

## Certification

I, Annabelle T. Abunda, Finance Officer of Metro Alliance Holdings & Equities Corporation, with SEC registration number 296 with principal office at 35<sup>th</sup> Flr. One Corporate Center, Dona Julia Vargas, cor. Meralco Ave., Ortigas Center, Pasig City, on oath state:

- 1) That on behalf of Metro Alliance Holdings & Equities Corporation, I have caused this Third (3rd) Quarterly Report SEC Form 17-Q to be prepared;
- 2) That I read and understood its contents which are true and correct of my own personal knowledge and/or based on true records;
- 3) That the company, Metro Alliance Holdings & Equities Corporation, will comply with the requirements set forth in SEC Notice dated June 24, 2020 for a complete and official submission of reports and/or documents through electronic mail; and
- 4) That I fully aware that documents filed online which requires pre-evaluation and/or processing fee shall be considered complete and officially received only upon payment of a filing fee.

IN WITNESS WHEREOF, I have hereunto set my hands this NOV 12 2021 day of \_\_\_\_\_, 2021.



Affiant

TIN: 205-231-659

SUBSCRIBED AND SWORN to before me this NOV 12 2021 day of \_\_\_\_\_, 2021.

NOTARY PUBLIC

**MANDALUYONG CITY**

Doc No. 367

Page No. 78

Book No. 106

Series of 2021

**ATTY. JAMES K. ABUGAN**

NOTARY PUBLIC

APPT. NO. 0442-21

Until 12/31, 2022

IBP No. 134105 Dec. 9, 2020 Rizal Chapter

Roll No. 26890 Lifetime

MCLE No. VI-0012875 until 4/14/2022

TIN No. 116-239-956

PTR No. 4574511 01/04/2021

Tel. No. (02) 854-523-2

Rm. 314 J&B Bldg., 251 EDSA,  
Mandaluyong City

# COVER SHEET

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SEC Registration No.

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(Company's Full Name)

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

Atty. Nestor S. Romulo

Contact Person

**(632) 706-7888**

Contact Telephone No.

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Fiscal Year

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FORM TYPE

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Month Day

Annual Meeting

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Secondary License Type, If Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

789

Total No. of Stockholders

### Total Amount of Borrowings

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|--------------|--|
| Total Amount |  |
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Domestic

Drawings

Foreign

To be accomplished by SEC Personnel concerned

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### 3<sup>rd</sup> Quarter Report: MAH

SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 11  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the quarterly period ended ...**September 30, 2021**
2. Commission identification number...**296**
3. BIR Tax Identification No.....**000-130-411-000**.
4. **Metro Alliance Holdings & Equities Corp.**  
Exact name of issuer as specified in its charter
5. **Metro, Manila Philippines**  
Province, country or other jurisdiction of incorporation or organization
6. (SEC use Only)  
Industry Classification Code:
7. **35/F One Corporate Centre, Doña Julia Vargas Ave. cor. Meralco Ave., Ortigas Center, Pasig**  
Address of issuer's principal office
8. **(632) 8706-7888**  
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 4 and 8 of the RSA:

| <u>Title of Each Class</u> | <u>No. of Shares of Common Stock Outstanding<br/>and Amount of Debt Outstanding</u> |
|----------------------------|-------------------------------------------------------------------------------------|
| Common Class A             | 183,673,470                                                                         |
| Common Class B             | 122,448,979                                                                         |
| Outstanding Debt           | ₱ 759,664,304                                                                       |

11. Are any or all of the securities listed on a Stock Exchange?

Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**Philippines Stock Exchange**

**Common Class A and Class B**

12. Indicate by check mark whether the registrant:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

13. Aggregate market value of the voting stock held by non-affiliates: **Php111,800,762**

14. Not applicable

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached Consolidated Balance Sheets, Income Statements, Changes in Stockholders' Equity, Cash Flows and Notes to Interim Consolidated Financial Statements (Annex A.1 to 5).

