
**35<sup>th</sup> 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 **October 28, 2016.**

**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 August 31, 2016:

|                          | Shares<br>Outstanding | No. of Vote Each Share<br>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                | <u>61,773,797</u>     | 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 **October 27, 2016** 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 August 31, 2016 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.

| <b>Title of Class</b>                                              | <b>Name, address of Record owner and Relationship with issuer</b>                                                                                                                     | <b>Name of Beneficial Owner* and relationship with record owner</b>                        | <b>Citizenship</b> | <b>No. of Shares Held</b> | <b>Percent</b> |
|--------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------------|---------------------------|----------------|
| Common Shares – Class B                                            | Creston Global Limited<br>C/o #9 Cardinal St., St. Dominic Subd., Bahay Toro, Congressional Ave, Quezon City (1 <sup>st</sup> major stockholder)                                      | John Torres – Authorized signatory<br><br>(Designated representative)                      | British            | 56,378,388                | 18.417%        |
| Common Shares – Class A<br>15,972,541<br><br>Class B<br>26,779,182 | PCD Nominee Corp.<br>37F Tower 1, The Enterprise Center, 6766 Ayala Avenue cor. Paseo De Roxas, Makati City (2 <sup>nd</sup> major stockholder)                                       | PCD Participants and their clients (see Schedule A)                                        | Filipino           | 42,751,723                | 13.966%        |
| Common Shares – Class A                                            | Chesa Holdings, Inc.<br>Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (3 <sup>rd</sup> major stockholder)                                                                          | Perlie Alpuerto – Corporate Treasurer<br><br>(Designated representative)                   | Filipino           | 40,500,000                | 13.230%        |
| Common Shares – Class A                                            | Pacific Wide Realty & Development Corp.<br>Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (4 <sup>th</sup> major stockholder)                                                       | Chona Chua – Corporate Treasurer<br><br>(Designated representative)                        | Filipino           | 31,498,000                | 10.289%        |
| Common Shares – Class A<br>14,442,356<br><br>Class B<br>13,432,644 | Forum Holdings Corp.<br>Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (5 <sup>th</sup> major stockholder)                                                                          | Ellen T. Balunsat<br>Corporate Treasurer<br><br>(Designated representative)                | Filipino           | 27,875,000                | 9.106%         |
| Common Shares – Class A                                            | Misons Industrial and Development Corp.<br>Unit 2002 20 <sup>th</sup> F, Antel 2000 Corporate Center 121 Valero St., Salcedo Village, Makati City (6 <sup>th</sup> major stockholder) | Renato B. Magadia<br><br>(Director/Stockholder of record owner; Designated representative) | Filipino           | 22,000,000                | 7.187%         |
| Common Shares – Class A<br>6,329,500<br><br>Class B<br>9,503,908   | Pacific Concorde Corp.<br>Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (7 <sup>th</sup> major stockholder)                                                                        | Irene F. San Roque<br>Corporate Treasurer<br><br>(Designated representative)               | Filipino           | 15,833,408                | 5.172%         |

\* Person designated to exercise investment power over the equity

Schedule A. Top 10 PCD Nominee as of August 31, 2016

| PCD Nominee                                      | No. of Shares Held | %              |
|--------------------------------------------------|--------------------|----------------|
| <b>Class A</b>                                   |                    |                |
| 1. BPI Securities Corporation                    | 2,278,500          | 0.744%         |
| 2. Papa Securities Corporation                   | 2,136,931          | 0.698%         |
| 3. Westlink Global Equities, Inc.                | 1,755,750          | 0.574%         |
| 4. Quality Investments & Securities Corporation  | 1,172,922          | 0.383%         |
| 5. AB Capital Securities, Inc.                   | 887,488            | 0.290%         |
| 6. Maybank ATR Kim Eng Securities, Inc.          | 881,536            | 0.288%         |
| 7. Mapfre Insular Insurance Corporation-Non Life | 480,000            | 0.157%         |
| 8. RTG & Company, Inc.                           | 444,000            | 0.145%         |
| 9. SB Equities, Inc.                             | 354,750            | 0.116%         |
| 10. Abacus Securities Corporation                | 326,895            | 0.107%         |
| 11. Others                                       | 5,253,769          | 1.716%         |
| <b>Class B</b>                                   |                    |                |
| 1. Quality Investments & Securities Corporation  | 8,957,929          | 2.926%         |
| 2. Westlink Global Securities, Inc.              | 1,817,867          | 0.594%         |
| 3. Papa Securities Corporation                   | 1,648,739          | 0.539%         |
| 4. AB Capital Securities, Inc.                   | 1,530,019          | 0.500%         |
| 5. Tower Securities, Inc.                        | 1,013,931          | 0.331%         |
| 6. SB Equities, Inc.                             | 934,100            | 0.305%         |
| 7. Maybank ATR Kim Eng Securities, Inc.          | 915,875            | 0.299%         |
| 8. Abacus Securities Corporation                 | 753,928            | 0.246%         |
| 9. Standard Chartered Bank                       | 750,000            | 0.245%         |
| 10. Solar Securities, Inc.                       | 717,000            | 0.234%         |
| 11. Evergreen Stock Brokerage & Sec., Inc.       | 710,000            | 0.232%         |
| 12. Others                                       | 7,029,794          | 2.300%         |
| <b>TOTAL</b>                                     | <b>42,751,723</b>  | <b>13.966%</b> |

2. Security Ownership of Management

As of August 31, 2016 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 | Aristeo R. Cruz          | 100 / Direct                              | Filipino    | 0.000        |
| Common–Class A | Ricardo M. Dela Torre    | 1 / Direct                                | Filipino    | 0.000        |
| Common–Class A | James B. Palit-Ang       | 1 / Direct                                | Filipino    | 0.000        |
| Common–Class A | Byoung Hyun Suh          | 1 / Direct                                | Korean      | 0.000        |
|                | Richard L. Ricardo       | –                                         | Filipino    | 0.000        |
|                | Annabelle T. Abunda      | –                                         | Filipino    | 0.000        |
| <b>Total</b>   |                          | <b>125,215</b>                            |             | <b>0.041</b> |

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

| <b>Name</b>              | <b>Age</b> | <b>Citizenship</b> | <b>Position and Office</b>          |
|--------------------------|------------|--------------------|-------------------------------------|
| Renato B. Magadia        | 78         | Filipino           | Chairman of the Board and President |
| Lamberto B. Mercado, Jr. | 51         | Filipino           | Director                            |
| Aristeo R. Cruz          | 50         | Filipino           | Independent Director                |
| Reno I. Magadia          | 46         | Filipino           | Director                            |
| Ricardo M. Dela Torre    | 74         | Filipino           | Director                            |
| Nestor S. Romulo         | 71         | Filipino           | Director/Corporate Secretary        |
| Byoung Hyun Suh          | 58         | Korean             | Nominee – Independent Director      |
| James B. Palit-Ang       | 51         | Filipino           | Treasurer                           |
| Richard L. Ricardo       | 54         | Filipino           | Vice President for External Affairs |
| Annabelle T. Abunda      | 40         | Filipino           | Finance Head                        |

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 (5) years and other directorships

| <b>Name</b>                                                                                                                                                                                                          | <b>Corporation</b>                                                                                                                                                                                                                                                                                                            | <b>Position</b>                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Renato B. Magadia</b><br>Chairman of the Board & President<br>Filipino<br>78 years old<br>Bachelor of Science in Business Administration<br>University of the Philippines<br>Certified Public Accountant<br>-1960 | <b>Present:</b><br>MAHEC<br>MAHEC<br>MAHEC<br>Philippine Estate Corp.<br>Waterfront Phils., Inc.<br><br>CPDSI<br>FEZ and ZDI<br>Asia Healthcare, Inc.<br>Acesite (Phils.) Hotel Corp.<br><br>ZetaMark, Inc.<br>Misons Industrial & Dev. Corp.<br><br><b>Previous:</b><br>The Zuellig Corporation<br>Mabuhay Vinyl Corporation | Chairman of the Board since 1999<br>President since 2001<br>Director since 1998<br>Director<br>Chairman of the Board/Director since 1999<br>Chairman of the Board since 1999<br>Chairman and President since 2004<br>Chairman of the Board, 2001-2003<br>Chairman and President, since 2004<br>Vice Chairman since 2002<br>Director since 1996<br><br>President & CEO, 1980-99<br>Chairman & CEO, 2001-2007 |

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| <b>Lamberto B. Mercado, Jr.</b><br>Director<br>Filipino<br>51 years old<br>Bachelor of Laws (L.L.B.)<br>Ateneo de Manila University<br>School of Law<br>Lawyer – 1991 | <b>Present:</b><br>MAHEC<br>AHI, FEZ and ZDI<br>Waterfront Phils., Inc.<br>Forum Pacific, Inc.<br>The Wellex Group, Inc.<br><br><b>Previous:</b><br>Subic Bay Metropolitan<br>Authority | Director since 2003<br>Director, 2004<br>Director since 1999<br>Director since 1998<br>Vice President for Legal since 1998<br><br>Deputy Administrator for<br>Administration, 1997-98 |
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| <b>Aristeo R. Cruz</b><br>Independent Director<br>50 years old<br>Certified Public Accountant - 1986<br>Bachelor of Science in Commerce – Major in Accounting<br>De La Salle University 1986<br><br>Lawyer – 2006<br>Bachelor of Laws (LLB)<br>New Era University 2006 | <b>Present:</b><br>MAHEC<br><br>Meycauayan College, Inc.<br><br>Cruz Altares & Associates Law Office<br>Liberty Bank (A Rural Bank), Inc. | Independent Director since September 11, 2015<br>Vice Chairman/Director since December 2011<br>Dean, College Department since November 2007<br>Founding and Managing Partner since July 2007<br>Assistant General Manager since February 2008 |
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| <b>Reno I. Magadia</b><br>Director<br>46 years old<br>BA, TV and Radio Broadcasting<br>California State University<br>Los Angeles<br>Master's Degree – Business Administration<br>Pepperdine University, Los Angeles, California | <b>Present:</b><br>MAHEC<br>Metro Combined Logistics Solutions, Inc. (formerly GAC Logistics, Inc.)<br>Misons Industrial & Development Corp.<br><b>Previous:</b><br>Mercator Filter Manufacturing Corp.<br>Papa Securities Corp. | Director since 2006<br>Managing Director since November 2011<br><br>Managing Director<br><br>Vice President, 1996-2003<br><br>Head Portfolio Manager, 1993-1996 |
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| <b>Ricardo M. Dela Torre</b><br>Director<br>Filipino<br>74 years old<br>Advanced Management Program – 1994 (Asian Institute of Management, Indonesia)<br>Masters in Business Management – 1970 (Asian Institute of Management, Philippines)<br>Bachelor of Science in Accounting – 1963 (Ateneo de Naga, Philippines)<br>Certified Public Accountant - 1964 | <b>Present:</b><br>Metro Alliance Holdings & Equities Corp.<br>Metro Combined Logistics Solutions, Inc.<br><br><b>Previous:</b><br>Banco de Oro<br>BPI – Family Bank<br>BPI Card Corporation<br>BPI/MS Insurance<br>FGU Insurance Corporation<br>Santiago Land<br>Ford Credit Philippines<br>Ford Credit Philippines<br>Filoil Corporation | Director since 2005<br>Director since May 2007<br><br>Consultant, Consumer Financing (July 2003 – July 2005)<br>Senior Vice President (1984-2002)/Director<br>Director<br>Director<br>Director<br>Director<br>General Manager<br>Sales and Distribution Manager<br>Corporation Planning Manager |
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| <b>Nestor S. Romulo</b><br>Corporate Secretary/Director<br>Filipino<br>71 years old<br>Bachelor of Laws (LLB)<br>University of the Philippines, 1970<br>Lawyer - 1971 | <b>Present:</b><br>Metro Alliance Holdings & Equities Corp.<br><br>Winbank (Savings Bank)<br>Westmont Investment Corp.<br>Wincorp Securities<br>Romulo, Serrano and Camello Law Offices<br>Reyno, Tiu, Domingo and Santos Law Offices<br>JP Consultancy Resources and Management, Inc.<br>JMP Development Corp.<br>Margarita Properties, Inc.<br>Zuellig Distributors, Inc.<br>Asia Healthcare, Inc.<br>FEZ-EAC Holdings, Inc., | Corporate Secretary since February 2004<br>Director since 2005<br>Chairman of the Board<br>Chairman of the Board<br>Director<br>Partner<br><br>Consultant<br><br>Corporate Secretary<br><br>Corporate Secretary<br>Corporate Secretary<br>Corporate Secretary<br>Corporate Secretary<br>Corporate Secretary |
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| Name                                                                                                                                                          | Corporation                                                                                                              | Position                                                                                  |
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| <b>Byoung Hyun Suh</b><br>Independent Director Nominee<br>Korean<br><br>57 years old<br><br>B.S. in Business Administration<br>Korea University, Seoul, Korea | <b>Present:</b><br>MAHEC<br>Pan Islands, Inc.<br>National Unification Advisory Council<br>Southeast Asia Chapter – R.O.K | Independent Director nominee<br>President since Feb.1995<br><br>President since July 2009 |

|                                                                                                                                          |                                                                                                                                       |                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| <b>James B. Palit-Ang</b><br>Treasurer<br>Filipino<br>51 years old<br>B.S.B.A Accounting<br>Philippine School of Business Administration | <b>Present:</b><br>MAHEC<br>Noble Arch Realty & Construction Corp.<br>Crisanta Realty & Development Corp.<br>Philippine Estates Corp. | Treasurer since<br>Chairman and President since 2010<br>Chairman and President since 2008<br>Director since 2010 |
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| <b>Richard L. Ricardo</b><br>Vice President for External Affairs<br>Filipino<br>54 years old<br>Bachelor Science in Management Economics<br>Ateneo de Manila University | <b>Present:</b><br>Metro Alliance Holdings & Equities Corp.<br>Wellex Industries, Inc.<br><br>Forum Pacific, Inc.<br><br>Waterfront Phils., Inc.<br><br>Acesite (Phils.) Hotel Corp. | Vice President for External Affairs since December 19, 2014<br>Director since 2010<br>Treasurer since Sept. 2012<br>Director since November 11, 2014<br>Corporate Affairs Officers since 2007/Compliance Officer<br>Vice President for Corporate Affairs since 2007<br>Compliance Officer since 2007 |
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| <b>Annabelle T. Abunda</b><br>Finance Head<br>40 years old<br>Bachelor of Science in Accountancy<br>University of the Philippines - Ilo-Ilo City<br>Certified Public Accountant<br>Licensed Real Estate Broker | <b>Present:</b><br>Metro Alliance Holdings & Equities Corp.<br>Pacific Rehouse Corporation | Finance Head since December 19, 2014<br>Finance and Administration Manager since December 2010 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|

### 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) Byoung Hyun Suh – Independent Director |
| (3) Lamberto B. Mercado, Jr. | (7) Aristeo R. Cruz – Independent director |
| (4) Nestor S. Romulo         |                                            |

The aforementioned nominees are all incumbent directors except for Mr. Byoung Hyun Suh. All nominees in the final list were pre-screened by the Nomination Committee and their qualifications are presented on the previous pages. The independent directors, Mr. Aristeo R. Cruz will be serving his 2<sup>nd</sup> term as independent director while Mr. Byoung Hyun Suh, will be serving his 1st term as independent director when elected during the annual meeting. The Nomination Committee will recommend them to undergo a cooling off period for two years after their serving for five years, pursuant to SEC Memorandum Circular No. 9 series of 2011 (Term limits of Independent Directors) when there are no suitable replacements, will be suggested for re-election in 2017 until 2021 pursuant to the advisory issued by the SEC dated March 31, 2016.

The Certifications of Independent Directors executed by the aforementioned independent directors of the Corporation are attached hereto. (Please refer to pages 21 to 22). 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. Aristeo R. Cruz – 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 October 3, 2016, 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 October 3, 2016, 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 October 3, 2016, 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 October 3, 2016, 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 41 to 44 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) Metro Alliance and Philippine Estate Corporation vs Philippine Trust Company, et. al.
  - 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
  - The case stemmed from the imminent extra-judicial foreclosure of four (4) mortgaged Tagaytay lots covered by Transfer Certificate of Title (TCT) Nos. T-35522, T-35523, T-35524 and T-35552 subject to Real Estate Mortgage executed by Metro Alliance Holdings & Equities Corp. (MAHEC) and Philippine Estate Corporation (PEC) securing ₱280M loan obtained by MAHEC and PEC last December 2003. On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction. Management was able to bring back the case to Tagaytay RTC for trial hearings under new acting Judge Jaime Santiago after filing Notice of *Lis Pendens* vs. four (new) TCTs of Philtrust last October 10, 2011.
- 3) Metro Alliance vs The Philippine Stock Exchange ("PSE")
  - Trading suspension due to non-filing of structured reports from 2007-2014, thus imposition of penalties and surcharges amounting to ₱3,400,000 as of June 16, 2015.
  - 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.
  - The Company has already complied with the submission of its annual and quarterly reports from year 2007 up to the second quarter of 2016 and has paid already the corresponding penalties and surcharges. The Company has also filed its formal petition for lifting of trading suspension with the Philippine Stock Exchange. As of this report, the petition is still pending approval by the Exchange.
- 4) Metro Alliance, Polymax & Wellex vs Phil. Veterans Bank (PVB), et.al.
  - Civil Action with Damages to Nullify the Foreclosure of Property
  - The case is an injunction suit with damages filed on July 23, 2008 in RTC-Makati to nullify the foreclosure of Pasig lot securing a ₱350M loan obtained by the Plaintiffs.
  - The case was consolidated with other case of affiliated company with the same RTC. The consolidated case is now on appeal in the Court of Appeals. (see detailed discussion on pages 41 to 44).

### **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, 2015 and 2014. Please refer to Note 14 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. The balance amounting to ₱23.3 as of June 30, 2016 million is non-interest bearing, unsecured and not impaired.

*c. Compensation of key management personnel follows:*

| Particulars                   | 2015               | 2014               |
|-------------------------------|--------------------|--------------------|
| Short-term employee benefits  | ₱ 8,655,149        | ₱ 8,161,952        |
| Retirement benefits (Note 20) | -                  | -                  |
| <b>Total</b>                  | <b>₱ 8,655,149</b> | <b>₱ 8,161,952</b> |

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.

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

| Particulars                               | Amount of Transactions<br>Increase (Decrease) |                 | Outstanding<br>Receivable (Payable) |                 |
|-------------------------------------------|-----------------------------------------------|-----------------|-------------------------------------|-----------------|
|                                           | 2015                                          | 2015            | 2015                                | 2014            |
| <b>Advances (Asset Held for Sale)</b>     |                                               |                 |                                     |                 |
| Polymax (special purpose entity) (Note 7) | ₱ (373,251,811)                               | ₱ (171,627,717) | ₱ 415,410,450                       | ₱ 788,662,261   |
| <b>Due from Related Parties</b>           |                                               |                 |                                     |                 |
| <i>Entity under common control</i>        |                                               |                 |                                     |                 |
| The Wellex Group, Inc.                    | -                                             | (5,384,826)     | 5,416,174                           | 5,416,174       |
| Others                                    | (243,190)                                     | -               | 50,297                              | 293,487         |
|                                           | ₱ (243,190)                                   | ₱ (5,384,826)   | ₱ 5,466,471                         | ₱ 5,709,661     |
| <b>Due to Related Parties</b>             |                                               |                 |                                     |                 |
| <i>Entities under common control</i>      |                                               |                 |                                     |                 |
| Waterfront Philippines, Inc. (WPI)        | (365,933,148)                                 | (3,042,977)     | -                                   | (365,933,148)   |
| Acesite (Phils.) Hotel Corporation        | (612,531)                                     | -               | 5,627,202                           | ( 6,239,733)    |
| Wellex Mining Corp.                       | 225,000                                       | (225,000)       | 225,000                             | -               |
| Gulf Agency Company Holdings (BV)         | (782,481)                                     | -               | 23,273,962                          | ( 22,670,814)   |
| The Wellex Group, Inc.                    | 4,684,695                                     | 22,491,481      | 27,176,176                          | ( 22,491,481)   |
| <i>Other related parties</i>              |                                               |                 |                                     |                 |
| Stockholders                              | -                                             | (181,753,940)   | -                                   | -               |
| Others                                    | 4,277,971                                     | (4,195,534)     | (4,883,463)                         | (605,492)       |
|                                           | ₱ 360,427,344                                 | ₱ (166,725,970) | ₱ 56,302,340                        | ₱ (416,729,684) |
| <b>Accrued finance charges</b>            |                                               |                 |                                     |                 |
| Waterfront Philippines, Inc. (WPI)        | ₱ (14,209,630)                                | ₱ (7,175,160)   | ₱ -                                 | ₱ (14,209,630)  |

*d.1 Advances to Polymax Worldwide Ltd.*

Polymax is a special purpose entity incorporated in British Virgin Islands, designated by Metro Alliance as the acquiring company in the proposed acquisition of the petrochemical plant of Bataan Polyethylene Corporation (BPC). The Parent Company made significant advances to Polymax in connection with the said acquisition. The amount is measured at face value, non-interest bearing, unsecured and classified as Asset Held For Sale in the financial statements. In 2015, the Parent Company was able to collect advances from Polymax. The collections were used to settle its long outstanding liability to WPI with a principal balance of ₱365,933,148 and accrued finance charges of ₱7,132,891 at a discount of ₱17,482,601. This discount was recognized as Company's other income arising from a condoned liability.

As of December 31, 2015, the Company assessed that the remaining receivables is fully recoverable by virtue of a letter of comfort issued by the major stockholders.

*d.2 Advances to/from The Wellex Group (TWGI)*

The Wellex Group and the Parent Company has key management personnel and under common management. Advances to/from The Wellex Group are non-interest bearing, unsecured and payable/receivable upon demand. Advances to TWGI amounting to ₱5.4 million as of December 31, 2015 and 2014 are presented as part of Receivables-net, while advances from TWGI amounting to ₱27.2 and ₱22.5 as of December 31, 2015 and 2014, respectively, are presented as part of Due to Related Parties. Receivable from TWGI pertains to receivables of MAHEC subsidiary, CPDSI, from the proceeds of sale borrowed by TWGI. Payable to TWGI pertains to working capital requirements lend by TWGI since the Parent Company cannot sustain its operations due to continued losses. Parent Company also subleases an office space with TWGI with monthly rent expense amounting to ₱22,050, inclusive of VAT and net of withholding tax.

*d.3 Advances from Waterfront Philippines, Inc. (WPI) and Acesite (Phils.) Hotel Corporation*

WPI and Acesite are Company's affiliates. They made advances to finance the latter's working capital requirements and capital expenditures in the past. The principal balance amounting to ₱366 million and accrued finance charges payable to WPI earns 2% interest per annum. The amount is unsecured but not impaired. In 2015, the outstanding balance and accrued finance charge are fully settled.

Payable to Acesite amounting to ₱5.6 and ₱6.2 million as of December 31, 2015 and 2014, respectively, pertains to salaries and wages and benefits of Parent Company's executive incurred in the past. The amount is unsecured, non-interest bearing and not impaired.

*d.4 Advances from stockholders*

Advances from stockholders pertains to third party liabilities, funding of which is course through major stockholders for the funding of acquisition of the petrochemical plant in the past. The balance amounting to ₱181.7 was fully settled in 2014. Payment was made by Polymax, which the Company has substantial amount of receivables.

**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 2015. 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<br>Chairman of the Board and President       | 2016 | -      | -     | —                  |
|   |                                                                | 2015 | -      | -     | 6,000,000          |
|   |                                                                | 2014 | -      | -     | 6,000,000          |
| 2 | James B. Palit-Ang<br>Treasurer                                | 2016 | -      | -     | 20,000             |
|   |                                                                | 2015 | -      | -     | 20,000             |
|   |                                                                | 2014 | -      | -     | 20,000             |
| 3 | Nestor S. Romulo<br>Corporate Secretary and Legal Counsel      | 2016 | -      | -     | 300,000            |
|   |                                                                | 2015 | -      | -     | 600,000            |
|   |                                                                | 2014 | -      | -     | 600,000            |
| 4 | Miguel B. Varela<br>Rogelio D. Garcia<br>Independent Directors | 2016 | -      | -     | 20,000             |
|   |                                                                | 2015 | -      | -     | 20,000             |
|   |                                                                | 2014 | -      | -     | 20,000             |
| 5 | All directors and Officers as a Group<br>unnamed               | 2016 | -      | -     | 340,000            |
|   |                                                                | 2015 | -      | -     | 6,640,000          |
|   |                                                                | 2014 | -      | -     | 6,640,000          |

Note: Renato B. Magadia's management fee was waived by him starting 2016 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 2016.

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 ₱10,000 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.

**(2) 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, is the external auditors of the Company for the year 2015. Said firm will be recommended to the stockholders for election as the Company's principal external auditors for the year 2016. 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 2011-2012, 2014-2015 and again for calendar year 2016.
- (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.
- (d) External Audit Fees and Services  

Audit and related fees of Valdes Abad & Associates amounted to ₱320,000 exclusive of 12% VAT for year 2015 for expressing an opinion on the fairness of presentation of financial statements.

No other service such as tax and assurance audit was provided by external auditors to the Company for the calendar year 2015.
- (e) 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) Valdes Abad & Associates 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.
  - (3) 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, 2015, 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 of 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, 2015 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 Annual Stockholders' Meeting held last August 28, 2015 will also be presented to the stockholders for approval by a majority vote of the stockholders.
- (c) Ratification of the Corporate Acts of the Board of Directors and Executive Officers since August 29, 2015 by a majority vote of the stockholders.
- (d) Approval and ratification of the actions and proceedings taken by the Board of Directors and Corporate Officers regarding the BPC Project.
- (e) Election of the members of the Board of Directors for the ensuing year
- (f) Appointment 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:

**August 28, 2015**

- a. Approval of the result of the organization meeting of the Board of Directors which concluded with the following elected officials: Mr. Renato B. Magadia as Chairman of the Board and President; Mr. James B. Palit-Ang as Corporate Treasurer; Atty. Nestor S. Romulo as Corporate Secretary and Atty. Lamberto B. Mercado, Jr. as Compliance Officer.
- b. Approval of the result of the annual stockholders' meeting.

**September 11, 2015**

- a. Acceptance and approval of resignation of Mr. Rogelio D. Garcia as independent director, chairman of nomination committee and member of compensation committee.
- b. Approval of the nomination of Atty. Aristeo R. Cruz as replacement to Mr. Rogelio D. Garcia as independent director, chairman of nomination committee and member of compensation committee.

**April 13, 2016**

- a. Approval of the audited financial statements for the year ended December 31, 2015 including independent auditor's report.

**May 3, 2016**

- a. Deferment and rescheduling of the annual stockholders' meeting to a later date instead of holding it in May, 2016 as required by the Corporation's By-Laws.

**May 3, 2016**

- a. Setting the date of the annual stockholders' meeting on November 22, 2016 at 2:00 in the afternoon at One Café and Events Place, 6<sup>th</sup> Flr. One Corporate Center, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City. The Board also set October 27, 2016 as record date for purposes of determining the shareholders entitled to receive Notice of Meeting and to vote and be elected during the said meeting.

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

Except for the amendment of the Article III of the Articles of Incorporation, amendments of which was approved by the Securities and Exchange Commission last March 14, 2016, as approved by more than 2/3 of the outstanding capital stock of the Corporation on 2014 annual stockholders' meeting, there are no amendments made to the Corporation's charter and by-laws for the year 2015 and as of the date of this report.

**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) 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.
- (c) 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, Valdes Abad & Associates 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.

|                 |
|-----------------|
| <b>PART II.</b> |
|-----------------|

**INFORMATION REQUIRED IN A PROXY FORM**

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

**NOT APPLICABLE**

|                  |
|------------------|
| <b>PART III.</b> |
|------------------|

**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 Pasig on October 4, 2016.

**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. 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.  
35<sup>th</sup> Floor One Corporate Centre,  
Doña Julia Vargas cor. Meralco Ave.,  
Ortigas Center, Pasig City**

### CERTIFICATE OF INDEPENDENT DIRECTOR

I, **ARISTEO R. CRUZ**, Filipino, of legal age and resident of **No. 4 Malhacan Road, Meycauayan City, Bulacan**, after having been duly sworn in accordance with law do hereby declare that:

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

| Company                                                                              | Position                                           | Period of Service                                  |
|--------------------------------------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|
| Meycauayan College, Inc.                                                             | Vice Chairman/Director<br>Dean, College Department | December 2011 – Present<br>November 2007 – Present |
| Cruz Altares & Associates Law Office<br>(formerly Cruz, Castro & Altares Law Office) | Founding and Managing<br>Partner                   | July 2007 – Present                                |
| Liberty Bank (A Rural Bank), Inc.                                                    | Assistant General<br>Manager                       | February 2008 – President                          |

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.

OCT 03 2016

SAN JUAN

Done this \_\_\_\_\_ of \_\_\_\_\_, 2016 at \_\_\_\_\_.



**ARISTEO R. CRUZ**

Affiant

OCT 03 2016 SAN JUAN

SUBSCRIBED AND SWORN TO before me this \_\_\_\_\_ at \_\_\_\_\_, affiant exhibiting his Community Tax no. 01970474 at Meycauayan City Bulacan on January 4, 2016.

Doc. No. 11  
Page No. 66  
Book No. 37  
Series of 2016

  
MA. THERESA L. PATULA  
Serial No. Commission 2015  
Commission expires on 12-31-2016  
Roll of Attorney's No. 53971  
IBP No. 1024812 PTR No. 2209627  
01-12-16 01-11-16

## CERTIFICATE OF INDEPENDENT DIRECTOR

I, **Byoung Hyun Suh**, Korean, of legal age and resident of Unit 2006B The Salcedo Place, Tordesillas St., Salcedo Village, Makati City after having been duly sworn in accordance with law do hereby declare that:

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

| Company                                                                 | Position             | Period of Service   |
|-------------------------------------------------------------------------|----------------------|---------------------|
| Pan Islands, Inc.                                                       | President            | Feb. 1995 – present |
| National Unification Advisory Council<br>Southeast Asia Chapter – R.O.K | President            | July 2009 – present |
| Wellex Industries, Incorporated                                         | Independent Director | June 2011 – present |
| Forum Pacific, Inc.                                                     | Independent Director | June 2011 – 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.

OCT 03 2016

SAN JUAN

Done this \_\_\_\_\_ of \_\_\_\_\_, 2016 at \_\_\_\_\_.

  
**BYOUNG HYUN SUH**  
Affiant

OCT 03 2016

SUBSCRIBED AND SWORN TO before me this \_\_\_\_\_ at **SAN JUAN**, affiant exhibiting his Community Tax No. 05076747 at MAKATI CITY on JAN 07, 2016.

