

COVER SHEET

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SEC Registration No.

M E T R O A L L I A N C E H O L D I N G S & E Q U I T I E S C O R P . & S U B S I D I A R I E S

(Company's Full Name)

2 2 N D F L O O R C I T I B A N K T O W E R , 8 7 4 1 P A S E O D E R O X A S , M A K A T I C I T Y

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

Atty. Nestor S. Romulo
Contact Person

(632) 706-7888
Contact Telephone No.

1 2 3 1
Fiscal Year

1 7 - A
FORM TYPE

Any day in May
Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

1,035
Total No. of Stockholders

Total Amount of Borrowings

Domestic	Foreign
-	-

To be accomplished by SEC Personnel concerned

File Number

LCU

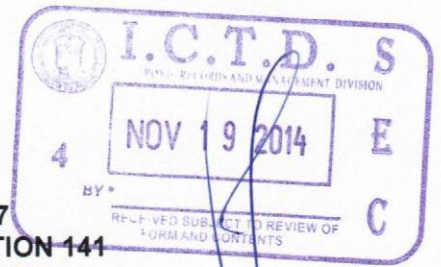
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S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A
ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended DECEMBER 31, 2007
2. SEC Identification Number 296 3. BIR Tax Identification No. 000-130-411
4. Exact name of issuer as specified in its charter
METRO ALLIANCE HOLDINGS & EQUITIES CORP.
5. PHILIPPINES 6. (SEC Use Only)
Province, Country or other jurisdiction of incorporation or organization Industry Classification Code:
7. 22nd FLOOR CITIBANK TOWER, 8741 PASEO DE ROXAS, MAKATI CITY 1226
Address of principal office Postal Code
8. (632)-706-7888
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 SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common – Class A	183,673,470
Common - Class B	122,448,979
Debt outstanding	884,865,229
11. Are any or all of these securities listed on a Stock Exchange.
Yes [x] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common – Class A
Common – Class B

12. Check whether the issuer:
 - (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 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 that the registrant was required to file such reports);
Yes [x] No []
 - (b) has been subject to such filing requirements for the past ninety (90) days.
Yes [X] No []
13. Aggregate market value of the voting stock held by non-affiliates:
Php283,997,334

PART I - BUSINESS AND GENERAL INFORMATION

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 ceased operations.

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

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

Status of Operation

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

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

Acquisition Transactions

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

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

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

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

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

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

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

On November 15, 2005, BPC and Polymax executed a Deed of Assignment whereby BPC transferred and conveyed to Polymax all its rights and interest to Polymax's 85

million shares of common stock, with a total value of US\$85 million, in exchange for the discharge of a portion of BPC's secured debt, which was acquired by Polymax from IFC, up to the extent of the value of the shares transferred. Polymax retired the said shares 10 days from the date the Deed of Assignment.

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

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

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

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

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

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

On December 31, 2006, the ARSPA Variation Agreement expired with the conditions subsequent remaining unsettled. Nevertheless NPCI and PCII took control of the

petrochemical plant resulting in a dispute with the Company and Polymax, which considered the sale of Polymax's 40% and 20% interest in the petrochemical plant to NPCI and PCII as null and void.

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

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

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

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

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

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

Business Development of the Subsidiaries:

GAC Logistics, Inc. (GACL) [Now Metro Combined Logistics Solutions, Inc. (MCLSI)]

GACL 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. GACL 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. GACL'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. MVC involves in chlor-alkali business. It basically manufactures chemicals for household applications such as caustic soda, hydrochloric acid, liquid chlorine and sodium hypochlorite.

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:

GACL

GACL 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 Johnson & Johnson (J & J), Phillip Morris Phils., Inc. (PMP), 3M Philippines, Interphil Laboratories, Inc. (ILI), and Zuellig Pharma Corporation (ZPC). Revenue contribution of each principal for the year 2007 is as follows:

Principal	Service Income (millions)	% to Total
J & J	43.02	36%
PMP	34.66	29%
ZPC	20.32	17%
3M	11.95	10%
ILI	9.55	8%
Total	119.50	100%

(ii) Export sales

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

(iii) Distribution Methods of the Products

GACL

The core of GACL 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

GACL

GACL is part of the GAC group. GAC is a leading international shipping services and transportation company, operating in the Middle East, Eastern Mediterranean, Ted 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 GACL at very competitive rates both domestically and around the region. GACL's main competitors include IDS Logistics, DHL-Exel, Shenker, Fast Services, Agility (formerly Geologistics) and Air 21. The quality of GACL's services compared to their competitors is extremely difficult to determine. However, the fact that GACL has been able to secure new contracts with new principals as well as 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, GACL.

(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, 2007):

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 14th month and 15th month bonuses and conversion of unused sick leaves, there are no other supplemental and incentive arrangements with its employees.

GACL

	<i>Rank and File</i>	<i>Supervisors</i>	<i>Managers and up</i>	<i>Total</i>
Operations	115	17	6	138
Administrative	2	1	2	5
Total	117	18	8	143

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.

GACL

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 GACL is normally discussed, supported and reimbursed.

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

(b) Additional Requirements as to Certain Issues or Issuers

Not Applicable

Item 2. Properties

Description of Property

Metro Alliance

Metro Alliance leases a 34 square meter office space located at 22nd Floor, Citibank Tower, Paseo de Roxas, Makati City at a monthly rental fee of P27,200 as of December 31, 2007. It currently 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 when it transferred last 2010. Amendment of the articles of incorporation for the change of official business address will be recommended for approval at the annual stockholders' meeting. Monthly net rental fee is P22,050. Lease contract is for two years starting April 2012 and renewable every two years.

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

GACL

GACL leases 26,801 square meters of warehouse space located in Tunasan, Muntinlupa for its principal. Lease expires on various dates up to August 1, 2008. The other warehouses for its other principals are either owned or leased by the respective principals. GACL also leases fice battery and electrical forklift models, and five electric reach truck model for its warehouses – Carmona, Cabuyao and Panorama – with total monthly rentals of P125,000 and P270,000, respectively. Lease term is on a monthly basis.

GACL sub-leases 80 square meters of office space at 7th Floor, F&M Lopez Building II, 109 Carlos Palanca St., Legaspi Village, Makati City, at a lease rental of P22,000 per month. Lease expires in September 2008. GACL previously leased 156.6 square meters of office space at Suite 2002, Alabang Business Tower, Madrigal Business Park, Muntinlupa City, at a lease rental of P35,000 per month.

GACL also entered into a finance lease agreements on various warehouse equipments used in providing its operations. Based from the terms of the agreements, ownership of the equipment shall be transferred to GACL after the lease term or after all relevant monthly fees have been monthly settled. Guarantee deposits and/or residual value of the leased equipment is equal to 10% of the unit price of the equipment.

Details of the finance lease are as follows:

Warehouse Equipment	Location	Monthly Lease (in Php)	Lease Term
KUAP Cartoon clamp (3 units)	Carmona, Cavite	25,665	December 1, 2006 to December 31, 2009
Shinko Forklift	Carmona, Cavite	34,808	September 1, 2003 to September 30, 2007
Yale Forklift	Carmona, Cavite	21,805	December 1, 2006 to December 31, 2009
Shinko Battery Operated Forklift (2 units)	Carmona, Cavite	76,992	December 1, 2006 to December 31, 2009
Shinko Battery Operated Forklift complete with attachments and accessories (2 units)	Panorama, Batangas	124,446	December 8, 2004 to December 31, 2008
Shinko Battery Operated Forklift complete with attachments and accessories (2 units)	Panorama, Batangas	121,254	March 31, 2005 to March 31, 2009

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

Item 3. Legal Proceedings

Metro Alliance

Metro Alliance

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

(CA), which likewise denied the appeal and upheld the assessment against the Parent Company. The Parent Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

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

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

Case Title : **Metro Alliance and Philippine Estate Corporation vs Philippine Trust Company, et al**

Factual basis : Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sales plus Damages

Name of Court : Regional Trial Court, Fourth Judicial Region, Branch 18, Tagaytay City

Status : On September 14, 2005, Metro Alliance and Philippine Estate Corporation filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, Annulment in Decrease in Interest Rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. Damages sought are P1,000,000 as and by way or exemplary damages and P500,000 as and by way of attorney's fees; litigation expenses and cost of suit. The case is now pending with the Regional Trial Court of Tagaytay City, Branch 18 0 SCA No. TG-05-2519.

The case stemmed from the imminent extra-judicial foreclosure of properties covered by Transfer Certificate of Title Nos. T-35522, T-35524 and T-35552 subject to the real Estate Mortgage executed by Metro Alliance and

Philippine Estate Corporation on the amount of P42,000,000 which amount was never received.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction. Management believes that the same will be made permanent by the RTC.

Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction and damages sought are P1,000,000 and other charges of P500,000.

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

Suspension of Registration of Securities

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

Revocation of Registration of Securities

After the hearing on the revocation of the registration held on November 21, 2008, the Company was allowed by CFD to file on December 5, 2008 its explanation. The Company explained that its inability to file its report was due to the refusal of its External Auditor, Sycip Gorres and Velayo ("SGV"), to give an unqualified opinion on the Company's financial statements. On June 25, 2009, the CFD issued Revocation Order. It was issued due to the Company's failure to comply with the Suspension Order, that is, it failed to file the reports and pay the penalties within sixty (60)

days from receipt of the Suspension Order. The records reveal that the Company filed the afore-said reports on August 12, 2008, which is well within the given sixty-day period for compliance with the Suspension Order. However, CFD deemed such reports as not filed considering that:

- a) 2006 Consolidated Audited Financial Statements of the Group which were attached to the 2006 Annual Report (SEC Form 17-A) contained a qualified opinion from the External Auditor in violation of SRC Rule 68.1(2) which requires an unqualified opinion, rendering the same deemed not filed; and
- b) Since the said 2006 Consolidated Audited Financial Statements of the Company has been deemed not filed, the succeeding reports such as the 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q) could not be properly accomplished, as a comparative presentation with duly accomplished 2006 Consolidated Audited Financial Statements is required.

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

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

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

The Company’s Appeal

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

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

Relief Sought : The Office of the General Accountant (“OGA”) commented that Company’s subject Audited Financial Statements should be considered as filed because, based on the foregoing, SGV’s failure to complete the audit is by reason of limitation of scope, not a deviation

from the generally accepted accounting principles as contemplated by SRC Rule 68.1(2). Further, such Audited Financial Statements contains sufficient disclosure on the legal issues on the acquisition transactions of the petrochemical plant.

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

However, the timeliness of the filing of the required reports is a totally different issue. The Commission en Banc directed the CFD to determine and impose, after proper proceedings, penalties against the Company for its late filing of its 2006 Annual Report (SEC Form 17-A) and 2007 1st, 2nd and 3rd Quarter Reports (SEC Form 17-Q). As of this report, final amount for all the penalties that accrue cannot be determined. The Company believes that it made provisions sufficient enough to cover the contingent liability.

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

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer’s Common Equity and Related Stockholder Matters

(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:

		Class A		Class B	
		High	Low	High	Low
2007	First Quarter	0.73	0.73	0.72	0.73
	Second Quarter	–	–	–	–
	Third Quarter	–	–	–	–
	Fourth Quarter	–	–	–	–
2006	First Quarter	0.38	0.23	0.40	0.38
	Second Quarter	0.54	0.54	0.42	0.40
	Third Quarter	0.39	0.40	0.38	0.38
	Fourth Quarter	0.49	0.49	0.36	0.36
2005	First Quarter	0.69	0.34	0.75	0.34
	Second Quarter	0.68	0.46	0.67	0.66
	Third Quarter	0.71	0.39	0.66	0.40
	Fourth Quarter	0.44	0.36	0.60	0.35

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

As observed, there are no high and sales prices for the last three quarters of 2007 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’).

(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 December 31, 2007, there are 632 holders of Class "A" shares and 403 holders of Class "B" shares.

Metro Alliance's Top 20 Stockholders as of December 31, 2007 are as follows:

	Stockholder's Name	Number of Shares		Percentage to Total
		Class A	Class B	
1	Creston Global Limited		56,378,388	18.42
2	PCD Nominee Corporation (Filipino)	16,190,768	27,999,320	14.44
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	PCD Nominee Corporation (Non-Filipino)		2,613,330	0.85
14	Kenstar Industrial Corp.	2,312,331		0.76
15	Nancy Saw		1,846,500	0.60
16	Tin Fu Or Trajano		820,000	0.27
17	CTBC TA#5-C184; Zuellig Corp.	684,829		0.22
18	UBP Capital Corporation	645,000		0.21
19	Rexlon T. Gatchalian	600,000		0.20
20	Victor Gan Sy	600,000		0.20
	Others	8,962,486	4,030,277	4.25
	Total	183,673,470	122,448,979	100.00

(3) Dividends

No dividends were declared by Metro Alliance in the last two fiscal years and in the interim period. There are no restrictions that limit the ability to pay dividends.

(4) Recent sales of unregistered or exempt securities

There are no recent sales of unregistered or exempt securities.

Item 6. Management's Discussion and Analysis or Plan of Operation

(1) Plan of Operation

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

The Group still holds 40% interest in the petrochemical plant as of December 31, 2007. The Board will discuss on their succeeding meetings on how best to proceed on this

investment. The Board will outline business target projects including possible investment in mining industry. MAHEC's remaining operating subsidiary, GAC, is steadily growing with additional businesses from its existing principals.

Projected Plan for the next 12 months:

- a) The Group will still outline its business target projects, including possible investment in the mining industry. The Group has three options, among others, to infuse capital to finance its project: a) increasing the authorized capital stock to Php3.0 billion thereby requiring new subscription of Php456 million shares of both classes by way of fresh cash by the company; b) offer rights issue at Php1 per share to fully subscribe the remaining 893,879,511 shares thus raise Php893,879,511; and (c) entry of new investor by way of capital infusion amounting to P893,879,511 thus diluting the existing shareholders by 75%.
- b) The Group does not expect significant changes in the number of employees as it still in the stage of exploring new business opportunities. Manpower will be outsourced if needed.
- c) The Group will make purchases of equipment and machineries in the future if needed especially when investment in mining industry will materialize.

(2) Management's Discussion and Analysis

a) Key Performance Indicators

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

Metro Alliance

Metro Alliance's key performance indicators include the following:

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

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

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

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

GACL

GACL's key performance indicators include the following:

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

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

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

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

Comparative analysis of GACL's key performance indicators follows:

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

CPDSI, FEZ-EAC, ZDI and AHI

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

Financial Highlights

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

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

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

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

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

CHANGES IN OPERATING RESULTS

2007 COMPARED TO 2006

Net Income and Earnings (Loss) Per Share

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

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

Sales and Services

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

Cost of Sales

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

Operating Expenses

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

Finance Cost

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

Other Income (Charges)

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

CHANGES IN FINANCIAL CONDITION

2007 COMPARED TO 2006

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

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

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

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

Assets

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

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

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

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

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

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

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

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

Available-for-sale-investments (AFS) amounted to P61.6 million in 2007 and P19.2 million in 2006. The AFS investments of the group consist of investments in shares of Mabuhay Vinyl Corporation (MVC), an entity that ceased to be a subsidiary in 2007, and others that are quoted in the local stock exchange as well as investments in unlisted shares. In 2007, shares of stock of the group in MVC totaling 59,254,263, representing 8.6% ownership interest in MVC, with a carrying value of P50,328,266, was transferred from investments in subsidiaries to AFS investments. The acquisition cost of P10.7 million at the end of 2006 includes P6.5 million pertaining to MVC which ceased to be a subsidiary in 2007.