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

#### ☐ Unaudited Income Statement

| <b>Income Statement</b>                                   | <b>Amounts in Php</b>       |                             |                             |                             |
|-----------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                                           | <b>Jul. – Sep.<br/>2021</b> | <b>Jul. – Sep.<br/>2020</b> | <b>Jan. – Sep.<br/>2021</b> | <b>Jan. – Sep.<br/>2020</b> |
| Sales and services                                        | <b>₱75,516,312</b>          | ₱61,326,698                 | <b>₱213,045,650</b>         | ₱200,709,467                |
| Cost of sales and services                                | <b>62,510,951</b>           | 51,970,455                  | <b>179,459,813</b>          | 170,372,359                 |
| Gross profit                                              | <b>13,005,361</b>           | 9,356,243                   | <b>33,585,837</b>           | 30,337,108                  |
| Expenses                                                  | <b>(9,612,218)</b>          | (6,810,178)                 | <b>(25,590,553)</b>         | (21,894,493)                |
| Other income                                              | <b>209,854</b>              | 164,927                     | <b>697,516</b>              | 1,154,016                   |
| Net Income Before Tax                                     | <b>3,602,997</b>            | 2,710,992                   | <b>8,692,800</b>            | 9,596,631                   |
| Income tax expense                                        | -                           | -                           | -                           | -                           |
| Net income                                                | <b>3,602,997</b>            | 2,710,992                   | <b>8,692,800</b>            | 9,596,631                   |
| Attributable to:                                          |                             |                             |                             |                             |
| Equity Holders of the Parent Company                      | <b>1,225,248</b>            | 1,253,749                   | <b>2,434,581</b>            | 4,118,313                   |
| Non-controlling interest                                  | <b>2,377,749</b>            | 1,457,243                   | <b>6,258,219</b>            | 5,478,318                   |
|                                                           | <b>3,602,997</b>            | 2,710,992                   | <b>8,692,800</b>            | 9,596,631                   |
| Earnings Per Share – Equity Holders Of the Parent Company | <b>₱0.0040</b>              | ₱0.0041                     | <b>₱0.0080</b>              | ₱0.0135                     |

#### ☐ Unaudited Balance Sheet

| <b>Balance Sheet</b>                       | <b>Amounts in Php</b> |                      |                      |
|--------------------------------------------|-----------------------|----------------------|----------------------|
|                                            | <b>Sep. 30, 2021</b>  | <b>Sep. 30, 2020</b> | <b>Dec. 31, 2020</b> |
| Current assets                             | <b>₱224,910,484</b>   | ₱242,021,586         | ₱227,344,462         |
| Noncurrent assets                          | <b>691,079,062</b>    | 479,997,730          | 687,440,059          |
| Total Assets                               | <b>915,989,546</b>    | 722,019,316          | 914,784,521          |
| Current liabilities                        | <b>324,212,994</b>    | 388,426,892          | 332,005,881          |
| Noncurrent liabilities                     | <b>435,451,310</b>    | 180,832,937          | 435,146,198          |
| Total Liabilities                          | <b>759,664,304</b>    | 569,259,829          | 767,152,079          |
| Stockholder's Equity                       | <b>156,325,242</b>    | 152,759,487          | 147,632,442          |
| Total Liabilities and Stockholder's Equity | <b>₱915,989,546</b>   | ₱722,019,316         | ₱914,784,521         |

The following companies are included in Metro Alliance (MAH) consolidated financial statement: MCLSI, CPDSI, FEZ-EAC, ZDI and AHI. Due to intra-corporate disputes surrounding the ownership of the Bataan petrochemical plant, the scope of the 2007-2013 audits was completed by the independent auditors and the reports was approved by the Board of Directors on October 10, 2014.

The Group is exploring business opportunities. As of report date, biggest contributor to the Group's revenue is its logistic arm, MCLSI, which has shown steady growth. 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 will focus on traditionally stable industries or sunrise sectors in order to maintain strong and healthy cash flows, and at the same time, aspiring for maximized potential earnings.

#### a) Key Performance Indicators

The Metro Alliance (MAH) and its majority-owned subsidiaries key performance indicators as follow:

#### Metro Alliance

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) financial statements registered unaudited net loss of ₱4,045,960 for the 3rd quarter of 2021 as compared to the same quarter of 2020 with net loss amounting to ₱1,565,558 or an increase in net loss by ₱25,480,402 or 1,627.56%.