Doc. No. 20  
Page No. 01  
Book No. 27  
Series of 2016

  
**MA. THERESITA L. PATULA**  
Serial No. Commission 2015  
Commission expires on 12-31-2016  
Roll of Attorney's No. 53971  
IBP No. 1024912 PTR No. 2209627  
01-12-16 01-11-16

Republic of the Philippines  
\_\_\_\_\_ ) S.S.

QUEZON CITY

**CERTIFICATION**

I, **NESTOR S. ROMULO**, Filipino, of legal age, with office address at Unit 202 20<sup>th</sup> 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 35<sup>th</sup> Floor One Corporate Center, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig 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

04 JUL 2016

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ of \_\_\_\_\_ 2016, in  
QUEZON CITY, affiant exhibiting to me her Tax Identification No. 107-200-723-000 issued  
by the Bureau of Internal Revenue.

Doc. No. 89 \_\_\_\_\_;  
Page No. 18 \_\_\_\_\_;  
Book No. 171 \_\_\_\_\_;  
Series of 2016.

  
ATTY. BENJAMIN M. MANSO  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2015  
PTR NO. 2147797 1/4/2015 QUEZON CITY  
IBP NO. 1015954 1/4/2015 QUEZON CITY  
ROLL NO. 152-16  
COMMISSION NO. NP-141 (2015-2016) QUEZON CITY  
TIN NO. 177-947-619  
MCLE EXEMPTED

**METRO ALLIANCE HOLDINGS & EQUITIES CORP.  
MANAGEMENT REPORT  
AS REQUIRED BY SRC RULE 20  
INCLUDING FINANCIAL INFORMATION FOR 2ND QUARTER OF 2016**

**Item 1. Business**

**A. Description of Business**

**(1) Business Development**

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 cease 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 office address of the Company is at 22<sup>nd</sup> Citibank Tower, 8741 Paseo De Roxas, Makati City. They transferred to 35<sup>th</sup> Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City last November 2010. Amendment of articles of incorporation due to change of business address was approved by the Securities and Exchange Commission last March 14, 2016.

**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 ₱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. 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 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 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.

#### Business Development of the 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.

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.

### Bankruptcy, receivership and similar proceedings

Except for AHI which filed for insolvency in December 2002, Metro Alliance and its subsidiaries are not involved in any bankruptcy, receivership or similar proceeding.

### Material reclassification, merger consolidation or purchase

Aside from the sale of the company's 37.69% and 5% interest in 2007 and 2012, respectively, in Mabuhay Vinyl Corporation (MVC), there is no material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

## **(2) Business of Metro Alliance**

### **(a) Description of Registrant**

#### **(i) Principal products and services**

Metro Alliance is a publicly listed holding company with investments in shares of stock of other listed companies and investment in subsidiary involved in 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.

Principal products or services of its subsidiaries MCLSI:

## MCLSI

MCLSI provides contract Logistics and Supply Chain Management Services to meet the business needs of major companies in the Philippines. Contract logistics and supply chain management services include third party warehousing and distribution, consultancy and project management services to multinational and local companies which include Rustans Supermarkets, Inc. (RSI), Johnson & Johnson (Phil.), Inc. (J & J), Interphil Laboratories, Inc. (ILI), Fresenius Medical, Zuellig Pharma Corporation (ZPC), ZPC – Repacking (ZPC-R), El Laboratories, Alaska and Lixil Phils. (American Standard). Revenue contribution of each principal for the year 2015 is as follows:

| Principal                        | Service Income (millions) | % to Total  |
|----------------------------------|---------------------------|-------------|
| RSI                              | 34,690,172                | 24%         |
| ZPC                              | 25,109,457                | 18%         |
| J&J                              | 17,911,626                | 12%         |
| Fresenius Medical                | 13,684,162                | 10%         |
| ILI                              | 11,880,949                | 8%          |
| ZPC-R                            | 10,137,991                | 7%          |
| El Laboratories                  | 7,107,960                 | 5%          |
| Alaska                           | 5,387,551                 | 4%          |
| Lixil Phils. (American Standard) | 2,189,480                 | 2%          |
| Others                           | 15,244,978                | 11%         |
| <b>Total</b>                     | <b>₱143,344,326</b>       | <b>100%</b> |

### **(ii) Export sales**

Metro Alliance and its subsidiaries are not engaged in export sales.

### **(iii) Distribution Methods of the Products**

#### MCLSI

The core of MCLSI contract logistics services is warehouse and transport management. It leases dedicated warehouses or operates warehouses leased/owned by its principals and contracts dedicated personnel to manage its warehouses. Its principal's products are shipped mostly in four and six-wheeler closed van through a shipping and cargo services company.

### **(iv) Publicly-announced new product or service.**

Metro Alliance and its subsidiaries have no publicly-announced product or service.

### **(v) Competition**

#### MCLSI

MCLSI is part of the GAC group. GAC is a leading international shipping services and transportation company, operating in the Middle East, Eastern Mediterranean, Red Sea and the Indian Subcontinent and the Far East. Thus, the local GAC subsidiary plays an important role in arranging transport of bulk cargo and providing freight cover for MCLSI at a very competitive rate both domestically and around the region. MCLSI's main competitors include IDS Logistics, DHL-Exel, Shenker, Fast Services, Agility (formerly Geologistics) and Air 21. The quality of MCLSI's services compared to their competitors is extremely difficult to determine. However, the fact that MCLSI has been able to secure new contracts with new principals as well additional contracts with existing principals is indicative that service levels are satisfactory.

### **(vi) Sources and availability of raw materials and principal supplier**

Since the Company ceased to have control or have sold its interest in MVC, which involves in the manufacturing of chemicals which are widely used in household applications, there are no sources and availability of raw materials and principal supplier to be disclosed.

### **(vii) Dependence on one or few major customers**

Metro Alliance and its subsidiaries are not dependent on any one industry, company or customer. Likewise, no single customer accounts for 20% or more of total sales.

**(viii) Transactions with and/or dependence on related parties**

Metro Alliance has significant transactions with related parties which include the granting and availment of interest and non-interest bearing cash advances. Transactions with and/or dependence on related parties is discussed in detail in Item 12, Certain Relationships and Related Transactions, of this report.

**(ix) Patent, trademark, copyright, franchise, concession or royalty agreement**

Metro Alliance and its subsidiaries are not covered with any patent, trademark, copyright, franchise, concession or royalty agreement.

**(x) Government approval of principal products or services**

There is no need for any government approval on principal products of Metro Alliance and its subsidiaries.

**(xi) Effect of existing or probable governmental regulations on the business**

Since the Company ceased to have control or have sold its interest in MVC, any existing or probable governmental regulations has no effect on the business of Metro Alliance and its remaining operating subsidiary, MCLSI.

**(xii) Estimate of the amount spent during each of the last three calendar years on research and development activities**

There are no such activities in Metro Alliance and its other subsidiaries.

**(xiii) Costs and effects of compliance with environmental laws**

Metro Alliance has secured the required permits and clearances from the Health Sanitary Department of the City Government of Pasig to comply with the applicable environmental regulations. A strict compliance with other environmental agencies such as DENR is no longer required since Metro Alliance ceased to have control or have sold its interest MVC, which has manufacturing facilities for producing chemicals.

**(xiv) Total Number of Full Time-Employees (as of December 31, 2015):**

Metro Alliance

Metro Alliance has two (2) regular employees: one (1) administrative managerial employee and one (1) administrative executive employee. No CBA. There has been no strike or any similar threat for the last 3 years. Except for 14<sup>th</sup> month and 15<sup>th</sup> month bonuses and conversion of unused sick leaves, there are no other supplemental and incentive arrangements with its employees.

MCLSI

|                | <i>Rank and File</i> | <i>Supervisors</i> | <i>Managers and up</i> | <i>Total</i> |
|----------------|----------------------|--------------------|------------------------|--------------|
| Operations     | 187                  | 12                 | 5                      | 204          |
| Administrative | 5                    | 5                  | 2                      | 12           |
| Total          | 192                  | 17                 | 7                      | 216          |

No CBA. There has been no strike or similar threat within the last three (3) years. There are no supplemental and incentive arrangements with its employees. The number of employees will be increased only upon entry of new principals.

**(xv) Major Risks**

Metro Alliance

Capital availability, access to credit and high borrowing rates. Negotiations with local and foreign investors, both banking and non-banking institutions are currently being pursued.

Metro Alliance's financial instruments consist of cash, advances to or from affiliates, loans and long-term debt. The carrying amounts of these financial instruments, which are currently due and demandable, approximate their respective fair values as of balance sheet date. The main risk arising from Metro Alliance's financial instruments are interest rate risk, credit risk and liquidity risk. The

Board of Directors reviews and approves policies for managing each of the risks.

Interest rate risk. Metro Alliance exposure to the risk for changes in the market interest rates relates to its loan payable and long term debt, which principally bear floating interest rates.

Credit risk. It is Metro Alliance'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. Metro Alliance deals only with legitimate parties. As to other financial assets of Metro Alliance 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.

Liquidity risk. Metro Alliance 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, Metro Alliance 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.

#### MCLSI

Contract logistics is basically a risk-free business. During the negotiation stage, budgets and performance standards are defined, discussed and agreed with the principal. All costs and expenses are passed on to the principal. The principal advances the total budgeted cost and expenses at the beginning of the month making the operation sufficiently liquid. Excess cash reverts back to the principal and any overspending by MCLSI is normally discussed, supported and reimbursed.

MCLSI's financial instruments consist of cash, receivables, accounts payables and obligations under finance lease. It is, and has been throughout the year under review, MCLSI's policy that no trading in financial instruments shall be undertaken. The main risk arising from MCLSI's financial instruments are credit risk and liquidity risk. MCLSI's board of directors reviews and approves policies for managing these risks.

## **Item 2. Properties**

### **Description of Property**

#### Metro Alliance

Metro Alliance leases a 40 square meter office space located at the 35th Floor, One Corporate Centre, Dona Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City where it transferred last 2010 from its registered principal office address at 22<sup>nd</sup> Floor Citibank Tower, 8741 Paseo de Roxas, Makati City. Amendment of the articles of incorporation for the change of official business address was approved by the Securities and Exchange Commission. Monthly net rental fee is ₱22,050. Lease contract is for two years starting April 2014 and renewable every two years.

There are no plans to acquire properties in the next 12 months.

#### MCLSI

MCLSI leases 9,154 square meters of warehouse space located in Paranaque City for its principal, Johnson & Johnson. Lease rental is approximately Php400,000.00 per month (inclusive of 12% VAT) for three (3) years starting January 1, 2015 up to January 1, 2018. Lease term is co-terminus with the company's service contract with the principal. For its services to Rustans and Shopwise, the company maintains a lease arrangement with JM Processing & Freezing Services Inc. for the use of its cold storage facilities located in Faraday Makati City. Lease rate is on a per cubic meter of space occupied. The other warehouses for its other principals are either owned or leased by the respective principals.

Starting in January 2012, MCLSI sub-leases 88 square meters of office space at Unit 2002 Antel Corporate Center Valero St. Makati City at a lease rental of ₱70,560 per month (inclusive of 12% VAT). Initial term of the lease is for two years and was renewed for one year when it expired in January 2014. Current lease is set to expire on January 31, 2016 and will be renewed for another year. To expedite its services to Rustans and Shopwise, the company also leases an 18.7 square

meters of office space with Polar Bear Freezing and Storage Corporation located at Bagumbayan Taguig City. The term of the lease is for three (3) years starting January 1, 2015. Rental is ₱11,519.20 per month (inclusive of 12% VAT).

MCLSI also leases two (2) warehouse units in Carmona, Cavite with Chattelane Holding Co., Inc. to cater to its principal in Calabarzon. The first lease contract is for a period of three (3) years starting October 12, 2015 up to October 11, 2018 for a monthly rental of ₱366,525.13 (inclusive of 12% VAT). The second lease contract is also for a period of three (3) years starting November 3, 2015 up to November 2, 2018 for a monthly rental of ₱346,143.85 (inclusive of 12% VAT).

MCLSI leases one (1) warehouse unit in Muntinlupa City to Filipinas Benson Industrial & Devt. Corp. for its principal for a total rental of ₱261,895.20 per month (inclusive of 12% VAT). The lease is for a period of three (3) years starting April 15, 2015 up to April 14, 2018.

MCLSI also leases nine (9) battery and electrical forklifts for its warehouses in Parañaque, Muntinlupa and Cavite. Lease term is for two (2) years, renewable at the option of both parties.

Details of the lease are as follows:

| <b>Warehouse Equipment</b>                                              | <b>Location</b> | <b>Monthly Lease inclusive of 12% VAT (in Php)</b> | <b>Lease Term</b>                      |
|-------------------------------------------------------------------------|-----------------|----------------------------------------------------|----------------------------------------|
| Shinko Forklift Battery Operated (2 units)                              | Parañaque City  | 78,000                                             | January 1, 2015 to January 1, 2017     |
| Shinko Forklift Battery Operated (1 unit)                               | Parañaque City  | 28,000                                             | January 1, 2015 to January 1, 2017     |
| Shinko Forklift Battery Operated (1 unit)                               | Parañaque City  | 10,000                                             | January 1, 2015 to January 1, 2017     |
| Shinko Forklift Battery Operated with electric counter balance (1 unit) | Muntinlupa City | 39,200                                             | January 12, 2015 to January 11, 2017   |
| Shinko Forklift Battery Operated (1 unit)                               | Muntinlupa City | 33,600                                             | January 12, 2015 to January 11, 2017   |
| Forklift Crown complete with battery & charger                          | Muntinlupa City | 50,000                                             | January 12, 2015 to January 11, 2017   |
| Shinko Forklift TCM Diesel (1 unit)                                     | Carmona, Cavite | 33,000                                             | November 15, 2015 to November 14, 2017 |
| Forklift – Komatsu Electric (1 unit)                                    | Carmona, Cavite | 38,000                                             | November 20, 2015 to November 19, 2017 |

There are no planned acquisitions or lease of properties within the next 12 months.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

A copy of the Audited Consolidated Financial Statements as of December 31, 2015, and the Unaudited 2nd Quarter 2016 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 20% interest in the petrochemical plant as of December 31, 2015. The Board will discuss on their succeeding meetings on how best to proceed on this remaining investment. Recently, the management is undergoing due diligence in evaluating investment proposal from foreign investor for the plan of reacquiring the majority control of the petrochemical plant. The Board will also outline business target projects including possible investment in mining industry. MAHEC's remaining operating subsidiary, Metro Combined Logistics Solutions, Inc. (MCLSI), is steadily growing with additional businesses from its existing principals.

Projected Plan for the next 12 months:

Investment and sources of capital

The company has remained steadfast to regain its status as a going concern. In line with this, several actions were taken to conserve the company's resources and build confidence for its business direction:

- a) Cessation of operations of subsidiaries that were losing operations and those that became inactive;
- b) Commitment by the majority shareholders of the company to guaranty the recoverable value of the remaining "assets for sale" in its books in order that the company's equity be preserved;
- c) Accepting the settlement of disputed issues between the shareholders of NPC Alliance Corporation and recognizing the resulting loss adjustments to reflect the realizable value of the investments of the Company related to the petrochemical project;
- d) Liquidation of its bank obligation in respect to the Mabuhay Vinyl investment by way of "dacion" to a mortgagee bank;
- e) Sale of the Company's remaining shares in Mabuhay Vinyl to generate cash for the Company;
- f) Clearing of its remaining bank obligations to free the company from debts;
- g) Continuous filings with relevant government agencies;
- h) Maintaining a lean organization to sustain its operation during the said period.

Furthermore, the majority shareholders, which are 75% of the traded shares, have signified their intention to conduct a tender offer in the vicinity of Php 0.50 per share, within thirty (30) days after the lifting of Company's trading suspension, in order to gain back investor confidence in the Company.

*Recapitalization of the Company to meet the Projected Investments in New Venture*

The company has a pending application with the SEC to increase its capital stock to P5 billion to be split – 60% Class A shares and 40% Class B shares at par value of Php1.00 to meet its projected investments after the tender offer. Of this amount, P3 billion worth of shares are earmarked to be issued as follows:

1. Majority interest in an operating mining company which is actively producing nickel and has a capital base of P1 billion. This company is presently held by the majority shareholders in joint venture with a Chinese company.
2. A second part of the capital increase amounting to P2 billion will be underwritten by a Chinese Bank to provide momentarily cash infusion to the company for the reacquisition of 80% NPCA shares which were sold to NPC International, an Iranian interest. This will redown to the company regaining 100% ownership of NPC Alliance. The planned acquisition will allow the entry of a Chinese Petrochemical company to buy in the company up to 70% of the company's restructured equity by way of supplying feedstocks for the NPCA ethylene plant. NPC Alliance operation has always been hampered by the lack of feedstocks not being able to put a cracker plant from the very beginning. While this new development is under discussion, we believe that disclosing this at this stage will not hamper the planned acquisition.

The Company is expected to satisfy its cash requirements to finance its projected plans and investments in new venture until the 4th quarter of 2016. The Company will announce the plan for tender offer on the annual stockholders' meeting.

*Realization of Outstanding Receivables from Polymax Worldwide in the Amount of Php415,410,450.00 as of December 31, 2015*

In order that this outstanding receivable will be fully recovered, a payment by dacion of the remaining 20% NPCA shares held by Polymax in NPC Alliance will be assigned to Metro Alliance, thus, making the company the direct shareholders of NPCA.

With the problem of the US and European economic sanction of Iran being resolved, NPCA will now be able to operate profitably, thus, enhancing the remaining value of the NPCA shares.

The estimated present value of the 20% NPCA shares is placed at \$20 Million.

#### Manpower requirements

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.

#### Capital Asset Aquisition

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, 2015, 2014 and 2013:

| <b>Balance Sheet</b>                              | <b>As of December 31 (In Php'000)</b> |                |                  |
|---------------------------------------------------|---------------------------------------|----------------|------------------|
|                                                   | <b>2015</b>                           | <b>2014</b>    | <b>2013</b>      |
| Current assets                                    | 550,063                               | 911,894        | 1,071,686        |
| Noncurrent assets                                 | 13,361                                | 17,135         | 12,613           |
| <b>Total Assets</b>                               | <b>563,424</b>                        | <b>929,029</b> | <b>1,084,299</b> |
| Current liabilities                               | 466,291                               | 835,634        | 978,757          |
| Noncurrent liabilities                            | 8,998                                 | 5,571          | 5,571            |
| <b>Total Liabilities</b>                          | <b>475,289</b>                        | <b>841,205</b> | <b>984,329</b>   |
| Stockholder's Equity                              | 88,135                                | 87,824         | 99,970           |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>563,424</b>                        | <b>929,029</b> | <b>1,084,299</b> |

| <b>Income Statement</b>              | <b>As of December 31 (In Php'000)</b> |             |             |
|--------------------------------------|---------------------------------------|-------------|-------------|
|                                      | <b>2015</b>                           | <b>2014</b> | <b>2013</b> |
| Sales and services                   | 143,344                               | 127,690     | 123,507     |
| Cost of sales and services           | (120,195)                             | (102,106)   | ( 103,411)  |
| Gross profit                         | 23,149                                | 25,584      | 20,097      |
| Expenses                             | (26,030)                              | (26,024)    | ( 23,442)   |
| Other income (charges) – net         | 9,234                                 | (6,764)     | 172         |
| Net Income (Loss) Before Tax         | 6,353                                 | (7,204)     | ( 3,173)    |
| Income Tax – Current                 | (3,004)                               | (2,962)     | ( 2,985)    |
| Deferred                             | (1,356)                               | 164         | 2,186       |
| Net Income (Loss) After Tax          | 1,993                                 | ( 10,002)   | ( 3,972)    |
| Net income (loss) attributable to:   |                                       |             |             |
| Equity holders of the Parent Company | (768)                                 | (13,204)    | (4,892)     |
| Non-controlling interest             | 2,761                                 | 3,202       | 920         |
|                                      | 1,993                                 | (10,002)    | (3,972)     |
| Earnings (Loss) Per Share            | (P0.003)                              | (P0.040)    | (P0.020)    |

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)

Metro Alliance parent company registered a net loss of ₱3.2 million in 2015 as against ₱13.8 million net loss in 2014. The decrease in net loss in 2015 by ₱10.6 million or 76.81% is due to net effect of: recognition of other income arising from the condoned liability from settlement of loan to a related party (WPI) amounting to ₱16.3 million; provision for impairment loss for 2015 for long outstanding receivables from non-operating subsidiaries amounting to ₱4.9 million and decrease of ₱1 million or 14.93% in general and administrative expenses for 2015 as compared to 2014. Decrease in general and administrative expenses is attributable to: increase in personnel cost by ₱0.2 million, decrease in representation expense by ₱3.8 million and payment of penalties to PSE in 2015 of ₱3.1 million. Penalties paid to PSE refer to monetary penalties for non-submission of structured reports (Annual and Quarterly Reports) in prior years. The Company was unable to file such reports due to circumstances surrounding the acquisitions of Petrochemical Plant in prior years.

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

| Performance indicator              | December 31 |         |         |
|------------------------------------|-------------|---------|---------|
|                                    | 2015        | 2014    | 2013    |
| Earnings (loss) per share (in Php) | (0.011)     | (0.045) | (0.019) |
| Return (loss) on average equity    | (0.011)     | (0.045) | (0.019) |
| Debt to total assets ratio         | 0.495       | 0.725   | 0.757   |
| Debt to equity ratio               | 0.978       | 2.634   | 3.123   |

MCLSI

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         | December 31 |       |         |
|-------------------------------|-------------|-------|---------|
|                               | 2015        | 2014  | 2013    |
| <b>Profitability</b>          |             |       |         |
| a. Gross profit margin        | 0.162       | 0.200 | 0.163   |
| b. Net profit margin          | 0.024       | 0.051 | (0.032) |
| c. Return on assets           | 0.036       | 0.079 | (0.074) |
| d. Return in equity           | 0.117       | 0.331 | (0.004) |
| <b>Liquidity</b>              |             |       |         |
| a. Current ratio              | 1.494       | 1.390 | 1.095   |
| b. Receivables turnover       | 3.195       | 3.553 | 1.654   |
| c. Days' sales in receivables | 114         | 103   | 221     |

### 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**

### **2015 COMPARED TO 2014**

#### Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of ₱0.2 million in 2015 as against net loss of ₱10 million in 2014 or a decrease in net loss by ₱9.8 million or 98%. Earnings (loss) per share for 2015 and 2014 for equity holders of the Parent Company are (₱0.006) and (₱0.04), respectively. The decrease in net loss was net effect of (a) increase in service income by ₱15.6 or 12% million due to entry of new clients and principals of MCLSI; (b) increase in other income by ₱15.9 million or 3898% arose from condoned liability of the Parent Company; and (c) increase in operating expenses by ₱2.9 million or 11% due to impairment loss on long outstanding receivables. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group.

#### Sales and Services

The Group registered gross service revenue of ₱143.3 million and ₱127.7 million for the years ended December 31, 2015 and 2014. The increase in revenue of ₱15.6 million or 12% in 2015 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 2015 and 2014 amounted to ₱149.1 million and ₱128.1 million, respectively. The increase of ₱21 million or 16% is attributable to net effect of (a) increase in delivery cost of products and services in 2015 (₱18.1 million or 18%) which is in proportion to the increase in sales of services; (b) decreased in general and administrative expenses of

operating and non-operating subsidiaries by ₱4.3 million (decrease in representation expense by ₱3.7 million, professional fees by ₱0.5 million and taxes and licenses by ₱0.1 million); and (c) impairment loss on long outstanding receivables amounting to ₱4.9 million and actuarial loss recognition on MCLSI retirement fund amounting to ₱2.2 million.

#### Other Income (Expenses) - Net

Other income (charges) is composed of interest income, dividend income, interest expense and other income not normally earned from the ordinary course of business. Other income (charges) for the years 2015 and 2014 amounted to ₱9.2 million and (₱6.8 million), respectively or an increase of ₱16 million or 235%. The increase pertains to other income which came from condoned liability of the Parent Company. Finance cost charged by affiliated companies on the long outstanding payable of the parent company amounting to ₱7.1 million for both years. Loan related to this finance cost was fully settled at the end of the year 2015.

### **CHANGES IN FINANCIAL CONDITION**

#### ***2015 COMPARED TO 2014***

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 20% of Polymax's interest which is valued at ₱450 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 20% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies 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 the notes to financial statements, management's plan is to infuse additional capital to address the going concern uncertainty.

#### Assets

**Cash and cash equivalents** for the years 2015 and 2014 amounted to ₱15.7 million and ₱22.1 million, respectively. Decrease by ₱6.4 million or 28.96% in 2015 is net effect of net cash received from operating activities due to increase in revenue from MCLSI operations amounting ₱9.99 million, net cash generated from investing activities of ₱374.4 million (amount attributable to collection of advances to Polymax by the Parent Company and proceeds from disposal of property and equipment) and net cash used in financing activities of (₱390.8 million) (amount attributable to payment of loan to affiliates including finance charges).

**Receivables** amounted to ₱92.9 million in 2015 and ₱80.3 million in 2014 (net of allowance for doubtful accounts of ₱152.7 million and ₱149.5 million as of December 31, 2015 and 2014, respectively). Trade and other receivables went up by ₱3.9 million or 9% due to the net effect of

increase in credit sales from MCLSI operations (P15.6 million or 12%), decrease in other receivables (P0.7 million or 2%), decrease in due from related parties (P5.6 million or 5%) and additional provision for doubtful accounts of P3.2 million in 2015. 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.

**Other current assets** amounted to P25.9 million in 2015 and P20.8 million in 2014 (net of allowance for probable losses of P12.2 million and P14.1 million for both years 2015 and 2014, respectively). In 2015, the increase by P5.1 million is net effect of increase in creditable withholding taxes (P1.25 million), decrease in input taxes (P1.4 million), increase in refundable deposits (P2.4 million), increase in other prepayments (P1 million) and decrease in allowance for probable losses (P1.9 million) due to utilization of input taxes to offset against output VAT resulted from other income. 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 P415.4 million and P788.7 million as of December 31, 2015 and 2014 (which constitute 74% and 85%, respectively of the Group's total assets as of December 31, 2015 and 2014, 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). A decrease of P373.2 million in 2015 pertains to collections from Polymax which is directly applied or paid to the outstanding obligations of the Parent Company to affiliated company.

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 and exclude the accounts of Polymax in the Group's consolidated financial statements. 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, 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, 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 Company on September 30, 2014.

During 2014, 20% and 40% remaining interest of Polymax in NPCA was sold. To reiterate assurance of the collectability of the Parent Company's advances to Polymax, a comfort letter dated April 10, 2015 was issued by the major stockholders of the Parent Company.

**Available-for-sale-investments** amounted to P4.8 million in 2015 and P6.6 million in 2014. This account includes shares of stocks owned in publicly listed companies. The P1.8 million decreased in 2015 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 P1.2 million and P2.8 million as of December 31, 2015 and 2014, respectively.

**Property, plant and equipment-net** amounted to P3.8 million in 2015 and P5.1 million in 2014. Net decrease in property, plant and equipment in 2015 by P1.3 million pertains to net effect to depreciation charge for the year amounting to P0.1 million and disposal of transportation and office equipment of MCLSI amounting to P1.2 million.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 2015 and 2014. In 2015 and 2014, 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 2015 and 2014 amounted to P4.6 million and P5.5, respectively. This account consists of intangible asset pertaining to non-exclusive software license cost for use in MCSLI's warehouse management system and deferred tax assets.

## Liabilities

### *Current Liabilities*

**Accounts payable and accrued expenses** for the years 2015 and 2014 amounted to ₱409.9 million and ₱418.9 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 net decrease for year 2015 by ₱9 million or 2% is attributable to (a) payment by Parent Company of the accrued finance charges (₱14.3 million) related to the settled loan from affiliated company; (b) payment of accrued professional fees in prior years (₱1.4 million); (c) write off of long outstanding payables (₱0.7 million) of the Parent Company; (d) accrual of legal and professional fees, personnel cost, trucking charges, pallet rental charges, utilities and other employee-related incentives fixed expenses of the Parent Company and MCLSI (₱13.7 million).

**Due to related parties** for the years 2015 and 2014 amounted to ₱56.3 million and ₱416.7 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 by ₱360.4 million in 2015 is mainly due to settlement of loan to Waterfront Philippines, Inc. by the Parent Company.

**Accrued retirement benefit cost** amounted to ₱8.9 million and ₱5.6 million as of December 31, 2015 and 2014. 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. There is no provision for retirement benefit for 2015 as the management determined that current accrual is sufficient enough to cover retirement benefits of remaining employees. 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

### **2014 COMPARED TO 2013**

#### Net Income and Earnings (Loss) Per Share

The Group registered a consolidated net loss of P10 million in 2014 as against net loss of P3.9 million in 2013 or an increase of P6.1 million or 156%. Earnings (loss) per share for 2014 and 2013 for equity holders of the Parent Company are (P0.04) and (P0.02), respectively. The increase in net loss was net effect of (a) finance cost charged by affiliated company on the long outstanding loan of the parent company for the current year (P7.2 million); (b) decrease in delivery cost of products and services (P1.3 million); (c) additional logistics service provided during the current year (P4.2 million) and increase in general and administrative expenses (P2.6 million). Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group.

#### Sales and Services

The Group registered gross service revenue of P127.7 million and P123.5 million for the years ended December 31, 2014 and 2013. The increase in revenue of P4.2 million or 3% in 2014 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 2014 and 2013 amounted to P128.1 million and P126.9 million, respectively. The increase of P1.2 million or 1% is proportion to the increase in sales

and net effect of (a) decrease in delivery cost of products and services in 2014 (P1.3 million); (b) increased in general and administrative expenses of operating and non-operating subsidiaries such as increase in personnel cost (P1 million), increase in business taxes and licenses (P0.5 million) and increase in other operating expenses (P1 million).

#### Other Income (Expenses)

Other income (charges) for the years 2014 and 2013 amounted to (P6.8 million) and P0.2 million, respectively or a decrease of P7 million or 3500%. The decrease pertains to finance cost charged by affiliated companies on the long outstanding payable of the parent company amounting to P7.2 million and a decrease on the dividend income received for the year.

### **CHANGES IN FINANCIAL CONDITION**

#### ***2014 COMPARED TO 2013***

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 Parent Company. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. As explained in the notes to financial statements, management's plan is to infuse additional capital to address the going concern uncertainty.