Unrealized loss on AFS investments in 2007 amounted to P1,162,106 and unrealized gain amounted to P6,868,470 in 2006 and P1,620,600 in 2005. The carrying value of these investments include accumulated unrealized gains on AFS investments of P7.1 million and P8.5 million as of December 31, 2007 and 2006, respectively, which is deferred in equity section of the consolidated balance sheet. The cumulative fair value gains in equity at the end of 2006 of P8.5 million includes P254,789 pertaining to MVC which ceased to be a subsidiary in 2007.

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

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

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

Liabilities

Current Liabilities

Accounts payable and accrued expenses for the years 2007 and 2006 amounted to P389.3 million and P906.9 million, respectively. The decrease for year 2007 by P517.6 million or 57% is mainly due to accrued finance charges totaling P488.4 million relating to past due loans obtained jointly and severally with Polymax to finance the acquisition

by Polymax of 100% interest in NPCA which were transferred to and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead merely their legal forms. Trade payables decreased by P35.1 million due to sale of subsidiary (MVC) in 2007, which payables are no longer consolidated with that of the Group.

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

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

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

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

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

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

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

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

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

(i) Summary of Material Trends, Events and Uncertainties

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 P866.7 million, consisting of the outstanding principal balance of P378.3 million and finance charges of P488.4 million. In 2007 these past due liabilities were transferred to and applied against the advances made to Polymax.

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

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

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

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

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

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

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

On March 18, 2006, Polymax, NPCI, PIIC and the Company entered into an Agreement of Variation (March 2006 Variation Agreement) to vary and amend the terms of the Amended and Restated Share Purchase Agreement (ARSPA) and the Shareholders' Agreement entered on December 16, 2005. Under the March 2006

Variation Agreement, completion of the conditions and conditions subsequent set forth in the ARSPA was extended to April 30, 2006. Moreover, additional conditions that Polymax needs to satisfy prior to completion were agreed upon.

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

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

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

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

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

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

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

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

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

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

Legal cases

This has been discussed in detail in Item 3, Legal Proceedings, of this report.

(ii) 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.

(iii) 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.

(iv) 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.

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

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

(vi) 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.

(vii) 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.

(viii) 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.

Item 7. Financial Statements

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

Information on Independent Accountant and other Related Matters

(1) External Audit Fees and Services

- (a) Audit and related fees for Metro Alliance is P300,000 for years 2007, 2006 and in 2005 for expressing an opinion on the financial statements and assistance in preparing the annual income tax return. In addition, to bring to the attention of management, any deficiencies in internal control and detected misstatements and fraudulent or illegal acts.
- (b) Tax fees - there were no tax fees paid for the years 2007, 2006 and 2005.
- (c) Other fees – there were no other fees paid for the years 2007, 2006 and 2005.
- (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 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.

PART III– CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

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

There are seven (7) members of the Board, two (2) of whom are independent directors. The term of office of each director is one (1) year.

The current Directors and Executive Officers are as follows:

Name	Age	Citizenship	Position and Office
Renato B. Magadia	76	Filipino	Chairman of the Board and President
Kenneth T. Gatchalian	31	Filipino	Director and Treasurer
Elvira A. Ting	46	Filipino	Director
Lamberto B. Mercado, Jr.	42	Filipino	Director
Rogelio D. Garcia	70	Filipino	Independent Director
Ricardo M. Dela Torre	66	Filipino	Independent Director
Nestor S. Romulo	63	Filipino	Corporate Secretary
Weslie T. Gatchalian	27	Filipino	Executive Vice President

Business experience during the past five years and other directorships

Name	Corporation	Position
<p>Renato B. Magadia Chairman of the Board & President Filipino 76 years old Bachelor of Science in Business Administration University of the Philippines Certified Public Accountant -1960</p>	<p>Present: MAHEC MAHEC MAHEC Philippine Estate Corp. Waterfront Phils., Inc. CPDSI FEZ and ZDI Asia Healthcare, Inc. Acesite (Phils.) Hotel Corp. ZetaMark, Inc.</p> <p>Previous: The Zuellig Corporation Mabuhay Vinyl Corporation</p>	<p>Chairman of the Board since 1999 President since 2001 Director since 1998 Director Chairman of the Board/Director since 1999 Chairman of the Board since 1999 Chairman and President since 2004 Chairman of the Board, 2001-2003 Chairman and President, since 2004 Vice Chairman Chairman</p> <p>President & CEO, 1980-99 Chairman & CEO, 2001-2007</p>
<p>Kenneth T. Gatchalian Director and Treasurer Filipino 31 years old B.S. in Architecture University of Texas, USA</p>	<p>Present: MAHEC and CPDSI AHI, FEZ and ZDI Phil. Estates Corporation Mabuhay Vinyl Corp. GAC Logistics Forum Pacific, Inc. Express Savings Bank Wellex Industries, Inc. Waterfront Phils. Inc.</p> <p>Previous: Not employed prior to 2000</p>	<p>Director and Treasurer since 2002 Director, 2004 Executive Vice President & COO since 2000 Director 2003-2004 Director and Treasurer since 2002 Director since 2002 Director since 2002 Director since 2002 Vice Chairman since 2001</p>
<p>Elvira A.Ting Director Filipino 46 years old BSBA major in Management Phil. School of Business Administration</p>	<p>Present: MAHEC and CPDSI AHI, FEZ and ZDI GAC Logistics, Inc. Mabuhay Vinyl Corp. Phil. Estates Corporation Express Savings Bank Forum Pacific, Inc. Wellex Industries, Inc. Waterfront Phils., Inc.</p> <p>Previous: Air Philippines PCI Bank</p>	<p>Director since June 2002 Director and Treasurer, 2004 Director since 2002 Director since 2003 President and CEO Chairperson and Director Director since 1996 Director since 1999 Director since 1996</p> <p>Treasurer, 1996 Director, 1991-93</p>

<p>Lamberto B. Mercado, Jr. Director Filipino 42 years old Bachelor of Laws (L.L.B.) Ateneo de Manila University School of Law Lawyer – 1991</p>	<p>Present: MAHEC AHI, FEZ and ZDI Waterfront Phils., Inc. Forum Pacific, Inc. The Wellex Group, Inc. Previous: Subic Bay Metropolitan Authority</p>	<p>Director since 2003 Director, 2004 Director since 1999 Director since 1998 Vice President for Legal Deputy Administrator for Administration, 1997-98</p>
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<p>Ricardo M. Dela Torre Independent Director Filipino 66 years old Advanced Management Program – 1994 (Asian Institute of Management, Indonesia) Masters in Business Management – 1970 (Asian Institute of Management, Philippines) Bachelor of Science in Accounting – 1963 (ATeneo de Naga, Philippines) Certified Public Accountant - 1964</p>	<p>Present: Metro Alliance Holdings & Equities Corp. Previous: Banco de Oro BPI – Family Bank BPI – Family Bank BPI Card Corporation BPI/MS Insurance FGU Insurance Corporation Santiago Land Ford Credit Philippines Ford Credit Philippines Filiol Corporation</p>	<p>Independent director (since 2005) Consultant, Consumer Financing (July 2003-July 2005) Senior Vice President (1984- 2002) Director Director Director Director Director General Manager Sales and Distribution Manager Corporate Planning Manager</p>
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<p>Rogelio D. Garcia Director Filipino 70 years old Bachelor of Law (LLB) University of the Philippines 1961</p>	<p>Present: Metro Alliance Garco Pacific Consultants Wellex Industries, Inc. Forum Pacific, Inc. Previous: ConyBio Philippines, Inc. NIR Placement Center Inc.</p>	<p>Independent Director since 2003 Chief Executive Officer since 1993 Chairman/Director since 2005 Director since 2003 Chief Executive Officer, 1997-2000 Executive Consultant, 1998-2000</p>
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<p>Nestor S. Romulo Corporate Secretary Filipino 63 years old Bachelor of Laws (LLB) University of the Phils. Lawyer - 1971</p>	<p>Present: Metro Alliance Winbank (Savings Bank) Westmont Investment Corp Wincorp Securities Romulo, Serrano and Camello Law Offices Reyno, Tiu, Domingo and Santos Law Offices Previous: EPCIB PCIB</p>	<p>Corporate Secretary since February 2004 Chairman of the Board Chairman of the Board Director Partner Consultant Consultant, 1999-2000 VP and Head, Legal Services Group, 1995-1999</p>
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<p>Weslie T. Gatchalian 27, Filipino BA Honours Degree/DipHE Business and Operations Management Oxford Brookes University, U.K.</p>	<p>Present NPC Alliance Corporation Metro Alliance Mabuhay Vinyl Corporation The Wellex Group of Companies Wellex Industries, Inc Forum Pacific, Inc. Westlink Global Equities Corp. Previous Waterfront Hotels and Casinos PCI bank Westlink Global Equities</p>	<p>Director (since 2005) Executive Vice President (since 2005) Assistant Vice President (2004-2005) Director (since 2005) Vice President for Investments and Foreign Affairs Director Director Assistant Vice President Sales and Marketing (2002 – 2003) Leasing and Finance (2001) Trainee (1999-2000)</p>
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(2) Significant Employees

There are no other employees other than the officers mentioned in the preceding subsection who are expected to make significant contribution to the business.

(3) Family Relationships

With the exception of the (a) aunt-nephew relationship between Elvira A. Ting and Kenneth T. Gatchalian, and (b) aunt-nephew relationship between Elvira A. Ting and Weslie T. Gatchalian, 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 Metro Alliance to become directors, or executive officers.

(4) Involvement in Certain Legal Proceedings

To the knowledge and/or information of Metro Alliance, none of the directors/nominees and officers were involved during the past five (5) years in any bankruptcy proceedings. Neither have they been convicted by final judgment in any criminal proceeding, or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in an action by any court or administrative bodies to have violated a securities and commodities law.

Item 10. Executive Compensation

(1) Summary Compensation Table – Annual Compensation

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 2007. As observed, there was no compensation, in any form, to all Directors and key officers for the previous years due to the Company's tight cash position resulting from the trading suspension from PSE and subsidiaries that have ceased operations.

(a) Summary Compensation Table – Annual Compensation

Name and Principal Position	Year	Salary	Bonus	Other compensation
1 Renato B. Magadia Chairman of the Board and President	2008	-	-	-
	2007	-	-	-
	2006	-	-	6,040,000
2 Kenneth T. Gatchalian Treasurer	2008	-	-	40,000
	2007	-	-	40,000
	2006	-	-	40,000
3 Nestor S. Romulo Corporate Secretary and Legal Counsel (elected February 2004) Legal Counsel	2008	-	-	600,000
	2007	-	-	600,000
	2006	-	-	600,000
4 Other directors	2008	-	-	200,000
	2007	-	-	200,000
	2006	-	-	200,000
All directors and Officers as a Group unnamed	2008	-	-	840,000
	2007	-	-	840,000
	2006	-	-	6,840,000

(2) Compensation of Directors

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

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

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

(4) Warrants and Options Outstanding: Repricing

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2007, Metro Alliance knows of no one who beneficially owns in excess of 5% of the its common stock except as set forth in the table below.

Title of Class	Name, address of Record owner and Relationship with issuer	Name of Beneficial Owner* and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common Shares – Class B	Creston Global Limited C/o #9 Cardinal St., St. Dominic Subd., Bahay Toro, Congressional Ave, Quezon City (1 st major stockholder)	John Torres – Authorized signatory (Designated representative)	British	56,378,388	18.42%
Common Shares – Class A 16,190,768 Class B 26,779,182	PCD Nominee Corp. 37F Tower 1, The Enterprise Center, 6766 Ayala Avenue cor. Paseo De Roxas, Makati City (2 nd major stockholder)	PCD Participants and their clients (see Schedule A)	Filipino	42,969,950	14.04%
Common Shares – Class A	Chesa Holdings, Inc. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (3 rd major stockholder)	Perlie Alpuerto – Corporate Treasurer (Designated representative)	Filipino	40,500,000	13.23%
Common Shares – Class A	Pacific Wide Realty & Development Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (4 th major stockholder)	Chona Chua – Corporate Treasurer (Designated representative)	Filipino	31,498,000	10.29%
Common Shares – Class A 14,442,356 Class B 13,432,644	Forum Holdings Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (5 th major stockholder)	Ellen T. Balunsat Corporate Treasurer (Designated representative)	Filipino	27,875,000	9.11%
Common Shares – Class A	Misons Industrial and Development Corp. Unit 2002 20 th Antel 2000 Corporate Center 121 Valero St., Salcedo Village, Makati City (6 th major stockholder)	Renato B. Magadia	Filipino	22,000,000	7.19%
Common Shares – Class A 6,329,500 Class B 9,503,908	Pacific Concorde Corp. Unit 401 Joy Bldg., Brgy. Balingasa, Quezon City (7 th major stockholder)	Irene F. San Roque Corporate Treasurer (Designated representative)	Filipino	15,833,408	5.17%

* Person designated to exercise investment power over the equity

(2) Security Ownership of Management

As of December 31, 2007, the security ownership of individual directors, executive officers and nominees of Metro Alliance 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	Weslie T. Gatchalian	1,000 / Direct	Filipino	0.000
Common—Class A	Kenneth T. Gatchalian	100 / Direct	Filipino	0.000
Common—Class A	Elvira A. Ting	100 / Direct	Filipino	0.000
Common—Class A	Lamberto B. Mercado, Jr.	1 / Direct	Filipino	0.000
Common—Class A	Rogelio D. Garcia	1 / Direct	Filipino	0.000
Common—Class A	Ricardo M. Dela Torre	1 / Direct	Filipino	0.000
	Nestor S. Romulo	0		
Total		126,213		

(3) Voting Trust Holders of 5% Or More

There are no voting trust holders of 5% or more.

(4) Changes in Control

There is no change in control of Metro Alliance and there is no arrangement which may result in change in control.

Item 12. Certain Relationships and Related Transactions

(1) Metro Alliance significant transactions with related parties include the following:

- a. Past due bank loans and accrued interest totaling ₱866.7 million, which were obtained to partially finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred to and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead of merely their legal forms.
- b. Metro Alliance and Mr. Renato B. Magadia, a stockholder/director, have entered into a Management Consultancy Agreement for an initial period of five years up to March 31, 2004, whereby Metro Alliance pays the amount mutually agreed upon based on the nature of services rendered. On April 1, 2004, a new agreement was signed for an indefinite term until terminated by either party by giving six months prior written notice. Management fees charged to operations amounted to P6 million annually from 2004. In 2007, the management agreement was terminated and the unpaid management fee as of December 31, 2006 totaling P16.1 million (included under accounts payable and accrued expenses) was waived and extinguished by the stockholder.
- c. Past due bank loans and accrued interest totaling ₱866.7 million, which were obtained to partially finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred to and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions instead of merely their legal forms.
- d. MVC, an entity that ceased to be a subsidiary in 2007, purchased inventories from Mitsubishi, one of its stockholders, based on agreed commercial terms and conditions. Total purchases from Mitsubishi amounted to ₱350.7 million in 2006. As of December 31, 2006, MVC has no outstanding trade payable to Mitsubishi.

- e. The secured loans of ₱27 million as of December 31, 2007 was obtained from MVC, an entity that ceased to be a subsidiary in 2007, and collateralized by 27 million shares of the Metro Alliance in MVC as discussed in Note 18.
- f. Payables for shared operating expenses
- GAC, an operating subsidiary, is billed by a stockholder and an affiliate for its share in marketing and information technology services. Total expense included in other expenses (Note 23) amounted to ₱1,273,176 in 2007, ₱ 1,919,789 in 2006 and ₱1,636,349 in 2005. The outstanding payable (included in due to related parties) amounted to ₱1,061,297 and ₱ 1,821,107 as of December 31, 2007 and 2006, respectively.
 - Starting in 2006, GAC Shipping & Cargo Systems (Phils.), Inc, an affiliate, bills GAC, an operating subsidiary, for share in the lease of office space, accounting services, and other office expenses. Total charges (included in rent and utilities and other expenses) amounted to ₱1,917,758 in 2007 and ₱303,412 in 2006 (Notes 22 and 23). GAC has outstanding payable of ₱ 509,035 and ₱127,542 as of December 31, 2007 and 2006, respectively, included under due to related parties.
 - Accounts with related parties
The outstanding balances pertaining to the Group's transactions with related parties follow:

	Increase (Decrease)		2007	2006
	%	Amount		
<i>Asset Held For Sale</i>				
Advances to Polymax (special purpose entity)	54.52%	(1,081,634,650)	902,232,308	1,983,866,958
<i>Due to related parties (under common control)</i>				
Waterfront Philippines, Inc. (WPI)	3.67%	10,738,587	303,497,205	292,758,618
Acesite (Phils.) Hotel Corporation	39.27%	1,683,693	5,971,374	4,287,681
Philippine Estates Corporation	(100.00%)	(13,487,612)	–	13,487,612
Stockholders	(0.41%)	(757,854)	182,817,193	183,575,047
Others	(57.75%)	(193,280)	141,432	334,712
<i>Accrued Finance Charges</i>				
Waterfront Philippines, Inc. (WPI)	100.00%	23,104,804	23,104,804	–
Mabuhay Vinyl Corp. (MVC)	100.00%	401,500	401,500	–
Others	(100.00%)	(946,880)	–	946,880
<i>Loan Payable</i>				
MVC	(22.86%)	(8,000,000)	27,000,000	35,000,000

(2) Transactions with promoters

Metro Alliance and its subsidiaries have no transaction with promoters.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

- (a) Metro Alliance’s Compliance Officer is mandated to monitor the compliance to all concerned the provisions and requirements of the Manual on Corporate Governance. 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). The Compliance Officer, on January 12, 2008, certified the level of Metro Alliance’s compliance with its 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 2007 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.

PART V – EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Financial Statements

- Statement of Management’s Responsibility for Financial Statements
- Report of Independent Public Accountant
- Balance Sheets as of December 31, 2007 and 2006
- Statements of Income for each of the three years ended December 31, 2007, 2006, and 2005
- Statements of Changes in Equity for each of the three years ended December 31, 2007, 2006 and 2005
- Statements of Cash Flows for each the three years ended December 31, 2007, 2006 and 2005
- Notes to Financial Statements

Supplementary Schedules

Report of Independent Public Accountants on Supplementary Schedules:

- Financial Soundness
- Map of Conglomerate or Group of Companies Within Which the Company Belongs (Not Applicable)
- Standards and Interpretations Effective For Annual Periods Beginning January 1, 2007
- Financial Assets
- Amounts Receivable from Directors, Officers, Employees, Related Parties

- and Principal Stockholders (Other than Related Parties)
- Amounts Receivable From Related Parties Which Are Eliminated During the Consolidation of Financial Statements
- Indebtedness of Unconsolidated Subsidiaries and Affiliates
- Intangible Assets - Other Assets
- Long-term Debt
- Indebtedness to Affiliates and Related Parties (Long-Term Loans from Related Companies)
- Guarantees of Securities of Other Issuers
- Capital Stock

(b) Reports on SEC Form 17- C filed during the year 2007:

Report Date: April 20, 2007

Postponement of the Annual Stockholders' meeting (ASM), which per its Amended By-Laws should be held on any business day in May 2007 to September 21, 2007 at 2:00 in the afternoon at Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The record date for determining the stockholders entitled to notice of, and to vote at, such meeting is on August 17, 2007. The Board of Directors was compelled to postpone the Annual Meeting of Stockholders because of the preparations and requirements to be complied with such as, but not limited to, printing of the Annual Report and the Information Statement, which are justifiable and valid reason.

Report Date: August 17, 2007

Postponement of the Annual Stockholders' meeting (ASM), which was previously scheduled on September 21, 2007 to November 9, 2007 at 2:00 in the afternoon at Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The record date for determining the stockholders entitled to notice of, and to vote at, such meeting has been reset from August 17, 2007 to October 5, 2007. The Board of Directors was compelled to postpone the Annual Meeting of Stockholders because of the preparations and requirements to be complied with such as, but not limited to, printing of the Annual Report and the Information Statement, which are justifiable and valid reason.

Report Date: September 28, 2007

Postponement of the Annual Stockholders' meeting (ASM), which was previously scheduled on November 9, 2007 to December 14, 2007 at 2:00 in the afternoon at Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The record date for determining the stockholders entitled to notice of, and to vote at, such meeting has been reset from October 5, 2007 to November 9, 2007. The Board of Directors was compelled to postpone the Annual Meeting of Stockholders because of the preparations and requirements to be complied with such as, but not limited to, printing of the Annual Report and the Information Statement, which are justifiable and valid reason.

Report Date: November 9, 2007

Postponement of the Annual Stockholders' meeting (ASM), which was previously scheduled on December 14, 2007 to January 18, 2008 at 2:00 in the afternoon at Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The record date for determining the stockholders entitled to notice of, and to vote at, such meeting has been reset from November 9, 2007 to December 14, 2007. The Board of Directors was compelled to postpone the Annual Meeting of Stockholders because of the preparations and requirements to be complied with such as, but not limited to, printing of the Annual Report and the Information Statement, which are justifiable and valid reason.

Report Date: December 13, 2007

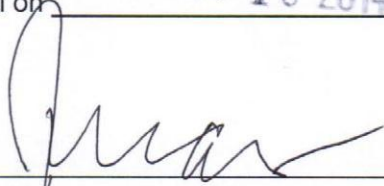
Postponement of the Annual Stockholders' meeting (ASM), which was previously scheduled on January 18, 2008 to February 29, 2008 at 2:00 in the afternoon at Top of the Citi, 34th Floor Citibank Tower, 8741 Paseo De Roxas, Makati City. The record date for determining the stockholders entitled to notice of, and to vote at, such meeting has been reset from December 14, 2007 to January 31, 2008. The Board of Directors was compelled to postpone the Annual Meeting of Stockholders because of the preparations and requirements to be complied with such as, but not limited to, printing of the Annual Report and the Information Statement, which are justifiable and valid reason.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on NOV 18 2014.

Pursuant to the requirements of Section 17 of the Securities Regulation Code and Section 141 of the Corporation Code of the Philippines, the registrant has duly caused this report to be signed on behalf by the undersigned, thereunto duly authorized, in the City of Makati on NOV 18 2014.

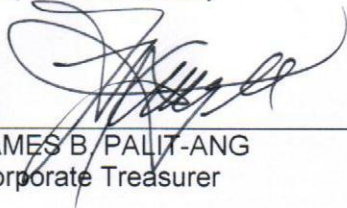
By:



RENATO B. MAGADIA
Chairman of the Board and President
(Principal Executive and Operating Officer)



NESTOR S. ROMULO
Corporate Secretary



JAMES B. PALIT-ANG
Corporate Treasurer

SUBSCRIBED AND SWORN to before me this NOV 18 2014 day of _____, affiants exhibiting to me their Tax Identification No. as follows:

AFFIANTS

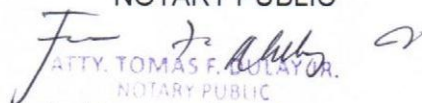
Renato B. Magadia
Nestor S. Romulo
James Palit-Ang

TAX IDENTIFICATION NO.

100-942-390
107-200-723
151-671-333

Doc. No. 148
Page No. 29
Book No. 294
Series of 1000

NOTARY PUBLIC


ATTY. TOMAS F. COLAYOR,
NOTARY PUBLIC
Until December 31, 2014
Agricultural Dept. #. NP-061-2014-2015
PTR# 904238301-02/01-07-14 Q.C.
ID# 915073-CY-2014 Q.C.
Reg. No. 16583/03/13-61
TIN# 910225916
Add. 92 Legaspi St. Proj. 4 Q.C.
MICLE EXEMPTED # 000838

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

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

AND

INDEPENDENT AUDITOR'S REPORT

COVER SHEET

0 0 0 0 0 0 0 2 9 6

SEC Registration No.

M E T R O A L L I A N C E H O L D I N G S & E Q U I T I E S C O R P . & S U B S I D I A R I E S

(Company's Full Name)

2 2 N D F L O O R C I T I B A N K T O W E R , 8 7 4 1 P A S E O D E R O X A S , M A K A T I C I T Y

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

Atty. Nestor S. Romulo

Contact Person

(632) 706-7888

Contact Telephone No.

1 2 3 1

Fiscal Year

A C F S - 0 7

FORM TYPE

Any day in May

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

841

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign -

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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

Emphasis of a Matter

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

Other Matter

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

UY SINGSON ABELLA & CO.

Ma. Milagros F. Padernal

MA. MILAGROS F. PADERNAL

Partner

CPA Certificate No. 28591

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

June 21, 2012, valid until June 20, 2015

Tax Identification No. 119-768-075

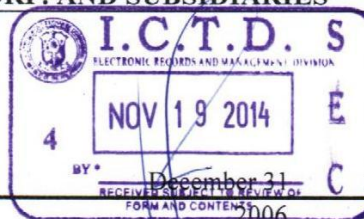
BIR Accreditation No. 07-000140-1-2013,

November 25, 2013, valid until November 24, 2016

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

October 10, 2014

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



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

(Forward)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

See accompanying Notes to Consolidated Financial Statements.

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

	Notes	2007	2006 (As restated - see Note 5)	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before income tax and after discontinued operation		(₱297,841,159)	(₱1,805,172,040)	(₱452,542,970)
Adjustments for:				
Interest expense	17, 18	46,372,463	205,208,514	191,164,014
Depreciation	22, 23	5,130,728	101,256,555	99,134,285
Interest income	8	(5,703,643)	(13,106,018)	(21,660,026)
Dividends		(431,384)	(471,503)	—
Unrealized foreign exchange gain		(92,823)	(57,538,060)	(14,393,193)
Loss on discontinued operation	11	—	1,647,170,950	13,357,753
Amortization of deferred lease payment	26	154,411	136,332	128,712
Gain on sale of available-for-sale investments		—	(3,538,420)	—
Decrease (increase) in:				
Receivables		(24,093,669)	(287,723,811)	(64,071,257)
Other current assets		4,252,850	(518,147,216)	(4,166,561)
Inventories		—	44,298,954	(89,146,117)
Pension assets		—	(528,737)	—
Restricted cash		—	700	(27,572,280)
Increase (decrease) in:				
Accounts payable and accrued expenses		9,865,132	988,150,528	291,487,224
Liabilities under trust receipts		—	(80,349,992)	17,059,640
Accrued retirement benefits costs		382,475	1,326,046	(4,005,938)
Income taxes paid		(7,869,419)	(17,296,140)	(42,184,989)
Dividends received		9,246,184	15,141,333	—
Net cash flows provided by (used in) operating activities		(260,627,854)	218,817,975	(107,411,703)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net asset of special purpose entity no longer included in consolidation	11	471,467,885	—	—
Interest received		5,685,970	3,963,958	4,824,573
Decrease (increase) in other noncurrent assets	15	1,137,578	526,848	(188,995)
Dividends		431,384	471,503	—
Acquisitions of:				
Available-for-sale investments	12	(50,328,266)	—	—
Asset held for sale	11	(23,439,201)	—	—
Property and equipment	13	(315,471)	(19,292,574)	(74,052,157)
Proceeds from sale of available-for-sale investments		—	3,676,042	—
Disposal of property and equipment		—	1,000	733,521
Net cash flows provided by (used in) investing activities		404,639,879	(10,653,223)	(68,683,058)

(Forward)

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

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

See accompanying Notes to Consolidated Financial Statements.

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

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

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

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

See accompanying Notes to Consolidated Financial Statements.

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

1. Reporting Entity

Corporate Information

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

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

Approval of Financial Statements

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

2. Status of Operations

Going Concern

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

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

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

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

Acquisition Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. **Summary of Significant Accounting Policies**

Statement of Compliance

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

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

Basis of Consolidation

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

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

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

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

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

Minority Interests

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

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standards and Interpretations Adopted in 2007

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

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

Future Changes in Accounting Policies

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

Effective 2009

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

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

Effective 2011

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

Effective 2013

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

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

- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

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

Annual Improvements to PFRSs (2009 - 2011 Cycle)

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

Effective 2014

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

Effective in 2015

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

Annual Improvements to PFRSs (2010 - 2012 Cycle)

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*. The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable

segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively.

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

Cash and Cash Equivalents

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

Financial Assets and Liabilities

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

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

Subsequent to initial recognition, the Group classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, AFS investments, FVPL financial assets and loans and receivables. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Determination of Fair Value. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the

price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

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

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

Financial Assets

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

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

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

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

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

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

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

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

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

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

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

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

Financial Liabilities

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

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

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

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

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

Derecognition of Financial Assets and Liabilities

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

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

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

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

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

Impairment of Financial Assets

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

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

Classification of Financial Instruments between Debt and Equity

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

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

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

Offsetting Financial Instruments

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

Asset Held for Sale

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

Inventories

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

Property, Plant and Equipment

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

The initial cost of property, plant and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds used to finance the acquisition of property, plant and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligation specifically for property and equipment installed/constructed on the leased properties. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment.

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

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

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

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

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

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

Construction in Progress

Construction in progress represents plant expansion project under construction and is stated at cost, including cost of construction, machinery and equipment under installation and other related costs. Construction in progress is not depreciated until such time as the relevant assets are completed and ready for operational use. Interest costs on borrowings used to finance the construction of the project are accumulated under this account. Interest costs are capitalized until the project is completed and becomes operational. The capitalized interest is amortized over the estimated useful life of the related assets.

Asset Retirement Obligation

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

Impairment of Non-financial Asset with Definite Useful Life

The carrying value of equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and if the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell or value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate

the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

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

Revenue

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

Sale of Goods

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

Logistics and Other Services

Revenue is recognized when the related services are rendered.

Interest

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

Rental Income

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

Dividend Income

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

Expenses

Expenses are recognized as incurred.

Leases

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

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

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

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

Borrowing Costs

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

Retirement Benefits Costs

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

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

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

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

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

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

Foreign Currency Transactions and Translations

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

Income Tax

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

Current Tax

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

Deferred Tax

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

Related Parties

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

Earnings Per Share

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

Segments

The Group's operating businesses are recognized and managed separately according to the nature of the products and services provided, with each segment representing a strategic

business unit that offers different products and serve different markets. Financial information on business segments are presented in Note 6.