#### Assets

**Cash and cash equivalents** for the years 2014 and 2013 amounted to P22.1 million and P14.4 million, respectively. The increase by P7.7 million or 53% in 2014 is net effect of net cash received from operating activities due to increase in revenue from MCLSI operations amounting P6.6 million, net cash generated from investing activities of P166.6 million and net cash used in financing activities of (P165.6 million).

**Receivables** amounted to P80.3 million in 2014 and P75.9 million in 2013 (net of allowance for doubtful accounts of P10.8 million and P10.3 million as of December 31, 2014 and 2013). Trade and other receivables went up by P4.4 million or 6% due to the net effect of increase in credit sales from MCLSI operations (P9.8 million or 30%), decrease in other receivables (P4.8 million or 11%), decrease in due from related parties (P0.2 million or 2%) and additional provision for doubtful accounts of P0.4 million in 2014. 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 P20.8 million in 2014 and P21.1 million in 2013 (net of allowance for probable losses of P14 million for both years 2014 and 2013). In 2014, the decrease by P0.3 million is net effect of decrease in creditable withholding taxes (P0.9 million), increase in input taxes (P0.3 million), increase in refundable deposits (P0.7 million) and decrease in other prepayments (P0.3 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 P788.7 million and P960.3 million as of December 31, 2014 and 2013 (which constitute 85% and 89%, respectively of the Group's total assets as of December 31, 2014 and 2013, 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 decrease of P171.6 million in 2014 pertains to collections from Polymax which is directly applied or paid to the outstanding obligations of the Parent Company to third party creditors.

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 and exclude the accounts of Polymax in the Group's consolidated financial statements. 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, 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, 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 Company on September 30, 2014.

During 2014, 20% and 40% remaining interest of Polymax in NPCA was sold. To reiterate assurance of the collectability of the Parent Company's advances to Polymax, a comfort letter dated April 10, 2015 was issued by the major stockholders of the Parent Company.

**Available-for-sale-investments** amounted to P6.6 million in 2014 and P6.1 million in 2013. This account includes shares of stocks owned in publicly listed companies. The P0.5 million increased in 2014 pertains to increase 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 P2.8 million and P2.4 million as of December 31, 2014 and 2013.

**Property, plant and equipment-net** amounted to P5.1 million in 2014 and P1.9 million in 2013. Net increase in property, plant and equipment in 2014 by P3.2 million pertains net effect to depreciation charge for the year amounting to P1.2 million and additional acquisitions of transportation and office equipment of MCLSI amounting to P4.4 million. Transportation equipment included under office furniture, fixtures and equipment with a carrying value of nil and P79,310 as of December 31, 2014 and 2013, respectively, is mortgaged as collateral for long-term debt.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of December 31, 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.

**Other non-current assets** comprised of deferred tax assets amounting to P4.8 million and P4.6 million for the years ended December 31, 2014 and 2013, respectively; and intangible assets amounting to P750,000 and nil for the year ended December 31, 2014 and 2013, respectively. This intangible asset pertains to non-exclusive software license cost for use in MCLSI's warehouse management system.

## Liabilities

### *Current Liabilities*

**Accounts payable and accrued expenses** for the years 2014 and 2013 amounted to P418.9 million and P403.6 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 2014 by P15.3 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 years 2014 and 2013 amounted to P416.7 million and P574.9 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 P158.2 million in 2014 pertains to Metro Alliance settlement of advances to third party creditors, fund of which come from collections from Polymax. Polymax has sold another 20% interest in 2014 for total proceeds of P347.7 million. Significant portion of these advances were used to by Polymax to finance its planned acquisition of petrochemical plant in prior years.

**Loans payable (current and long term)** amounted to nil in 2014 and P179,415 in 2013. Long-term debt represents loans obtained by MCLSI which is fully settled in 2014.

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).

Total interest expense on the loans amounted to P32,640 in 2014 and P48,960 in 2013.

**Accrued retirement benefit cost** amounted to P5.6 million as of December 31, 2014 and 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. There is no provision for retirement benefit for 2014 as the management determined that current accrual is sufficient enough to cover retirement benefits of remaining employees. 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    | : <b>Metro Alliance vs Commissioner of Internal Revenue</b>                                                                                                                                                                                                                                                                                                                                                           |
| 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.

Relief Sought : As of December 31, 2015, 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., Civil Case SCA#TG-05-2519**  
 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 Holdings & Equities Corp. (MAHEC) and Philippine Estate Corporation (PEC) filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, and Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction.

The case stemmed from the imminent extra-judicial foreclosure of four (4) mortgaged Tagaytay lots covered by Transfer Certificate of Title (CTC) Nos. T-35522, T-35523, T-35524 and T-35552 subject to the Real Estate Mortgage executed by MAHEC and PEC securing ₱280M loan obtained by MAHEC and PEC last December 2003.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction.

The preliminary injunction issued by the RTC stopping the foreclosure was nullified by both Court of Appeals and Supreme Court, after which Philtrust proceeded to foreclose, and acquired those properties for only ₱165.8M. When MAHEC and PEC failed to redeem, Philtrust consolidated title, and Tagaytay Registry of Deeds issued new TCTs, cancelling PEC's TCT.

On October 10, 2011, MAHEC filed Notice *Lis Pendens* vs. four (4) new TCTs of Philtrust.

The case is now back to Tagaytay RTC for trial hearings under new acting Judge Jaime Santiago. MAHEC and PEC already presented witnesses. Next trial hearing is set on April 12, 2016 for presentation of plaintiff's last witness for explanation of why the checks issued in 2004 in favor of Philtrust Bank intended to settle the loan were all dishonored, and were returned unpaid.

Relief Sought: As of December 31, 2015, the case is pending resolution with the Regional Court of Tagaytay, Branch 18 SCA# TG-05-2519. The Parent Company was able to get the formal trial started and on-going. The Parent Company's most important move was the presentation of a very competent real estate appraiser, realtor, Cesar Santos, who was able to successfully defend in court his ₱811.6M valuation of the foreclosed Tagaytay properties.

Damages sought are ₱1,000,000 as and by way of exemplary damages and ₱500,000 as and by way of attorney's fees; litigation expenses and cost of suit.

Case Title : **MAHEC, POLYMAX & WELLEX vs Phil. Veterans Bank, et al., Civil Case#08-555, RTC Makati Branch 145**

Factual basis : Civil Action with Damages to Nullify the Foreclosure of Property

Name of Court : Regional Trial Court Makati City Branch 145

Status : The case is an injunction suit with damages filed on July 23, 2008 in RTC-Makati to nullify the foreclosure of Pasig lot securing a ₱350M loan obtained by MAHEC, Polymax and Wellex. Initially, Temporary Restraining Order (TRO) and preliminary injunction was issued, but afterwards, it was lifted, enabling Philippine Veterans Bank (PVB) to foreclose. In successive *certiorari* cases that plaintiffs filed, both Court of Appeals (CA) and Supreme Court (SC) upheld PVB. Worse yet, due to major lapse of the plaintiff's original counsels, *lis pendens* on foreclosed Pasig lot was cancelled, and in March 2012, PVB sold the lots to Zen Sen Realty Devt. Corp. who got new Transfer Certificate of Title (TCT).

The above case was consolidated with other case of affiliated company with the same RTC. In 2013, Company's legal counsel brought Zen Sen Realty Devt. Corp. as defendant also, and prayed that the PVB sale to it be nullified. In October 2014, Company's legal counsel dropped Zen Sen Realty as an unnecessary defendant, after which DECISION was rendered vs. PVB on January 9, 2015, declaring the ₱550M loan (total loan of MAHEC, Polymax, Wellex and other affiliated companies) as fully paid, and even over-paid; discharging all the mortgages, and voiding the 2012 sale made to Zen Sen. PVB was ordered to refund to plaintiffs the ₱3.25M overpayment. PVB filed a motion for reconsideration which was denied. PVB filed Notice of Appeal to Court of Appeal on May 8, 2015, which the Company's legal counsel questioned as defective, but the RTC ruled against the Company in its May 12, 2015 Order. The consolidated case is now on appeal in the Court of Appeals as CA-GR CV#105323.

Case Title : **Metro Alliance vs The Philippine Stock Exchange ("PSE")**

Factual basis : On July 20, 2015, the Company filed a comprehensive corporate disclosure in connection with the Company's petition for lifting its trading suspension which was imposed to the Company on May 21, 2007. Suspension was due to non-filing of structured reports (quarterly and annual reports) from 2007 until 2013. Inability of the Company to file such reports was due to the legal issues involving the acquisition of the petrochemical plant and the surrounding circumstances.

The Company, having resolved its disputes with foreign parties involved in the Bataan petrochemical project, was able to file its 2007 to 2013 quarterly and annual reports starting November 2014 to June 2015. Corresponding penalties amounting to ₱3.4 million was already paid.

The Company and PSE representatives met last November 5, 2015 to discuss the status of the petition and other matters to update the Exchange on the Company's operations and informed that the settlement of the issues involving Polymax Worldwide Limited will be reflected in the Company's 2015 Audited Financial Statements.

Relief Sought : PSE, on their letter dated January 19, 2016, advised the Company that it will proceed with the completion of its evaluation of the Company's petition upon the Company's submission of the disclosure of the results of its operations and the filing of its 2015 Audited Financial Statements.

#### **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, 2015 or SEC Form 17-A will be made available during the Annual Stockholders' Meeting.**

## **Interim Report for the 2<sup>nd</sup> Quarter of 2016**

a) The following table shows the consolidated financial highlights of the Group for the quarters ended June 30, 2015 and 2014 and December 31, 2014:

☐ Unaudited Income Statement

| <b>Income Statement</b>                                                            | <b>Amounts in Php</b>       |                             |                             |                            |
|------------------------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
|                                                                                    | <b>Apr. – Jun.<br/>2015</b> | <b>Apr. – Jun.<br/>2014</b> | <b>Jan. – Jun.<br/>2015</b> | <b>Jan – Jun.<br/>2014</b> |
| Sales and services                                                                 | <b>35,089,405</b>           | 26,937,963                  | <b>63,074,907</b>           | 53,875,926                 |
| Cost of sales and services                                                         | <b>(17,830,616)</b>         | ( 9,057,372)                | <b>(24,865,756)</b>         | (18,114,744)               |
| Gross profit                                                                       | <b>17,258,789</b>           | 17,880,591                  | <b>38,209,151</b>           | 35,761,182                 |
| Expenses                                                                           | <b>(17,554,516)</b>         | (18,265,284)                | <b>(36,197,221)</b>         | (36,530,568)               |
| Other income (charges)                                                             | <b>5,267</b>                | ( 340,452)                  | <b>5,492</b>                | ( 680,902)                 |
| Net Income (Loss) before tax                                                       | <b>( 290,460)</b>           | ( 725,145)                  | <b>2,017,422</b>            | ( 1,450,290)               |
| Income tax expense – current                                                       | <b>1,011,105</b>            | –                           | <b>2,167,879</b>            | –                          |
| Net Income (Loss) after tax                                                        | <b>( 1,301,565)</b>         | ( 725,145)                  | <b>( 150,457)</b>           | ( 1,450,290)               |
| Net income (loss) attributable to:                                                 |                             |                             |                             |                            |
| Equity holders of the parent company                                               | <b>(2,441,515)</b>          | (904,263)                   | <b>(2,612,623)</b>          | (1,821,534)                |
| Minority interests                                                                 | <b>1,139,950</b>            | 179,118                     | <b>2,462,166</b>            | 371,244                    |
|                                                                                    | <b>(1,301,565)</b>          | (725,145)                   | <b>( 150,457)</b>           | (1,450,290)                |
| Earnings (Loss) Per Share attributable to the equity holders of the Parent Company | <b>(P 0.0080)</b>           | (P 0.0030)                  | <b>(P 0.0085)</b>           | (P 0.0060)                 |

☐ Unaudited Balance Sheet

| <b>Balance Sheet</b>                       | <b>Amounts in Php</b> |                      |                      |
|--------------------------------------------|-----------------------|----------------------|----------------------|
|                                            | <b>Jun. 30, 2015</b>  | <b>Jun. 30, 2014</b> | <b>Dec. 31, 2014</b> |
| Current assets                             | 922,669,866           | 1,075,135,347        | 911,894,489          |
| Noncurrent assets                          | 18,813,453            | 12,158,132           | 17,134,908           |
| Total Assets                               | <b>941,483,319</b>    | <b>1,087,293,479</b> | <b>929,029,397</b>   |
| Current liabilities                        | 848,720,456           | 980,818,481          | 835,633,769          |
| Noncurrent liabilities                     | 5,571,836             | 5,727,778            | 5,571,836            |
| Total Liabilities                          | 854,292,292           | 986,546,259          | 841,205,605          |
| Stockholder's Equity                       | 87,191,027            | 100,747,220          | 87,823,792           |
| Total Liabilities and Stockholder's Equity | <b>941,483,319</b>    | <b>1,087,293,479</b> | <b>929,029,397</b>   |

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:

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)

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 (₱3,464,159) for the second quarter of 2015 as compared to the same quarter of 2014 with net loss amounting to (₱710,957) million or an increase of ₱2,753,202 or 387% due to the payment of fines and penalties to Philippine Stock Exchange for the late submission of reports as of the 2<sup>nd</sup> quarter of 2015 amounting to ₱3.4 million. The Company is currently processing its petition for lifting of trading suspension. The Company's trading was suspended last May 17, 2007 due to the company's failure to submit its structured reports (annual and quarterly reports) since 2007. The Company's inability to file such reports was due to the legal issues involving the acquisition of the petrochemical plant and the surrounding circumstances. As of this report, decision for such petition is still pending.

The increase in net loss in 2015 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                    | June 30<br>2015 | Dec 31<br>2014 | June 30<br>2014 |
|------------------------------------------|-----------------|----------------|-----------------|
| Net income (loss) – (In Php)             | (3,464,159)     | (13,833,115)   | (710,957)       |
| Income (loss) per share (In Php)         | (0.011)         | (0.045)        | (0.002)         |
| Income (loss) on average equity (In Php) | (0.011)         | (0.045)        | (0.002)         |
| Debt to total assets                     | 0.727           | 0.725          | 0.759           |
| Debt to equity                           | 2.658           | 2.634          | 3.157           |

### MCLSI Logistics, Inc.

MCLSI's key performance indicators include the following:

3. 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)
4. 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         | June 30<br>2015 | Dec 31<br>2014 | June 30<br>2014 |
|-------------------------------|-----------------|----------------|-----------------|
| <b>Profitability</b>          |                 |                |                 |
| a. Gross profit margin        | 0.606           | 0.200          | 0.664           |
| b. Net profit margin          | 0.080           | (0.051)        | 0.007           |
| c. Return on assets           | 0.053           | (0.079)        | 0.002           |
| d. Return in equity           | 0.164           | (0.249)        | 0.009           |
| <b>Liquidity</b>              |                 |                |                 |
| a. Current ratio              | 1.387           | 1.390          | 1.313           |
| b. Receivables turnover       | 1.581           | 1.653          | 0.944           |
| c. Days' sales in receivables | 231             | 221            | 387             |

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 ₱1.3 million for the 2nd quarter of 2015 as against net loss of ₱0.7 million for the 2nd quarter of 2014 or an increase in net loss of ₱0.6 million or 46%. Earnings (loss) per share are (₱0.0080) for the 2nd quarter of 2015 and (₱0.0030) for the 2nd quarter of 2014. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group. The increase in net loss is due to net effect of (a) increase in service income from MCLSI's lease and logistics contracts; (b) decrease in operating expenses which mainly attributable to decrease in general and administrative expenses and depreciation expense. Parent Company paid its outstanding liabilities as of the 2<sup>nd</sup> quarter of 2015 with the PSE amounting to ₱3.4 million as fines and penalties for the late submission of reports from 2007 to 2014.

### Sales and Services

The Group registered gross service revenue of ₱35.1 million and ₱26.9 million for the quarters ended June 30, 2015 and 2014. The increase in revenue of ₱8.2 million or 23% for the 2nd quarter of 2015 is due to entry of new principals on MCLSI's lease contracts and increase in its logistics services.

### Cost of Sales and Services

Total cost of sales and services for the quarters ended June 30, 2015 and 2014 amounted to ₱17.8 million and ₱9.1 million, respectively. The increase of ₱8.7 million or 49% is parallel to increase in sales and services of MCLSI for the 2<sup>nd</sup> quarter of 2015. Ratio of cost of sales to sales as of June 30, 2015 and 2014 are 51% and 34% respectively. Increase on the cost of sales for the 2nd quarter of 2015 compared to 2014 was also attributable 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.

### Operating Expenses

Total operating expenses of the Group for the 2nd quarter of 2015 amounted to ₱17.5 million as compared to ₱18.3 million for the 2nd quarter of 2014 or a decrease of ₱0.8 million or 4%. The decrease is net effect of increase in personnel cost (₱1.3 million), professional fees (₱0.1 million), decrease in depreciation expense (₱0.4 million) since some of the fixed assets already reached their useful life last year, decrease in general and administrative expenses (₱0.3 million), decrease in rent and utilities (₱0.1 million), increase in taxes and licenses (₱0.2 million) and decrease in other expenses (₱1.3 million).

#### Other income (expenses)

Other income (charges) for the quarters ended June 30, 2015 and 2014 amounted to (P5,267) and (P340,452), respectively or an increase in other charges of P335,185 or 98%. The account pertains to net balance from finance cost, interest income, unrealized foreign exchange gain (loss) and dividend income. Other charges for the 2<sup>nd</sup> quarter of 2014 pertain to unrealized foreign exchange loss on MCLSI's foreign currency denominated transactions.

### **c) Changes in Financial Conditions**

#### Assets

**Cash and cash equivalents** for the 2nd quarter of 2015 and 2014 and as of December 31, 2014 amounted to P20.2 million, P20.6 million and P22.1 million, respectively. The decrease by P1.9 million or 9% as of 2nd quarter of 2015 is net effect of cash used in operating activities (P20.9 million), net cash used in investing activities (P2.4 million) and net cash provided by financing activities (P21.4). (See also Statement of Cash Flows on page 19 for the detailed composition of each activity).

**Receivables** amounted to P82.6 million as of 2nd quarter of 2015, P80.3 million as of December 31, 2014 and P68.2 million as of 2nd quarter of 2014 (net of allowance for doubtful accounts of P149 million for all periods). Notes and other receivables were fully covered by allowance for doubtful accounts stated above. This pertains to receivables of CPDSI (subsidiary which already ceased its operations) from its old clients which cannot be located anymore.

Trade and other receivables went up by P16 million or 58% in 2nd quarter of 2015 as compared to 2nd quarter of 2014 due to increase in sales and services from MCLSI lease and logistic contracts. No additional allowance for doubtful account for the 2<sup>nd</sup> quarter of 2015 as management believes that these receivables are fully realizable. The increase of P2.3 million or 3% in 2nd quarter of 2015 as against December 31, 2014 is due to net effect of decrease in trade receivables (P1.5 million) and increase in other receivables (P0.7 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 P31.2 million, P20.8 million and P25.8 million as of the June 30, 2015, December 31, 2014 and June 30, 2014, respectively (net of allowance for probable losses of P14 million for all periods). The increase by P5.4 million or 21% in 2nd quarter of 2015 as against same quarter of 2014 is net effect of increase in creditable withholding taxes (P8.9 million), decrease in input taxes (P1 million), decrease in refundable deposits (P.7 million) and decrease in other prepayments (P3.3 million).

The increase of P10.4 or 50% million in 2nd quarter of 2015 as against December 31, 2014 is due to net effect of increase in creditable withholding taxes (P9.9 million) and increase in input tax (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 P788.7 million, P788.7 million and P960.4 million as of June 30, 2015, December 31, 2014 and June 30, 2014, respectively, (which constitute 83% and 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 decrease of P171.7 million in 2nd quarter of 2015 as against 2nd quarter of 2014, pertains to collections from Polymax which was directly paid to the creditor of MAHEC.

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.

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.

During 2014, 20% of the 40% remaining interest of Polymax in NPCA was sold. To reiterate assurance of the collectability of the Parent Company's advances to Polymax, a comfort letter dated April 10, 2015 was issued by the major stockholders of the Parent Company.

**Available-for-sale-investments** amounted to ₱6.5 million, ₱6.5 million and ₱5.4 million in June 30, 2015, December 31, 2014 and June 30, 2014. This account includes shares of stocks owned in publicly listed companies. The ₱1.1 million increased in 2nd quarter as compared to same quarter of 2014 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 ₱5.4 million, ₱3.1 million and ₱2.1 million in June 30, 2015, December 31, 2014 and June 30, 2014, respectively. Net increase in property, plant and equipment in 2nd quarter of 2015 as against same quarter of 2014 by ₱3.3 million pertains depreciation charge for the quarter of ₱0.6 million due to property and equipment that was fully depreciated in 2014 and increase in additional acquisitions of transportation and office equipment of MCLSI amounting to ₱3.9 million.

The increase in 2nd quarter of 2015 as against December 31, 2014 by ₱0.4 million is due net effect of depreciation charges for the 2<sup>nd</sup> quarter of 2015 of ₱0.3 million and acquisition of transportation equipment amounting to ₱0.7 million.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of June 30, 2015 and December 31, 2014. In 2015 and 2014, 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** as of June 30, 2015 was comprised of deferred tax assets amounting to ₱4.7 million, rental deposits amounting to ₱1.6 million and intangible assets amounting to ₱0.6 million (net of allowance for amortization of ₱0.1 million). Other non-current assets for the quarter ended June 30, 2014 pertains only to deferred tax assets amounting to ₱4.6 million. Other non-current assets for the year ended December 31, 2014 was comprised of deferred tax assets amounting to ₱4.8 million and intangible asset amounting to ₱0.8 million which pertains to computer software for MCLSI warehouse management system.

## Liabilities

### *Current Liabilities*

**Accounts payable and accrued expenses** for the quarter ended June 30, 2015, December 31, 2014 and June 30, 2014 amounted to ₱410.5 million, ₱418.9 million and ₱430.3 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 decrease for the 2nd quarter of 2015 against same quarter of 2014 by ₱19.8 million or 5% 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** as of June 30, 2015, December 31, 2014 and June 30, 2014 amounted to ₱438.2 million, ₱416.7 million and ₱552.5 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 ₱114.3 million in 2nd quarter of 2015 as against the 2nd quarter of 2014 and increase of ₱21.5 million as against the end of 2014 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. Polymax sold another 20% interest in the petrochemical plant in 2014, proceeds from it were paid directly to creditors of Metro Alliance to pay off long outstanding liabilities.

**Loans payable (current and long term)** amounted to nil million as of June 30, 2015 and December 31, 2014 and ₱0.1 million for the period ended June 30, 2014, respectively. The account balance for 2nd quarter of 2014 pertains to MCLSI's loan agreements entered last July 21, 2009 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).

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 ₱75,335 and ₱158,655 as of June 30, 2015 and 2014.

**Accrued retirement benefit cost** amounted to ₱5.6 and ₱5.5 million as of June 30, 2015 and 2014. 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 ₱0.1 million or 2% pertains to additional provision made on the 2<sup>nd</sup> quarter of 2015. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation. There are no provisions made as of the second quarter of 2015 as management believes that current provisions are enough to cover possible retirement expense for the year.

### **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 Second Quarter Report for the period ended June 30, 2016 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 ₱320,000 in 2015 and 2014 and ₱300,000 in 2013 for expressing an opinion on the fairness of presentation of financial statements.

(b) Tax fees - there is no tax fees paid to external auditors for the years 2015 and 2014.

(c) Other fees – there is no other fees paid for the years 2015 and 2014.

(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 two quarters of 2016 are as follows:

|      |                | Class A |     | Class B |     |
|------|----------------|---------|-----|---------|-----|
|      |                | High    | Low | High    | Low |
| 2016 | First Quarter  | -       | -   | -       | -   |
|      | Second Quarter | -       | -   | -       | -   |
| 2015 | First Quarter  | -       | -   | -       | -   |
|      | Second Quarter | -       | -   | -       | -   |
|      | Third Quarter  | -       | -   | -       | -   |
|      | Fourth Quarter | -       | -   | -       | -   |

|      |                |   |   |   |   |
|------|----------------|---|---|---|---|
| 2014 | 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 June 30, 2016, there are 632 holders of Class "A" shares and 403 holders of Class "B" shares.

Metro Alliance's Top 20 Stockholders as of June 30, 2016 are as follows:

| Stockholder's Name |                                         | Number of Shares |             | Percentage |
|--------------------|-----------------------------------------|------------------|-------------|------------|
|                    |                                         | Class A          | Class B     | to Total   |
| 1                  | Creston Global Limited                  |                  | 56,378,388  | 18.42      |
| 2                  | PCD Nominee Corporation (Filipino)      | 16,190,768       | 26,797,455  | 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 2015 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.
- (e) Metro Alliance filed its Annual Corporate Governance Report last April 18, 2016 covering the year 2015.

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
DECEMBER 31, 2015 and 2014

**AND**

**INDEPENDENT AUDITOR'S REPORT**



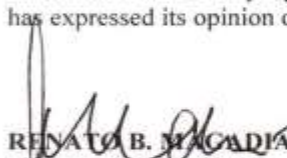
**METRO ALLIANCE**  
HOLDINGS & EQUITIES CORP.

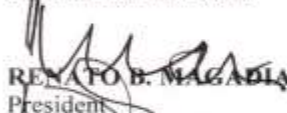
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

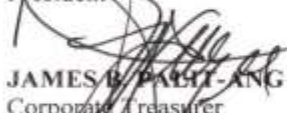
The management of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended **December 31, 2015 and 2014**, including the additional components attached therein, in accordance with the financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 financial statements and submits the same to the stockholders.

Valdes Abad & Associates, the independent auditors, appointed by the stockholders has examined the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the members or, has expressed its opinion on the fairness of presentation upon completion of such examination.

  
**RENATO B. MAGADIA**  
Chairman of the Board

  
**RENATO B. MAGADIA**  
President

  
**JAMES B. PALIT-ANG**  
Corporate Treasurer

**QUEZON CITY**

**SUBSCRIBED AND SWORN** to before me in \_\_\_\_\_ City/Province, Philippines on \_\_\_\_\_,  
affiants personally appeared before me and exhibited to me their

Name  
1. RENATO B. MAGADIA  
2. JAMES B. PALIT-ANG

Tax Identification Number  
100-942-390  
151-671-333

**WITNESS MY HAND AND SEAL** on the date and at the place above written.

DOC NO: 180  
PAGE NO: 74  
BOOK NO: FA  
SERIES OF: 2016

**NOTARY PUBLIC FOR** \_\_\_\_\_  
Notarial Commission No. \_\_\_\_\_  
Commission expires on December 31, \_\_\_\_\_  
Roll of Attorney Number \_\_\_\_\_  
PTR No. \_\_\_\_\_  
IBP No. \_\_\_\_\_  
Office Address: \_\_\_\_\_

  
**ATTY. BENJAMIN F. ALFONSO**  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2016  
PTR NO. 2141997/1/16 QUEZON CITY  
IBP NO. 1015954-1/4/2016 QUEZON CITY  
ROLL NO. 13296  
COMMISSION NO. NP-144 (2015-2016) QUEZON CITY  
TIN NO. 177-967-019  
MCLE EXEMPTED

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

# Valdes Abad & Associates

certified public accountants

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valdes.abad.associates@gmail.com

Associate firm of  
**gmn**  
international

## INDEPENDENT AUDITOR'S REPORT TO ACCOMPANYING FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

The Stockholders and the Board of Directors

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

35<sup>th</sup> Floor One Corporate Center, Dona Julia Vargas Ave., cor. Meralco Ave.  
Ortigas Center, Pasig City

We have examined the financial statements of **METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES** for the year ended December 31, 2015, on which we have rendered the attached report dated April 13, 2016.

In compliance with SRC Rule 68, we are stating that the Company has seven hundred ninety (790) stockholders owning one hundred (100) or more shares each as of December 31, 2015.

### **VALDES ABAD & ASSOCIATES**

For the firm:

  
**FELICIDAD A. ABAD**

Partner

CPA Certificate No. 0025184

TIN 123-048-248-000

PTR No. 5330740 - 01/08/2016

PRC – BOA Reg. No. 0314

Issued on November 2, 2015

Valid until December 31, 2018

SEC Accreditation No. 1356-A

Issued on September 19, 2013

Valid until September 18, 2016

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Makati City, Philippines

April 13, 2016

Valdes Abad & Associates (VAA) is formerly known as Carlos J. Valdes & Associates (CJVA)

# Valdes Abad & Associates

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## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors

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

35<sup>th</sup> Floor One Corporate Center, Dona Julia Vargas Ave., cor. Meralco Ave.  
Ortigas Center, Pasig City

We have audited the accompanying consolidated financial statements of **METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the consolidated statement of comprehensive income, statements of changes in equity, and the statement of cash flows for the years 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 financial statements in accordance with Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

## Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES** as of December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

## Emphasis of a Matter

Without qualifying our opinion, we draw attention to Notes 2 and 8 to the consolidated financial statements statements, which indicate that the Parent Company has advances to Polymax Worldwide Limited (Polymax) of ₱415.4 million and ₱788.6 million as of December 31, 2015 and 2014, respectively, and on the other hand, Polymax has past due liabilities of ₱994.7 million as of December 31, 2015 and 2014, respectively, for which the Parent is jointly and severally liable. These factors may cast significant doubt about the Parent Company's ability to continue as a going concern. 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 20% 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 for the outcome of these uncertainties. Management's plan is to infuse additional capital to address these going concern uncertainties.