Provisions

Provisions are recognized only when the Group has (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

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

Events After the End of Reporting Period

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

4. Critical Accounting Estimates and Judgments

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

Judgments

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

Consolidation of SPE

An entity is considered a SPE and included in consolidation even in cases when the Parent Company owns less than one-half or none of the SPE's equity, when the substance of the relationship between the Parent Company and the SPE indicates that the SPE is controlled

by the Parent Company. While the Parent Company has no ownership interest in Polymax, this SPE was included in the 2006 and 2005 consolidated financial statements. Starting in 2007, the SPE was no longer consolidated because it has ceased operating as a going concern (see Note 11).

Operating Lease Commitments – Group as Lessee

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

Finance Lease Commitments – GAC as Lessee

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

Contingencies

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

Estimates and Assumptions

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

Estimating Allowance for Probable Losses

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

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

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

The carrying amount of other current assets amounted to ₱7.8 million and ₱32.8 million as of December 31, 2007 and 2006, respectively, as discussed in Note 10. Allowance on probable losses, mainly pertaining to creditable withholding and input taxes, amounted to ₱16.2 million and ₱7.7 million as of December 31, 2007 and 2006, respectively, as shown also in Note 10.

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

Estimating Allowance for Inventory Obsolescence

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

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

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

Evaluation of Impairment of Noncurrent Nonfinancial Assets

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

Asset Retirement Obligation

Property, plant and equipment in 2006 include the estimated cost of dismantlement and restoration of depot facilities, for which MVC is liable. The estimated dismantling cost was based on a recent cost to dismantle facilities in North Harbor and estimated incremental annual cost up to the end of the lease term. The estimated dismantling cost was discounted using the prevailing market rate at the inception of the lease for an instrument with a term similar to the term of the lease. Asset retirement obligation amounted to ₱0.609 million as of December 31, 2006 (see Note 19).

Fair Value of Financial Assets and Liabilities

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

Impairment of AFS Investments

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

Deferred Tax Assets

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

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

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

Retirement Benefits

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

The Group’s unrecognized net actuarial losses amounted to ₱0.9 million and ₱20.1 million as of December 31, 2007 and 2006, respectively. The accrued retirement benefits costs amounted to ₱0.8 million and ₱3.1 million as of December 31, 2007 and 2006, respectively (see Note 25).

5. Restatement of the 2006 Consolidated Financial Statements

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

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

The 2006 accounts affected by the restatement are as follows:

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

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

6. Segment Information

The Group's business activities are conducted in the Philippines and it is primarily in the contract logistics and supply chain management segment in 2007. The Group has previously divested majority of its interest in chemical manufacturing and in the petrochemical industry.

Segment Assets and Liabilities

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

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

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

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

7. Cash and Cash Equivalents

Details of this account are as follows:

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

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

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

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

8. Receivables

The details of receivables are as follows:

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

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

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

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

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

9. Inventories

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

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

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

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

10. Other Current Assets

Details of this account are as follows:

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

11. Assets Held for Sale

Asset held for sale at December 31, 2007 amounting to ₱902,232,308, which constitutes 85% of the Group's total assets as of December 31, 2007, represents advances to Polymax, the Parent Company's special purpose entity incorporated in

British Virgin Islands solely for the purpose of acquiring the petrochemical plant of NPCA as discussed in Note 2.

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

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

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

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

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

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

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

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

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

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

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

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

12. Available-for-sale Investments

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

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

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

Unrealized loss on AFS investments in 2007 amounted to ₱1,162,106 and unrealized gain amounted to ₱6,868,470 in 2006 and ₱1,620,600 in 2005. The carrying value of these investments include accumulated unrealized gains on AFS

investments of ₱7.1 million and ₱8.5 million as of December 31, 2007 and 2006, respectively, which is deferred in equity section of the consolidated balance sheet. The cumulative fair value gains in equity at the end of 2006 of ₱8.5 million includes ₱254,789 pertaining to MVC which ceased to be a subsidiary in 2007.

13. Property, Plant and Equipment - At Cost

Details of this account are as follow:

2007

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

2006

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

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

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

14. Property, Plant and Equipment – At Revalued Amounts

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

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

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

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

15. Other Noncurrent Assets

Details of this account are as follows:

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

16. Accounts Payable and Accrued Expenses

Details of this account are shown below.

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

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

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

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

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

Other liabilities mainly pertain to payable to government agencies.

17. Long-term Debt

Details of this account are shown below.

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

a. The loan with an original principal of ₱0.9 million was obtained by the Parent Company to finance the acquisition of a transportation equipment. The loan is secured by a chattel mortgage over the said transportation equipment included under office furniture, fixture and equipment account in Note 13, with a carrying value of ₱363,636 and ₱654,545 as of December 31, 2007 and 2006, respectively.

b. In 2003, the Parent Company converted the remaining balance of a ₱200 million unsecured short-term loan in 2002 into the secured three and a half-year loan. The loan is secured by a Deed of Chattel Mortgage over 264,536,654 MVC shares of stock owned by the Parent Company.

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

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

The loan agreement provides for certain restrictions, with respect to, among others, change in ownership structure, merger and disposition of assets, encumbrance of assets, incurrence debt, maintenance of certain financial ratios,

declaration and payment of cash dividends and management bonus and the sale of MVC shares mortgaged to the bank.

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

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

18. Loans Payable

The loans payable as of December 31 are as follows:

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

Obtained for Operations

- a. Loan payable of ₱27 million as of December 31, 2007 pertains to the remaining balance of the Parent Company's loan obligations from MVC, an entity that ceased to be a subsidiary in 2007, which is the subject of a Memorandum of Agreement (MOA) executed by the parties on January 28, 2005. The MOA provides, among others, that the Parent Company's 36 million MVC shares of stock shall be assigned or transferred to MVC in payment of the Parent Company's loan obligations to MVC amounting to ₱39.4 million, inclusive of interest. By virtue of a Dacion en Pago executed by the Parent Company and MVC in 2006, the Parent Company assigned, transferred and conveyed its rights, interest and participation to 9 million shares in favor of MVC in partial payment of the Parent Company's loans and interest. Subsequently on January 29, 2010, the Parent Company and MVC executed a Deed of Assignment with respect to these remaining 27 million shares (presented as AFS investments in Note 12) as full payment of the ₱27.4 million outstanding obligations (inclusive of interest) of the Parent Company. The balance of this loan amounting to ₱27 million as of December 31, 2006 was eliminated in the 2006 consolidated balance sheet.
- b. The unsecured loans from a local bank amounting to ₱35 million also have a provision for penalties in case of default in payment. An additional amount equivalent to 2% per month or a fraction of a month of the amount due, but in no case less than ₱10,000, until fully paid shall be charged to the Parent Company as liquidating damages. If the loans are referred to an attorney-at-law or collection agency for collection, the further sum of 15% of the total amount due, but in no case less than ₱10,000, exclusive of costs and other judicial or extra judicial expenses, shall also be charged. On December 6, 2005, these unsecured loans were sold by the creditor bank to an SPV company. In 2007, the loan and the related interest thereon totaling ₱52.9 million were reclassified to the accrued expenses account.
- c. The unsecured loan from a local bank amounting to ₱18 million was obtained by MVC, an entity that ceased to be a subsidiary in 2007.

Related to Acquisition of Petrochemical Plant

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

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

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

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

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

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

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

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

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

19. Asset Retirement Obligation

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

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

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

20. Related Party Transactions

Significant transactions with related parties include the following:

a. Past due bank loans and accrued interest

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

b. Management consultancy agreement

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

c. Advances to and from related parties

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

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

d. Purchases from Mitsubishi Corporation

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

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

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

f. Payables for shared operating expenses

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

g. Compensation of key management personnel follows:

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

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for

such benefits to which they may be entitled under the respective entity's retirement plan.

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

	2007	2006
Asset Held For Sale		
Advances to Polymax (special purpose entity) (Note 11)	₱902,232,308	₱ –
Due from Related Party (Note 8)		
WPI	₱ –	₱27,354,337
Due to Related Parties		
<i>Under Common Control</i>		
Waterfront Philippines, Inc. (WPI)	₱303,497,205	₱292,758,618
Acesite (Phils.) Hotel Corporation	5,971,374	4,287,681
Philippine Estate Corporation (PEC)	–	13,487,612
<i>Stockholders</i>	182,308,158	183,447,505
<i>Others</i>	650,467	462,254
	₱492,427,204	₱494,443,670
Accrued Finance Charges (Note 16)		
WPI	₱23,104,804	₱ –
MVC	401,500	–
Other	–	946,880
	₱23,506,304	₱946,880
Dividends payable (Note 18a)		
MVC	₱27,000,000	₱ –

21. Capital Stock

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

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

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

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

22. Cost of Sales and Services

Details of this account are shown below.

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

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

23. Expenses

Details of this account are shown below.

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

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

24. Income Taxes

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

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

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

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

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

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

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

Deferred tax liabilities:

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

Deferred tax assets:

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

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

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

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

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

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

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

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

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

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

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

25. Retirement Benefits Costs

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

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

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

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

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

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

Changes in present value of retirement obligation are as follows:

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

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

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

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

The major categories of plan assets are as follows:

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

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

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

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

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

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

26. Leases

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

Future minimum rental commitments under these operating lease agreements follow:

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

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

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

27. Logistics Agreements

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

28. Basic Loss Per Share

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

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

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

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

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

29. Financial Assets and Financial Liabilities

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

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

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

Current Financial Assets and Financial Liabilities

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

AFS Investments

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

Long-term Debt

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

Refundable Deposits and Obligation under Finance Lease

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

Customer Deposits

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

30. Financial Risk Management Objectives and Policies

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

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

Interest Rate Risk

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

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

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

	2007	2006
Within 1 year	₱27,070,000	₱740,834,819
1 - 2 years	–	18,820,000
	₱27,070,000	₱759,654,819

Liquidity Risk

The Group's objective is to maintain a balance between flexibility and continuity of funding. However, because of the default on the payment of interest and principal amortizations on existing debts, the Group's access to funds has been limited to those of its related parties in the form of advances. Current working capital requirements will continue to be sourced from short-term loans and advances from related parties.

Credit Risk

It is the Group's policy to require all concerned affiliates and/or third party to comply and undergo a credit verification process with emphasis on their capacity, character and willingness to pay. In addition, receivables are closely monitored so that exposure to bad debts is minimized. The Group deals only with legitimate parties. As to other financial assets of the Group like cash and cash equivalents, the credit risk arises only in case of default of the counterparty and the maximum exposure is limited to the carrying amount of the instruments. Money market placements are limited to banks duly approved by the BOD.

Financial information on the Parent Company's maximum exposure to credit risk as of

December 31, 2007, without considering the effects of collaterals and other risk mitigation techniques, are presented below.

	2007	2006
Cash and cash equivalents	₱19,745,539	₱120,911,209
Receivables	63,866,681	858,900,208
Refundable deposits	3,609,059	4,452,934
	₱87,221,279	₱984,264,351

The table below present the credit quality of financial assets and analysis of past due accounts as of December 31, 2007.

Financial assets	High Grade	Past Due but not Impaired			Impaired Financial Assets	Allowance for Doubtful Accounts	Total
		Over 30 days	Over 60 days	Over 90 days			
Cash and cash equivalents	₱19,745,539	₱ –	₱ –	₱ –	₱ –	₱ –	₱19,745,539
Receivables:							
Trade	14,669,680	4,405,906	1,282,642	3,996,155	628,700	(628,700)	24,354,383
Notes		–	–	–	138,282,345	(138,282,345)	–
Interest		–	–	3,576,429	–	–	3,576,429
Others	231,832	–	–	35,704,037	1,270,598	(1,270,598)	35,935,869
Refundable deposits	3,609,059	–	–	–	–	–	3,609,059
	₱38,256,110	₱4,405,906	₱1,282,642	₱43,276,621	₱140,181,643	(₱140,181,643)	₱87,221,279

The credit quality of receivables is managed by the Group using internal credit quality ratings. High and medium grade accounts consist of receivables from debtors with good financial standing and with relatively low defaults. The Group constantly monitors the receivables from these customers in order to identify any adverse changes in credit quality. The allowance for doubtful accounts is provided for those receivables that have been identified as individually impaired.

Foreign Currency Risk

The exposure to foreign currency risk arises from purchases of finished goods and raw materials made by MVC, an entity that ceased to be a subsidiary in 2007. Purchase of finished goods is subject to an open account from foreign suppliers and is settled immediately through a peso trust receipts financing from a local bank once all the documentation requirements are complete.

31. Capital Management

The primary objectives of the Group's capital management are to safeguard the ability of the entities in the Group to continue as a going concern and to maintain the appropriate capital structure that supports the business. The Group manages its capital structure in light of changes in economic conditions and in close coordination with its major stockholders and other related parties by making adjustments on payments to its related parties and issuing new shares. The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Group's external environment and the risks underlying the Group's business, operation and industry. The Group is not subject to externally-imposed capital requirements.

The Group's interest bearing loans from third parties amounted to ₱29,736,528 and ₱765,005,681 as of December 31, 2007 and 2006, respectively, while the equity attributable to equity holders of the Parent Company less any reserves is shown in the following table.

	2007	2006
Capital stock	₱306,122,449	₱306,122,449
Additional paid-in capital	3,571,921	3,571,921
Excess of par value of retired treasury shares over cost	–	471,467,885
Deficit	(180,756,203)	189,924,452
	₱128,938,167	₱971,086,707

32. Notes to Consolidated Statements of Cash Flows

The principal non-cash financing and investing activities consist of:

- a. Settlement of advances obtained from affiliates, which were used to partially finance the Petrochemical Project, through the application of advances made to other affiliates;
- b. Loans payable to local banks amounting to ₱378.3 million and related accrued finance charges amounting to ₱488.4 million as of December 31, 2006

transferred to Polymax in 2007
(see Note 18);

- c. Loan payable to a local bank amounting to ₱35 million reclassified to the accrued expenses account in 2007 (see Note 18b);
- d. Reversal of accrued management fees recorded under accrued expenses in 2007 amounting to ₱16.1 million (see Note 20b);
- e. Accrued finance costs charged to Polymax (see Note 20); and
- f. Assignment of MVC shares to a local bank as full payment of a loan obligation (see Note 17).

33. Other Matters

- a. On July 5, 2002, the Parent Company received a decision from the Court of Tax Appeals (CTA) denying the Parent Company's Petition for Review and ordering the payment of P83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Parent Company filed a Motion for Reconsideration on July 31, 2002 but was subsequently denied by the CTA. A Petition for Review was filed with the CTA on November 8, 2002, which was also denied by the CTA. The Parent Company then appealed the decision of the CTA to the Court of Appeals. The Parent Company, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

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

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

- b. On September 14, 2005, the Parent Company and a third party filed a civil action against a local bank for the imminent extra-judicial foreclosure of the properties of the third party which are used as real estate mortgage for additional

loans from the local bank amounting to ₱42 million, which the Parent Company maintains has never been received.

On October 6, 2005, the Regional Trial Court of Tagaytay City (RTC) issued and granted the Writ of Preliminary Injunction (first injunction). As of, October 10, 2014, the case is still pending with the same court. Trial on the merits of the case has not been started as the Parent Company, through its counsel, filed an Amended Complaint with an Urgent Application for the Issuance of Writ of Preliminary Injunction after the first injunction was nullified by the Court of Appeals and affirmed by the SC. The Parent Company and its legal counsel are positive that the court will sustain their position.