## VALDES ABAD & ASSOCIATES

For the firm:

  
**FELICIDAD A. ABAD**

Partner

CPA Certificate No. 0025184

TIN 123-048-248-000

PTR No. 5330740 - 01/08/2016

PRC – BOA Reg. No. 0314

Issued on November 2, 2015

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Issued on October 29, 2014

Valid until October 29, 2017

Makati City, Philippines

April 13, 2016

**METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(In Philippine Peso)*



|                                                         |      | December 31,       |                    |
|---------------------------------------------------------|------|--------------------|--------------------|
|                                                         | Note | 2015               | 2014               |
| <b>ASSETS</b>                                           |      |                    |                    |
| <b>CURRENT ASSETS</b>                                   |      |                    |                    |
| Cash                                                    | 6    | 15,719,137         | 22,144,944         |
| Receivables, net                                        | 7    | 92,949,511         | 80,303,539         |
| Assets held for sale                                    | 2,8  | 415,410,450        | 788,662,261        |
| Other current assets, net                               | 9    | 25,983,675         | 20,783,745         |
| Total Current Assets                                    |      | 550,062,773        | 911,894,489        |
| <b>NON-CURRENT ASSETS</b>                               |      |                    |                    |
| Available for sale investment                           | 10   | 4,973,085          | 6,558,768          |
| Property and equipment, net                             | 11   | 3,752,848          | 5,052,315          |
| Deferred tax asset                                      | 20   | 4,080,211          | 4,773,825          |
| Intangible assets                                       | 12   | 555,556            | 750,000            |
| Total Non-Current Assets                                |      | 13,361,700         | 17,134,908         |
| <b>TOTAL ASSETS</b>                                     |      | <b>563,424,473</b> | <b>929,029,397</b> |
| <b>LIABILITIES AND EQUITY</b>                           |      |                    |                    |
| <b>CURRENT LIABILITIES</b>                              |      |                    |                    |
| Accounts payable and accrued expenses                   | 13   | 409,988,828        | 418,904,085        |
| Due to related parties                                  | 14   | 56,302,340         | 416,729,684        |
| Total Current Liabilities                               |      | 466,291,168        | 835,633,769        |
| <b>NON CURRENT LIABILITIES</b>                          |      |                    |                    |
| Accrued retirement benefit costs                        | 21   | 8,997,865          | 5,571,489          |
| Deferred tax liability                                  | 20   | -                  | 347                |
| Total Non-Current Liabilities                           |      | 8,997,865          | 5,571,836          |
| <b>EQUITY</b>                                           |      |                    |                    |
| Equity Attributable to Equity Holders of Parent Company |      |                    |                    |
| Capital stock                                           | 15   | 306,122,449        | 306,122,449        |
| Additional paid-in capital                              | 15   | 3,571,921          | 3,571,921          |
| Deficit                                                 | 27   | (235,129,968)      | (236,473,666)      |
| Remeasurement gain on retirement plan                   | 21   | 1,220,777          | 2,347,003          |
| Available-for-sale reserve                              | 10   | 1,202,122          | 2,787,805          |
|                                                         |      | 76,987,301         | 78,355,512         |
| Non-controlling interest                                |      | 11,148,139         | 9,468,280          |
| Total Equity                                            |      | 88,135,440         | 87,823,792         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                     |      | <b>563,424,473</b> | <b>929,029,397</b> |

*See Notes to Consolidated Financial Statements*

**METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION**  
**COSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(In Philippine Peso)*

| <b>For the Years Ended December 31,</b>                                  | <b>Note</b> | <b>2015</b>         | <b>2014</b>  |
|--------------------------------------------------------------------------|-------------|---------------------|--------------|
| <b>SALE OF SERVICES</b>                                                  | 16          | <b>143,344,326</b>  | 127,689,577  |
| <b>COST OF SERVICES</b>                                                  | 17          | <b>120,194,820</b>  | 102,105,535  |
| <b>GROSS PROFIT</b>                                                      |             | <b>23,149,506</b>   | 25,584,041   |
| <b>OTHER INCOME</b>                                                      |             | <b>16,366,780</b>   | 409,330      |
| <b>EXPENSES</b>                                                          | 18          | <b>(26,030,091)</b> | (26,024,027) |
| <b>FINANCE COST, NET</b>                                                 | 19          | <b>(7,132,891)</b>  | (7,173,001)  |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>                                   |             | <b>6,353,304</b>    | (7,203,656)  |
| <b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b>                           | 20          |                     |              |
| Current                                                                  |             | (3,003,941)         | (2,962,218)  |
| Deferred                                                                 |             | (1,355,754)         | 163,664      |
| <b>NET LOSS</b>                                                          |             | <b>1,993,609</b>    | (10,002,211) |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                 |             |                     |              |
| Unrealized gain(loss) on available-for-sale investments                  | 10          | (1,585,683)         | 425,755      |
| Remeasurement gain (loss) on retirement plan, net of deferred income tax | 22          | (2,208,287)         | -            |
| <b>TOTAL COMPREHENSIVE LOSS</b>                                          |             | <b>(1,800,361)</b>  | (9,576,456)  |
| <b>Net income (loss) attributable to:</b>                                |             |                     |              |
| Equity holders of the Parent Company                                     | 24          | (768,311)           | (13,204,392) |
| Non-controlling interest                                                 |             | 2,761,920           | 3,202,181    |
|                                                                          |             | <b>1,993,609</b>    | (10,002,211) |
| <b>Other comprehensive income (loss) attributable to:</b>                |             |                     |              |
| Equity holders of the Parent Company                                     |             | (2,711,909)         | -            |
| Non-controlling interest                                                 |             | (1,082,061)         | 425,755      |
|                                                                          |             | <b>(3,793,970)</b>  | 425,755      |
| <b>Basic loss per share</b>                                              |             |                     |              |
| Loss for the year attributable to equity holders of the Parent Company   | 24          | (0.003)             | (0.04)       |

*See Notes to Consolidated Financial Statements*

METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in Philippine Peso)

|                                         | Attributable to Equity Holders of the Parent Company |                            |                             |                                              |                  |                   | Minority Interests | Total Equity      |
|-----------------------------------------|------------------------------------------------------|----------------------------|-----------------------------|----------------------------------------------|------------------|-------------------|--------------------|-------------------|
|                                         | Capital Stock                                        | Additional Paid-in Capital | Retained Earnings (Deficit) | Remeasurement Gain (Loss) on Retirement Plan | AFS Reserve      | Subtotal          |                    |                   |
|                                         | (Note 15)                                            | (Note 15)                  | (Note 27)                   | (Note 21)                                    | (Note 10)        |                   |                    |                   |
| <b>BALANCES AS OF DECEMBER 31, 2013</b> | <b>306,122,449</b>                                   | <b>3,571,921</b>           | <b>(220,699,716)</b>        | <b>2,347,003</b>                             | <b>2,362,050</b> | <b>93,703,707</b> | <b>6,266,099</b>   | <b>99,969,806</b> |
| Net income (loss)                       | -                                                    | -                          | (13,204,392)                | -                                            | -                | (13,204,392)      | 3,202,181          | (10,002,211)      |
| Other comprehensive income (loss)       | -                                                    | -                          | -                           | -                                            | 425,755          | 425,755           | -                  | 425,755           |
| Other adjustments to retained earnings  | -                                                    | -                          | (2,569,558)                 | -                                            | -                | (2,569,558)       | -                  | (2,569,558)       |
| <b>BALANCES AS OF DECEMBER 31, 2014</b> | <b>306,122,449</b>                                   | <b>3,571,921</b>           | <b>(236,473,666)</b>        | <b>2,347,003</b>                             | <b>2,787,805</b> | <b>78,355,512</b> | <b>9,468,280</b>   | <b>87,823,792</b> |
| Prior period adjustment                 | -                                                    | -                          | 2,112,009                   | -                                            | -                | 2,112,009         | -                  | 2,112,009         |
| Net income (loss)                       | -                                                    | -                          | (768,311)                   | -                                            | -                | (768,311)         | 2,761,920          | 1,993,609         |
| Other comprehensive income (loss)       | -                                                    | -                          | -                           | (1,126,226)                                  | (1,585,683)      | (2,711,909)       | (1,082,061)        | (3,793,970)       |
| <b>BALANCES AS OF DECEMBER 31, 2015</b> | <b>306,122,449</b>                                   | <b>3,571,921</b>           | <b>(235,129,968)</b>        | <b>1,220,777</b>                             | <b>1,202,122</b> | <b>76,987,301</b> | <b>11,148,139</b>  | <b>88,135,440</b> |

See Notes to Consolidated Financial Statements

**METRO ALLIANCE HOLDINGS AND EQUITIES CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In Philippine Peso)*

| <b>For the Years Ended December 31,</b>         | <b>Note</b> | <b>2015</b>        | <b>2014</b>       |
|-------------------------------------------------|-------------|--------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>     |             |                    |                   |
| Income (loss) before income tax                 |             | 6,353,304          | (7,203,656)       |
| Adjustments for:                                |             |                    |                   |
| Unrecognized prior years excess tax credits     |             | 2,112,009          | -                 |
| Write-off of receivables                        | 7           | (7,716,829)        | -                 |
| Provision for doubtful account expense          | 7           | 5,206,667          | -                 |
| Amortization of intangible assets               | 12          | 319,444            | 150,000           |
| Depreciation and amortization                   | 11          | 2,905,060          | 1,192,994         |
| Provision for retirement benefit costs          | 20          | 1,557,801          | -                 |
| Interest expense                                | 19          | 7,132,891          | 7,207,800         |
| Interest income                                 | 19          | (61,712)           | (34,799)          |
| Dividends received                              |             | 500                | 500               |
| Deferred tax assets                             |             | 693,268            | (2,536,463)       |
| Other non-cash adjustments                      |             | -                  | (2,569,558)       |
| Operating income before working capital changes |             | 18,502,403         | (3,793,183)       |
| Changes in assets and liabilities:              |             |                    |                   |
| Receivables, net                                |             | (10,135,810)       | (4,417,124)       |
| Other current assets                            |             | (9,274,960)        | 277,644           |
| Accounts payable and accrued expenses           |             | (8,169,394)        | 15,287,308        |
| Benefits paid                                   |             | (339,712)          | -                 |
| Income tax paid                                 |             | (1,030,529)        | -                 |
| Net Cash from Operating Activities              |             | (10,448,002)       | 7,354,646         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>     |             |                    |                   |
| Interest received                               | 19          | 61,712             | 34,799            |
| Collection from asset held for sale             | 14          | 373,251,811        | 171,627,717       |
| Acquisition of property and equipment           | 11          | (1,605,593)        | (4,375,620)       |
| Acquisition of intangible assets                | 12          | (125,000)          | (900,000)         |
| Increase (decrease) in AFS                      | 10          | -                  | (425,755)         |
| Net Cash from Investing Activities              |             | 371,582,930        | 165,961,141       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>     |             |                    |                   |
| Dividends paid                                  |             | (500)              | (500)             |
| Interest paid                                   | 19          | (7,132,891)        | (7,207,800)       |
| Decrease in due to related parties              | 14          | (360,427,344)      | (158,231,557)     |
| Payment of long-term debt                       | 14          | -                  | (179,415)         |
| Net Cash from Financing Activities              |             | (367,560,735)      | (165,619,272)     |
| <b>NET INCREASE (DECREASE) IN CASH</b>          |             | <b>(6,425,807)</b> | <b>7,696,515</b>  |
| <b>CASH, Beginning</b>                          | 6           | <b>22,144,944</b>  | <b>14,448,429</b> |
| <b>CASH, End</b>                                | 6           | <b>15,719,137</b>  | <b>22,144,944</b> |

*See Notes to Consolidated Financial Statements*

## METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

### CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

#### NOTE 1 – 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 new registered office address of the Parent Company is 35<sup>th</sup> Floor One Corporate Center, Dona Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City.

In 2015, the SEC approved the amendment made to Article III of the Company’s Articles of Incorporation in regard to the change of Company’s official business address from 22<sup>nd</sup> Floor Citibank Tower, 8741 Paseo de Roxas, Makati City to 35<sup>th</sup> Floor One Corporate Center, Dona Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City.

The accompanying consolidated financial statements as of December 31, 2015 were approved and authorized for issue by the Board of Directors (BOD) on April 13, 2016.

#### NOTE 2– STATUS OF OPERATIONS

##### 2.1 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, 2015 and 2014, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, amounting to ₱960.4 million and ₱960.3 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 as of December 31, 2015 and 2014, 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 8.

As explained in Note 8, the remaining 20% 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 20% 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 15b, management’s plan is to infuse additional capital to address the going concern uncertainty.

##### 2.2 Management Plan to Address Going Concern Uncertainties

The Group having resolved its disputes with the foreign parties involved in the Bataan petrochemical project will explore business opportunities for the next twelve month. 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 20% interest in the petrochemical plant as of December 31, 2015. The Board will discuss on their succeeding meetings on how best to proceed on this remaining investment. Recently, the management is undergoing due diligence in evaluating investment proposal from foreign investor for the plan of reacquiring the majority control of the petrochemical plant. The Board will also outline business target projects including possible investment in mining industry. MAHEC's remaining operating subsidiary, Metro Combined Logistics Solutions, Inc. (MCLSI), is steadily growing with additional business from its existing principals.

#### Projected Plan for next 12 months:

##### Investment and sources of capital

The company has remained steadfast to regain its status as a going concern. In line with this, several actions were taken to conserve the company's resources and build confidence for its business direction:

- a) Cessation of operation of subsidiaries that were losing operations and those became inactive;
- b) Commitment by the majority shareholders of the company's equity be preserved;
- c) Accepting the settlement of disputed issues between the shareholders of NPC Alliance Corporation and recognizing the resulting loss adjustments to reflect the realizable value of the investments of the Company related to the petrochemical project;
- d) Liquidation of its bank obligation in respect to the Mabuhay Vinyl investment by way of "dacion" to a mortgage bank;
- e) Sale of the Company's remaining shares in Mabuhay Vinyl to generate cash for the Company;
- f) Clearing of its remaining bank obligations to free the company from debts;
- g) Continuous filings with relevant government agencies;
- h) Maintaining a lean organization to sustain its operation during the said period.

##### Recapitalization of the Company to meet the Projected Investments in New Venture

The company has a pending application with the SEC to increase its capital stock to P5 billion to be split – 60% Class A shares and 40% Class B shares at par value P1.00 to meet its projected investments after tender offer. Of this amount, P3 billion worth of shares earmarked to be issued as follows:

1. Majority interest in an operating mining company which is actively producing nickel and has a capital base of P1 billion. This company is presently held by the majority shareholders in joint venture with a Chinese company.
2. A second part capital increase amounting to ₱2 billion will be underwritten by a Chinese Bank to provide momentarily cash infusion to the company for the reacquisition of 80% NPCA shares which are sold to NPC International, an Iranian interest. This will redown to the company regaining 100% ownership of NPC Alliance. The planned acquisition will allow the entry of a Chinese Petrochemical company to buy in the company up to 70% of the company's restructured equity by way of supplying feed stocks for the NPCA ethylene plant.

The Company is expected to satisfy its cash requirements to finance its projected plans and investments in new venture until the 4<sup>th</sup> quarter of 2016.

##### Realization of Outstanding Receivables from Polymax Worldwide in the Amount of Php415,410,540.00 as of December 31, 2015

In order that this outstanding receivable will be fully recovered, a payment by dacion of the remaining 20% NPCA shares held by Polymax in NPC Alliance will be assigned to Metro Alliance, thus, making the company the direct shareholders of NPCA.

With the problem of the US and European economic sanction of Iran being resolved, NPCA will now be able to operate profitably, thus, enhancing the remaining value of the NPCA shares. The estimated present value of the 20% NPCA shares is placed at \$20 Million.

##### 2.3 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 8.

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 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 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.

### **NOTE 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 |      |
|--------------------------------------------------------------------------------|-------------------------|------|
|                                                                                | 2015                    | 2014 |
| Operating subsidiaries:                                                        |                         |      |
| Metro Combined Logistics Solutions, Inc. (MCLSI)(formerly GAC Logistics, Inc.) | 51%                     | 51%  |
| Non-operating subsidiaries:                                                    |                         |      |
| Consumer Products Distribution Services, Inc. (CPDSI)                          | 100%                    | 100% |
| FEZ-EAC Holdings, Inc. (FEZ-EAC)                                               | 100%                    | 100% |
| Zuellig Distributors, Inc. (ZDI)                                               | 100%                    | 100% |
| Asia Healthcare, Inc. (AHI)                                                    | 60%                     | 60%  |

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 and restatement of December 31 and January 1, 2012 accounts.

- 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 26).

#### *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, 2015 and 2014.

*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, 2015 and 2014.

*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, 2015 and 2014.

*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: 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:

| Particulars                              | 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.

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 carry-forward 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 are 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.

### **NOTE 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 8).

#### *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 22).

#### *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 ₱ 147 million and ₱149.5 million as of December 31, 2015 and 2014, respectively) amounted to ₱92.9 million and ₱80.3 million as of December 31, 2015 and 2014, respectively (see Note 7).

The carrying amount of other current assets amounted to ₱ 25.9 million and ₱20.7 million as of December 31, 2015 and 2014, respectively, as discussed in Note 9. Allowance on probable losses, mainly pertaining to creditable withholding and input taxes, amounted to ₱12.2 and ₱14.1 million as of December 31, 2015 and 2014 as shown also in Note 9.

Advances to Polymax (under asset held for sale) amounting to ₱ 415.4 million and ₱788.7 million as of December 31, 2015 and 2014, respectively, constitute 47% and 85% of the Group's total assets at the end of 2015 and 2014, respectively. 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 20% 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 8.

#### *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 2015 and 2014.

In 2015 and 2014, 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 Non financial 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, 2015 and 2014. As of December 31, 2015 and 2014, property and equipment, net of accumulated depreciation and amortization, amounted to ₱ 3.7 million and ₱ 5 million, respectively, as shown in Note 11 and total depreciation and amortization charged to operations amounted to ₱ 127,065 in 2015 and ₱ 511, 594 million in 2014 (see Note 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.

#### *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 million and ₱ 4.8 million as of December 31, 2015 and 2014, respectively (see Note 20).

The Group did not recognize deferred tax assets of the Parent Company and its non-operating subsidiaries amounting to ₱52.4 million and ₱50.4 million as of December 31, 2015 and 2014, 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 20.

#### *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 21 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 ₱ 2.4 million & ₱ 4.6 million as of December 31, 2015 and 2014 (see Note 21)

### **NOTE 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 2015 and 2014.

#### 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, 2015 and 2014 and for the years then ended is presented below.

#### **2015**

|                                                        | Distribution and<br>Contract Logistics | Other<br>Businesses | Total        |
|--------------------------------------------------------|----------------------------------------|---------------------|--------------|
| External Sales                                         | ₱ 143,344,326                          | -                   | 143,344,326  |
| Results:                                               |                                        |                     |              |
| Segment result                                         | 3,475,269                              | (14,151,231)        | (10,675,962) |
| Other income (expense)                                 | (2,153,449)                            | 14,726,259          | 12,572,810   |
| Provision for income tax                               | (1,734,187)                            | (1,816,952)         | (3,697,209)  |
| Net income (loss)                                      | (412,367)                              | (1,241,924)         | (1,800,361)  |
| Other Information:                                     |                                        |                     |              |
| Segment assets                                         | 97,238,895                             | 466,185,578         | 563,424,473  |
| Segment liabilities                                    | 67,460,801                             | 407,603,233         | 475,064,034  |
| Capital expenditures                                   | -                                      | -                   | -            |
| Depreciation and amortization                          | 444,314                                | 2,195               | 446,509      |
| Noncash items other than depreciation and amortization | 52,352                                 | 7,132,891           | 7,185,243    |

2014

|                                                        | Distribution and<br>Contract Logistics | Other<br>Businesses | Total               |
|--------------------------------------------------------|----------------------------------------|---------------------|---------------------|
| External Sales                                         | ₱ 127,689,577                          | ₱ -                 | ₱ 127,689,577       |
| Results                                                |                                        |                     |                     |
| Segment result                                         | 8,935,216                              | (16,551,518)        | (7,616,302)         |
| Other income                                           | 408,434                                | 4,211               | 412,645             |
| Provision for income tax                               | (2,798,555)                            | -                   | (2,798,555)         |
| Net income (loss)                                      | <u>6,545,095</u>                       | <u>(16,547,307)</u> | <u>(10,002,212)</u> |
| Other Information                                      |                                        |                     |                     |
| Segment assets                                         | 83,046,376                             | 845,983,021         | 929,029,397         |
| Segment liabilities                                    | 56,743,551                             | 784,462,054         | 841,205,605         |
| Capital expenditures                                   | 4,371,230                              | 4,390               | 4,375,620           |
| Depreciation and amortization                          | 1,186,580                              | 6,414               | 1,192,994           |
| Noncash items other than depreciation and amortization | <u>443,358</u>                         | <u>7,175,160</u>    | <u>7,618,518</u>    |

#### NOTE 6 – CASH

Details of cash are as follows:

| Particulars   | 2015                | 2014                |
|---------------|---------------------|---------------------|
| Cash on hand  | ₱ 141,000           | ₱ 141,000           |
| Cash in banks | <u>15,578,137</u>   | <u>22,003,944</u>   |
| Total         | <u>₱ 15,719,137</u> | <u>₱ 22,144,944</u> |

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱61,712 and ₱34,799 in 2015 and 2014, respectively.

#### NOTE 7 – RECEIVABLES

Details of receivables are as follows:

| Particulars                         | 2015                 | 2014                 |
|-------------------------------------|----------------------|----------------------|
| Notes                               | ₱ 143,865,021        | ₱ 138,710,706        |
| Trade                               | 53,179,627           | 42,259,980           |
| Due from related parties (Note 14)  | 5,716,471            | 10,975,236           |
| Others                              | <u>37,226,033</u>    | <u>37,905,420</u>    |
| Subtotal                            | 239,987,152          | 229,851,342          |
| Less: Allowance for probable losses | <u>(147,037,641)</u> | <u>(149,547,803)</u> |
| Total                               | <u>₱ 92,949,511</u>  | <u>₱ 80,303,539</u>  |

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 2015 and 2014.

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:

| Particulars                      |   | 2015                      |   | 2014                      |
|----------------------------------|---|---------------------------|---|---------------------------|
| Balance at beginning of year     | ₱ | <b>149,547,803</b>        | ₱ | 149,104,446               |
| Write off                        |   | <b>(7,716,829)</b>        |   | -                         |
| Provision for the year (Note 18) |   | <b>5,206,667</b>          |   | 443,357                   |
| Balance at end of year           | ₱ | <b><u>147,037,641</u></b> | ₱ | <b><u>149,547,803</u></b> |

#### NOTE 8 – ASSET HELD FOR SALE

Asset held for sale amounting to ₱415,410,450 and ₱788,662,260 as of December 31, 2015 and 2014, respectively, which constitutes 94% and 96% of the Parent Company's total assets as of December 31, 2015 and 2014, respectively, 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, management decided to discontinue operations and ceased operating as a going concern. The remaining 40% interest of Polymax in NPCA, 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 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 20% interest in NPCA, which is for sale. In this regard and to ensure the recoverability of the Parent Company's advances to Polymax, the Parent Company's major stockholders issued a letter of comfort in favor of the Parent Company on September 30, 2014.

During 2014, 20% of the 40% remaining interest of Polymax in NPCA was sold. To reiterate assurance of the collectability of the Parent Company's advances to Polymax, a comfort letter dated April 10, 2015 was issued by the major stockholders of the Parent Company.

On December 16 and 22, 2015, the Company was able to collect advances from Polymax amounted to ₱300million and ₱73million respectively.

Condensed unaudited financial information of Polymax as of December 31, 2015 and 2014 prepared on the liquidation basis of accounting is shown in the table below.

| Particulars                                       |   | 2015                        |   | 2014                        |
|---------------------------------------------------|---|-----------------------------|---|-----------------------------|
| Assets                                            |   |                             |   |                             |
| Cash and cash equivalents                         | ₱ | <b>130,966,060</b>          | ₱ | 130,966,060                 |
| Assets held for sale                              |   | <b>347,720,000</b>          |   | 347,720,000                 |
| Due from related parties                          |   | <b>157,433,310</b>          |   | 530,685,120                 |
| Total assets                                      |   | <b><u>636,119,370</u></b>   |   | <b><u>1,009,371,180</u></b> |
| Liabilities                                       |   |                             |   |                             |
| Liabilities related to asset held for sale        |   | <b>994,668,446</b>          |   | 994,668,446                 |
| Due to Metro Alliance Holdings and Equities Corp. |   | <b>415,410,450</b>          |   | 788,662,260                 |
| Other payable                                     |   | <b>49,030,000</b>           |   | 49,030,000                  |
| Total liabilities                                 |   | <b><u>1,459,108,896</u></b> |   | <b><u>1,832,360,706</u></b> |
| Capital deficiency                                | ₱ | <b><u>822,989,526</u></b>   | ₱ | <b><u>822,989,526</u></b>   |

Assets held for sale of Polymax pertains to the estimated recoverable value of Polymax's remaining 20% interest in NPCA.

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

Liabilities related to asset held for sale of Polymax 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.

The change in Polymax's net equity by ₱0 in 2015 and ₱204.7 million in 2014 pertains to:

| Particulars                                        | (In Million) |               |
|----------------------------------------------------|--------------|---------------|
|                                                    | 2015         | 2014          |
| Loss on disposal of asset held for sale            | ₱ -          | ₱ 102,280,000 |
| Provision for impairment loss- asset held for sale | -            | 102,280,000   |
| Interest and penalties                             | -            | -             |
| Professional fee                                   | -            | 126,222       |
| Net loss                                           | ₱ -          | ₱ 204,686,222 |

Polymax's share in the net loss of NPCA amounted to ₱208.2 million in 2015 and ₱120.3 million in 2014; 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 value from sale of ₱450 million.

#### NOTE 9 – OTHER CURRENT ASSETS

Details are as follows:

| Particulars                         | 2015         | 2014         |
|-------------------------------------|--------------|--------------|
| Creditable withholding taxes        | ₱ 22,881,472 | ₱ 21,629,997 |
| Input taxes                         | 7,810,326    | 9,204,952    |
| Refundable deposits                 | 3,792,938    | 1,400,410    |
| Prepayments and others              | 3,753,284    | 2,675,867    |
| Subtotal                            | 38,238,020   | 34,911,226   |
| Less: Allowance for probable losses | (12,254,345) | (14,127,481) |
| Total                               | ₱ 25,983,675 | ₱ 20,783,745 |

#### NOTE 10 – AVAILABLE-FOR-SALE-INVESTMENT

Available-for-sale investments consist of investments in shares of Waterfront Philippines, Inc. (WPI) and others that are quoted in the local stock exchange, as well as investments in unlisted shares. Movements of the account follow:

| Particulars                                                 | 2015        | 2014        |
|-------------------------------------------------------------|-------------|-------------|
| Balance at beginning of year                                | ₱ 6,471,473 | ₱ 6,133,013 |
| Net change in the fair value gain (loss) of AFS investments | (1,498,388) | 425,755     |
| Balance at end of year                                      | ₱ 4,973,085 | ₱ 6,558,768 |

The movements in net unrealized gain on AFS investment are as follows:

| Particulars                                                       | 2015        | 2014        |
|-------------------------------------------------------------------|-------------|-------------|
| Balance at beginning of year                                      | ₱ 2,787,805 | ₱ 2,362,050 |
| Gain(loss) due to changes in fair market value of AFS investments | (1,585,683) | 425,755     |
| Balance at end of year                                            | ₱ 1,202,122 | ₱ 2,787,805 |

The net unrealized gain on AFS investments are deferred and presented separately as AFS reserve under the equity section of the consolidated financial position.

|                                        |
|----------------------------------------|
| <b>NOTE 11– PROPERTY AND EQUIPMENT</b> |
|----------------------------------------|

As of December 31, 2015, this account consists of the following:

| <b>Particulars</b>                       |   | <b>Beginning<br/>Balances</b> | <b>Acquisitions/<br/>Provisions</b> | <b>Ending<br/>Balances</b> |
|------------------------------------------|---|-------------------------------|-------------------------------------|----------------------------|
| Cost:                                    |   |                               |                                     |                            |
| Leasehold improvements                   | ₱ | 1,276,475                     | 272,642                             | <b>1,549,117</b>           |
| Machinery and equipment                  |   | 20,867,971                    | 981,433                             | <b>21,849,404</b>          |
| Office furniture, fixtures and equipment |   | 13,222,799                    | 351,518                             | <b>13,574,317</b>          |
| Total                                    |   | 35,367,245                    | 1,605,593                           | <b>36,972,838</b>          |
| Accumulated depreciation:                |   |                               |                                     |                            |
| Leasehold improvements                   |   | 1,110,817                     | 85,946                              | <b>1,196,763</b>           |
| Machinery and equipment                  |   | 17,148,735                    | 1,695,013                           | <b>18,843,748</b>          |
| Office furniture, fixtures and equipment |   | 12,055,378                    | 1,124,101                           | <b>13,179,479</b>          |
| Total                                    | ₱ | 30,314,930                    | 2,905,060                           | <b>33,219,990</b>          |
| Net Book Value                           | ₱ | 5,052,315                     |                                     | <b>₱ 3,752,848</b>         |

As of December 31, 2014, this account consists of the following:

| <b>Particulars</b>                       |   | <b>Beginning<br/>Balances</b> | <b>Acquisitions/<br/>Provisions</b> | <b>Ending<br/>Balances</b> |
|------------------------------------------|---|-------------------------------|-------------------------------------|----------------------------|
| Cost:                                    |   |                               |                                     |                            |
| Leasehold improvements                   | ₱ | 1,078,126                     | 198,349                             | <b>₱ 1,276,475</b>         |
| Machinery and equipment                  |   | 17,110,317                    | 3,757,654                           | <b>20,867,971</b>          |
| Office furniture, fixtures and equipment |   | 12,803,182                    | 419,617                             | <b>13,222,799</b>          |
| Total                                    |   | 30,991,625                    | 4,375,620                           | <b>35,367,245</b>          |
| Accumulated depreciation:                |   |                               |                                     |                            |
| Leasehold improvements                   |   | 1,078,126                     | 32,691                              | <b>1,110,817</b>           |
| Machinery and equipment                  |   | 16,548,324                    | 600,411                             | <b>17,148,735</b>          |
| Office furniture, fixtures and equipment |   | 11,495,486                    | 559,892                             | <b>12,055,378</b>          |
| Total                                    | ₱ | 29,121,918                    | 1,192,994                           | <b>₱ 30,314,930</b>        |
| Net Book Value                           | ₱ | 1,869,689                     |                                     | <b>₱ 5,052,315</b>         |

# NOTE 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, 2015 is as follows:

| <b>Particulars</b>          | <b>Beginning<br/>Balances</b> | <b>Amortization</b> | <b>Ending<br/>Balances</b> |
|-----------------------------|-------------------------------|---------------------|----------------------------|
| Cost:                       |                               |                     |                            |
| Short messaging             | ₱ 135,135                     | -                   | ₱ 135,135                  |
| Warehouse management system | 1,309,910                     | -                   | 1,309,910                  |
| Caerus accounting system    | 900,000                       | 125,000             | 1,025,000                  |
| <b>Total</b>                | <b>2,345,045</b>              | <b>125,000</b>      | <b>2,470,045</b>           |
| Accumulated depreciation:   |                               |                     |                            |
| Short messaging             | 135,135                       | -                   | 135,135                    |
| Warehouse management system | 1,309,910                     | -                   | 1,309,910                  |
| Caerus accounting system    | 150,000                       | 319,444             | 469,444                    |
| <b>Total</b>                | <b>₱ 1,595,045</b>            | <b>319,444</b>      | <b>₱ 1,914,489</b>         |
| <b>Net Book Value</b>       | <b>₱ 750,000</b>              |                     | <b>₱ 555,556</b>           |

The carrying amount of intangible assets as of December 31, 2014 is as follows:

| <b>Particulars</b>          | <b>Beginning<br/>Balances</b> | <b>Amortization</b> | <b>Ending<br/>Balances</b> |
|-----------------------------|-------------------------------|---------------------|----------------------------|
| Cost:                       |                               |                     |                            |
| Short messaging             | ₱ 135,135                     | -                   | ₱ 135,135                  |
| Warehouse management system | 1,309,910                     | -                   | 1,309,910                  |
| Caerus accounting system    | -                             | 900,000             | 900,000                    |
| <b>Total</b>                | <b>1,445,045</b>              | <b>900,000</b>      | <b>2,345,045</b>           |
| Accumulated depreciation:   |                               |                     |                            |
| Short messaging             | 135,135                       | -                   | 135,135                    |
| Warehouse management system | 1,309,910                     | -                   | 1,309,910                  |
| Caerus accounting system    | -                             | 150,000             | 150,000                    |
| <b>Total</b>                | <b>₱ 1,445,045</b>            | <b>150,000</b>      | <b>₱ 1,595,045</b>         |
| <b>Net Book Value</b>       | <b>₱ -</b>                    |                     | <b>₱ 750,000</b>           |

Intangible assets have been fully amortized during the year as MCLSI's management assessed that these will no longer provide a future economic benefit to MCLSI.

# **NOTE 13 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Details of this account are as follows:

| Particulars                                         | 2015          | 2014          |
|-----------------------------------------------------|---------------|---------------|
| Trade payables                                      | ₱ 31,382,148  | ₱ 32,204,196  |
| Accrued expenses                                    | 186,567,290   | 358,151,980   |
| Accrued finance charges – related parties (Note 14) | -             | 14,209,630    |
| Other liabilities                                   | 192,039,390   | 14,338,279    |
| Total                                               | ₱ 409,988,828 | ₱ 418,904,085 |

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.

# **NOTE 14 - RELATED PARTY TRANSACTIONS**

## **e. 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.

## **f. 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.

## **g. Compensation of key management personnel follows:**

| Particulars                   | 2015        | 2014        |
|-------------------------------|-------------|-------------|
| Short-term employee benefits  | ₱ 8,655,149 | ₱ 8,161,952 |
| Retirement benefits (Note 20) | -           | -           |
| Total                         | ₱ 8,655,149 | ₱ 8,161,952 |

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.

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

| Particulars                               | Amount of Transactions |                 | Outstanding        |               |
|-------------------------------------------|------------------------|-----------------|--------------------|---------------|
|                                           | Increase (Decrease)    |                 | Receivable/Payable |               |
|                                           | 2015                   | 2014            | 2015               | 2014          |
| <b>Advances (Asset Held for Sale)</b>     |                        |                 |                    |               |
| Polymax (special purpose entity) (Note 7) | ₱ (373,251,811)        | ₱ (171,627,717) | ₱ 415,410,450      | ₱ 788,662,261 |
| <b>Due from Related Parties</b>           |                        |                 |                    |               |
| <i>Operating subsidiary</i>               |                        |                 |                    |               |
| MCLSI                                     | ₱ (250,000)            | ₱ -             | ₱ 250,000          | ₱ 500,000     |
| <i>Entity under common control</i>        |                        |                 |                    |               |
| The Wellex Group, Inc.                    | -                      | (5,384,826)     | 5,416,174          | 5,416,174     |
| Others                                    | ( 243,190)             | -               | 50,297             | 293,487       |
|                                           | ₱ (493,190)            | ₱ (5,384,826)   | ₱ 5,716,471        | ₱ 6,209,661   |
| <b>Due to Related Parties</b>             |                        |                 |                    |               |
| <i>Entities under common control</i>      |                        |                 |                    |               |
| Waterfront Philippines, Inc. (WPI)        | (365,933,148)          | (3,042,977)     | -                  | 365,933,148   |
| Acesite (Phils.) Hotel Corporation        | (612,531)              | -               | 5,627,202          | 6,239,733     |
| Wellex Mining Corp.                       | 225,000                | (225,000)       | 225,000            | -             |
| Gulf Agency Company Holdings (BV)         | (782,481)              | -               | 23,273,962         | 22,670,814    |
| The Wellex Group, Inc.                    | 4,684,695              | 22,491,481      | 27,176,176         | 22,491,481    |
| <i>Other related parties</i>              |                        |                 |                    |               |
| Stockholders                              | -                      | (181,753,940)   | -                  | -             |
| Others                                    | 4,277,971              | (4,195,534)     | (4,883,463)        | (605,492)     |
|                                           | ₱ 360,427,344          | ₱ (166,725,970) | ₱ 56,302,340       | ₱ 416,729,684 |
| <b>Accrued finance charges</b>            |                        |                 |                    |               |
| Waterfront Philippines, Inc. (WPI)        | ₱ (14,209,630)         | ₱ 7,175,160     | ₱ -                | ₱ 14,209,630  |

Due from related parties pertains to unsecured and noninterest bearing advances granted by the Parent Company to related parties, which have no fixed repayment terms.

The amounts due to related parties pertain to unsecured and noninterest bearing 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. Due to WPI pertains to interest bearing advances to the Parent Company to support its working capital requirements and Petrochemical Project. These advances bear 2% interest per annum.

In 2015, the Parent Company was able to collect advances from Polymax Worldwide, Limited. The collections were used to settle its long outstanding liability to WPI with a principal balance of ₱365,933,148 and accrued finance charges of ₱7,132,891 at a discount of ₱17,482,601. This discount was recognized as Company's other income arising from a condoned liability in its books.

**NOTE 15 – CAPITAL STOCK**

a. The Group's capital stock as of December 31, 2015 and 2014 consists of the following common shares:

| Particulars                                                      | 2015                 | 2014                 |
|------------------------------------------------------------------|----------------------|----------------------|
| Class "A" – ₱1 par value                                         |                      |                      |
| Authorized – 720,000,000 shares with par value of ₱1             | ₱ <u>720,000,000</u> | ₱ <u>720,000,000</u> |
| Issued and outstanding – 183,673,470 shares with par value of ₱1 | ₱ <u>183,673,470</u> | ₱ <u>183,673,470</u> |
| Number of equity holders                                         | <u>632</u>           | <u>632</u>           |
| Class "B" – ₱1 par value                                         |                      |                      |
| Authorized – 480,000,000 shares with par value of ₱1             | ₱ <u>480,000,000</u> | ₱ <u>480,000,000</u> |
| Issued and outstanding – 122,448,979 shares with par value of ₱1 | ₱ <u>122,448,979</u> | ₱ <u>122,448,979</u> |
| Number of equity holders                                         | <u>403</u>           | <u>403</u>           |
| Additional Paid-in Capital                                       | ₱ <u>3,571,921</u>   | ₱ <u>3,571,921</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.

**NOTE 16 – SALE OF SERVICES**

For the year ended December 31, 2015 and 2014, the account comprise of sale of services amounting to ₱143,344,326 and ₱127, 689,577, respectively.

**NOTE 17– COST OF SERVICES**

Details of this account are shown below.

| Particulars                             | 2015                 | 2014                 |
|-----------------------------------------|----------------------|----------------------|
| Personnel costs                         | ₱ <u>43,497,407</u>  | ₱ 35,659,774         |
| Transportation and travel               | <u>37,139,315</u>    | 26,966,919           |
| Rent and utilities (Note 22)            | <u>16,182,835</u>    | 12,073,142           |
| Outside services                        | <u>11,343,859</u>    | 9,143,490            |
| Depreciation and amortization (Note 11) | <u>2,777,995</u>     | 681,400              |
| Security services                       | <u>1,785,538</u>     | 1,383,389            |
| Communication and office supplies       | <u>1,715,268</u>     | 1,529,346            |
| Repairs and maintenance                 | <u>326,178</u>       | 188,287              |
| Others                                  | <u>5,426,425</u>     | 14,479,788           |
| Total                                   | ₱ <u>120,194,820</u> | ₱ <u>102,105,535</u> |

**NOTE 18 – EXPENSES**

Details of this account are shown below.

| Particulars                                 | 2015         | 2014         |
|---------------------------------------------|--------------|--------------|
| Personnel costs                             | ₱ 8,783,940  | ₱ 8,778,872  |
| Provision for probable losses (Notes 7)     | 5,206,667    | 443,358      |
| Professional fees                           | 1,808,260    | 2,319,430    |
| Entertainment                               | 1,211,293    | 4,911,075    |
| Rent and utilities (Note 22)                | 1,194,341    | 1,035,060    |
| Taxes and licenses                          | 1,047,827    | 1,251,432    |
| Communication and supplies                  | 848,860      | 726,029      |
| Transportation and travel                   | 713,561      | 659,475      |
| Amortization of intangible assets (Note 12) | 319,444      | 150,000      |
| Depreciation and amortization (Note 11)     | 127,065      | 511,594      |
| Insurance                                   | 14,823       | -            |
| Others                                      | 4,754,010    | 5,237,702    |
| Total                                       | ₱ 26,030,091 | ₱ 26,024,027 |

**NOTE 19 – FINANCE COST**

Details of this account are shown below.

| Particulars      | 2015          | 2014          |
|------------------|---------------|---------------|
| Interest income  | ₱ 61,712      | ₱ 34,799      |
| Interest expense | (7,132,891)   | (7,207,800)   |
| Net              | ₱ (7,071,179) | ₱ (7,173,001) |

**NOTE 20 – INCOME TAXES**

- a. The components of the Group's provision for (benefit from) income tax are as follows:

| Particulars                    | 2015        | 2014        |
|--------------------------------|-------------|-------------|
| NCIT                           | ₱ 3,003,941 | ₱ 2,962,218 |
| Current tax expense            | 3,003,941   | 2,962,218   |
| Deferred tax expense (benefit) | 1,355,754   | (163,664)   |
| Aggregate tax expense          | ₱ 4,359,695 | ₱ 2,798,555 |

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:

| Particulars                                                        | 2015               | 2014               |
|--------------------------------------------------------------------|--------------------|--------------------|
| Provision for (benefit from) income tax loss at statutory tax rate | ₱ 3,020,103        | ₱ 2,803,095        |
| Tax effects of:                                                    |                    |                    |
| Expired NOLCO applicable to:                                       |                    |                    |
| Parent Company and its non-operating                               |                    |                    |
| Subsidiaries                                                       | -                  | -                  |
| Nondeductible interest and other expenses                          | -                  | 4,786              |
| Change in unrecognized deferred tax assets                         | 1,355,754          |                    |
| Interest and dividends                                             | (16,162)           | (9,326)            |
|                                                                    | <u>₱ 4,359,695</u> | <u>₱ 2,798,555</u> |

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

| Particulars                       | 2015               | 2014               |
|-----------------------------------|--------------------|--------------------|
| Deferred tax assets               |                    |                    |
| Allowance for probable losses     | ₱ 570,858          | ₱ 2,870,201        |
| Accrued retirement benefits costs | 2,392,914          | 1,380,540          |
| Unrealized foreign exchange loss  | 912,808            | 523,084            |
|                                   | <u>3,876,580</u>   | <u>4,773,825</u>   |
| Deferred tax liability            | <u>203,631</u>     | <u>347</u>         |
| Net deferred tax assets           | <u>₱ 4,080,211</u> | <u>₱ 4,773,478</u> |

d. Deferred tax assets of the Parent Company and its non-operating subsidiaries amounting to ₱52,487,366 and ₱50,427,550 as of December 31, 2015 and 2014, 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.

| Particulars                       | 2015               | 2014               |
|-----------------------------------|--------------------|--------------------|
| Allowance for probable losses     | 154,493,914        | 149,547,803        |
| NOLCO                             | 19,494,286         | 17,574,347         |
| Accrued retirement benefits costs | 969,685            | 969,685            |
| Total                             | <u>174,957,885</u> | <u>168,091,835</u> |

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

| Year Incurred | Year Expiring | 2015                | 2014                |
|---------------|---------------|---------------------|---------------------|
| 2012          | 2015          | ₱ 1,790,609         | ₱ 1,790,609         |
| 2013          | 2016          | 2,946,979           | 2,946,979           |
| 2014          | 2017          | 16,547,307          | 16,547,307          |
| Subtotal      |               | 21,284,895          | 21,284,895          |
| Expired NOLCO |               | <u>(1,790,609)</u>  | <u>(3,710,548)</u>  |
| Total         |               | <u>₱ 19,494,286</u> | <u>₱ 17,574,347</u> |

|                                            |
|--------------------------------------------|
| <b>NOTE 21 – RETIREMENT BENEFITS COSTS</b> |
|--------------------------------------------|

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:

| Particulars                 | 2015               | 2014 |
|-----------------------------|--------------------|------|
| Current service cost        | ₱ 1,422,408        | ₱ -  |
| Interest cost               | 270,693            | -    |
| Remeasurement on plan asset | <u>(135,300)</u>   |      |
| Total retirement expense    | ₱ <u>1,557,801</u> | ₱ -  |

The details of the retirement obligation recognized in the consolidated balance sheets are as follows:

| Particulars                               | 2015               | 2014               |
|-------------------------------------------|--------------------|--------------------|
| Present value of benefit obligation       | ₱ 9,082,123        | ₱ 5,652,947        |
| Fair value of plan assets                 | <u>(84,258)</u>    | <u>(81,458)</u>    |
| Liability recognized in the balance sheet | ₱ <u>8,997,865</u> | ₱ <u>5,571,489</u> |

The changes in present value of retirement obligation are as follows:

| Particulars                                      | 2015               | 2014               |
|--------------------------------------------------|--------------------|--------------------|
| Present value of obligation at beginning of year | ₱ 5,652,947        | ₱ 5,652,947        |
| Current service cost                             | 1,422,408          | -                  |
| Interest cost on benefit obligation              | 270,693            | -                  |
| Actuarial loss                                   | 2,208,287          | -                  |
| Benefits paid                                    | <u>(472,212)</u>   | <u>-</u>           |
| Present value of obligation at end of year       | ₱ <u>9,082,123</u> | ₱ <u>5,652,947</u> |

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

| Particulars                                    | 2015             | 2014            |
|------------------------------------------------|------------------|-----------------|
| Fair value of plan assets at beginning of year | ₱ 81,458         | ₱ 81,458        |
| Expected return on plan assets                 | 4,708            | -               |
| Actuarial loss on plan assets                  | 130,592          | -               |
| Benefits paid                                  | <u>(132,500)</u> | <u>-</u>        |
| Fair value of plan assets at end of year       | ₱ <u>84,258</u>  | ₱ <u>81,458</u> |

Movements in the net liability recognized in the current period are as follows:

| Particulars                                   | 2015        | 2014        |
|-----------------------------------------------|-------------|-------------|
| Liability recognized at beginning of the year | ₱ 5,571,489 | ₱ 5,571,489 |
| Retirement expense                            | 1,557,801   | -           |
| Other comprehensive income                    | 2,208,287   | -           |
| Benefits paid                                 | (339,712)   | -           |
| Total                                         | ₱ 8,997,865 | ₱ 5,571,489 |

The movement in the recognized actuarial gain in the financial positions over the year is as follows:

| Particulars                                | 2015        | 2014        |
|--------------------------------------------|-------------|-------------|
| Retirement benefits costs – OCI, beginning | ₱ 4,601,966 | ₱ 6,574,237 |
| Loss recognized                            | (2,208,287) | 1,972,271   |
| Retirement benefits costs – OCI, ending    | ₱ 2,393,679 | ₱ 4,601,966 |
| Percentage of ownership                    | 51%         | 51%         |
| Equity holders of parent                   | 1,220,777   | 2,347,003   |

The major categories of plan assets are as follows:

| Particulars                               | 2015     | 2014     |
|-------------------------------------------|----------|----------|
| Cash and cash equivalents                 | ₱ 1,543  | ₱ 2,076  |
| Investment in Unit Investment Trust Funds | 82,715   | 79,382   |
| Total                                     | ₱ 84,258 | ₱ 81,458 |

The assumptions used to determine retirement benefits costs for the years ended December 31 are as follows:

| Particulars          | 2015  | 2014  |
|----------------------|-------|-------|
| Discount rate        | 5.08% | 5.78% |
| Salary increase rate | 5%    | 5%    |

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 funds' past performance.

A quantitative sensitivity analysis for significant assumption as at December 31, 2015 is as shown below:

|                                          | Sensitivity Level |           |             |           |
|------------------------------------------|-------------------|-----------|-------------|-----------|
|                                          | 1% Increase       |           | 1% Decrease |           |
| Impact on Net Defined Benefit Obligation | In %              | Amount    | In %        | Amount    |
| Discount rate                            | 6.08%             | 6,948,093 | 4.08%       | 9,427,050 |
| Future salary increases                  | 6.00%             | 9,464,511 | 4.00%       | 6,898,280 |

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 5.08% and 5%, respectively.

The average duration of the defined plan obligation at the end of the reporting period is 24.91 years and 21.12 years in 2015 and 2014, respectively.

**NOTE 22 – LEASE AGREEMENT**

Operating leases pertains to the leases entered into by MCLSI of a warehouse, which is renewable upon agreement of 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:

| Particulars                                 | 2015                       | 2014               |
|---------------------------------------------|----------------------------|--------------------|
| Within one year                             | ₱ <b>9,392,726</b>         | ₱ 3,562,020        |
| After one year but not more than five years | <u><b>14,459,381</b></u>   | <u>998,340</u>     |
| Total                                       | ₱ <u><b>23,852,107</b></u> | ₱ <u>4,560,360</u> |

Rentals incurred during the year on the above leases are recognized as follows:

| Particulars       | 2015                       | 2014                |
|-------------------|----------------------------|---------------------|
| Cost of services  | ₱ <b>16,182,835</b>        | ₱ 12,073,142        |
| Operating expense | <u><b>756,000</b></u>      | <u>781,661</u>      |
| Total             | ₱ <u><b>16,938,835</b></u> | ₱ <u>12,854,803</u> |

**22.01 Office space**

a) During the year, MCLSI renewed the lease contract for its office space. The term of the contract is (1) year commencing of February 1, 2016 and ending on January 31, 2017, renewable subject to the terms and conditions as may be mutually agreed upon. Monthly rental payments amounted to ₱70, 781. The contract also provided for prepaid rent and rental security deposits equivalent to two months' rental of ₱141, 561 representing one-month deposit and one-month advance rental. The advance rental shall be applied on 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.

**22.02 Warehouses**

a) MCLSI entered in lease contract for a warehouse and office building located at warehouse #6 along E. Rodriguez St., Tunasan, Muntinlupa City. The lease term is for a period of two (2) years commencing on April 14, 2014 until April 14, 2016 with monthly rental payments of ₱233,835. Rental deposits amounted to ₱701,505 equivalent to three (3) months rental to answer for any of its obligations and to be refunded upon the expiration of lease term after the termination of the contact.

b) MCLSI entered into a new lease contracts for a warehouse, and parking and open space located at 21st St Golden Mile Business Park, Brgy, Maduya Carmona, Cavite. The lease term is for a period of three (3) years commencing on November 3, 2015 until November 2, 2018 with monthly rental payments of ₱330,691.20. Rental deposits amounted to ₱932.400 equivalent to three (3) months rental to answer for any of its obligation and to be refunded upon the expiration of the contract.

c) MCLSI entered into another lease contract for warehouse, and parking and open space located at 21st Golden Mile Business Park, Brgy. Maduya Carmona, Cavite. The lease term is also for three (3) years commencing on October 12, 2015 until October 11, 2018 with monthly rental payments of ₱350,162.40. Rental deposits amounted to ₱987,300 equivalent to three (3) months rental to answer for any of its obligation and also to be refunded upon the termination of the lease contract.

**NOTE 23 – LOGISTICS AGREEMENT**

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.

**NOTE 24 – 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:

| Particulars                                                   |   | 2015               |   | 2014        |
|---------------------------------------------------------------|---|--------------------|---|-------------|
| Net loss attributable to equity holders of the Parent Company | ₱ | <b>768,311</b>     | ₱ | 13,204,392  |
| Weighted average number of common shares                      |   | <b>306,122,449</b> |   | 306,122,449 |
| Basic Loss Per Share                                          | ₱ | <b>0.003</b>       | ₱ | 0.04        |

**NOTE 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, 2015 and 2014:

| Particulars                           | 2015                 |                    | 2014                 |                    |
|---------------------------------------|----------------------|--------------------|----------------------|--------------------|
|                                       | Carrying Value       | Fair Value         | Carrying Value       | Fair Value         |
| Financial Assets:                     |                      |                    |                      |                    |
| Cash                                  | ₱ 15,719,137         | 15,719,137         | ₱ 22,144,944         | 22,144,944         |
| Receivables                           | 92,949,511           | 92,949,511         | 80,303,539           | 80,303,539         |
| AFS investments                       | 4,973,085            | 4,973,085          | 6,588,768            | 6,588,768          |
| Refundable deposits                   | 3,792,938            | 3,792,938          | 1,400,410            | 1,400,410          |
| Total                                 | ₱ <b>117,434,671</b> | <b>117,434,671</b> | ₱ <b>110,437,661</b> | <b>110,437,661</b> |
| Financial Liabilities:                |                      |                    |                      |                    |
| Accounts payable and accrued expenses | ₱ 31,382,148         | 31,382,148         | ₱ 32,204,196         | 32,204,196         |
| Due to related parties                | 56,302,340           | 56,302,340         | 416,729,684          | 416,729,684        |
| Long-term debt                        | -                    | -                  | -                    | -                  |
| Total                                 | ₱ <b>87,684,488</b>  | <b>87,684,488</b>  | ₱ <b>448,933,880</b> | <b>448,933,880</b> |

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.

## NOTE 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 interest rate risk, credit risk and liquidity risk. The BOD reviews and approves the policies for managing these risks which are summarized below:

### *Interest Rate Risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt. As of December 31, 2015 and 2014, the Group has minimal exposure to interest rate risk since the interest rates are fixed up to the date of maturity.

### *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, 2015 and 2014, without considering the effects of collaterals and other risk mitigation techniques are presented below.

| Particulars         | 2015          | 2014          |
|---------------------|---------------|---------------|
| Cash                | ₱ 15,719,137  | ₱ 22,144,944  |
| Receivables         | 92,949,511    | 80,303,539    |
| Refundable deposits | 3,792,938     | 1,400,410     |
| Total               | ₱ 112,461,586 | ₱ 103,848,893 |

The table below presents the credit quality of financial assets and an analysis of past due accounts.

### **2015**

| Particulars         | High Grade   | Medium Grade | Past due but not impaired | Total       |
|---------------------|--------------|--------------|---------------------------|-------------|
| Cash                | ₱ 15,719,137 | -            | -                         | 15,719,137  |
| Receivables         | 53,179,627   | -            | 39,769,884                | 92,949,511  |
| Refundable deposits | 3,792,938    | -            | -                         | 3,792,938   |
| Total               | ₱ 72,691,702 | -            | 39,769,884                | 112,461,586 |

### **2014**

| Particulars         | High Grade   | Medium Grade | Past due but not impaired | Total         |
|---------------------|--------------|--------------|---------------------------|---------------|
| Cash                | ₱ 22,144,944 | -            | -                         | ₱ 22,144,944  |
| Receivables         | 41,535,701   | -            | 38,767,838                | 80,303,539    |
| Refundable deposits | 1,400,410    | -            | -                         | 1,400,410     |
| Total               | ₱ 65,081,055 | -            | ₱ 38,767,838              | ₱ 103,848,893 |

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.

| 2015                                  |              |               |                  |             |
|---------------------------------------|--------------|---------------|------------------|-------------|
| Particulars                           | On Demand    | Within 1 Year | More than 1 Year | Total       |
| Cash                                  | ₱ 15,719,137 | -             | -                | 15,719,137  |
| Receivables                           | 53,179,627   | -             | 39,769,884       | 92,949,511  |
| Refundable deposits                   | -            | 3,792,938     | -                | 3,792,938   |
| Subtotal                              | 68,898,764   | 3,792,938     | 39,769,884       | 112,461,586 |
| AFS investments                       | -            | -             | 4,973,085        | 4,973,085   |
| Total                                 | ₱ 68,898,764 | 3,792,938     | 44,742,969       | 117,434,671 |
| Due to related parties                | -            | -             | 56,302,340       | 56,302,340  |
| Accounts payable and accrued expenses | -            | 31,382,148    | 378,606,681      | 409,988,829 |
| Total                                 | ₱ -          | 31,382,148    | 434,909,021      | 466,291,169 |

| 2014                                  |              |               |                  |               |
|---------------------------------------|--------------|---------------|------------------|---------------|
| Particulars                           | On Demand    | Within 1 Year | More than 1 Year | Total         |
| Cash                                  | ₱ 22,144,944 | ₱ -           | ₱ -              | ₱ 22,144,944  |
| Receivables                           | 41,535,701   | -             | 38,767,838       | 80,303,539    |
| Refundable deposits                   | -            | 1,400,410     | -                | 1,400,410     |
| Subtotal                              | 63,680,645   | 1,400,410     | 38,767,838       | 103,848,893   |
| AFS investments                       | -            | -             | 6,558,768        | 6,558,768     |
| Total                                 | ₱ 63,680,645 | ₱ 1,400,410   | ₱ 45,326,606     | ₱ 110,407,661 |
| Due to related parties                | -            | -             | 416,729,684      | 416,729,684   |
| Accounts payable and accrued expenses | -            | 32,204,196    | 386,699,890      | 418,904,085   |
| Total                                 | ₱ -          | ₱ 32,204,196  | ₱ 803,429,574    | ₱ 835,633,769 |

### NOTE 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 equity attributable to equity holders of the Parent Company less any reserves is shown in the table below.

| Particulars                | 2015          | 2014          |
|----------------------------|---------------|---------------|
| Capital stock              | ₱ 306,122,449 | ₱ 306,122,449 |
| Additional paid-in-capital | 3,571,921     | 3,571,921     |
| Deficit                    | (236,256,195) | (236,473,666) |
| Total                      | ₱ 73,438,175  | ₱ 73,220,704  |

|                                |
|--------------------------------|
| <b>NOTE 28 – OTHER MATTERS</b> |
|--------------------------------|

- A. 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 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 December 31, 2015, 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 (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 case is has started and now on going in the Tagaytay Court for trial hearings under a new judge. The next trial hearing will be on April 2016 for the presentation of the Parent Company's witness. The Parent Company and its legal counsel are positive that the court will sustain their position.