- c. On January 23, 1998, MVC, an entity that is no longer a subsidiary in 2007, received assessment notices from the BIR for alleged deficiency withholding taxes on interest incurred on borrowings totaling ₱454.4 million, including basic surcharge and interest, for the taxable years 1998 and 1989.

On March 6, 1998, MVC likewise received pre-assessment notices for deficiency income taxes amounting to ₱322.6 million for the taxable years 1988 and 1989 resulting from disallowance of interest expenses for failure to withholding taxes.

On September 31, 1998, MVC filed a Petition for Review of the above assessments with the CTA.

On January 9, 2003, MVC received CTA's decision on the assessments, ordering MVC to pay the BIR an amount totaling ₱119.2 million representing deficiency withholding taxes on borrowings, including surcharge and interest for the taxable years 1988 and 1989 computed up to February 1998 until fully paid. The CTA also ruled that pre-assessment notices on deficiency income taxes are still premature and cannot be the subject of a decision as CTA may only assume jurisdiction if the assessment involves a decision of the BIR on a disputed assessment.

On January 24, 2003, MVC filed a Motion for Reconsideration (Motion) with the CTA appealing its position that (1) the right of the BIR to assess has already prescribed; (2) MVC is not liable to pay 50% surcharges on fraud as MVC was able to comply with the filing of necessary returns; and (3) MVC is not liable to pay the total amount of ₱119.2 million.

On November 17, 2003, the CTA issued a Resolution denying the Motion. MVC then responded with the filing of Petition for Review (Petition) with the CA on December 29, 2003. In the Petition, MVC reiterated the position it raised in the Motion filed with the CTA. The CA directed BIR to file its comments on the Petition with 10 days from the receipt thereof.

On February 4, 2005, the BIR submitted to the CA its motion to admit its comment contesting MVC's petition. The BIR further pleaded for dismissal of the Petition and for the court to render MVC liable to pay the withholding taxes. MVC, through its legal counsel, filed its opposition to the BIR's motion due to the belated filing. On December 23, 2005, the CA admitted the BIR's comment and directed the parties to submit their memoranda.

On January 30, 2006, MVC filed the memorandum for the petitioner and accordingly, on February 15, 2006, the CA resolved that the case is now submitted for decision. On June 29, 2007, MVC availed of the BIR's one-time abatement program and was allowed on September 11, 2007 to settle the ₱95.2 million adjusted assessment.

There are also other pending legal cases against the Parent Company and certain subsidiaries. Based on the facts of these cases, management of the Parent Company and the subsidiaries believes that their positions have legal merits and the resolution thereof will not materially affect their financial position and result of operations.

USA&Co

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CERTIFIED PUBLIC ACCOUNTANTS

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E-mail: info@usacpas.com.ph
Website: www.usacpas.com.ph

BOA/PRC Reg. No: 0384,
October 22, 2012, valid until December 31, 2015
SEC Accreditation No: 0005-FR-3 (Group A),
June 21, 2012, valid until June 20, 2015

**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Metro Alliance Holdings & Equities Corp. and its subsidiaries as at and for the year ended December 31, 2007 included in this Form 17-A and have issued our report thereon dated October 10, 2014. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

UY SINGSON ABELLA & CO.

Ma. Milagros F. Padernal

MA. MILAGROS F. PADERNAL

Partner

CPA Certificate No. 28591

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

June 21, 2012, valid until June 20, 2015

Tax Identification No. 119-768-075

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

November 25, 2013, valid until November 24, 2016

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

October 10, 2014

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
AS AT DECEMBER 31, 2007

I. Supplemental schedules required by Annex 68-E	
A. Financial assets	Attached
B. Amounts receivable from directors, officers, employees, related parties and principal stockholders (other than related parties)	Attached
C. Amounts of receivables and payable from/to related parties which are eliminated during consolidation process of financial statements	Attached
D. Intangible assets – other asset	Not applicable
E. Long-term debt	Attached
F. Indebtedness to related parties (Long-term loans from related parties)	Not applicable
G. Guarantees of securities of other issuers	Not applicable
H. Capital stock	Attached
II. Schedule of all the effective standards and interpretations	Attached
III. Reconciliation of retained earnings available for dividend declaration	Not applicable
IV. Map of the relationships of the Company within the Group	Attached
V. Schedule of Financial Ratios	Attached

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
I. SUPPLEMENTAL SCHEDULES REQUIRED BY ANNEX 68-E
AS AT DECEMBER 31, 2007

Schedule A. Financial Assets

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and rates	Amount shown in the balance sheet	Value based on market quotation at end of reporting period	Income received and accrued
Cash		₱ – ₱7,662,329	₱7,662,329	₱ –
Short-term Cash Investments		– ₱12,083,210	₱12,083,210	–
AFS Financial Assets				
Mabuhay Vinyl Corporation	–	₱46,298,873	₱46,298,873	–
Waterfront Philippines, Inc.	–	14,511,948	14,511,948	–
Others	–	772,892	772,892	–
	–	₱61,583,713	₱61,583,713	–

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

Name and designation of debtor	Balance at beginning of period	Amounts collected/transferred	Amounts written-off	Current	Non-current	Balance at end of period
Polymax Worldwide Limited (special purpose entity)	₱1,745,477,528	₱ 843,245,220	₱ –	₱902,232,308	₱ –	₱ – ₱902,232,308

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

Account	January 1, 2007	Additions	Deductions		Current	Non-Current	December 31, 2007
			Amount Collected	Amount Written Off			
Advances to Consumer Products Distribution Services, Inc.	₱3,691,811	₱ –	₱ –	₱ –	₱ –	₱ –	₱ – ₱3,691,811

Schedule D. Intangible Assets – Other Asset

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending balance
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Not Applicable

Schedule E. Long-term Debt

Title of issue	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long term debt" in related balance sheet
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Secured bank loan	₱900,000	₱70,000	₱ –
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Schedule F. Indebtedness to Related Parties (Long Term Loans from Related Parties)

Name of related party	Balance at beginning of period	Balance at end of period
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Not Applicable

Schedule G. Guarantees of Securities of Other Issuers

Name of issuing entity of securities guaranteed by the Company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
--	---	---	---	---------------------

Not Applicable

Schedule H. Capital Stock

Title of issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common - Class A	720,000,000	183,673,470	–	156,590,387	126,213	26,956,870
Common - Class B	480,000,000	122,448,979	–	85,139,552	21,999,902	15,309,525
	1,200,000,000	306,122,449	–	241,729,939	22,126,115	42,266,395

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

**II. SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS
AS AT DECEMBER 31, 2007**

The following table summarizes the effective standards and interpretations as at December 31, 2007:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS				
Effective as at December 31, 2007		Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 2	Share-based Payment			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendment to PFRS 7: Transition			✓
Philippine Accounting Standards				
PAS 1 (Revised)	Amendments to PAS 1: Capital Disclosures	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 28	Investments in Associates			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets			✓
	Financial Instruments: Recognition and Measurement	✓		
PAS 39	Amendments to PAS 39: Transition and Initial	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS			Not	Not
Effective as at December 31, 2007		Adopted	Adopted	Applicable
	Recognition of Financial Assets and Financial Liabilities			
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Cooperative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2 – Group and Treasury Share			✓
SIC 7	Introduction of the Euro			✓
SIC 10	Government Assistance – No Specific Relation to Operating Activities			✓
SIC 12	Consolidation – Special Purpose Entities			✓
	Amendment to SIC 12: Scope of SIC 12			✓
SIC 13	Jointly Controlled Entities – Non-monetary Contributions by Venturers			✓
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Asset	✓		
SIC 15	Operating Leases – Incentives			✓
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC 29	Service Concession Arrangements: Disclosures			✓
SIC 31	Revenue – Barter Transactions Involving Advertising Services			✓
SIC 32	Intangible Assets – Web Site Costs			✓

Note: Standards and interpretations tagged as “Not applicable” are those standards which were adopted but the entity has no significant covered transactions as at and for the year ended December 31, 2007.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES

III. RECONCILIATION OF RETAINED EARNINGS AVAILABLE

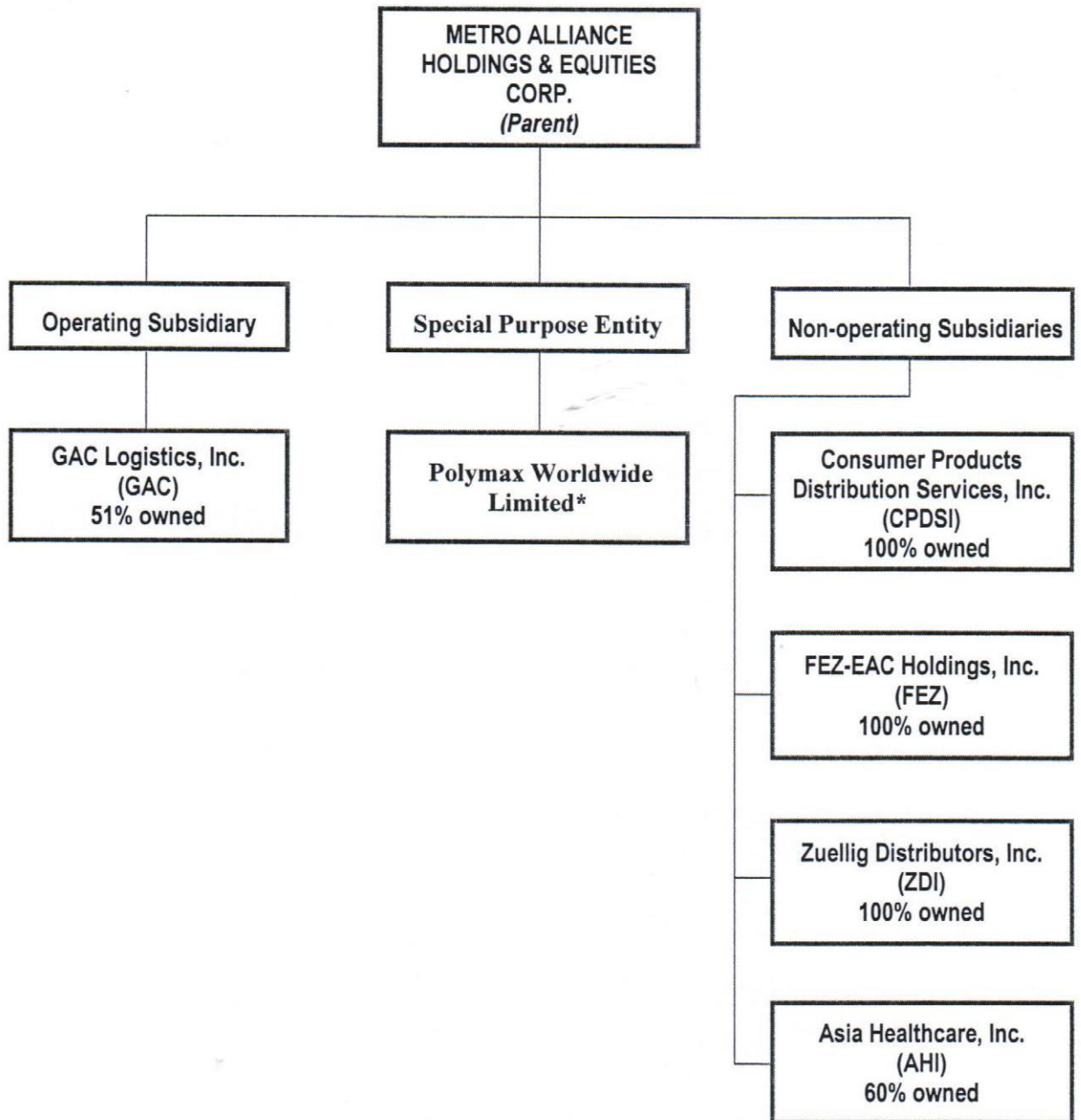
FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2007

Not Applicable*

*The Parent Company's Retained Earnings as of December 31, 2007 did not exceed its 100% of Paid-in Capital Stock since it is in a deficit position.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
IV. MAP OF THE RELATIONSHIP OF THE COMPANY WITHIN THE GROUP
FOR THE YEAR ENDED DECEMBER 31, 2007



*Starting in 2007, Polymax Worldwide Limited was excluded from the consolidated financial statements because the entity is no longer operating as a going concern and is in the process of liquidation.

METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES
V. SCHEDULE OF FINANCIAL RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2007

Financial Ratios	Description	2007	2006	2005
Current/liquidity ratio	Current assets over current liabilities	1.09	1.51	1.98
Asset to equity ratio	Total asset over total equity	7.04	2.34	1.87
Net debt to equity ratio	Interest – bearing loans and borrowings less cash and cash equivalents over total equity	(0.11)	0.39	0.34
Debt-to-equity ratio	Short-term loans over total equity	0.18	0.34	0.32
Solvency ratio	After tax net profit plus depreciation over total liabilities	(0.33)	(0.78)	(0.12)
Interest rate coverage ratio	Earnings (loss) before interest, tax over interest expense	(5.42)	0.31	(0.07)
Gross profit margin	Gross profit over net revenues	17%	24%	25%
Net income margin	Net income over net revenues	(253%)	(123%)	(30%)

METRO ALLIANCE HOLDINGS & EQUITIES CORP.

PARENT COMPANY FINANCIAL STATEMENTS
DECEMBER 31, 2007

AND

INDEPENDENT AUDITOR'S REPORT



03 NOV 2014

USA & Co
UY SINGSON ABELLA & Co
CERTIFIED PUBLIC ACCOUNTANTS

COVER SHEET

0 0 0 0 0 0 0 2 9 6

SEC Registration No.

M E T R O A L L I A N C E H O L D I N G S &

E Q U I T I E S C O R P . & S U B S I D I A R I E S

(Company's Full Name)

2 2 N D F L O O R C I T I B A N K T O W E R , 8 7 4 1

P A S E O D E R O X A S , M A K A T I C I T Y

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

Atty. Nestor S. Romulo

Contact Person

(632) 706-7888

Contact Telephone No.

1 2 3 1

Fiscal Year

A F S - 0 7

FORM TYPE

Any day in May

Month Day
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

841

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign -

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

Document I.D.

Document I.D.

Cashier

Cashier

S T A M P S

Remarks = pls. Use black ink for scanning purposes



METRO ALLIANCE
HOLDINGS & EQUITIES CORP.

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

The management of **METRO ALLIANCE HOLDINGS & EQUITIES CORP.** (the Company) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2007 and 2006, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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.

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


RENATO B. MAGADIA

Chairman of the Board/ Chief Executive Officer/
President

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

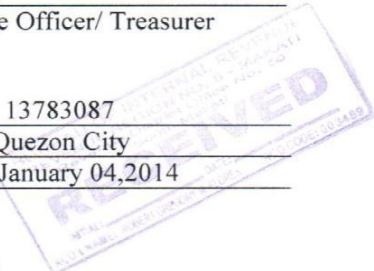

JAMES B. PALIT-ANG

Chief Finance Officer/ Treasurer

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

SUBSCRIBED AND SWORN TO before me this NOV 04 2014 at the 7816 City Metro Manila, Philippines. Affiant exhibiting to me his/her Community Tax Certificate as indicated below his/her name and signature above.

Doc. No. 252 ;
Page No. 26 ;
Book No. 2 ;
Series of 2014


ATTY. ADRIAN M. ABAIGAR
COMMISSION NO. 117 (2014-2015)
NOTARY PUBLIC FOR PASIG CITY
UNT. DECEMBER 31, 2015
35TH FLR. OF THE CORPORATE CENTER
JULIA VARGAS CORNER NERCALCO AVENUE
ORTIGAS CENTER PASIG CITY
ROLL NO. 49351
PTR NO. 9847149: 1/13/14 PASIG CITY

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

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Parent Company 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate 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 Parent Company financial statements present fairly, in all material respects, the financial position of Metro Alliance Holdings & Equities Corp. as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Notes 2 and 6 to the Parent Company financial statements, which indicate that the Parent Company has advances to Polymax Worldwide Limited (Polymax) of ₱902.2 million as of December 31, 2007, and on the other hand, Polymax has past due liabilities of ₱800.4 million as of December 31, 2007, for which the Parent is jointly and severally liable. The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPC Alliance Corporation and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company. These factors may cast significant doubt about the Parent Company's ability to continue as a going concern. The Parent Company financial statements have been prepared assuming that the Parent Company will continue as a going concern and do not include any adjustments that might result from the outcome of these uncertainties. Management's plan is to infuse additional capital to address these going concern uncertainties as explained in Note 14b.

Other Matter

The accompanying Parent Company financial statements of Metro Alliance Holdings & Equities Corp. as of and for the year ended December 31, 2006 were audited by other auditors whose report thereon dated December 13, 2007, expressed an unqualified opinion on those statements.

UY SINGSON ABELLA & CO.

Ma. Milagros F. Padernal

MA. MILAGROS F. PADERNAL

Partner

CPA Certificate No. 28591

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

June 21, 2012, valid until June 20, 2015

Tax Identification No. 119-768-075

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

November 25, 2013, valid until November 24, 2016

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

October 10, 2014



03 NOV 2014

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
PARENT COMPANY BALANCE SHEET
DECEMBER 31, 2007
(With Comparative Figures for 2006)

	Notes	2007	2006
ASSETS			
Current Assets			
Cash		₱681,482	₱261,296
Receivables		500,032	581,816
Other current assets - net	5	815,948	631,778
		1,997,462	1,474,890
Asset held for sale	6	902,232,308	1,745,477,528
Total Current Assets		904,229,770	1,746,952,418
Noncurrent Assets			
Available-for-sale investments	7	55,775,463	9,561,902
Investments and advances – net	8	22,332,311	595,645,655
Equipment – net	9	421,536	654,551
Total Noncurrent Assets		78,529,310	605,862,108
TOTAL ASSETS		₱982,759,080	₱2,352,814,526
LIABILITIES AND EQUITY			
Current Liabilities			
Due to related parties	13	₱491,222,519	₱765,886,887
Accrued expenses and other current liabilities	11	203,201,206	692,405,943
Loans payable	10	27,000,000	440,278,949
Current portion of long-term debt	12	70,000	159,628,727
Total Current Liabilities		721,493,725	2,058,200,506
Noncurrent Liabilities			
Accrued retirement benefits cost	17	495,295	416,260
Long-term debt - net of current portion	12	–	70,000
Total Noncurrent liabilities		495,295	486,260
Total Liabilities		721,989,020	2,058,686,766
Equity			
Capital stock	14	306,122,449	306,122,449
Additional paid-in capital		3,571,921	3,571,921
Reserve for fluctuations in available-for-sale investments	7	1,765,475	5,880,180
Deficit		(50,689,785)	(21,446,790)
Net Equity		260,770,060	294,127,760
TOTAL LIABILITIES AND NET EQUITY		₱982,759,080	₱2,352,814,526

See accompanying Notes to Parent Company Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
PARENT COMPANY STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for 2006)

	Notes	2007	2006
INCOME			
Reversal of management fee accrual	13	₱16,141,120	₱ –
Dividends		9,246,184	15,141,333
Gain on disposal of subsidiary	8	8,409,976	1,759,593
Interest		2,900	7,346
		33,800,180	16,908,272
EXPENSES			
Impairment loss	8	32,863,686	16,429,057
Finance costs	10, 11	23,156,230	37,937,643
General and administrative expenses	15	7,014,747	17,036,652
Foreign exchange loss – net		7,932	4,191
Others – net		–	635
		63,042,595	71,408,178
LOSS BEFORE INCOME TAX		29,242,415	54,499,906
INCOME TAX EXPENSE - Current	16	580	1,469
NET LOSS		₱29,242,995	₱54,501,375

See accompanying Notes to Parent Company Financial Statements.



03 NOV 2014

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for 2006)

	Notes	2007	2006
CAPITAL STOCK	14		
Class "A"		₱183,673,470	₱183,673,470
Class "B"		122,448,979	122,448,979
		306,122,449	306,122,449
ADDITIONAL PAID-IN-CAPITAL		3,571,921	3,571,921
RESERVE FOR FLUCTUATIONS IN AVAILABLE-FOR-SALE INVESTMENTS	7		
Balance at beginning of year		5,880,180	1,580,700
Fair value adjustment		(4,114,705)	4,299,480
Balance at end of year		1,765,475	5,880,180
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year		(21,446,790)	33,054,585
Net loss		(29,242,995)	(54,501,375)
Balance at end of year		(50,689,785)	(21,446,790)
TOTAL EQUITY		₱260,770,060	₱294,127,760

See accompanying Notes to Parent Company Financial Statements.



METRO ALLIANCE HOLDINGS & EQUITIES CORP.
PARENT COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(With Comparative Figures for 2006)

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(₱29,242,415)	(₱54,499,906)
Adjustments for:			
Impairment loss	8	32,863,686	16,429,057
Interest expense	10	23,156,230	37,937,643
Depreciation	15	294,315	290,909
Provision for retirement benefits	17	79,035	79,035
Unrealized foreign exchange loss		7,932	—
Reversal of management fee accrual	13	(16,141,120)	—
Dividends		(9,246,184)	(15,141,333)
Gain on disposal of subsidiary	13	(8,409,976)	(1,759,593)
Interest income		(2,900)	(7,346)
Provision for doubtful accounts		—	219,122
Working capital adjustments:			
Decrease (increase) in:			
Receivables		81,784	60,435
Other current assets		(184,170)	(214,723)
Increase in accrued expenses and other current liabilities		1,083,155	6,541,885
Income taxes paid	16	(580)	(1,469)
Net cash flows used in operating activities		(5,661,208)	(10,066,284)
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of subsidiary	12	207,663,622	—
Dividends received		9,246,184	15,141,333
Interest received		2,900	7,346
Decrease (increase) in asset held for sale	6	(23,439,200)	463,675,172
Acquisition of equipment	9	(61,300)	—
Decrease in amounts due from subsidiaries and affiliates	13	—	39,633,63
Net cash flows provided by investing activities		193,412,206	518,457,490
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in amounts due to related parties	13	16,203,379	15,071,763
Payments of long-term debt	12	(159,628,727)	(280,000)
Interest paid		(43,897,532)	(71,475,561)
Payment of loans payable	10	—	(451,721,051)
Net cash flows used in financing activities		(187,322,880)	(508,404,849)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		(7,932)	—
NET INCREASE (DECREASE) IN CASH		420,186	(13,643)
CASH AT BEGINNING OF YEAR		261,296	274,939
CASH AT END OF YEAR		₱681,482	₱261,296

See accompanying Notes to Parent Company Financial Statements.

METRO ALLIANCE HOLDINGS & EQUITIES CORP.
NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Reporting Entity

Metro Alliance Holdings & Equities Corp. (MAHEC or the Parent Company) was incorporated in the Philippines in 1929. In 1979, the Parent Company obtained approval from the Securities and Exchange Commission (SEC) for the extension of its corporate life to another 50 years. MAHEC is a holding company with business interests in companies engaged in the manufacture of chemicals, petrochemical and contract logistics.

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

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

2. Status of Operations

Going Concern

The accompanying Parent Company financial statements have been prepared assuming that the Parent Company will continue as a going concern. As of December 31, 2007 and 2006, the Parent Company has significant advances to Polymax Worldwide Limited (Polymax), a special purpose entity incorporated in British Virgin Islands, amounting to ₱902.2 million and ₱1.745 billion, 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 ₱800.4 million as of December 31, 2007 which were obtained to partially finance the acquisition of petrochemical plant, resulting from the transfer of past due bank loans as discussed in the next paragraph.

The Parent Company has also two significant past due bank loans, including accrued interest and penalties, which were obtained, jointly and severally with Polymax, to partially finance the acquisition of the petrochemical plant. In 2007, in order to reflect the economic substance of the acquisition and related loan transactions, the outstanding balances of the past due liabilities totaling ₱866.7 million as of December 31, 2006 were unilaterally transferred to Polymax and applied against the Parent Company's advances to Polymax (see Note 10).

As explained in Note 6, the remaining 40% 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 the eventual sale of Polymax's remaining 40% interest in the petrochemical plant will generate sufficient cash flows for Polymax. The Parent Company financial statements do not include any adjustments that might result from the outcome of these uncertainties. As explained in Note 14b, management's plan is to infuse additional capital to address this going concern uncertainty.

Acquisition Transactions

On December 4, 2003, the Parent Company entered into a Memorandum of Agreement (MOA) with Polymax, whereby the Parent Company confirmed the designation of Polymax as the acquiring company in the proposed acquisition of the senior secured debt papers of BPC from International Finance Corporation (IFC). Under the MOA, the Parent Company and Polymax agreed that (a) the acquisition of the secured debt paper would be for the account and benefit of the Parent Company; (b) the funding for the acquisition would be provided and arranged by the Parent

Company; and (c) the exercise of creditor rights arising from the secured debts via foreclosure and takeover of the assets of BPC would be directed by and for the account and benefit of the Parent Company. In addition, the Parent Company would make certain advances to Polymax.

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

To partially finance the Parent Company's advances relating to the Petrochemical Project, the Parent Company obtained short-term loans from local banks (see Note 10). 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 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 Corporation (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 of 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, 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. On the basis of the settlement agreement, the financial statements of Polymax as of December 31, 2006 were restated to reflect the sale of its 60% interest in the petrochemical plant.

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

3. Summary of Significant Accounting Policies

Statement of Compliance

The Parent Company financial statements are prepared as the separate financial statements of the Parent Company in compliance with Philippine Financial Reporting Standards (PFRS) approved by the Financial Reporting Standards Council (PFRSC) and the SEC.

The accompanying financial statements are the Parent Company's financial statements prepared in compliance with Philippine Accounting Standard (PAS) 27, *Consolidated and Separate Financial Statements*.

The Parent Company also prepares and issues consolidated financial statements for the same periods, which include the financial statements of subsidiaries. As a publicly listed company, the Parent Company is required by the SEC to prepare both separate and consolidated financial statements under full PFRS, which are available for public use.

The Parent Company financial statements have been prepared on the accrual basis using historical cost basis, except for available-for-sale financial assets that are measured at fair value. The Parent Company financial statements are presented in Philippine peso, which is the Parent Company's functional and presentation currency. All values are rounded to the nearest million, except when otherwise indicated.

The significant accounting policies that have been used in the preparation of these Parent Company financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Adoption of New Standards, Amendments to Standards and Interpretations

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

Amendments to Standards and Interpretations Adopted in 2007

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

- PFRS 7, *Financial Instruments: Disclosures*, requires disclosures about the significance of financial instruments relative to an entity's financial position and performance, and quantitative and qualitative disclosures on the nature and extent of risks. Adoption of this standard resulted in the inclusion of additional disclosures such as credit risk concentrations, contractual maturity analysis of financial liabilities and market sensitivity analysis (Notes 18 and 19).
- Amendment to PAS 1, *Presentation of Financial Statements - Capital Disclosures*, requires additional disclosures regarding the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and if it has not complied, the consequences of such non-compliance. Adoption of this standard resulted in the inclusion of additional disclosures in the Parent Company financial statements (Note 20).
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*, prohibits the reversal of impairment losses on goodwill and available-for-sale investments recognized in interim financial reports even if the impairment is no longer present at the balance sheet date. This interpretation has no impact on the Parent Company financial statements.

Future Changes in Accounting Policies

A number of new standards and amendments to standards and interpretations are effective for subsequent annual periods beginning after January 1, 2008, and have not been applied in preparing

these Parent Company financial statements. None of these is expected to have a significant effect on the Parent Company's financial statements, except the following set out below.

Effective 2009

- Revised PAS 1, *Presentation of Financial Statements*, becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to introduce the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a statement of comprehensive income. The impact of the revised standard upon adoption on January 1, 2009 will be mainly on the financial statement presentation of the items affected.
- Revised PAS 23, *Borrowing Costs*, becomes effective for financial years beginning on or after January 1, 2009. The standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Effective 2011

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

Effective 2013

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments). The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled.
- PAS 19, *Employee Benefits* (Revised). For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

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

- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights).

- PFRS 13, *Fair Value Measurement*. PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.
- PAS 27, *Parent Company Financial Statements* (as revised in 2011). As a consequence of the issuance of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the *Parent Company* financial statements.

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.
- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*. The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*.

Effective 2014

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

Effective in 2015

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

Annual Improvements to PFRSs (2010-2012 Cycle)

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

management entity. The amendments are effective for annual periods beginning on or after *July 1, 2014* and are applied retrospectively.

Cash

Cash includes cash on hand and in banks.

Financial Assets and Liabilities

Date of Recognition. The Parent Company recognizes a financial asset or a financial liability in the 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 Parent Company classifies its financial assets and liabilities in the following categories: held-to-maturity (HTM) financial assets, available-for-sale (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 Parent Company recognizes the difference between the transaction price and fair value (a Day 1 Profit) in the Parent Company statement of operations 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 Parent Company statement of operations when the inputs become observable or when the instrument is derecognized. For each transaction, the Parent Company 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 Parent Company statement of operations.

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 Parent Company has no financial assets at FVPL as of December 31, 2007 and 2006.

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

Cash and receivables are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Parent Company's management has the positive intention and ability to hold to maturity. Where the Parent Company 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 Parent Company statement of operations when the HTM investments are derecognized or impaired, as well as through the amortization process.

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

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

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

Financial Liabilities

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

The Parent Company has no derivative liabilities as of December 31, 2007 and 2006.

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

Financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

Included in this category are: due to related parties, accrued expenses and other current liabilities, loans payable 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 Parent Company 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 Parent Company 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 Parent Company 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 Parent Company’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 Parent Company 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 Parent Company statement of operations.

The Parent Company 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 Parent Company statement of operations, 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 Parent Company statement of operations, is transferred from equity to the Parent Company statement of operations. 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 Parent Company; 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 Parent Company 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 Parent Company 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 therefore, the related assets and liabilities are presented gross in the Parent Company balance sheets.

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.

Investment in Subsidiary

A subsidiary is an entity, including an unincorporated entity such as a partnership, which is controlled by the Parent Company. The Parent Company has control over an entity if it has the power to govern the financial and operating policies of an entity so as to obtain benefits from its

activities. Investments in subsidiaries in the Parent Company financial statements are carried at cost, less any impairment in the value of individual investments.

Equipment

Equipment is stated at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the equipment at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing.

The initial cost of equipment comprises 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 asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as an additional cost of equipment.

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

	Number of Years
Transportation equipment	5
Computer equipment	3

The remaining useful lives, residual values and depreciation method are reviewed and adjusted, if appropriate, at each financial year-end to ensure that such periods and method of depreciation are consistent with the expected pattern of economic benefits from the items of equipment.