- C. There is a consolidated injunction suit with damages filed on July 23, 2008 to nullify a foreclosure of a lot. In successive certiorari cases that plaintiffs filed, both CA & SC upheld the counterparty. The counterparty filed a Notice of Appeal to CA on May 8, 2015 which was questioned defective but still approved and ruled against the Parent Company. In its May 12, 2015 Order, both cases are now on appeal in the CA.
- D. 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 AND EQUITIES CORPORATION AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTAL SCHEDULES**

|     |                                                                                                                                   |                |
|-----|-----------------------------------------------------------------------------------------------------------------------------------|----------------|
| I   | Supplemental schedules required by Annex 68-E                                                                                     |                |
| A   | Financial Assets                                                                                                                  | Attached       |
|     | Amounts receivables from directors officers, employees, related parties and principal stockholders (other than related parties)   | Attached       |
| B   | Amounts receivables and payable from/to related parties which are eliminated during consolidation process of financial statements | Attached       |
| C   | Intangible assets - other asset                                                                                                   | Attached       |
| D   | Long-term debt                                                                                                                    | Attached       |
| E   | Indebtedness to related parties (Long-term loans from related parties)                                                            | Not applicable |
| F   | Guarantees of securities of other issuers                                                                                         | Not applicable |
| G   | Capital Stock                                                                                                                     | Attached       |
| H   |                                                                                                                                   |                |
| 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 CORPORATION AND SUBSIDIARIES**

**I. SUPPLEMENTAL SCHEDULES REQUIRED BY ANNEX 68-E  
AS AT DECEMBER 31, 2015**

**SCHEDULE A. Financial Assets**

| Name of issuing entity<br>and association of each<br>issue | Number of shares<br>or principal<br>amount of bonds<br>and rates | Amount shown<br>in the balance<br>sheet | Value based on<br>market quotation<br>at end of<br>reporting period | Income<br>received and<br>accrued |
|------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------|-----------------------------------|
| <b>Cash</b>                                                | -                                                                | <b>₱ 15,719,137</b>                     | <b>₱ 15,719,137</b>                                                 | <b>₱ 61,712</b>                   |
| <b>AFS Financial Assets</b>                                |                                                                  |                                         |                                                                     |                                   |
| Waterfront Philippines,<br>Inc                             | -                                                                | 6,471,473                               | 6,471,473                                                           | -                                 |
| Others                                                     | -                                                                | (1,498,388)                             | (1,498,388)                                                         | -                                 |
| <b>Total</b>                                               |                                                                  | <b>₱ 4,973,085</b>                      | <b>₱ 4,973,085</b>                                                  | <b>₱ -</b>                        |

**SCHEDULE B. Amounts of Receivable from Directors, Officers, Employees Related  
Parties and Principal Stockholders (Other Than Related Parties)**

| Name and designation<br>of debtor                        | Balance at<br>beginning of<br>period | Amounts<br>(collected)<br>/transferred | Amounts<br>written-<br>off | Current              | Non-<br>current | Balance at<br>end of period |
|----------------------------------------------------------|--------------------------------------|----------------------------------------|----------------------------|----------------------|-----------------|-----------------------------|
| Polymax Worldwide<br>Limited (special<br>purpose entity) | ₱ 788,662,261                        | ₱ (373,251,811)                        | -                          | ₱ 415,410,450        | ₱ -             | ₱ 788,662,261               |
| The Wellex Group, Inc                                    | 5,416,174                            |                                        | -                          | 5,416,174            | -               | 5,416,174                   |
| Others                                                   | 50,297                               |                                        | -                          | -                    | 50,297          | 50,297                      |
| <b>Total</b>                                             | <b>₱ 794,128,732</b>                 | <b>₱ (373,251,811)</b>                 | <b>-</b>                   | <b>₱ 420,826,624</b> | <b>₱ 50,297</b> | <b>₱ 794,128,732</b>        |

**SCHEDULE C. Amounts of Receivable from and Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements**

| Name and designation of debtor                                     | Balance at beginning of period | Additions | Amounts collected | Amounts written-off | Current | Non-current | Balance at end of period |
|--------------------------------------------------------------------|--------------------------------|-----------|-------------------|---------------------|---------|-------------|--------------------------|
| Due to related party<br>Metro Combined<br>Logistics Solutions, Inc | ₱ 500,000                      | -         | -                 | -                   |         |             | ₱ 500,000                |

**SCHEDULE D. Intangible Assets – Other Assets**

| Description              | Balance at beginning of period | Additions at cost | Charged to cost and expenses | Charged to other accounts | Other charges additions (deductions) | Balance at end of period |
|--------------------------|--------------------------------|-------------------|------------------------------|---------------------------|--------------------------------------|--------------------------|
| Caerus accounting system | ₱ 750,000                      | ₱                 | ₱ 194,444                    | -                         | -                                    | ₱ 555,556                |

**SCHEDULE E. Long-term Debt**

| Title of issue | Amount authorized by indenture | Amount shown under caption “Current portion of long term debt | Amount shown under caption “Long term debt” in related balance sheet |
|----------------|--------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------|
|----------------|--------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------|

**Not Applicable**

## SCHEDULE F. Indebtedness to Related Parties (Long Term Loans from Related Parties)

| Name of related party | Balance at beginning of period | Amount shown under caption<br>“Current portion of long term debt” |
|-----------------------|--------------------------------|-------------------------------------------------------------------|
|-----------------------|--------------------------------|-------------------------------------------------------------------|

**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        |
| Total            | <b>1,200,000,000</b>        | <b>306,122,449</b>                                                           | <b>-</b>                                                                     | <b>241,729,939</b>                       | <b>22,126,115</b>                 | <b>42,266,395</b> |

# **METRO ALLIANCE HOLDINGS & EQUITIES CORPORATION AND SUBSIDIARIES**

## **II .SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS AS AT DECEMBER 31, 2015**

The following table summarizes the effective standards and interpretations as at December 31, 2015:

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND<br/>INTERPRETATIONS<br/>Effective as of December 31, 2014</b> |                                                                                                                      | <b>Adopted</b> | <b>Not<br/>Adopted</b> | <b>Not<br/>Applicable</b> |
|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------------|------------------------|---------------------------|
| <b>Framework for the Preparation and Presentation of Financial<br/>Statements</b>                             |                                                                                                                      |                |                        |                           |
|                                                                                                               | Conceptual Framework Phase A: Objectives and qualitative<br>characteristics                                          | ✓              |                        |                           |
| <b>PFRSs Practice Statement Management Commentary</b>                                                         |                                                                                                                      |                |                        | ✓                         |
| <b>Philippine Financial Reporting Standards</b>                                                               |                                                                                                                      | ✓              |                        |                           |
| <b>PFRS 1<br/>(Revised)</b>                                                                                   | First-time Adoption of Philippine Financial Reporting<br>Standards                                                   | ✓              |                        |                           |
|                                                                                                               | Amendments to PFRS 1 and PAS 27: Cost of an<br>Investment in a Subsidiary, Jointly Controlled Entity or<br>Associate | ✓              |                        |                           |
|                                                                                                               | Amendments to PFRS 1: Additional Exemptions for<br>First-time Adopters                                               |                |                        | ✓                         |
|                                                                                                               | Amendment to PFRS 1: Limited Exemption from<br>Comparative PFRS 7 Disclosures for First-time Adopters                |                |                        | ✓                         |
|                                                                                                               | Amendments to PFRS 1: Severe Hyperinflation and<br>Removal of Fixed Date for First-time Adopters                     |                |                        | ✓                         |
|                                                                                                               | Amendments to PFRS 1: Government Loans                                                                               |                |                        | ✓                         |
| <b>PFRS 2</b>                                                                                                 | Share-based Payment                                                                                                  |                |                        | ✓                         |
|                                                                                                               | Amendments to PFRS 2: Vesting Conditions and<br>Cancellations                                                        |                |                        | ✓                         |
|                                                                                                               | Amendments to PFRS 2: Group Cash-settled Share-based<br>Payment Transactions                                         |                |                        | ✓                         |
| <b>PFRS 3<br/>(Revised)</b>                                                                                   | Business Combinations                                                                                                |                |                        | ✓                         |
| <b>PFRS 4</b>                                                                                                 | Insurance Contracts                                                                                                  |                |                        | ✓                         |
|                                                                                                               | Amendments to PAS 39 and PFRS 4: Financial Guarantee<br>Contracts                                                    |                |                        | ✓                         |
| <b>PFRS 5</b>                                                                                                 | Non-current Assets Held for Sale and Discontinued<br>Operations                                                      | ✓              |                        |                           |
| <b>PFRS 6</b>                                                                                                 | Exploration for and Evaluation of Mineral Resources                                                                  |                |                        | ✓                         |
| <b>PFRS 7</b>                                                                                                 | Financial Instruments: Disclosures                                                                                   | ✓              |                        |                           |
|                                                                                                               | Amendments to PFRS 7: Transition                                                                                     | ✓              |                        |                           |
|                                                                                                               | Amendments to PAS 39 and PFRS 7: Reclassification of<br>Financial Assets                                             | ✓              |                        |                           |
|                                                                                                               | Amendments to PAS 39 and PFRS 7: Reclassification of<br>Financial Assets - Effective Date and Transition             | ✓              |                        |                           |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                       | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
|                                                                                                   | 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                   | ✓       |             |                |
| <b>PFRS 8</b>                                                                                     | Operating Segments                                                                                    |         |             | ✓              |
| <b>PFRS 9</b>                                                                                     | Financial Instruments                                                                                 |         | ✓           |                |
|                                                                                                   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures                   |         | ✓           |                |
| <b>PFRS 10</b>                                                                                    | Consolidated Financial Statements                                                                     |         | ✓           |                |
| <b>PFRS 11</b>                                                                                    | Joint Arrangements                                                                                    |         | ✓           |                |
| <b>PFRS 12</b>                                                                                    | Disclosure of Interests in Other Entities                                                             |         | ✓           |                |
| <b>PFRS 13</b>                                                                                    | Fair Value Measurement                                                                                |         | ✓           |                |
| <b>Philippine Accounting Standards</b>                                                            |                                                                                                       |         |             |                |
| <b>PAS 1</b>                                                                                      | Presentation of Financial Statements                                                                  | ✓       |             |                |
| <b>(Revised)</b>                                                                                  | Amendment 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                              | ✓       |             |                |
| <b>PAS 2</b>                                                                                      | Inventories                                                                                           | ✓       |             |                |
| <b>PAS 7</b>                                                                                      | Statement of Cash Flows                                                                               | ✓       |             |                |
| <b>PAS 8</b>                                                                                      | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓       |             |                |
| <b>PAS 10</b>                                                                                     | Events after the Balance Sheet Date                                                                   | ✓       |             |                |
| <b>PAS 11</b>                                                                                     | Construction Contracts                                                                                | ✓       |             |                |
| <b>PAS 12</b>                                                                                     | Income Taxes                                                                                          | ✓       |             |                |
|                                                                                                   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     | ✓       |             |                |
| <b>PAS 16</b>                                                                                     | Property, Plant and Equipment                                                                         | ✓       |             |                |
| <b>PAS 17</b>                                                                                     | Leases                                                                                                | ✓       |             |                |
| <b>PAS 18</b>                                                                                     | Revenue                                                                                               | ✓       |             |                |
| <b>PAS 19</b>                                                                                     | Employee Benefits                                                                                     | ✓       |             |                |
|                                                                                                   | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures                         | ✓       |             |                |
| <b>PAS 19</b><br><b>(Amended)</b>                                                                 | Employee Benefits                                                                                     |         | ✓           |                |
| <b>PAS 20</b>                                                                                     | Accounting for Government Grants and Disclosure of Government Assistance                              |         |             | ✓              |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                        | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>PAS 21</b>                                                                                     | The Effects of Changes in Foreign Exchange Rates                                                       |         |             | ✓              |
|                                                                                                   | Amendment: Net Investment in a Foreign Operation                                                       |         |             | ✓              |
| <b>PAS 23 (Revised)</b>                                                                           | Borrowing Costs                                                                                        | ✓       |             |                |
| <b>PAS 24 (Revised)</b>                                                                           | Related Party Disclosures                                                                              | ✓       |             |                |
| <b>PAS 26</b>                                                                                     | Accounting and Reporting by Retirement Benefit Plans                                                   | ✓       |             |                |
| <b>PAS 27 (Amended)</b>                                                                           | Separate Financial Statements                                                                          |         | ✓           |                |
| <b>PAS 28 (Amended)</b>                                                                           | Investments in Associates and Joint Ventures                                                           | ✓       |             |                |
| <b>PAS 29</b>                                                                                     | Financial Reporting in Hyperinflationary Economies                                                     |         |             | ✓              |
| <b>PAS 31</b>                                                                                     | Interests in Joint Ventures                                                                            |         |             | ✓              |
| <b>PAS 32</b>                                                                                     | Financial Instruments: Disclosure and Presentation                                                     | ✓       |             |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation  |         |             | ✓              |
|                                                                                                   | Amendment to PAS 32: Classification of Rights Issues                                                   |         |             | ✓              |
|                                                                                                   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                            | ✓       |             |                |
| <b>PAS 33</b>                                                                                     | Earnings per Share                                                                                     |         |             | ✓              |
| <b>PAS 34</b>                                                                                     | Interim Financial Reporting                                                                            |         |             | ✓              |
| <b>PAS 36</b>                                                                                     | Impairment of Assets                                                                                   | ✓       |             |                |
| <b>PAS 37</b>                                                                                     | Provisions, Contingent Liabilities and Contingent Assets                                               | ✓       |             |                |
| <b>PAS 38</b>                                                                                     | Intangible Assets                                                                                      |         |             | ✓              |
| <b>PAS 39</b>                                                                                     | 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                       |         |             | ✓              |
|                                                                                                   | Amendment to PAS 39: Eligible Hedged Items                                                             |         |             | ✓              |
| <b>PAS 40</b>                                                                                     | Investment Property                                                                                    | ✓       |             |                |
| <b>PAS 41</b>                                                                                     | Agriculture                                                                                            |         |             | ✓              |
| <b>Philippine Interpretations</b>                                                                 |                                                                                                        |         |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                                                                | Adopted | Not Adopted | Not Applicable |
|---------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|---------|-------------|----------------|
| <b>IFRIC 1</b>                                                                                    | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                       |         |             | ✓              |
| <b>IFRIC 2</b>                                                                                    | Members' Share in Co-operative Entities and Similar Instruments                                                |         |             | ✓              |
| <b>IFRIC 4</b>                                                                                    | <i>Determining Whether an Arrangement Contains a Lease</i>                                                     | ✓       |             |                |
| <b>IFRIC 5</b>                                                                                    | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds           |         |             | ✓              |
| <b>IFRIC 6</b>                                                                                    | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i> |         |             | ✓              |
| <b>IFRIC 7</b>                                                                                    | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>       |         |             | ✓              |
| <b>IFRIC 8</b>                                                                                    | <i>Scope of PFRS 2</i>                                                                                         |         |             |                |
| <b>IFRIC 9</b>                                                                                    | Reassessment of Embedded Derivatives                                                                           |         |             | ✓              |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                               |         |             | ✓              |
| <b>IFRIC 10</b>                                                                                   | <i>Interim Financial Reporting and Impairment</i>                                                              |         |             | ✓              |
| <b>IFRIC 11</b>                                                                                   | PFRS 2- Group and Treasury Share Transactions                                                                  |         |             | ✓              |
| <b>IFRIC 12</b>                                                                                   | Service Concession Arrangements                                                                                |         |             | ✓              |
| <b>IFRIC 13</b>                                                                                   | Customer Loyalty Programmes                                                                                    |         |             | ✓              |
| <b>IFRIC 14</b>                                                                                   | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction                       |         |             | ✓              |
|                                                                                                   | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement               |         |             | ✓              |
| <b>IFRIC 16</b>                                                                                   | Hedges of a Net Investment in a Foreign Operation                                                              |         |             | ✓              |
| <b>IFRIC 17</b>                                                                                   | Distributions of Non-cash Assets to Owners                                                                     |         |             | ✓              |
| <b>IFRIC 18</b>                                                                                   | Transfers of Assets from Customers                                                                             |         |             | ✓              |
| <b>IFRIC 19</b>                                                                                   | Extinguishing Financial Liabilities with Equity Instruments                                                    |         |             | ✓              |
| <b>IFRIC 20</b>                                                                                   | Stripping Costs in the Production Phase of a Surface Mine                                                      |         |             | ✓              |
| <b>SIC-7</b>                                                                                      | Introduction of the Euro                                                                                       |         |             | ✓              |
| <b>SIC-10</b>                                                                                     | Government Assistance - No Specific Relation to Operating Activities                                           |         |             | ✓              |
| <b>SIC-12</b>                                                                                     | Consolidation - Special Purpose Entities                                                                       |         |             | ✓              |
|                                                                                                   | Amendment to SIC - 12: Scope of SIC 12                                                                         |         |             | ✓              |
| <b>SIC-13</b>                                                                                     | Jointly Controlled Entities - Non-Monetary Contributions by Venturers                                          |         |             | ✓              |
| <b>SIC-15</b>                                                                                     | Operating Leases - Incentives                                                                                  | ✓       |             |                |
| <b>SIC-21</b>                                                                                     | Income Taxes - Recovery of Revalued Non-Depreciable Assets                                                     |         |             | ✓              |
| <b>SIC-25</b>                                                                                     | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                                      |         |             | ✓              |
| <b>SIC-27</b>                                                                                     | Evaluating the Substance of Transactions Involving the                                                         | ✓       |             |                |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND<br>INTERPRETATIONS<br>Effective as of December 31, 2014 |                                                                 | Adopted | Not<br>Adopted | Not<br>Applicable |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|---------|----------------|-------------------|
|                                                                                                      | Legal Form of a Lease                                           |         |                |                   |
| <b>SIC-29</b>                                                                                        | Service Concession Arrangements: Disclosures.                   |         |                | ✓                 |
| <b>SIC-31</b>                                                                                        | Revenue - Barter Transactions Involving Advertising<br>Services |         |                | ✓                 |
| <b>SIC-32</b>                                                                                        | Intangible Assets - Web Site Costs                              |         |                | ✓                 |

**METRO ALLIANCE HOLDINGS & EQUITIES CORPORATION AND SUBSIDIARIES**

**III. RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND  
DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2015**

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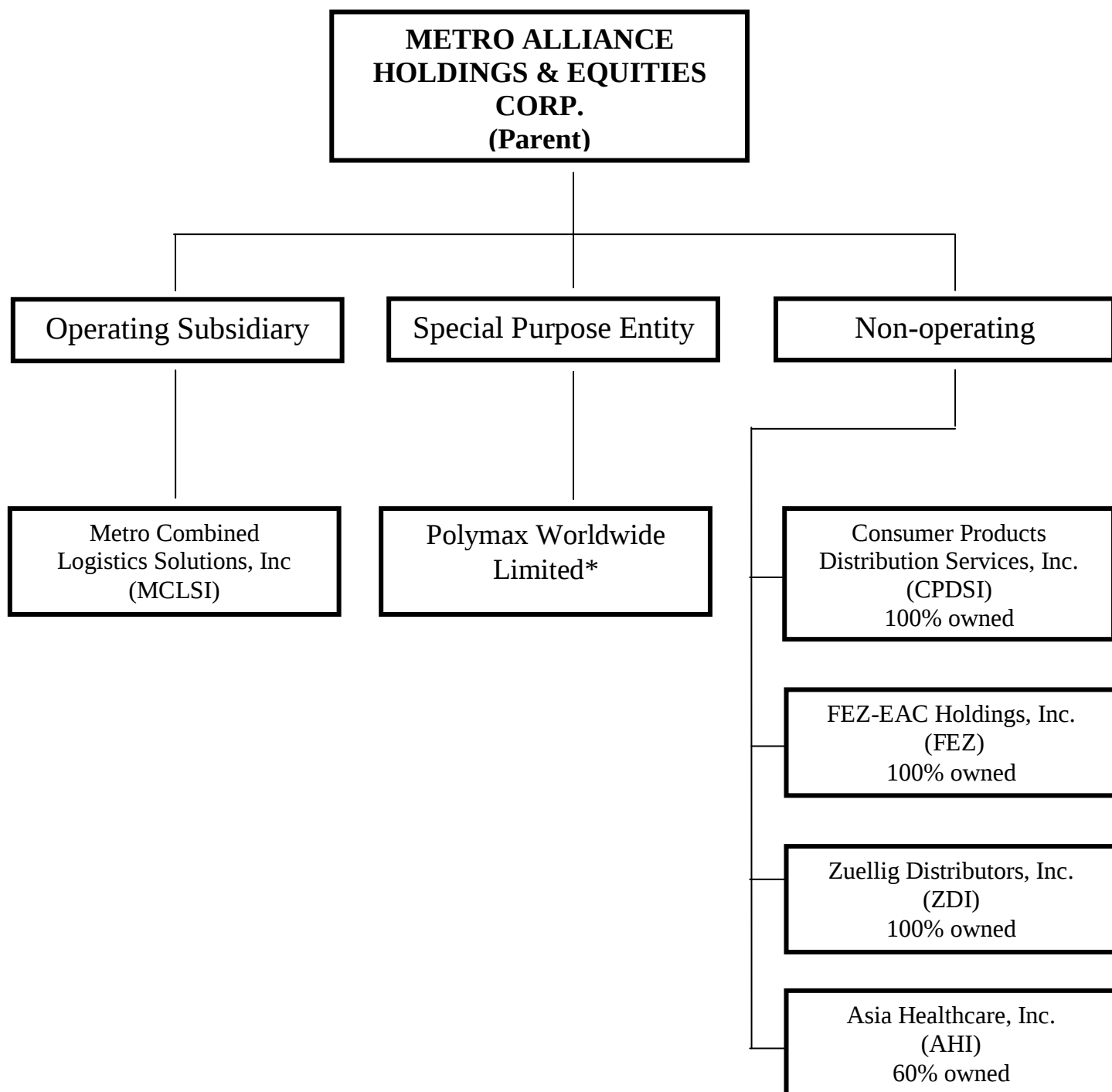
**Not applicable\***

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\*The Parent Company's Retained Earnings as of December 31, 2015 did not exceed its 100% of paid-in capital stock since it is in deficit position

**METRO ALLIANCE HOLDINGS & EQUITIES CORPORATION AND SUBSIDIARIES**

**IV. MAP OF THE RELATIONSHIP OF THE COMPANY WITHIN THE GROUP FOR THE YEAR  
ENDED DECEMBER 31, 2015**



\*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 CORPORATION AND SUBSIDIARIES****V. SCHEDULE OF FINANCIAL RATIOS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

| <u>Financial Ratios</u>      | <u>Description</u>                                                  | <u>2015</u> | <u>2014</u> |
|------------------------------|---------------------------------------------------------------------|-------------|-------------|
| Current / liquidity ratio    | Current assets over current liabilities                             | <b>1.18</b> | 1.09        |
| Asset to equity ratio        | Total asset over total equity                                       | <b>6.39</b> | 10.58       |
| Net debt to equity ratio     | Interest - bearing loans and borrowings less cash over total equity | -           | (0.25)      |
| Debt-to-equity ratio         | Short term loans over total equity                                  | -           | -           |
| Solvency ratio               | After tax net profit plus depreciation over total liabilities       | -           | (0.01)      |
| Interest rate coverage ratio | Earnings before interest and taxes over interest expense            | <b>1.89</b> | 0.001       |
| Gross profit margin          | Gross profit over net revenues                                      | <b>16%</b>  | 20%         |
| Net income margin            | Net income over net revenues                                        | <b>-1%</b>  | -8%         |

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

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
JUNE 30, 2015 and 2015



108042016006006

**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
Tel: (632) 726-0931 to 39 Fax: (632) 725-5293 Email: mis@sec.gov.ph

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Company Information

**SEC Registration No.** PW00000296  
**Company Name** METRO ALLIANCE HOLDINGS & EQUITIES CORP.  
**Industry Classification**  
**Company Type** Stock Corporation

**Document Information**

**Document ID** 108042016006006  
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**Period Covered** June 30, 2016  
**No. of Days Late** 0  
**Department** CFD  
**Remarks**

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended .....**June 30, 2016**

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. **35<sup>th</sup> Flr. One Corporate Centre, Doña Julia Vargas cor. Meralco Aves.**  
**Ortigas Center, Pasig 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<br>stock outstanding and amount<br>of debt outstanding |
|-------------------------|-----------------------------------------------------------------------------------|
| <b>Common Class A</b>   | <b>183,673,470</b>                                                                |
| <b>Common Class B</b>   | <b>122,448,979</b>                                                                |
| <b>Outstanding Debt</b> | <b>P472,100,153</b>                                                               |

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 [ ☐ ]

13. Aggregate market value of the voting stock held by non-affiliates : **Php73,680,126**

14. Not applicable

## 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

| <b>Income Statement</b>                    | <b>Amounts in Php</b>     |                           |                           |                           |
|--------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                            | <b>Apr – Jun<br/>2016</b> | <b>Apr – Jun<br/>2015</b> | <b>Jan – Jun<br/>2016</b> | <b>Jan – Jun<br/>2015</b> |
| Sales and services                         | <b>39,042,858</b>         | 35,089,405                | <b>77,528,500</b>         | 63,074,907                |
| Cost of sales and services                 | <b>(17,778,186)</b>       | (17,830,616)              | <b>(35,115,416)</b>       | (24,865,756)              |
| Gross profit                               | <b>21,264,672</b>         | 17,258,789                | <b>42,413,084</b>         | 38,209,151                |
| Expenses                                   | <b>(14,805,666)</b>       | (17,554,516)              | <b>(31,491,237)</b>       | (36,197,221)              |
| Other income (expenses)                    | <b>15,714</b>             | 5,267                     | <b>16,164</b>             | 5,492                     |
| Net Income (Loss) Before Tax               | <b>6,474,720</b>          | (290,460)                 | <b>10,938,011</b>         | 2,017,422                 |
| Income tax expense                         | <b>1,937,702</b>          | 1,011,105                 | <b>3,734,130</b>          | 2,167,879                 |
| Net income                                 | <b>4,537,018</b>          | (1,301,565)               | <b>7,203,881</b>          | (150,457)                 |
| Attributable to:                           |                           |                           |                           |                           |
| Equity Holders of the Parent Company       | <b>2,312,579</b>          | (2,441,515)               | <b>2,934,766</b>          | (2,612,623)               |
| Non-controlling interest                   | <b>2,215,439</b>          | 1,139,950                 | <b>4,269,115</b>          | 2,462,166                 |
|                                            | <b>4,537,018</b>          | (1,301,565)               | <b>7,203,881</b>          | (150,457)                 |
| Earnings (Loss) Per Share – Equity Holders | <b>₱0.0076</b>            | (₱ 0.0080)                | <b>₱0.0096</b>            | (₱0.0085)                 |
| Of the Parent Company                      |                           |                           |                           |                           |

#### ☐ Unaudited Balance Sheet

| <b>Balance Sheet</b>                              | <b>Amounts in Php</b> |                      |                      |
|---------------------------------------------------|-----------------------|----------------------|----------------------|
|                                                   | <b>June 30, 2016</b>  | <b>June 30, 2015</b> | <b>Dec. 31, 2015</b> |
| Current assets                                    | 559,498,379           | 922,669,866          | 550,062,773          |
| Noncurrent assets                                 | 12,415,850            | 18,813,453           | 13,361,700           |
| <b>Total Assets</b>                               | <b>571,914,229</b>    | <b>941,483,319</b>   | <b>563,424,473</b>   |
| Current liabilities                               | 468,107,705           | 848,720,456          | 466,291,168          |
| Noncurrent liabilities                            | 9,557,285             | 5,571,836            | 8,997,865            |
| <b>Total Liabilities</b>                          | <b>477,664,990</b>    | <b>854,292,292</b>   | <b>475,289,033</b>   |
| Stockholder's Equity of the Parent Company        | 79,922,067            | 78,205,055           | 76,987,301           |
| Non-controlling interests                         | 14,327,172            | 8,985,972            | 11,148,139           |
| <b>Total Stockholders' Equity</b>                 | <b>94,249,239</b>     | <b>87,191,027</b>    | <b>88,135,440</b>    |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>571,914,229</b>    | <b>941,483,319</b>   | <b>563,424,473</b>   |

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.

### c) 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 (₱1,460,951) for the second quarter of 2016 as compared to the same quarter of 2015 with net loss amounting to (₱3,464,159) million or an decrease in net loss of ₱2,003,208 or 57.83% due to payment of penalties to Philippine Stock Exchange for non-submission of annual and quarterly reports from 2007 to 2014.

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

| Performance indicator                    | June 30<br>2016 | Dec 31<br>2015 | June 30<br>2015 |
|------------------------------------------|-----------------|----------------|-----------------|
| Net income (loss) – (In Php)             | (1,460,951)     | (3,396,903)    | (3,464,159)     |
| Income (loss) per share (In Php)         | (0.005)         | (0.011)        | (0.011)         |
| Income (loss) on average equity (In Php) | (0.005)         | (0.011)        | (0.011)         |
| Debt to total assets                     | 0.498           | 0.495          | 0.727           |
| Debt to equity                           | 0.991           | 0.715          | 2.658           |

#### MCLSI Logistics, Inc.

MCLSI's key performance indicators include the following:

5. 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)
6. 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         | June 30<br>2016 | Dec 31<br>2015 | June 30<br>2015 |
|-------------------------------|-----------------|----------------|-----------------|
| <b>Profitability</b>          |                 |                |                 |
| a. Gross profit margin        | 0.547           | 0.167          | 0.606           |
| b. Net profit margin          | 0.112           | 0.037          | 0.080           |
| c. Return on assets           | 0.082           | 0.055          | 0.053           |
| d. Return in equity           | 0.225           | 0.176          | 0.164           |
| <b>Liquidity</b>              |                 |                |                 |
| a. Current ratio              | 1.669           | 1.514          | 1.387           |
| b. Receivables turnover       | 1.361           | 8.365          | 1.581           |
| c. Days' sales in receivables | 268             | 53.63          | 231             |

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 income of ₱4.5 million for the 2nd quarter of 2016 as against net income of ₱1.3 million for the 2nd quarter of 2015 or an increase of ₱3.2 million or 246.15%. Earnings (loss) per share attributable to equity holders of Parent Company are ₱0.0076 for the 2nd quarter of 2016 and (₱0.0080) for the 2nd quarter of 2015. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group. The increase is due to net effect of (a) increase in service income of MCLSI from new lease and logistics contracts; (b) fine and penalties paid to PSE in 2<sup>nd</sup> quarter of 2015 for non-submission of annual and quarterly reports; (c) decrease in cost of sales and (d) decrease in general and administrative expenses.

### Sales and Services

The Group registered gross service revenue of ₱39 million and ₱35.1 million for the quarters ended June 30, 2016 and 2015. The increase in revenue of ₱3.9 million or 11% for the 2nd quarter of 2016 is due to increase in service income from MCLSI's lease and logistics contracts and increase in service income from newly incorporated subsidiary of MCLSI, Metro Combined Cargo Solutions, Inc. (MCGSLI).

### Cost of Sales and Services

Total cost of sales and services for the quarters ended June 30, 2016 is leveled with the amount recorded for the second quarter of 2015 amounting to ₱17.8 million. Despite of the increase in service income, MCSI was able to sustain the level of cost by offsetting the increase in other expenses by the decrease in other costs: personnel cost decreased by ₱0.5 million or 6.78%; rent and utilities decreased by ₱0.5 million or 13.50%; trucking cost increased by ₱1.1 million or 102.66%; and other expenses decreased by ₱0.1 million or 15%.

### Operating Expenses

Total operating expenses of the Group for the 2nd quarter of 2016 amounted to ₱14.8 million as compared to ₱17.5 million for the 2nd quarter of 2015 or a decrease of ₱2.8 million or 15.91%. The decrease is net effect of decrease in personnel cost (₱5.8 million), decrease in depreciation expense (₱0.2 million) since some of the fixed assets already reached their useful life last year, increase in rent and utilities (₱2.3 million) and increase in general and administrative expenses (₱0.9 million).

#### Other income (expenses)

Other income (charges) for the quarters ended June 30, 2016 and 2015 amounted to (P15,714) and (P5,267), respectively or a decrease of P9,907 or 188%. The account pertains to interest income and dividend income and/or other income not arising from ordinary course of business. Other income for the 2nd quarter of 2016 pertains to other income relating to trucking services of MCLSI such as sale of scrap machine parts.

### **c) Changes in Financial Conditions**

#### Assets

**Cash and cash equivalents** for the 2nd quarter of 2016 and 2015 and as of December 31, 2015 amounted to P14.4 million, P20.6 million and P15.7 million, respectively. The decrease by P1.4 million or 8.9% as of 2nd quarter of 2016 compared to December 31, 2015 is net effect of increase in receivables (P9.4 million), increase in prepayments (P1.3million), payment of cash advances from related parties (P2.4 million), and increase in accounts payable and accrued expenses (P4.3 million).

**Receivables** amounted to P102.3 million as of 2nd quarter of 2016, P92.9 million as of December 31, 2015 and P82.6 million as of 2nd quarter of 2015 (net of allowance for doubtful accounts of P147 million and P149 million for quarter ended June 30, 2016 and December 31 and June 30, 2015, respectively ). Trade and other receivables went up by P19.7 million or 23.85% in 2nd quarter of 2016 as compared to 2nd quarter of 2015 due to the net effect of increase in credit sale arising from service income of MCLSI (P16.9 million), decrease in due from affiliates (P4.9 million), increase in notes receivable (P5.2 million), increase of in other receivables (P0.2 million) and writing off of receivables (. The increase of P9.4 million or 10.12% in 2nd quarter of 2016 as against December 31, 2015 is due to net effect of increase in trade receivables (P7.5 million), increase in due from affiliates (P0.2 million) and increase in other receivables (P1.7 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 P27.3 million, P25.9 million and P31.2 million as of June 30, 2016, December 31, 2015 and June 30, 2015 (net of allowance for probable losses of P12.3 million for the quarter ended June 30, 2016 and December 31, 2015 and P14.1 million for the quarter ended June 30, 2015). The decrease by P3.9 million or 12.5% in 2nd quarter of 2016 as against the 2nd quarter of 2015 is net effect of decrease in creditable withholding taxes (P9.2 million), decrease in input taxes (P0.2 million), increase in refundable deposits (P2.4 million), increase in other prepayments (P1.2 million) and reversal of allowance for probable losses for claimed tax credit (P1.9 million).

The increase of P1.3 million in 2nd quarter of 2016 as against December 31, 2015 is due to net effect of decrease in creditable withholding taxes (P0.6 million), increase in input tax (P1.7 million) and decrease in other prepayments (P0.2 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 P415.4 million as of June 30, 2016, P415.4 million as of December 31, 2015 and P788.7 million as of June 30, 2015 (which constitute 72% and 84% 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 decrease of P373.3 million in 2nd quarter of 2016 as against 2nd quarter of 2015, pertains to collections from Polymax which was directly paid to Metro Alliance's creditors for the long outstanding obligations of the company.

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 ₱4.9 million, ₱4.9 million and ₱6.5 million in June 30, 2016, December 31, 2015 and June 30, 2015, respectively. This account includes shares of stocks owned in publicly listed companies. The ₱1.6 million decreased in 2nd quarter as compared to 2nd quarter of 2015 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 ₱3.3 million, ₱3.8 million and ₱5.4 million in June 30, 2016, December 31, 2015 and June 30, 2015, respectively. Decrease in property, plant and equipment in 2nd quarter of 2016 as against 2nd quarter of 2015 by ₱0.5 million pertains to depreciation charge for the quarter due to property and equipment.

The increase in 2nd quarter of 2016 as against December 31, 2015 by ₱2.1 million is net of depreciation charges for the 2nd quarter of 2016 and acquisition of transportation equipment.

The Group has no outstanding contractual commitments to acquire certain property and equipment as of June 30, 2016 and December 31, 2015. In 2016 and 2015, 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 June 30, 2016, December 31, 2015 and June 30, 2015 amounted to ₱414.2 million, ₱466.3 million and ₱410.5 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 2nd quarter of 2016 against 2nd quarter of 2015 by ₱3.7 million or 0.9% is mainly due to (a) accrual of its fixed expenses such as legal and audit fee and administrative expenses; and (b) MCLSI trade payables arising from its trucking and warehousing operations.

**Due to related parties** for the 2nd quarter of 2016, December 2015 and June 30, 2015 amounted to ₱53.9 million, ₱56.3 million and ₱438.2 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 ₱384.2 million in 2nd quarter of 2016 as against the 2nd quarter of 2015 and decrease of ₱2.4 million as against the end of 2015 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. Polymax sold another 20% interest in the petrochemical plant in 2014, proceeds from it were paid directly to creditors of Metro Alliance to pay off long outstanding liabilities. The Parent company collected advances from Polymax amounting to ₱373.3 million and this amount was paid to settle loans from related party on the first quarter of 2016.

**Accrued retirement benefit cost** amounted to ₱9.6 million as of June 30, 2016 and ₱5.5 million as of June 30, 2015. 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 Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation. There are no provisions

made for the second quarter of 2016 as management believes that current provisions are enough to cover possible retirement expenses for the year.

## **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 PIIC 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 PIIC 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

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.

Relief Sought : As of June 30, 2016, 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., Civil Case SCA#TG-05-2519**  
 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 Holdings & Equities Corp. (MAHEC) and Philippine Estate Corporation (PEC) filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, and Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction.

The case stemmed from the imminent extra-judicial foreclosure of four (4) mortgaged Tagaytay lots covered by Transfer Certificate of Title (CTC) Nos. T-35522, T-35523, T-35524 and T-35552 subject to the

Real Estate Mortgage executed by MAHEC and PEC securing ₱280M loan obtained by MAHEC and PEC last December 2003.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction.

The preliminary injunction issued by the RTC stopping the foreclosure was nullified by both Court of Appeals and Supreme Court, after which Philtrust proceeded to foreclose, and acquired those properties for only ₱165.8M. When MAHEC and PEC failed to redeem, Philtrust consolidated title, and Tagaytay Registry of Deeds issued new TCTs, cancelling PEC's TCT.

On October 10, 2011, MAHEC filed Notice *Lis Pendens* vs. four (4) new TCTs of Philtrust.

The case is now back to Tagaytay RTC for trial hearings under new acting Judge Jaime Santiago. MAHEC and PEC already presented witnesses. Trial hearing on April 12, 2016 was held for presentation of plaintiff's last witness for explanation of why the checks issued in 2004 in favor of Philtrust Bank intended to settle the loan were all dishonored, and were returned unpaid.

Relief Sought:

As of June 30, 2016, the case is pending resolution with the Regional Court of Tagaytay, Branch 18 SCA# TG-05-2519. The Parent Company was able to get the formal trial started and on-going. The Parent Company's most important move was the presentation of a very competent real estate appraiser, realtor, Cesar Santos, who was able to successfully defend in court his ₱811.6M valuation of the foreclosed Tagaytay properties.

Damages sought are ₱1,000,000 as and by way of exemplary damages and ₱500,000 as and by way of attorney's fees; litigation expenses and cost of suit.

|               |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Case Title    | : | <b>MAHEC, POLYMAX &amp; WELLEX vs Phil. Veterans Bank, et al., Civil Case#08-555, RTC Makati Branch 145</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Factual basis | : | Civil Action with Damages to Nullify the Foreclosure of Property                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Name of Court | : | Regional Trial Court Makati City Branch 145                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Status        | : | The case is an injunction suit with damages filed on July 23, 2008 in RTC-Makati to nullify the foreclosure of Pasig lot securing a ₱350M loan obtained by MAHEC, Polymax and Wellex. Initially, Temporary Restraining Order (TRO) and preliminary injunction was issued, but afterwards, it was lifted, enabling Philippine Veterans Bank (PVB) to foreclose. In successive <i>certiorari</i> cases that plaintiffs filed, both Court of Appeals (CA) and Supreme Court (SC) upheld PVB. Worse yet, due to major lapse of the plaintiff's original counsels, <i>lis pendens</i> on foreclosed Pasig lot was cancelled, and in March 2012, PVB sold the lots to Zen Sen Realty Devt. Corp. who got new Transfer Certificate of Title (TCT).<br>The above case was consolidated with other case of affiliated company with the same RTC. In 2013, Company's legal counsel brought Zen Sen Realty Devt. Corp. as defendant also, and prayed that the PVB sale to it be nullified. In October 2014, Company's legal counsel dropped Zen Sen Realty as an unnecessary defendant, after which DECISION was rendered vs. PVB on January 9, 2015, declaring the ₱550M loan (total loan of MAHEC, Polymax, Wellex and other affiliated companies) as fully paid, and even over-paid; discharging all the mortgages, and voiding the 2012 sale made to Zen Sen. PVB was ordered to refund to plaintiffs the ₱3.25M overpayment. PVB filed a motion for reconsideration which was denied. PVB filed Notice of |

Appeal to Court of Appeal on May 8, 2015, which the Company's legal counsel questioned as defective, but the RTC ruled against the Company in its May 12, 2015 Order. The consolidated case is now on appeal in the Court of Appeals as CA-GR CV#105323.

|               |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Case Title    | : | <b>Metro Alliance vs The Philippine Stock Exchange ("PSE")</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Factual basis | : | <p>On July 20, 2015, the Company filed a comprehensive corporate disclosure in connection with the Company's petition for lifting its trading suspension which was imposed to the Company on May 21, 2007. Suspension was due to non-filing of structured reports (quarterly and annual reports) from 2007 until 2013. Inability of the Company to file such reports was due to the legal issues involving the acquisition of the petrochemical plant and the surrounding circumstances.</p> <p>The Company, having resolved its disputes with foreign parties involved in the Bataan petrochemical project, was able to file its 2007 to 2013 quarterly and annual reports starting November 2014 to June 2015. Corresponding penalties amounting to ₱3.4 million was already paid.</p> <p>The Company and PSE representatives met last November 5, 2015 to discuss the status of the petition and other matters to update the Exchange on the Company's operations and informed that the settlement of the issues involving Polymax Worldwide Limited will be reflected in the Company's 2015 Audited Financial Statements.</p> |
| Relief Sought | : | PSE, on their letter dated January 19, 2016, advised the Company that it will proceed with the completion of its evaluation of the Company's petition upon the Company's submission of the disclosure of the results of its operations and the filing of its 2015 Audited Financial Statements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

#### **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.

## PART II – OTHER INFORMATION

### (1) Market Information

- a) 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 three (3) years are as follows:
- b)

|      |                | Class A |     | Class B |     |
|------|----------------|---------|-----|---------|-----|
|      |                | High    | Low | High    | Low |
| 2016 | First Quarter  | -       | -   | -       | -   |
|      | Second Quarter | -       | -   | -       | -   |
| 2015 | First Quarter  | -       | -   | -       | -   |
|      | Second Quarter | -       | -   | -       | -   |
|      | Third Quarter  | -       | -   | -       | -   |
|      | Fourth Quarter | -       | -   | -       | -   |
| 2014 | First Quarter  | -       | -   | -       | -   |
|      | Second Quarter | -       | -   | -       | -   |
|      | Third Quarter  | -       | -   | -       | -   |
|      | Fourth Quarter | -       | -   | -       | -   |
| 2013 | 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.

## (2) 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 June 30, 2016, there are 632 holders of Class “A” shares and 403 holders of Class “B” shares.

Metro Alliance’s Top 20 Stockholders as of June 30, 2016 are as follows:

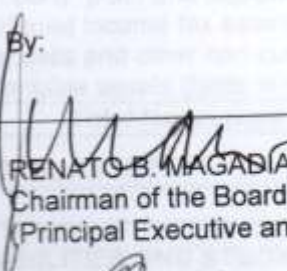
|    | Stockholder's Name                      | Number of Shares |             | Percentage to Total |
|----|-----------------------------------------|------------------|-------------|---------------------|
|    |                                         | Class A          | Class B     |                     |
| 1  | Creston Global Limited                  |                  | 56,378,388  | 18.417              |
| 2  | PCD Nominee Corporation (Filipino)      | 16,190,768       | 26,568,455  | 13.968              |
| 3  | Chesa Holdings, Inc.                    | 40,500,000       |             | 13.230              |
| 4  | Pacific Wide Realty & Development Corp. | 31,498,000       |             | 10.289              |
| 5  | Forum Holdings Corporation              | 16,376,856       | 13,432,644  | 9.106               |
| 6  | Misons Industrial and Development Corp. | 22,000,000       |             | 7.187               |
| 7  | Pacific Concorde Corporation            | 6,329,500        | 9,503,908   | 5.172               |
| 8  | Rexlon Realty Group, Inc.               | 12,200,000       | 2,673,112   | 4.859               |
| 9  | Chartered Commodities Corp.             | 11,296,000       |             | 3.690               |
| 10 | Mizpah Holdings, Inc.                   | 10,128,700       |             | 3.309               |
| 11 | William T. Gatchalian                   | 2,091,000        | 1,481,500   | 1.167               |
| 12 | Pacific Rehouse Corp.                   | 1,258,000        | 1,670,000   | 0.956               |
| 13 | Kenstar Industrial Corp.                | 2,312,331        |             | 0.755               |
| 14 | PCD Nominee Corporation (Non-Filipino)  |                  | 2,238,452   | 0.731               |
| 15 | Nancy Saw                               |                  | 1,846,500   | 0.603               |
| 16 | Tin Fu Or Trajano                       |                  | 820,000     | 0.268               |
| 17 | Severin Haselmann                       |                  | 730,000     | 0.238               |
| 18 | CTBC TA#5-C184; Zuellig Corp.           | 684,829          |             | 0.224               |
| 19 | UBP Capital Corporation                 | 645,000          |             | 0.211               |
| 20 | Rexlon T. Gatchalian                    | 600,000          |             | 0.196               |
|    | Others                                  | 9,562,486        | 3,1881,975  | 5.401               |
|    | Total                                   | 183,673,470      | 122,448,979 | 100.00              |

## SIGNATURES

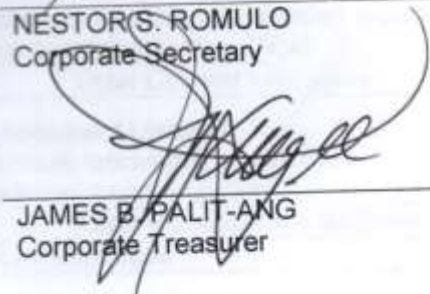
After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on AUG 03 2016.

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 AUG 03 2016.

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

**04 AUG 2016**

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ 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. 47  
Page No. 10  
Book No. 791  
Series of 791

  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2016  
PTR NO. 2147797 1/4/2016 QUEZON CITY  
IBP NO. 1015954 1/4/2016 QUEZON CITY  
ROLL NO. 13296  
COMMISSION NO. NP-144 (2015-2016) QUEZON CITY  
TIN NO. 177-967-649  
MCLE EXEMPTED

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (In Php)**

**“Annex A.1”**

|                                                             | <b>30-Jun-2016</b>   | <b>30-Jun-2015</b> | <b>31-Dec-2015</b> |
|-------------------------------------------------------------|----------------------|--------------------|--------------------|
|                                                             | <b>Unaudited</b>     | <b>Unaudited</b>   | <b>Audited</b>     |
| <b>ASSETS</b>                                               |                      |                    |                    |
| <b>Current Assets</b>                                       |                      |                    |                    |
| Cash (Note 4)                                               | <b>14,425,577</b>    | 20,204,922         | 15,719,137         |
| Receivables – net (Note 5)                                  | <b>102,340,761</b>   | 82,598,387         | 92,949,511         |
| Prepaid expenses and other current assets (Note 6)          | <b>27,321,591</b>    | 31,204,295         | 25,983,675         |
| Assets held for sale (Note 7)                               | <b>415,410,450</b>   | 788,662,261        | 415,410,450        |
| <b>Total Current Assets</b>                                 | <b>559,498,379</b>   | 922,669,866        | 550,062,773        |
| <b>Noncurrent Assets</b>                                    |                      |                    |                    |
| Available-for sale-investments (Note 8)                     | <b>4,973,085</b>     | 6,558,768          | 4,973,085          |
| Property, plant and equipment – net (Note 9)                | <b>3,251,896</b>     | 5,386,544          | 3,752,848          |
| Deferred income tax assets – net                            | <b>3,876,580</b>     | 4,773,825          | 4,080,211          |
| Deposits and other non-current assets                       | <b>–</b>             | 1,464,790          | –                  |
| Intangible assets (Note 10)                                 | <b>314,289</b>       | 629,526            | 555,556            |
| <b>Total Noncurrent Assets</b>                              | <b>12,415,850</b>    | 18,813,453         | 13,361,700         |
| <b>TOTAL ASSETS</b>                                         | <b>571,914,229</b>   | 941,483,319        | 563,424,473        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                 |                      |                    |                    |
| <b>Current Liabilities</b>                                  |                      |                    |                    |
| Accounts Payable and accrued expenses (Note 11)             | <b>414,239,884</b>   | 410,538,985        | 409,988,828        |
| Due to related parties (Note 12)                            | <b>53,867,821</b>    | 438,181,471        | 56,302,340         |
| <b>Total Current Liabilities</b>                            | <b>468,107,705</b>   | 848,720,456        | 466,291,168        |
| <b>Noncurrent Liabilities</b>                               |                      |                    |                    |
| Accrued retirement benefit costs                            | <b>9,557,285</b>     | 5,571,489          | 8,997,865          |
| Deferred income tax liability                               | <b>–</b>             | 347                | –                  |
| <b>Total Noncurrent Liabilities</b>                         | <b>9,557,285</b>     | 5,571,836          | 8,997,865          |
| <b>Total Liabilities</b>                                    | <b>477,664,990</b>   | 854,292,292        | 475,289,033        |
| <b>Stockholders' Equity</b>                                 |                      |                    |                    |
| Equity attributable to equity holders of the Parent Company |                      |                    |                    |
| Capital stock                                               | <b>306,122,449</b>   | 306,122,449        | 306,122,449        |
| Additional paid-in capital                                  | <b>3,571,921</b>     | 3,571,921          | 3,571,921          |
| Deficit                                                     | <b>(232,195,202)</b> | (236,624,123)      | (235,129,968)      |
| Remeasurement gain on retirement plan                       | <b>1,220,777</b>     | 2,347,003          | 1,220,777          |
| Available-for-sale reserve                                  | <b>1,202,122</b>     | 2,787,805          | 1,202,122          |
|                                                             | <b>79,922,067</b>    | 78,205,055         | 76,987,301         |
| Non-controlling interests                                   | <b>14,327,172</b>    | 8,985,972          | 11,148,139         |
| <b>Total Stockholders' Equity</b>                           | <b>94,249,239</b>    | 87,191,027         | 88,135,440         |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>           | <b>571,914,229</b>   | 941,483,319        | 563,424,473        |

*(The accompanying notes are integral part of these financial statements)*

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**
**“Annex A.2”**
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Php)**

|                                                                                    | <b>Unaudited</b>          |                           |                           |                           |
|------------------------------------------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                                                                    | <b>Apr – Jun<br/>2016</b> | <b>Apr – Jun<br/>2015</b> | <b>Jan – Jun<br/>2016</b> | <b>Jan – Jun<br/>2015</b> |
| <b>NET SALES</b>                                                                   |                           |                           |                           |                           |
| Services                                                                           | <b>39,042,858</b>         | 35,089,405                | <b>77,528,500</b>         | 63,074,907                |
| <b>COST OF SALES AND SERVICES (Note 14)</b>                                        | <b>(17,778,186)</b>       | (17,830,616)              | <b>(35,115,416)</b>       | (24,865,756)              |
| <b>GROSS PROFIT</b>                                                                | <b>21,264,672</b>         | 17,258,789                | <b>42,413,084</b>         | 38,209,151                |
| Expenses (Note 15)                                                                 | <b>(14,805,666)</b>       | (17,554,516)              | <b>(31,491,237)</b>       | (36,197,121)              |
| Finance cost                                                                       | –                         | –                         | –                         | ( 3,500)                  |
| Other income (expenses)                                                            | <b>15,714</b>             | 5,267                     | <b>16,164</b>             | 8,992                     |
| <b>LOSS BEFORE INCOME TAX</b>                                                      | <b>6,474,720</b>          | (290,460)                 | <b>10,938,011</b>         | 2,017,422                 |
| <b>PROVISION FOR INCOME TAX</b>                                                    |                           |                           |                           |                           |
| Current                                                                            | (1,937,702)               | (1,011,105)               | <b>(3,734,130)</b>        | (2,167,879)               |
| Deferred                                                                           | –                         | –                         | –                         | –                         |
| <b>NET INCOME (LOSS)</b>                                                           | <b>4,537,018</b>          | (1,301,565)               | <b>7,203,881</b>          | (150,457)                 |
| <b>Net income (loss) attributable to:</b>                                          |                           |                           |                           |                           |
| Equity holders of the parent company                                               | <b>2,312,579</b>          | (2,441,515)               | <b>2,934,766</b>          | (2,612,623)               |
| Minority interests                                                                 | <b>2,215,439</b>          | 1,139,950                 | <b>4,269,115</b>          | 2,462,166                 |
|                                                                                    | <b>4,537,018</b>          | (1,301,565)               | <b>7,203,881</b>          | (150,457)                 |
| <b>Basic/Diluted Income (Loss) Per Share</b>                                       |                           |                           |                           |                           |
| Net loss for the year attributable to the<br>Equity holders of the Parent Company* | <b>₱0.0076</b>            | (₱0.0080)                 | <b>₱0.0096</b>            | (₱0.0085)                 |

\*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”**

| <b>For the period ended June 30,</b>                            | <b>2016</b>        | <b>Unaudited<br/>2015</b> |
|-----------------------------------------------------------------|--------------------|---------------------------|
| <b>CASH FROM OPERATING ACTIVITIES</b>                           |                    |                           |
| Income (Loss) before income tax                                 | ₱10,938,011        | ₱2,017,422                |
| Adjustments for:                                                |                    |                           |
| Amortization of intangible assets                               | 241,267            | 120,474                   |
| Depreciation                                                    | 500,952            | 604,080                   |
| Interest expense                                                | —                  | 3,500                     |
| Interest income                                                 | (16,164)           | (8,992)                   |
| Operating income (loss) before working capital changes:         | 11,664,066         | 2,736,484                 |
| Decrease (increase) in receivables                              | (9,391,250)        | (2,294,848)               |
| Decrease (increase) in prepaid expense and other current assets | (1,337,916)        | (9,751,752)               |
| Increase (decrease) in accounts payable and accrued expense     | 4,251,056          | (8,365,100)               |
| Income tax paid                                                 | (3,734,130)        | (2,167,879)               |
| Net cash flows provided (used in) operating activities          | 1,451,826          | (22,579,579)              |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>                      |                    |                           |
| Interest received                                               | 16,164             | 8,992                     |
| Acquisition of property and equipment                           | —                  | (938,309)                 |
| Decrease (increase) in other noncurrent assets                  | 203,631            | (120,587)                 |
| Net cash flows provided by (used in) investing activities       | 219,795            | (808,730)                 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                    |                           |
| Proceeds from (payment of):                                     |                    |                           |
| Advances from (to) related parties                              | (2,965,181)        | 21,451,787                |
| Interest expense                                                | —                  | (3,500)                   |
| Net cash flows provided by (used in) financing activities       | (2,965,181)        | 21,448,287                |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>     | <b>(1,293,560)</b> | <b>(1,940,022)</b>        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>     | <b>15,719,137</b>  | <b>22,144,944</b>         |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>             | <b>₱14,425,577</b> | <b>₱20,204,922</b>        |

*(The accompanying notes are integral part of these financial statements)*

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES** **“Annex A.4”**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY**  
(In Php)

|                                                                 | <b>For the Period Ended June 30</b> |                      |
|-----------------------------------------------------------------|-------------------------------------|----------------------|
|                                                                 | <b>2016</b>                         | <b>2015</b>          |
| <b>ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b> |                                     |                      |
| <b>Capital Stock</b> - 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                            | <b>306,122,449</b>                  | <b>306,122,449</b>   |
| <b>Additional Paid-in Capital</b>                               | <b>3,571,921</b>                    | <b>3,571,921</b>     |
| <b>Deficit</b>                                                  |                                     |                      |
| Balance at beginning of the year                                | <b>(235,129,968)</b>                | <b>(234,011,500)</b> |
| Net income                                                      | <b>2,934,766</b>                    | <b>(2,612,623))</b>  |
| Balance at end of the period                                    | <b>(232,195,202)</b>                | <b>(236,624,123)</b> |
| <b>Other Reserves:</b>                                          |                                     |                      |
| Revaluation reserve on available-for-sale financial assets      | <b>1,202,122</b>                    | <b>2,787,805</b>     |
| Remeasurement Gain (Loss) on Retirement Plan                    | <b>1,220,777</b>                    | <b>2,347,003</b>     |
|                                                                 | <b>2,422,899</b>                    | <b>5,134,808</b>     |
| <b>EQUITY ATTRIBUTABLE TO HOLDERS OF PARENT COMPANY</b>         | <b>79,922,067</b>                   | <b>78,205,055</b>    |
| <b>MINORITY INTERESTS</b>                                       | <b>14,327,172</b>                   | <b>8,985,972</b>     |
| <b>TOTAL STOCKHOLDERS’ EQUITY</b>                               | <b>94,249,239</b>                   | <b>87,191,027</b>    |

*(The accompanying notes are integral part of these financial statements)*

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**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 new registered office address of the Company is 35<sup>th</sup> Floor One Corporate Centre, Doña Julia Vargas cor. Meralco Aves., Ortigas Center, Pasig City.

In 2015, the SEC approved the amendment made to Article III of the Company’s Articles of Incorporation in regard to the change of Company’s official business address from 22<sup>nd</sup> Floor Citibank Tower, 8741 Paseo de Roxas, Makati City to 35<sup>th</sup> Floor One Corporate Center, Dona Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig City.

**Status of Operation**

**Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Parent Company will continue as a going concern. As of June 30, 2016 and 2015, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, amounting to ₱415.4million, 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 accrued interest and penalties, amounting to ₱415.4 million and ₱788.7 million as of June 30, 2016 and 2015, 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 explained in Note 6, the remaining 20% of Polymax’s interest in the petrochemical plant is for sale. 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, depend on whether sufficient cash flows can be generated from the sale Polymax’s remaining 20% 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 Parent Company financial statements do not include any adjustments that might result from the outcome of these uncertainties.

**Management Plan to Address Going Concern Uncertainties**

The Group having resolved its disputes with the foreign parties involved in the Bataan petrochemical project will explore business opportunities for the next twelve month. 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 20% interest in the petrochemical plant as of June 30, 2016. The Board will discuss on their succeeding meetings on how best to proceed on this remaining investment. Recently, the management is undergoing due diligence in evaluating investment proposal from foreign investor for the plan of reacquiring the majority control of the petrochemical plant. The Board will also outline business target projects including possible investment in mining industry. MAHEC's remaining operating subsidiary, Metro Combined Logistics Solutions, Inc. (MCLSI), is steadily growing with additional business from its existing principals.

Projected Plan for next 12 months:

Investment and sources of capital

The company has remained steadfast to regain its status as a going concern. In line with this, several actions were taken to conserve the company's resources and build confidence for its business direction:

- a) Cessation of operation of subsidiaries that were losing operations and those became inactive;
- b) Commitment by the majority shareholders of the company's equity be preserved;
- c) Accepting the settlement of disputed issues between the shareholders of NPC Alliance Corporation and recognizing the resulting loss adjustments to reflect the realizable value of the investments of the Company related to the petrochemical project;
- d) Liquidation of its bank obligation in respect to the Mabuhay Vinyl investment by way of "dacion" to a mortgage bank;
- e) Sale of the Company's remaining shares in Mabuhay Vinyl to generate cash for the Company;
- f) Clearing of its remaining bank obligations to free the company from debts;
- g) Continuous filings with relevant government agencies;
- h) Maintaining a lean organization to sustain its operation during the said period.

Recapitalization of the Company to meet the Projected Investments in New Venture

The company has a pending application with the SEC to increase its capital stock to ₱5 billion to be split – 60% Class A shares and 40% Class B shares at par value P1.00 to meet its projected investments after tender offer. Of this amount, ₱3 billion worth of shares earmarked to be issued as follows:

1. Majority interest in an operating mining company which is actively producing nickel and has a capital base of ₱1 billion. This company is presently held by the majority shareholders in joint venture with a Chinese company.
2. A second part capital increase amounting to P2 billion will be underwritten by a Chinese Bank to provide momentarily cash infusion to the company for the reacquisition of 80% NPCA shares which are sold to NPC International, an Iranian interest. This will redound to the company regaining 100% ownership of NPC Alliance. The planned acquisition will allow the entry of a Chinese Petrochemical company to buy in the company up to 70% of the company's restructured equity by way of supplying feedstocks for the NPCA ethylene plant.

The Company is expected to satisfy its cash requirements to finance its projected plans and investments in new venture until the 4<sup>th</sup> quarter of 2016.

Realization of Outstanding Receivables from Polymax Worldwide in the Amount of Php415,410,540.00 as of June 30, 2016

In order that this outstanding receivable will be fully recovered, a payment by dacion of the remaining 20% NPCA shares held by Polymax in NPC Alliance will be assigned to Metro Alliance, thus, making the company the direct shareholders of NPCA.

With the problem of the US and European economic sanction of Iran being resolved, NPCA will now be able to operate profitably, thus, enhancing the remaining value of the NPCA shares. The estimated present value of the 20% NPCA shares is placed at \$20 Million.

## 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 6.

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 a 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 Guaranteed 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, 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 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 rising 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 |        |
|------------------------------------------------------------------------------------|-------------------------|--------|
|                                                                                    | June 30<br>2016         | 2015   |
| Operating subsidiaries:                                                            |                         |        |
| Metro Combined Logistics Solutions, Inc. (MCLSI)<br>(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 and restatement of December 31 and January 1, 2012 accounts.

- **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 26).

#### *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 June 30, 2016 and 2015.

*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 June 30, 2016 and 2015.

*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 June 30, 2016 and 2015.

*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: 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.

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 carry-forward 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.

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#### 4. 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.

##### 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 8).

##### *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 23).

##### *Contingencies*

The Group is currently involved in various legal proceedings, which are normal to its business as discussed in Note 29. 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.

##### 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 of each balance sheet date and reduce the balance of these assets to their estimated recoverable amounts.

Receivables (net of allowance for doubtful accounts of ₱147 million and ₱149.5 million as of June 30, 2016 and 2015, respectively), amounted to ₱102.3 million and ₱82.6 million as of June 30, 2016 and 2015, respectively (see Note 7).

Creditable withholding taxes and input taxes, included under “Prepaid expenses and other current assets” in the consolidated balance sheets, totaling ₱31.7 million and ₱39.1 million as of June 30, 2016 and 2015, respectively, are covered with allowance for doubtful accounts of ₱12.3 and ₱14.1 million as of June 30, 2016 and 2015, respectively.

Advances to Polymax (under assets held for sale) amounting to ₱415.4 million and ₱788.7 million as of June 30, 2016 and 2015, respectively, constitute 72% and 84% of the Group's total assets as at June 30, 2016 and 2015, respectively. 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 Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale Polymax's 20% interest in NPCA, which is for sale, and from a letter of comfort issued by the Wellex Group of Companies in favor of the Parent Company, as discussed in Note 8.

#### Estimated 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 June 30, 2016 and 2015.

In June 30, 2016 and 2015, 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.

As of June 30, 2016 and 2015, property and equipment, net of accumulated depreciation, amounted to ₱3.3 million and ₱5.4 million, respectively (see Note 11). Total depreciation expense charged to operations amounted to ₱0.5 million, ₱0.1 million and ₱0.6 million for the period ended June 30, 2016, December 31, 2015 and June 30, 2015, respectively (see Notes 16 and 17).

#### 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 June 30, 2016 and 2015. As of June 30, 2016 and 2015, property and equipment, net of accumulated depreciation and amortization, amounted to ₱3.3 million and ₱5.4 million, respectively, as shown in Note 11 and total depreciation and amortization charged to operations amounted to ₱0.5 million in 2016 and ₱0.6 million in 2015 (see Notes 18 and 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 26.

#### 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.

#### 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 ₱3.9 million and ₱4.8 million as of June 30, 2016 and 2015, 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 ₱9.6 million and ₱8.9 million as of June 30, 2016 and 2015, 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).

## 5. Cash and Cash Equivalents

|               | June 30, 2016       | Dec 31, 2015        | June 30, 2015       |
|---------------|---------------------|---------------------|---------------------|
| Cash on hand  | ₱ 141,000           | ₱ 141,000           | ₱ 141,000           |
| Cash in banks | 14,284,577          | 15,578,137          | 20,063,922          |
|               | <b>₱ 14,425,577</b> | <b>₱ 15,719,137</b> | <b>₱ 20,204,922</b> |

As of June 30, 2016, December 31, 2015 and June 30, 2015, US Dollar denominated cash, as stated in Philippine Peso amounted to ₱27,776, ₱28,482 and ₱26,630.

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱16,164 in June 30, 2016, ₱61,712 in December 31, 2015 and ₱8,992 in June 30, 2015.