The carrying values of equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization is credited or charged to current operations.

When each major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement, if the recognition criteria are satisfied.

An item of equipment is derecognized when either it has been disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gains or losses arising on the retirement and disposal of an item of equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are included in the Parent Company statement of operations in the period of retirement or disposal.

Impairment of Non-financial Assets

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

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Parent Company and the revenue can be measured reliably.

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

Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

Operating Leases

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

Leases which do not transfer to the Parent Company 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 statement of operations on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Borrowing Costs

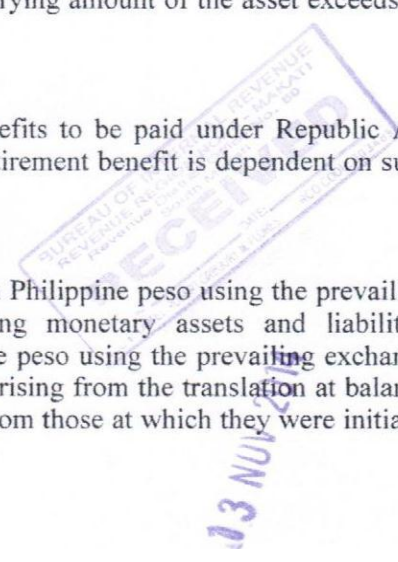
Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing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

Retirement Benefits Cost

The Parent Company provides for estimated retirement benefits to be paid under Republic Act (RA) No. 7641 to its permanent employee. The amount of retirement benefit is dependent on such factors as years of service and compensation.

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 Parent Company statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current Tax

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

Deferred Tax

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

Related Parties

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

Provisions

Provisions are recognized only when the Parent Company 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 Parent Company expects a provision to be reimbursed, the reimbursement is recognized as a Parent Company asset but only when the receipt of the reimbursement is virtually certain.

Contingencies

Contingent liabilities are not recognized in the Parent Company 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 Parent Company financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

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

4. Critical Accounting Estimates and Judgments

Use of Estimates and Judgments

The preparation of the Parent Company financial statements in conformity with PFRS requires management to make estimates, judgements and assumptions that affect the amounts reported in the Parent Company financial statements and accompanying notes. The estimates, judgments and assumptions used in the accompanying Parent Company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the Parent Company 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 financial statements as these become reasonably determinable.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimated Allowance for Doubtful Accounts and Probable Losses

The Parent Company reviews the carrying amounts of receivables and creditable withholding taxes and input taxes (classified as other current assets), as well as 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.

Creditable withholding taxes and input taxes totaling ₱12.5 million and ₱12.3 million as of December 31, 2007 and 2006, respectively, were provided with ₱11.6 million allowance for probable losses as of December 31, 2007 and 2006 (see Note 5).

The advances to Polymax (under asset held for sale) amounting to ₱902 million and ₱1.745 billion as of December 31, 2007 and 2006, respectively, constitute 92% and 74% of the Parent Company's total assets at the end of 2007 and 2006, 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, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA.

Estimated Useful Lives and Residual Values of Equipment

The Parent Company estimates the useful lives and residual values of its equipment based on the period over which the assets are expected to be available for use. The Parent Company reviews annually the estimated useful lives and residual values of equipment based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of equipment would increase depreciation expense, while an increase in the estimated useful lives would decrease depreciation expense. As of December 31, 2007 and 2006, equipment, net of accumulated depreciation, amounted to ₱0.4 million and ₱0.7 million, respectively (see Note 9). Total depreciation expense charged to operations amounted to ₱0.3 million in 2007 and 2006 (see Note 15).

Asset Impairment

The Parent Company assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Parent Company has determined that the equipment is not impaired. On the other hand, impairment loss was recognized to reflect the decline in value of investments and advances. Total impairment loss charged to operations amounted to ₱32.9 million in 2007 and ₱16.4 million in 2006 as shown in Note 8. Investment and advances of ₱477.5 million were written-off in 2007 as shown also in

Note 8. The carrying value of the investments and advances amounted to ₱444.6 million as of December 31, 2006 (see Note 8).

Fair Value of Financial Asset and Financial Liabilities

The Parent Company 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, 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 recoverable amount of AFS investment with available market prices was determined based on quoted bid prices. AFS investments amounted to ₱55.8 million and ₱9.6 million as of December 31, 2007 and 2006, respectively (see Note 7).

Realizability of Deferred Tax Assets

The Parent Company reviews the carrying amounts of deferred income taxes at each balance sheet date and reduces deferred income tax assets (DTA) to the extent that it is no longer probable (or recognizes DTA 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 Parent Company did not recognize deferred income tax assets on deductible temporary differences, unused NOLCO and MCIT totaling ₱30.7 million, and ₱60.7 million as of December 31, 2007 and 2006, respectively, because management believes that the Parent Company may not have sufficient future taxable profits available to allow utilization of these deferred income tax assets (see Note 16c).

Classification of Financial Instruments

The Parent Company 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, financial liability or an equity instrument. The substance of financial instrument, rather than its legal form, governs its classification in the Parent Company balance sheet.

The Parent Company determines the classification at initial recognition and reevaluates this designation at every financial reporting date.

Contingencies

The Parent Company is currently involved in various legal proceedings, which are normal to its business, as discussed in Note 22. The Parent Company'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 Parent Company does not believe that these legal proceedings will have a material adverse effect on the Parent Company financial statements. It is possible however, that changes in estimates relating to these proceedings may materially affect results of operations.

Other Current Assets

	2007	2006
Creditable withholding taxes	₱7,721,700	₱7,721,700
Input taxes	4,735,655	4,551,485
	12,457,355	12,273,185
Less allowance for probable losses	11,641,407	11,641,407
	₱815,948	₱631,778

6. Asset Held for Sale

Asset held for sale amounting to ₱902,232,308 and ₱1,745,477,528 as of December 31, 2007 and 2006, respectively (which constitute 92% and 74% of the Parent Company's total assets as of December 31, 2007 and 2006, 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 and ceased operating as a going concern. Accordingly, the remaining 40% interest of Polymax in NPCA is being offered for sale (see Note 2 for details). The realization of the Parent Company's advances to Polymax and the settlement of Polymax's past due liabilities related to asset held for sale, for which the Parent Company is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 40% interest in NPCA.

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

	2007	2006 (As restated)
Assets		
Assets held for sale	₱1,601,925,995	₱1,983,866,958
Due from related parties	290,644,212	281,456,151
Cash	-	652,303
Total assets	1,892,570,207	2,265,975,412
Liabilities		
Liabilities related to asset held for sale	800,398,137	-
Due to Metro Alliance Holdings and Equities Corp.	902,232,308	1,745,477,528
Other payable	49,030,000	49,030,000
Total liabilities	1,751,660,445	1,794,507,528
Net equity	₱140,909,762	₱471,467,884

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

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

Liabilities related to asset held for sale of Polymax as of December 31, 2007 pertain to the balance of the past due loans which were obtained to finance the purchase of 100% ownership interest in NPCA. The Parent Company is jointly and severally liable with Polymax with respect to these past due liabilities. As discussed in Note 10, these past due liabilities amounting to ₱866.7 million, inclusive of accrued interest, as of December 31, 2006 were previously carried in the books of the Parent Company but were unilaterally transferred and partially applied against the advances made to Polymax in 2007 to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms.

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

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

7. Available-for-sale Investments

Available-for-sale investments consist of investments in shares of Mabuhay Vinyl Corporation (MVC) and others, which are quoted in the local stock exchange.

	2007	2006
At acquisition cost	P54,009,988	P3,681,722
Cumulative fair value gain (in equity)	1,765,475	5,880,180
	P55,775,463	P9,561,902

In 2007, shares of stock in MVC totaling 59,254,263, representing 8.6% ownership interest in MVC, with a carrying value of P50,328,266, was transferred from investments in subsidiaries to AFS investments.

Unrealized fair value loss on AFS investments amounted to P4,114,705 in 2007. Unrealized fair value gain amounted to P4,299,480 in 2006. The carrying value of these investments include accumulated unrealized gain of P1.8 million and P5.9 million as of December 31, 2007 and 2006, which is deferred in Reserve for Fluctuations in Available-for-Sale Investments in the stockholders' equity section of the balance sheet.

8. Investments and Advances

The details of the Parent Company's investments in and advances to subsidiaries follow:

	2007		2006	
	% of Ownership	Carrying Value	% of Ownership	Carrying Value
Investments in:				
<i>Operating subsidiaries</i>				
GAC Logistics, Inc. (GAC)	51.00	P18,640,500	51.00	P18,640,500
MVC	-	-	42.69	249,581,911
		18,640,500		268,222,411
<i>Non-operating subsidiaries</i>				
Consumer Products Distribution Services, Inc. (CPDSI)	100.00	-	100.00	540,335,805
Zuellig Distributors, Inc. (ZDI)	100.00	-	100.00	50,000,000
FEZ-EAC Holdings, Inc. (FEZ-EAC)	100.00	-	100.00	30,000,000
Asia Healthcare, Inc. (AHI)	60.00	-	60.00	9,000,000
Total investments		18,640,500		897,558,216
Advances to CPDSI (Note 13)		3,691,811		142,717,632
Total investments and advances		22,332,311		1,040,275,848
Less allowance for impairment losses		-		444,630,193
		P22,332,311		P595,645,655

In 2007, the Parent Company's 34.09% ownership interest in MVC equivalent to 234,592,391 shares, with a carrying value of P199,253,646, was disposed and conveyed to creditors as payment for long-term debt, including accrued interest and penalty thereon, totaling P207,663,622 as discussed in Note 12b, resulting in a gain of P8,409,976. The remaining 8.6% interest equivalent to 59,254,263 shares was transferred to AFS investments as mentioned in Note 7.

In 2006, the Parent Company conveyed 9,000,000 shares to MVC in partial payment of its loan, as mentioned in Note 13, realizing a gain of P1.8 million.

The movements in the allowance for impairment losses follow:

	2007	2006
Balance at beginning of the year	P444,630,193	P428,201,136
Provisions - net	32,863,686	16,429,057
Write-off of investments and advances	(477,493,879)	-
Balance at end of year	P -	P444,630,193

On April 28, 2007, management ascertained that no future economic benefits are expected to flow to the Parent Company from its investments in and/or advances to CPDSI (net of P3,691,811), ZDI, FEZ-EAC and AHI as these companies have already been non-operating for a number of years. Thus, the investments and advances to these companies totaling P768.4 million (net of amounts due to these subsidiaries amounting to P290.9 million as of December 31, 2007) were written-off in 2007.

Information with regard to the Parent Company's significant subsidiaries follows:

	2007	2006
Total Assets		
GAC	P54,367,200	P48,648,666
CPDSI	420,438,663	412,805,364
MVC	-	1,375,385,908
Total Liabilities		
GAC	17,343,142	18,987,765
CPDSI	165,199,738	142,690,799
MVC	-	244,244,081
Net Income (Loss)		
GAC	7,363,157	6,091,024
CPDSI	(17,828,240)	(18,687,932)
MVC	-	46,157,897

9. Equipment

	Transportation Equipment	Computer Equipment	Total
Gross Carrying Amount			
January 1 and December 31, 2006	P1,454,545	P110,724	P1,565,269
Additions	-	61,300	61,300
December 31, 2007	1,454,545	172,024	1,626,569
Accumulated Depreciation			
January 1, 2006	509,091	110,718	619,809
Depreciation - 2006	290,909	-	290,909
December 31, 2006	800,000	110,718	910,718
Depreciation -2007	290,909	3,406	294,315
December 31, 2007	1,090,909	114,124	1,205,033
Carrying Amount			
December 31, 2006	P654,545	P6	P654,551
December 31, 2007	P363,636	P57,900	P421,536

10. Loans Payable

The details of loans payable are as follows:

	2007	-2006
Obtained for operations:		
a. Secured loans from MVC (Note 13)	₱27,000,000	₱27,000,000
b. Unsecured loans from a local bank – with interest rate at 12.25% per annum; payable on March 31, 2004	–	35,000,000
Obtained to partially finance the acquisition of petrochemical plant:		
c. Secured loans from a local bank - with interest rate ranging from 14% to 15% per annum; payable on December 29, 2006	–	98,278,949
d. Secured loans from local bank - with interest rate at the bank's prevailing lending rates payable on or before June 15, 2004	–	280,000,000
	₱27,000,000	₱440,278,949

Obtained for Operations

- a. The secured loans of ₱27 million as of December 31, 2006 was obtained from MVC, an entity that ceased to be a subsidiary in 2007, and collateralized by 27 million shares of the Parent Company in MVC. This was fully paid in 2010 as discussed in Note 13.
- b. The unsecured loans from a local bank amounting to ₱35 million also have provisions for penalties in case of default in payment. An additional amount equivalent to 2% per month or a fraction of a month of the amount due, but in no case less than ₱10,000, until fully paid shall be charged to the Parent Company as liquidating damages. If the loans are referred to an attorney-at-law or collection agency for collection, the further sum of 15% of the total amount due, but in no case less than ₱10,000, exclusive of costs and other judicial or extra judicial expenses, shall also be charged. On December 6, 2005, these unsecured loans were sold by the creditor bank to an SPV company. In 2007, the loan and the related interest thereon totaling ₱52.9 million were reclassified to the accrued expenses account.

Related to Acquisition of Petrochemical Plant

- c. The ₱550 million secured loans from a local bank, with a remaining balance of ₱98.3 million as of December 31, 2006, were obtained jointly and severally by the Parent Company and Polymax to partially finance the acquisition of the secured debt papers of IFC (see Note 2). The loans are secured by real estate and chattel mortgages on certain properties and shares of stock owned by certain stockholders and directors of the Parent Company and a third party, a deed of assignment on a portion of the IFC debt papers, and suretyship of certain stockholders.

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

The loan agreements provide certain restrictions with respect to, among others, purchase of treasury shares, encumbrance of assets, dissolution, and declaration and payment of cash dividends. It also provides that the bank shall have the option, at its sole discretion, to convert

the loans or a portion thereof, into equity ownership of a proportionate number of shares of the Parent Company.

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

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

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

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

- d. The loans amounting to ₱280 million from a local bank are secured by shares of stock and real estate mortgage on properties owned by certain stockholders, directors and officers of the Parent Company. In case of default in payment of these loans, penalty for delinquency and liquidation damages of 2% per month based on the outstanding principal and total amount of unpaid interest shall be charged from the date of default until full payment of the obligation.

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

In 2007, these past due loans of ₱378.3 million and accrued interest and penalties thereon of ₱488.4 million or a total of ₱866.7 million as of December 31, 2006 (see Notes 6 and 11), which were obtained to partially finance the acquisition of the petrochemical plant, were unilaterally transferred and applied against the advances made to Polymax in order to reflect the economic substance of the loan and the acquisition transactions, instead of merely their legal forms.

11. Accrued Expenses and Other Current Liabilities

This account consists of:

	2007	2006
Accrued expenses (Note 10)	₱179,394,865	₱159,801,350
Accrued finance charges		
Related parties (Note 13)	23,506,304	1,211,500
Local banks (Notes 10 and 12)	—	531,040,077
Other liabilities	300,037	353,016
	₱203,201,206	₱692,405,943

Other liabilities pertain to payable to government agencies.