## 6. Receivables

|                                      | June 30 2016        | Dec 31 2015        | June 30 2015       |
|--------------------------------------|---------------------|--------------------|--------------------|
| Notes                                | ₱143,865,021        | ₱143,865,021       | ₱138,710,706       |
| Trade                                | 60,728,662          | 53,179,627         | 43,842,943         |
| Due from affiliates (Note 14)        | 5,930,076           | 5,716,471          | 10,837,097         |
| Others                               | 38,854,643          | 37,226,033         | 38,755,444         |
|                                      | 249,378,402         | 239,987,152        | 232,146,190        |
| Less allowance for doubtful accounts | (147,037,641)       | (147,037,641)      | (149,547,803)      |
|                                      | <b>₱102,340,761</b> | <b>₱92,949,511</b> | <b>₱82,598,387</b> |

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 2015 and 2016.

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 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.

The movements in the allowance for probable losses are as follows:

| Particulars                  | 2016                 | 2015               |
|------------------------------|----------------------|--------------------|
| Balance at beginning of year | ₱ 147,037,641        | 149,547,803        |
| Provision for the quarter    | —                    | --                 |
| Balance at end of quarter    | <b>₱ 147,037,641</b> | <b>149,547,803</b> |

## 7. Prepaid Expenses and Other Current Assets

Details are as follows:

|                                    | June 30 2016       | Dec 31 2015        | June 30 2015       |
|------------------------------------|--------------------|--------------------|--------------------|
| Creditable withholding taxes       | ₱22,298,754        | ₱22,881,472        | ₱31,541,311        |
| Input taxes                        | 9,542,631          | 7,810,326          | 9,714,188          |
| Refundable deposits                | 3,792,938          | 3,792,938          | 1,400,410          |
| Prepayments and others             | 3,941,613          | 3,753,284          | 2,675,867          |
|                                    | 39,575,936         | 38,238,020         | 45,331,776         |
| Less allowance for probable losses | 12,254,345         | 12,254,345         | 14,127,481         |
|                                    | <b>₱27,321,591</b> | <b>₱25,983,675</b> | <b>₱31,204,295</b> |

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.

## 8. Assets Held for Sale/Discontinued Operation

Asset held for sale amounting to ₱415,410,450 and ₱788,662,260 as of June 30, 2016 and 2015, respectively, which constitutes 94% and 84% of the Group's total assets as of June 30, 2016 and 2015, respectively, 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.

During 2014, 20% of the 40% remaining interest of Polymax in NPCA was sold. To reiterate assurance of the collectability of the Parent Company's advances to Polymax, a comfort letter dated April 10, 2015 was issued by the major stockholders of the Parent Company.

Condensed unaudited financial information of Polymax as of June 30, 2016 and 2015 prepared on the liquidation basis of accounting is shown in the table below.

|                                                   | June 30<br>2016       | Dec 31<br>2015        | June 30<br>2015       |
|---------------------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>Assets</b>                                     |                       |                       |                       |
| Cash and cash equivalents                         | ₱130,966,060          | ₱130,966,060          | ₱130,966,060          |
| Assets held for sale                              | 347,720,000           | 347,720,000           | 347,720,000           |
| Due from related parties                          | 157,433,30            | 157,433,30            | 530,685,120           |
| <b>Total assets</b>                               | <b>636,119,370</b>    | <b>636,119,370</b>    | <b>1,009,371,180</b>  |
| <b>Liabilities</b>                                |                       |                       |                       |
| Liabilities related to assets held for sale       | 994,668,446           | 994,668,446           | 994,668,446           |
| Due to Metro Alliance Holdings and Equities Corp. | 415,410,450           | 415,410,450           | 788,662,261           |
| Other payable                                     | 49,030,000            | 49,030,000            | 49,030,000            |
| <b>Total liabilities</b>                          | <b>1,459,108,896</b>  | <b>1,459,108,896</b>  | <b>1,832,360,707</b>  |
| <b>Net equity</b>                                 | <b>(₱822,989,527)</b> | <b>(₱822,989,527)</b> | <b>(₱822,989,527)</b> |

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 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.

## 9. Available-for-sale Investments

Available-for-sale investments consist of investment in shares of Waterfront Philippines, Inc. (WPI) and others that are quoted in the local stock exchange, as well as investments in unlisted shares. Movements of the account follow:

| Particulars                                   |   | June 30                 |                           |
|-----------------------------------------------|---|-------------------------|---------------------------|
|                                               |   | 2016                    | 2015                      |
| Balance at beginning of year                  | ₱ | <b>4,973,085</b>        | ₱ 6,471,473               |
| Cumulative fair value gain (loss) – in equity |   | <u>–</u>                | <u>(1,498,388)</u>        |
| Total                                         | ₱ | <b><u>4,973,085</u></b> | ₱ <b><u>4,973,085</u></b> |

The movements in net unrealized gain on AFS investment are as follows:

| Particulars                                   |   | June 30                 |                           |
|-----------------------------------------------|---|-------------------------|---------------------------|
|                                               |   | 2016                    | 2015                      |
| Balance at beginning of year                  | ₱ | <b>1,202,122</b>        | ₱ 2,787,805               |
| Cumulative fair value gain (loss) – in equity |   | <u>–</u>                | <u>(1,585,683)</u>        |
| Total                                         | ₱ | <b><u>1,202,122</u></b> | ₱ <b><u>1,202,122</u></b> |

The net unrealized gain on AFS investments are deferred and presented separately as AFS reserve under the equity section of the consolidated financial position.

## 10. Property and Equipment - At Cost

### June 30, 2016

|                                                         | Leasehold<br>Improvements | Machinery and<br>Equipment | Office Furniture,<br>Fixtures and<br>Equipment | Total              |
|---------------------------------------------------------|---------------------------|----------------------------|------------------------------------------------|--------------------|
| <b>Cost</b>                                             |                           |                            |                                                |                    |
| Balances at beginning of year                           | ₱1,549,117                | ₱21,849,404                | ₱13,574,317                                    | <b>₱36,972,838</b> |
| Additions                                               | –                         | –                          | –                                              | <b>–</b>           |
| Balances at end of year                                 | <b>₱1,549,117</b>         | <b>₱21,849,404</b>         | <b>₱13,574,317</b>                             | <b>₱36,972,838</b> |
| <b>Accumulated Depreciation and<br/>Impairment Loss</b> |                           |                            |                                                |                    |
| Balances at beginning of year                           | 1,196,763                 | 18,843,748                 | 13,179,479                                     | <b>33,219,990</b>  |
| Depreciation                                            | 21,487                    | 182,486                    | 296,979                                        | <b>500,952</b>     |
| Balances at end of year                                 | <b>1,218,250</b>          | <b>19,026,234</b>          | <b>13,476,458</b>                              | <b>33,720,942</b>  |
| <b>Net book value</b>                                   | <b>₱ 330,867</b>          | <b>₱ 2,823,170</b>         | <b>₱ 97,859</b>                                | <b>₱3,251,896</b>  |

### June 30, 2015

|                               | Leasehold<br>Improvements | Machinery and<br>Equipment | Office Furniture,<br>Fixtures and<br>Equipment | Total              |
|-------------------------------|---------------------------|----------------------------|------------------------------------------------|--------------------|
| <b>Cost</b>                   |                           |                            |                                                |                    |
| Balances at beginning of year | ₱892,995                  | ₱22,442,079                | ₱15,606,280                                    | <b>₱38,941,354</b> |
| Additions                     | –                         | 938,309                    | –                                              | <b>938,309</b>     |
| Balances at end of year       | <b>₱892,995</b>           | <b>₱23,380,388</b>         | <b>₱15,606,280</b>                             | <b>₱39,879,663</b> |

|                                                         | Leasehold<br>Improvements | Machinery and<br>Equipment | Office Furniture,<br>Fixtures and<br>Equipment | Total       |
|---------------------------------------------------------|---------------------------|----------------------------|------------------------------------------------|-------------|
| <b>Accumulated Depreciation and<br/>Impairment Loss</b> |                           |                            |                                                |             |
| Balances at beginning of year                           | 727,337                   | 18,722,844                 | 14,438,858                                     | 33,889,039  |
| Depreciation                                            | 16,346                    | 300,206                    | 287,528                                        | 604,080     |
| Balances at end of year                                 | 743,683                   | 19,023,050                 | 14,726,386                                     | 34,493,119  |
| Net book value                                          | ₱149,312                  | ₱4,357,338                 | ₱927,698                                       | ₱ 5,386,544 |

The Group has no outstanding contractual commitments to acquire certain property and equipment as of June 30, 2016 and 2015.

In 2016 and 2015, 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.

## 11. 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 June 30, 2016 is as follows:

| <u>Particulars</u>               | <u>Beginning<br/>Balances</u> | <u>Additions</u> | <u>Ending Balances</u> |
|----------------------------------|-------------------------------|------------------|------------------------|
| <b>Cost:</b>                     |                               |                  |                        |
| Short messaging                  | ₱ 135,135                     | —                | ₱ 135,135              |
| Warehouse management system      | 1,309,910                     | —                | 1,309,910              |
| Caerus accounting system         | 1,025,000                     | —                | 1,025,000              |
| Total                            | ₱ 2,470,045                   | —                | ₱ 2,470,045            |
| <b>Accumulated Amortization:</b> |                               |                  |                        |
| Short messaging                  | ₱ 135,135                     | 67,568           | ₱ 202,703              |
| Warehouse management system      | 1,309,910                     | 117,361          | 1,427,271              |
| Caerus accounting system         | 469,444                       | 56,338           | 525,782                |
| Total                            | ₱ 1,914,489                   | —                | ₱ 2,155,756            |
| <b>Carrying amount</b>           | ₱ 555,556                     | 241,267          | ₱ 314,289              |

The carrying amount of intangible assets as of June 30, 2015 is as follows:

| <u>Particulars</u>               | <u>Beginning<br/>Balances</u> | <u>Additions</u> | <u>Ending Balances</u> |
|----------------------------------|-------------------------------|------------------|------------------------|
| <b>Cost:</b>                     |                               |                  |                        |
| Short messaging                  | ₱ 135,135                     | —                | ₱ 135,135              |
| Warehouse management system      | 1,309,910                     | —                | 1,309,910              |
| Caerus accounting system         | 900,000                       | —                | 900,000                |
| Total                            | ₱ 2,345,045                   | —                | ₱ 2,345,045            |
| <b>Accumulated Amortization:</b> |                               |                  |                        |
| Short messaging                  | ₱ 135,135                     | —                | ₱ 135,135              |
| Warehouse management system      | 1,309,910                     | —                | 1,309,910              |
| Caerus accounting system         | 150,000                       | —                | 150,000                |
| Total                            | ₱ 1,595,045                   | —                | ₱ 1,595,045            |
| <b>Carrying amount</b>           | ₱ 750,000                     |                  | ₱ 750,000              |

Intangible assets were not pledged as security for any liability. MCLSI has no outstanding contractual commitments to acquire certain intangible assets.

Intangible assets pertaining to non-exclusive software license costs for use in the warehouse management system that was acquired in 2013 have been fully amortized during the year as management assessed that it will not provide a future economic benefit to the Company.

## 12. Accounts Payable and Accrued Expenses

Details of this account are shown below.

|                                         | June 30 2016        | Dec 31 2015  | June 30 2015        |
|-----------------------------------------|---------------------|--------------|---------------------|
| Accrued expenses                        | <b>₱185,900,226</b> | ₱186,567,290 | <b>₱359,731,701</b> |
| Trade payables                          | <b>40,341,507</b>   | 31,382,148   | <b>28,725,154</b>   |
| Accrued finance charges – related party | –                   | –            | <b>14,209,630</b>   |
| Other liabilities                       | <b>187,998,151</b>  | 192,039,390  | <b>7,872,500</b>    |
|                                         | <b>₱414,239,884</b> | ₱409,988,828 | <b>₱410,538,985</b> |

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.

Other liabilities mainly pertain to payable to government agencies.

## 13. 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 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. Advances from WPI were fully settled in 2015.

### 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.

### 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.

|                              | June 30 2016      | Dec 31 2015       | June 30 2015      |
|------------------------------|-------------------|-------------------|-------------------|
| Short-term employee benefits | ₱8,587,600        | ₱8,655,149        | ₱518,639          |
| Retirement benefits          | —                 | —                 | 534,268           |
|                              | <b>₱8,587,600</b> | <b>₱8,655,149</b> | <b>₱1,053,907</b> |

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.

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.

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 | 12/31/15          | (₱373,251,811)                 | ₱415,410,450           | Non-interest bearing | Unsecured; not impaired |
|                                                           | (Note 6)                                       | <b>06/30/16</b>   | <b>—</b>                       | <b>415,510,450</b>     |                      |                         |
| <u>Operating subsidiary</u>                               |                                                |                   |                                |                        |                      |                         |
| MCLSI                                                     | Non-interest bearing under asset held for sale | 12/31/15          | (250,000)                      | 250,000                | Non-interest bearing | Unsecured; not impaired |
|                                                           | (Note 6)                                       | <b>06/30/16</b>   | <b>—</b>                       | <b>250,000</b>         |                      |                         |
| <u>Associates (entities under common control)</u>         |                                                |                   |                                |                        |                      |                         |
| The Wellex Group, Inc.                                    | Non-interest bearing due from related parties  | 12/31/15          | —                              | 5,416,174              | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>60,362</b>                  | <b>5,476,536</b>       |                      |                         |
| Others                                                    | Non-interest bearing due from related parties  | 12/31/15          | (243,190)                      | 50,297                 | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>153,243</b>                 | <b>203,540</b>         |                      |                         |
| Acesite (Phils.) Hotel Corporation                        | Non-interest bearing due to related parties    | 12/31/15          | (612,531)                      | (5,627,202)            | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>—</b>                       | <b>(5,627,202)</b>     |                      |                         |
| Waterfront Philippines Inc. (WPI)                         | Non-interest bearing due to related parties    | 12/31/15          | (365,933,148)                  | —                      | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>—</b>                       | <b>—</b>               |                      |                         |
| The Wellex Group, Inc.                                    | Non-interest bearing due to related parties    | 12/31/15          | 4,684,695                      | (27,176,176)           | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>4,296,326</b>               | <b>(31,472,502)</b>    |                      |                         |
| Gulf Agency Company Holdings (BV)                         | Non-interest bearing due to related parties    | 12/31/15          | (782,481)                      | (23,273,962)           | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>(4,929,980)</b>             | <b>(16,768,117)</b>    |                      |                         |
| <u>Other related parties</u>                              |                                                |                   |                                |                        |                      |                         |
| Others                                                    | Non-interest bearing due to related parties    | 12/31/15          | 4,277,971                      | (4,883,463)            | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/16</b>   | <b>—</b>                       | <b>—</b>               |                      |                         |
| <u>Accrued finance charges</u>                            |                                                |                   |                                |                        |                      |                         |
| Waterfront Philippines, Inc. (WPI)                        |                                                | 12/31/2015        | <b>(14,209,630)</b>            | —                      | Non-interest bearing | Unsecured; not impaired |
|                                                           |                                                | <b>06/30/2016</b> | <b>—</b>                       | <b>—</b>               |                      |                         |

Due from related parties pertains to unsecured and noninterest bearing advances granted by the Parent Company to related parties, which have no fixed repayment terms.

In 2015, the Parent Company was able to collect advances from Polymax Worldwide, Limited. The collections were used to settle its long outstanding liability to WPI with a principal balance of ₱365,933,148 and accrued finance charges of ₱7,132,891 at a discount of ₱17,482,601. This discount was recognized as Company's other income arising from a condoned liability in its books.

#### 14. Capital Stock

The Group's capital stock as of June 30, 2016 and 2015 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        |
|                                                 | <b>₱306,122,449</b> |

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.

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).

#### 15. Cost of Sales and Services

Details of this account are shown below.

|                                         | June 30 2016       | Dec 31 2015  | June 30 2015       |
|-----------------------------------------|--------------------|--------------|--------------------|
| Personnel costs                         | <b>₱7,873,154</b>  | ₱43,497,407  | <b>₱8,445,388</b>  |
| Rent and utilities (Note 20)            | <b>3,085,228</b>   | 16,182,835   | <b>3,566,594</b>   |
| Transportation and Travel               | <b>2,189,558</b>   | 37,139,315   | <b>1,080,396</b>   |
| Outside services                        | <b>1,075,373</b>   | 11,343,859   | <b>1,060,352</b>   |
| Security services                       | <b>718,341</b>     | 1,785,538    | <b>431,571</b>     |
| Communication and office supplies       | <b>200,314</b>     | 1,715,268    | <b>415,252</b>     |
| Depreciation and amortization (Note 11) | <b>168,209</b>     | 2,777,995    | <b>300,206</b>     |
| Repairs and maintenance                 | <b>135,926</b>     | 326,178      | <b>143,993</b>     |
| Others                                  | <b>2,332,083</b>   | 5,426,425    | <b>2,386,864</b>   |
|                                         | <b>₱17,778,186</b> | ₱120,194,820 | <b>₱17,830,864</b> |

## 16. Expenses

Details of this account are shown below.

|                                       | June 30 2016       | June 30 2015 |
|---------------------------------------|--------------------|--------------|
| Salaries, wages and employee Benefits | <b>₱6,441,671</b>  | ₱12,227,701  |
| General and administrative expenses   | <b>3,589,657</b>   | 3,115,285    |
| Rent and utilities                    | <b>2,573,398</b>   | 258,843      |
| Depreciation                          | <b>119,937</b>     | 303,874      |
| Taxes and licenses                    | <b>100,293</b>     | 248,363      |
| Professional fee                      | <b>283,383</b>     | 331,372      |
| Others                                | <b>1,697,327</b>   | 1,069,078    |
|                                       | <b>₱14,805,666</b> | ₱17,554,516  |

Others include professional fees, communication, supplies, transportation, entertainment and others.

## 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:

|                                             | June 30 2016        |
|---------------------------------------------|---------------------|
| Within one year                             | <b>₱9,392,726</b>   |
| After one year but not more than five years | <b>14,459,381</b>   |
|                                             | <b>₱23,852,107</b>  |
| Rental are distributed as follows:          |                     |
| Cost of services                            | <b>₱ 16,182,835</b> |
| Operating expense                           | <b>756,000</b>      |
| Rental expense for the quarter              | <b>₱ 16,938,835</b> |

### Office space

a) During the year, MCLSI renewed the lease contract for its office space. The term of the contract is (1) year commencing of February 1, 2016 and ending on January 31, 2017, renewable subject to the terms and conditions as may be mutually agreed upon. Monthly rental payments amounted to ₱70, 781. The contract also provided for prepaid rent and rental security deposits equivalent to two months' rental of ₱141, 561 representing one-month deposit and one-month advance rental. The advance rental shall be applied on 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.

### Warehouses

a) MCLSI entered in lease contract for a warehouse and office building located at warehouse #6 along E. Rodriguez St., Tunasan, Muntinlupa City. The lease term is for a period of two (2) years commencing on April 14, 2014 until April 14, 2016 with monthly rental payments of ₱233,835. Rental deposits amounted to ₱701,505 equivalent to three (3) months rental to answer for any of its obligations and to be refunded upon the expiration of lease term after the termination of the contract.

b) MCLSI entered into a new lease contracts for a warehouse, and parking and open space located at 21st St Golden Mile Business Park, Brgy, Maduya Carmona, Cavite. The lease term is for a period of three (3) years commencing on November 3, 2015 until November 2, 2018 with monthly rental

payments of ₱330,691.20. Rental deposits amounted to ₱932,400 equivalent to three (3) months rental to answer for any of its obligation and to be refunded upon the expiration of the contract.

c) MCLSI entered into another lease contract for warehouse, and parking and open space located at 21st Golden Mile Business Park, Brgy. Maduya Carmona, Cavite. The lease term is also for three (3) years commencing on October 12, 2015 until October 11, 2018 with monthly rental payments of ₱350,162.40. Rental deposits amounted to ₱987,300 equivalent to three (3) months rental to answer for any of its obligation and also to be refunded upon the termination of the lease contract.

## 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 June 30, 2016 and December 31, 2015:

|                                                             | June 30 2016        |                     | December 31 2015    |                     |
|-------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                                             | Carrying Value      | Fair Value          | Carrying Value      | Fair Value          |
| <b>Financial Assets</b>                                     |                     |                     |                     |                     |
| Cash and cash equivalents                                   | ₱14,425,577         | ₱14,425,577         | ₱15,719,137         | ₱15,719,137         |
| Receivables                                                 | 102,340,761         | 102,340,761         | 92,949,511          | 92,949,511          |
| AFS investments                                             | 4,973,085           | 4,973,085           | 4,973,085           | 4,973,085           |
| Refundable deposits (included in "Other noncurrent assets") | 3,792,938           | 3,792,938           | 3,792,938           | 3,792,938           |
|                                                             | <b>₱125,532,361</b> | <b>₱125,532,361</b> | <b>₱117,434,671</b> | <b>₱117,434,671</b> |
| <b>Financial Liabilities</b>                                |                     |                     |                     |                     |
| Accounts payable and accrued expenses*                      | ₱40,341,507         | ₱40,341,507         | ₱ 31,382,148        | ₱ 31,382,148        |
| Due to affiliates                                           | 53,867,821          | 53,867,821          | 56,302,340          | 56,302,340          |
|                                                             | <b>₱94,209,328</b>  | <b>₱94,209,328</b>  | <b>₱ 87,684,488</b> | <b>₱ 87,684,488</b> |

*\*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.

### *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.

| <b>June 30 2016</b>                               |                    |                          |                             |                     |
|---------------------------------------------------|--------------------|--------------------------|-----------------------------|---------------------|
|                                                   | <b>On Demand</b>   | <b>Within 1<br/>Year</b> | <b>More than 1<br/>Year</b> | <b>Total</b>        |
| Cash and cash equivalents                         | <b>₱14,425,577</b> | <b>₱ –</b>               | <b>₱ –</b>                  | <b>₱14,425,577</b>  |
| Receivables                                       | <b>60,728,662</b>  | <b>–</b>                 | <b>41,612,099</b>           | <b>102,340,761</b>  |
| Refundable deposits                               | <b>–</b>           | <b>3,792,938</b>         | <b>–</b>                    | <b>3,792,938</b>    |
|                                                   | <b>75,154,239</b>  | <b>3,792,938</b>         | <b>41,612,099</b>           | <b>120,559,276</b>  |
| AFS financial assets                              | <b>–</b>           | <b>–</b>                 | <b>4,973,085</b>            | <b>4,973,085</b>    |
|                                                   | <b>₱75,154,239</b> | <b>₱3,792,938</b>        | <b>₱46,585,184</b>          | <b>₱125,532,361</b> |
| Due to related parties                            | <b>₱ –</b>         | <b>₱ –</b>               | <b>₱53,867,821</b>          | <b>₱53,867,821</b>  |
| Accrued expenses and other<br>current liabilities | <b>–</b>           | <b>40,341,507</b>        | <b>373,898,377</b>          | <b>414,239,884</b>  |
|                                                   | <b>₱ –</b>         | <b>₱40,341,507</b>       | <b>₱427,766,198</b>         | <b>₱468,107,705</b> |

| <b>December 31 2015</b>                           |                    |                      |                             |                     |
|---------------------------------------------------|--------------------|----------------------|-----------------------------|---------------------|
|                                                   | <b>On Demand</b>   | <b>Within 1 Year</b> | <b>More than 1<br/>Year</b> | <b>Total</b>        |
| Cash and cash equivalents                         | <b>₱15,719,137</b> | <b>₱ –</b>           | <b>₱ –</b>                  | <b>₱15,719,137</b>  |
| Receivables                                       | <b>53,179,627</b>  | <b>–</b>             | <b>39,769,884</b>           | <b>92,949,511</b>   |
| Refundable deposits                               | <b>–</b>           | <b>3,792,938</b>     | <b>–</b>                    | <b>3,792,938</b>    |
|                                                   | <b>68,898,764</b>  | <b>3,792,938</b>     | <b>39,769,884</b>           | <b>112,461,586</b>  |
| AFS financial assets                              | <b>–</b>           | <b>–</b>             | <b>4,973,085</b>            | <b>4,973,085</b>    |
|                                                   | <b>₱68,898,764</b> | <b>₱ 3,792,938</b>   | <b>₱44,742,969</b>          | <b>₱117,434,671</b> |
| Due to related parties                            | <b>₱ –</b>         | <b>₱ –</b>           | <b>₱56,302,340</b>          | <b>₱56,302,340</b>  |
| Accrued expenses and other<br>current liabilities | <b>–</b>           | <b>31,382,148</b>    | <b>378,606,681</b>          | <b>409,988,829</b>  |
|                                                   | <b>₱ –</b>         | <b>₱31,382,148</b>   | <b>₱434,909,021</b>         | <b>₱466,291,169</b> |

### *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 June 30, 2016 and December 31, 2015, without considering the effects of collaterals and other risk mitigation techniques are presented below. (see next page)

|                           | <b>June 30 2016</b> | <b>December 31 2015</b> |
|---------------------------|---------------------|-------------------------|
| Cash and cash equivalents | <b>₱14,425,577</b>  | ₱ 15,719,137            |
| Receivables               | <b>102,340,761</b>  | 92,949,511              |
| Refundable deposits       | <b>3,792,938</b>    | 3,792,938               |
|                           | <b>₱120,559,276</b> | ₱ 112,461,586           |

The table below present the credit quality of financial assets and an analysis of past due accounts.

#### **June 30 2016**

|                           | <b>High Grade</b>  | <b>Medium Grade</b> | <b>Past due but not impaired</b> | <b>Total</b>        |
|---------------------------|--------------------|---------------------|----------------------------------|---------------------|
| Cash and cash equivalents | ₱14,425,577        | ₱ –                 | ₱ –                              | <b>₱14,425,577</b>  |
| Receivables               | 60,728,662         | –                   | 41,512,099                       | <b>102,340,761</b>  |
| Refundable deposits       | 3,792,938          | –                   | –                                | <b>3,792,938</b>    |
|                           | <b>₱78,947,177</b> | <b>₱ –</b>          | <b>₱41,512,099</b>               | <b>₱102,559,276</b> |

#### **December 31 2015**

|                           | <b>High Grade</b>  | <b>Medium Grade</b> | <b>Past due but not impaired</b> | <b>Total</b>        |
|---------------------------|--------------------|---------------------|----------------------------------|---------------------|
| Cash and cash equivalents | ₱15,719,137        | ₱ –                 | ₱ –                              | <b>₱15,719,137</b>  |
| Receivables               | 53,179,627         | –                   | 39,769,884                       | <b>92,949,511</b>   |
| Refundable deposits       | 3,792,938          | –                   | –                                | <b>3,792,938</b>    |
|                           | <b>₱72,691,702</b> | <b>₱ –</b>          | <b>₱39,769,884</b>               | <b>₱112,461,586</b> |

## **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 June 30, 2016, 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 total equity attribute to equity holders of the Parent Company as at June 30, 2016, December 31 and June 30, 2015 amounted to ₱79.9 million, ₱76.9 million and ₱78.2 million, respectively.

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## 22. 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 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 June 30, 2016, 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 (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 case is has started and now on going in the Tagaytay Court for trial hearings under a new judge. Trial hearing was on April 2016 for the presentation of the Parent Company's witness. The Parent Company and its legal counsel are positive that the court will sustain their position.

- C. There is a consolidated injunction suit with damages filed on July 23, 2008 to nullify a foreclosure of a lot. In successive certiorari cases that plaintiffs filed, both CA & SC upheld the counterparty. The counterparty filed a Notice of Appeal to CA on May 8, 2015 which was questioned defective but still approved and ruled against the Parent Company. In its May 12, 2015 Order, both cases are now on appeal in the CA.
- D. 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  
APPENDIX A – FINANCIAL SOUNDNESS  
JUNE 30, 2016**

|                                       | <b>June 30<br/>2016</b> | <b>June 30<br/>2015</b> | <b>December<br/>31 2015</b> |
|---------------------------------------|-------------------------|-------------------------|-----------------------------|
| <b>Profitability ratios:</b>          |                         |                         |                             |
| Return on assets                      | <b>0.51%</b>            | <b>-0.07%</b>           | 0.35%                       |
| Return on equity                      | <b>3.67%</b>            | <b>-0.73%</b>           | 2.59%                       |
| Net profit margin                     | <b>3.79%</b>            | <b>-2.69%</b>           | 1.39%                       |
| <b>Solvency and liquidity ratios:</b> |                         |                         |                             |
| Current ratio                         | <b>119.52%</b>          | <b>108.71%</b>          | 117.97%                     |
| Debt to equity ratio                  | <b>597.66%</b>          | <b>979.79%</b>          | 617.36%                     |
| Quick ratio                           | <b>113.69%</b>          | <b>105.04%</b>          | 112.39%                     |
| Cash-flow liquidity ratio             | <b>3.08%</b>            | <b>9.27%</b>            | 3.37%                       |
| <b>Financial leverage ratio:</b>      |                         |                         |                             |
| Asset to equity ratio                 | <b>715.59%</b>          | <b>1079.79%</b>         | 731.84%                     |
| Debt to asset ratio                   | <b>83.52%</b>           | <b>90.74%</b>           | 84.36%                      |
| Interest rate coverage ratio          | <b>0.00%</b>            | <b>-0.27%</b>           | 1.89%                       |

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES****TRADE RECEIVABLES AGING SUMMARY**

As of June 30, 2016

in Php '000s

| Principal/Customer               | Credit Terms | Total  | Amount in Php '000 |        |       |       |         |
|----------------------------------|--------------|--------|--------------------|--------|-------|-------|---------|
|                                  |              |        | Current            | 1-30   | 31-60 | 61-90 | Over 90 |
| <b><u>MCLSI Logistics</u></b>    |              |        |                    |        |       |       |         |
| Rustans Supermarkets, Inc. (RSI) | 30 days      | 31,806 | 21,067             | 6,913  | 1,913 | 1,913 | —       |
| Johnson & Johnson (J&J)          | 30           | 16,512 | 5,543              | 4,969  | 2,789 | 3,211 | —       |
| Zuellig Pharma Corp. (ZPC)       | 60           | 6,118  | 4,010              | 1,304  | 804   | —     | —       |
| Interphil Laboratories Inc.      | 30           | 1,857  | 737                | 1,120  | —     | —     | —       |
| Alaska                           | 60           | 2,164  | 500                | 500    | —     | 179   | 985     |
| Lixil Phils.                     | 30           | 1,325  | 825                | 500    | —     | —     | —       |
| Others                           | 60           | 947    | 463                | —      | —     | —     | 484     |
|                                  |              | 60,729 | 33,145             | 15,306 | 5,506 | 5,303 | 1,469   |