The Parent Company has liabilities arising in the ordinary conduct of business, which are either pending decision by the government authorities or are being contested, the outcome of which are not presently determinable. In the opinion of management and its legal counsel, adequate provisions have been provided in the financial statements, which are recorded as part of accrued expenses, to cover 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 on the grounds that it may prejudice the outcome of these claims and tax assessments.

In 2007, accrued finance charges totaling ₱488.4 million (see Note 10) relating to past due loans, obtained jointly and severally with Polymax to finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred and applied against the advances made to Polymax to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms.

Accrued management fee of ₱16.1 million was waived in 2007 as discussed in Note 13.

12. Long-term Debt

Long-term debt consists of:

	2007	2006
a. Secured loan from a local bank - with total add-on financing charges of 49% over 48 months; payable in monthly installments starting April 25, 2004	₱70,000	₱350,000
b. Secured three and a half-year loan from a local bank - with annual interest rate at 5% above the 91-day treasury bill rate; payable quarterly	-	159,348,727
	70,000	159,698,727
Less current portion	70,000	159,628,727
	₱ -	₱70,000

a. The loan with an original principal of ₱0.9 million was obtained by the Parent Company to finance the acquisition of transportation equipment. The loan is secured by a chattel mortgage over the said transportation equipment.

b. In 2003, the Parent Company converted the remaining balance of a ₱200 million unsecured short-term loan in 2002 into the secured three and a half-year loan. The loan is secured by a Deed of Chattel Mortgage over 264,536,654 MVC shares of stock owned by the Parent Company.

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

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

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

In February 2005, the Parent Company and the local bank entered into a MOA whereby the Parent Company offered to settle the obligation by way of assignment and transfer to the local bank of all its rights and interests over 234,592,391 MVC shares of stock. However, it was only in June 2007 that all the rights and interests on the 234,592,391 MVC shares of stock were finally assigned and transferred to the local bank as full payment of the loan and accrued interest thereon totaling ₱207,663,622.

13. Related Party Transactions

The significant transactions with related parties are as follows:

a. Past due bank loans and accrued interest (Note 10)

In 2007, past due bank loans and accrued interests totaling ₱866.7 million, which were obtained to partially finance the acquisition by Polymax of 100% interest in NPCA, were unilaterally transferred and applied against advances made to Polymax to reflect the economic substance of the loan and acquisition transactions, instead of merely their legal forms.

b. Write-off of outstanding balances with non-operating subsidiaries (Note 8)

Investments in and advances to non-operating subsidiaries totaling ₱477.5 million (net of amounts due to these subsidiaries of ₱290.9 million) as of December 31, 2007 were determined to have no future economic benefit and were written-off.

c. Management consultancy agreement

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

d. Interest-bearing short-term loans from MVC (Note 10)

The Parent Company obtained loans from MVC, a subsidiary, in 2003 totaling ₱100 million. The loans are subject to interest equivalent to prevailing annual money market placement rate plus 1% and are secured by the Parent Company's ₱100 million worth of shares in MVC's capital stock. The principal and interest are due and payable in 180 days from release of the loan proceeds.

On January 28, 2005 the Parent Company and MVC executed a MOA with irrevocable special power of attorney and proxy. Among others, the MOA provides the following:

- i. The Parent Company names, constitutes and appoints MVC and/or its president as its attorney-in-fact with full and absolute power to execute a deed of assignment and/or similar document transferring and conveying, in favor of MVC, the Parent Company's 36,000,000 MVC shares of stock in payment of the Parent Company's loan obligations to MVC amounting to ₱39.4 million, inclusive of interest.

- ii. Pending the transfer of the 36,000,000 shares to MVC, the parties agree that any income/dividend accruing thereto shall be applied to the Parent Company's loan obligations. For this purpose, the Parent Company assigns, in favor of MVC, whatever income/dividend that will accrue on the subject shares during the intervening period.
- iii. Upon the transfer of the 36,000,000 shares to MVC, the obligation of the Parent Company shall be extinguished.
- iv. All taxes and fees in connection with the transfer of ownership of the subject shares of stock in favor of MVC shall be for the account of the Parent Company.

On December 15, 2006, the Parent Company and MVC executed a Dacion en Pago whereby the Parent Company assigned, transferred and conveyed its rights, interests and participation to 9,000,000 shares in favor of MVC in payment of the Parent Company's loan and interest amounting to ₱9.40 million. As of December 31, 2007, the 27,000,000 shares have not been transferred to MVC. Accordingly, the payable to MVC of ₱27 million remains outstanding as of December 31, 2007.

On January 25, 2006 and April 26, 2007, the BOD of MVC approved the declaration of cash dividends of ₱0.05 per share and ₱0.03 per share, respectively. Dividends accruing to the 27,000,000 shares totaling ₱0.81 million in 2007 and to the 36,000,000 shares totaling ₱1.80 million in 2006 were applied against the Parent Company's loan from MVC.

Subsequently on January 29, 2010, the Parent Company and MVC executed a Deed of Assignment with respect to the remaining 27,000,000 shares as full payment of the ₱27.4 million outstanding obligations, inclusive of interest, of the Parent Company.

e. Accounts with related parties

The outstanding balances pertaining to the Parent Company's transactions with related parties are as follows:

	2007	2006
<u>Advances to</u>		
Polymax (special purpose entity) - under asset held for sale (Note 6)	₱902,232,308	₱1,745,477,528
CPDSI (subsidiary) (Note 8)	₱3,691,811	₱142,717,632
<u>Due to related parties</u>		
<i>Entities under common control</i>		
Waterfront Philippines, Inc. (WPI)	₱303,497,205	₱292,758,618
Acesite (Phils.) Hotel Corporation	5,971,374	4,287,681
Philippine Estate Corporation (PEC)	-	13,487,612
<i>Stockholders</i>	181,753,940	181,753,940
<i>Non-operating Subsidiaries (Note 8)</i>		
CPDSI	-	216,074,094
ZDI	-	27,446,253
FEZ-EAC	-	30,078,689
	₱491,222,519	₱765,886,887
<u>Accrued finance charges</u>		
WPI	₱23,104,804	₱ -
MVC (Note 10a)	401,500	1,211,500
	₱23,506,304	₱1,211,500
<u>Loan payable (Note 10a)</u>		
MVC	₱27,000,000	₱ -

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 non-interest bearing, except the liability to WPI which is interest bearing but the related finance charges are being charged to Polymax, since the related liability were obtained in relation to the Petrochemical Project as discussed in Note 10.

f. Compensation of key management personnel

The Parent Company has no compensation of key management personnel in 2007.

14. Capital Stock

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

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

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

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

15. General and Administrative Expenses

The details of general and administrative expenses are shown below.

	2007	2006
Professional fees	₱2,001,437	₱1,517,664
Entertainment, amusement and recreation	1,731,551	6,553,598
Personnel costs	989,693	952,677
Rent and utilities	391,680	326,400
Depreciation (Note 9)	294,315	290,909
Management fees (Note 13)	–	6,000,000
Provision for probable losses	–	219,122
Others	1,606,071	1,176,282
	<u>₱7,014,747</u>	<u>₱17,036,652</u>

Others mainly include penalties and surcharges.

16. Income Taxes

- a. The current income tax expense represents final taxes on interest income from banks amounting to ₱580 in 2008 and ₱1,469 in 2007.
- b. The reconciliation of the income tax expense computed at the statutory tax rate with the income tax expense shown in the Parent Company statements of operations is as follows:

	2007	2006
Loss before income tax	(₱29,242,415)	(₱54,499,906)
Tax loss at statutory tax rate	(₱10,234,845)	(₱19,074,967)
Additions to (reduction in) income tax resulting from tax effects of:		
Expired NOLCO	33,865,597	15,266,561
Nondeductible expenses and losses	12,464,639	8,121,702
Expired MCIT	56,102	100,828
Final tax on interest income	580	1,469
Change in unrecognized deferred income tax assets	(29,970,822)	1,503,772
Dividend income exempted from tax	(3,236,164)	(5,299,467)
Gain on disposal of subsidiary	(2,943,492)	(615,858)
Interest income subjected to final tax	(1,015)	(2,571)
	₱580	₱1,469

- c. Deferred income tax assets of ₱30,747,571 and ₱60,718,393 as of December 31, 2007 and 2006, respectively, have not been recognized on deductible temporary difference, and carryforward benefits of unused NOLCO and tax credit excess MCIT as shown below, as management believes that the Parent Company may not have sufficient taxable profits or tax liabilities against which this temporary difference, excess MCIT and NOLCO may be utilized.

	2007	2006
NOLCO	₱86,256,020	₱171,805,683
Accrued retirement benefit cost	495,295	416,260
	86,751,315	172,221,943
MCIT	384,611	440,713
	₱87,135,926	₱172,662,656

- d. NOLCO can be claimed as deduction from regular taxable income as follows:

Year Incurred	Year Expiring	2007	2006
2003	2006	₱ -	₱43,618,745
2004	2007	96,758,848	96,758,848
2005	2008	26,885,885	26,885,885
2006	2009	48,160,950	48,160,950
2007	2010	11,209,185	-
		183,014,868	215,424,428
Less expired NOLCO		96,758,848	43,618,745
		₱86,256,020	₱171,805,683

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

Year Incurred	Year Expiring	2007	2006
2003	2006	₱ —	₱100,828
2004	2007	56,102	56,102
2005	2008	384,611	384,611
		440,713	541,541
Less expired MCIT		56,102	100,828
		₱384,611	₱440,713

- e. On May 24, 2005, RA No. 9337 was passed into a law amending various provisions in the existing National Internal Revenue Code, initially effective July 1, 2005. Among the changes provided for in RA 9337, which became effective on November 1, 2005, are as follows:
- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% starting January 1, 2009 and onwards;
 - Increase in unallowable interest rate from 38% to 42% with a reduction thereof to 33% beginning January 1, 2009;
 - Increase in VAT rate from 10% to 12% effective February 1, 2006 as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance; and
 - Expanded scope of transactions subject to VAT.

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

17. Accrued Retirement Benefits Cost

The Parent Company's retirement benefits obligation under RA No. 7641 amounted to ₱495,295 and ₱416,260 as of December 31, 2007 and 2006, respectively. The accrued retirement benefit cost is determined based on the number of years of service rendered and compensation of a covered employee.

Movement of accrued retirement benefits cost is shown below.

	2007	2006
Present value of benefit obligation	₱416,260	₱337,225
Current service cost	79,035	79,035
Liability recognized in the balance sheet	₱495,295	₱416,260

18. Financial Assets and Financial Liabilities

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

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash	₱681,482	₱681,482	₱261,296	₱261,296
Receivables	500,032	500,032	581,816	581,816
AFS investments	55,775,463	55,775,463	9,561,902	9,561,902
Advances to CPDSI	3,691,811	3,691,811	-	-
	₱60,648,788	60,648,788	₱10,405,014	₱10,405,014
Financial Liabilities				
Due to related parties	₱491,222,519	₱491,222,519	765,886,887	765,886,887
Accrued expenses and other current liabilities	31,270,884	31,270,884	608,299,530	608,299,530
Loans payable	27,000,000	27,000,000	440,278,949	440,278,949
Long-term debt	70,000	70,000	159,698,727	159,698,727
	₱549,563,403	₱549,563,403	₱1,974,164,093	₱1,974,164,093

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, advances to CPDSI, due to related parties, accrued expenses and other current liabilities, loans payable and current portion of long-term debt approximate their fair values.

AFS Investments

The fair values of AFS investments, which are publicly traded instruments are based on quoted bid prices.

Noncurrent Long-term Debt

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

19. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments consist of cash, AFS investments, due to related parties, loans payable and long-term debt. The main purpose of these financial instruments is to finance the Parent Company's operations. The Parent Company's other financial assets and financial liabilities include receivables and accrued expenses and other current liabilities, which arise directly from its operations.

The main risks arising from the Parent Company'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 Parent Company's exposure to the risk of changes in market interest rates relates to its loans payable and long-term debt, which principally bear floating interest rates.

The sensitivity to reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Parent Company's profit before tax (through the impact on floating rate borrowings) by ₱0.27 million and ₱6 million as of December 31, 2007 and 2006, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect.

The following table sets out the principal amount, by maturity, of the Parent Company's loans and other payable that are exposed to interest rate risk:

	2007	2006
Within 1 year	₱27,070,000	₱599,907,676
1 - 2 years	-	70,000
	₱27,070,000	₱599,977,676

Credit Risk

It is the Parent Company'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 Parent Company deals only with legitimate parties. As to other financial assets of the Parent Company 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 Parent Company's maximum exposure to credit risk as of December 31, 2007 and 2006, without considering the effects of collaterals and other risk mitigation techniques are presented below.

	2007	2006
Cash	₱681,482	₱261,296
Receivables	500,032	581,816
Advances to CPDSI	3,691,811	-
	₱4,873,325	₱843,112

The table below present the credit quality of financial assets and an analysis of past due accounts as of December 31, 2007.

	High Grade	Total	Past due but not impaired	Total
Cash and cash equivalents	₱681,482	₱681,482	₱ -	₱681,482
Receivables	7,500	7,500	492,532	500,032
Advances to CPDSI	-	-	3,691,811	3,691,811
	₱688,982	₱688,982	₱4,184,343	₱4,873,325

The credit quality of receivables is managed by the Parent Company using internal credit quality ratings. High grade accounts consist of receivables from debtors with good financial standing and with relatively low defaults. Past due accounts pertain to receivables which are 90 days beyond normal credit term.

Liquidity Risk

The Parent Company'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 Parent Company'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.

The Parent Company's due to related parties, accrued expenses and other current liabilities, including interest payable, loans payable and current portion of long-term debt are payable in less than one year.

20. Capital Management

The primary objectives of the Parent Company's capital management are to safeguard the ability of the Parent Company to continue as a going concern and to maintain a capital structure that supports its business. The Parent Company manages its capital structure in light of changes in economic conditions and in close coordination with its major stockholders and other related parties by making adjustments on payments to its related parties and issuing new shares.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Parent Company's external environment and the risks underlying the Parent Company's business, operation and industry.

The Parent Company defines capital as paid-in capital stock, additional paid-in capital and retained earnings (deficit). Other components of equity such as reserve for fluctuations in AFS investments are excluded from capital for purposes of capital management. The Parent Company monitors capital as follows:

	2007	2006
Capital stock	₱306,122,449	₱306,122,449
Additional paid-in capital	3,571,921	3,571,921
Deficit	(50,689,985)	(21,446,790)
	₱259,004,385	₱288,247,580

The Parent Company is not subject to externally-imposed capital requirements.

21. Notes to Statements of Cash Flows

The principal non-cash financing and investing activities consist of:

- a. Payable to subsidiaries amounting to ₱290.9 million as of December 31, 2007 offset against investments in and advances to subsidiaries amounting to ₱327.4 million (see Notes 8 and 13b);
- b. Loans payable to local banks amounting to ₱378.3 million and related accrued finance charges amounting to ₱488.4 million as of December 31, 2006 unilaterally transferred to Polymax in 2007 (see Note 10);
- c. Loan payable to a local bank amounting to ₱35 million reclassified to the accrued expenses account in 2007 (see Note 10b); and
- d. Reversal of accrued management fees recorded under accrued expenses in 2007 amounting to ₱16.1 million (see Note 13c).

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

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

- c. There are also other pending legal cases against the Parent Company. Based on the facts of these cases, management believes that its positions have legal merits and the resolution thereof will not materially affect the Parent Company's financial position and result of operations.