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

| Performance indicator             | Sep 30              |              |
|-----------------------------------|---------------------|--------------|
|                                   | 2021                | 2020         |
| Net Income / (Loss)               | <b>(₱4,045,960)</b> | (₱1,565,558) |
| Income / (Loss) per share         | <b>(0.013)</b>      | (0.005)      |
| Income / (Loss) on average equity | <b>(0.027)</b>      | (0.011)      |
| Debt to total assets              | <b>0.650</b>        | 0.454        |
| Debt to equity                    | <b>1.858</b>        | 0.830        |

#### MCLSI

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

Comparative analysis of MCLSI's key performance indicators on September 30 are as follows:

| Performance indicator         | 2021          | 2020   |
|-------------------------------|---------------|--------|
| <u>Profitability</u>          |               |        |
| a. Gross profit margin        | <b>0.158</b>  | 0.151  |
| b. Net profit margin          | <b>0.060</b>  | 0.056  |
| c. Return on assets           | <b>0.046</b>  | 0.038  |
| d. Return on equity           | <b>0.119</b>  | 0.116  |
| <u>Liquidity</u>              |               |        |
| a. Current ratio              | <b>1.902</b>  | 1.716  |
| b. Receivables turnover       | <b>1.060</b>  | 1.021  |
| c. Days' sales in receivables | <b>344.45</b> | 357.55 |

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

Currently, CPDSI, FEZ-EAC, ZDI and AHI have no performance indicators because these are non-operating companies. Management is considering a rationalization plan to address the future of these non-operating subsidiaries.

## **b) Changes in Operating Results**

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

The Group registered a consolidated net income of ₱3.6 million for the 3rd quarter of 2021 as against net income of ₱2.7 million for the 3rd quarter of 2020 or an increase of ₱0.90 million or 33.33% due to higher sales of services incurred for the 3rd quarter 2021. Income (Loss) per share attributable to equity holders of Parent Company are ₱0.004 and ₱0.004 for the 3rd quarter of 2021 and 2020, respectively. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group.

### Sales and Services

The Group registered gross service revenue of ₱75.5 million and ₱61.3 million for the quarters ended September 30, 2021 and 2020. Revenue increased by ₱14.2 million or 23.14%.

### Cost of Sales and Services

Total cost of sales and services for the quarters ended September 30, 2021 and 2020 amounted to ₱62.5 million and ₱52.0 million, respectively. The increase in cost of sales by ₱10.5 million or 20.28% against last quarter was mainly due to the following net effect of expenses; increase in personnel cost by ₱6.2 million, increase in rent and utilities by ₱0.5 million, increase in transportation expense by ₱4.9 million, decrease in outside and security services by ₱1.0 million, decrease in other expenses by ₱0.1 million.

### Operating Expenses

Total operating expenses of the Group for the 3rd quarter of 2021 amounted to ₱9.6 million as compared to ₱6.8 million for the 3rd quarter of 2021 or an increase by ₱2.8 million or 41.14%. The increase was mainly attributable on the following: increase in professional fee by ₱0.9 million, increase in personnel cost by ₱0.5 million, increase in depreciation and amortization by ₱0.6 million, increase in communication and supplies by ₱0.3 million and net increase in other expenses by ₱0.5 million.

### Other income

Other income for the quarters ended September 30, 2021 and 2020 amounted to ₱0.2 million and ₱0.2 million, respectively. The account pertains to interest income and other income not arising from ordinary course of business.

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

### Assets

*Cash and cash equivalents* as of September 30, 2021 and 2020 amounted to ₱24.8 million and ₱30.8 million, respectively. Net cash flows from operating activities is (₱4.8 million), net cash flows from investing activities is (₱3.3 million) and net cash flows from financing activities is (₱0.2 million).

*Receivables* amounted to ₱177.4 million as of September 30, 2021 and ₱184.6 million as of September 30, 2020 (net of allowance for doubtful accounts). Movement in the accounts is mainly attributable to the decreased in trade receivable by ₱5.9 million, increased in other receivables by ₱0.2 million and increased in allowance for probable loss by ₱1.5 million. Other receivables pertain to advances subject for liquidation.

*Other current assets* amounted to ₱22.7 million and ₱26.7 million as of September 30, 2021 and 2020, respectively (net of allowance for probable losses of ₱14.3 million and ₱12.9 million, respectively). The decrease by ₱4.0 million was net effect of the following: increase in input VAT by ₱0.6 million, decrease in refundable deposits by ₱4.2 million, increase in prepayments and others by ₱1.1 million and increase of probable allowance by ₱1.5 million.

*Asset held for sale* amounting to ₱572.5 million and ₱363.9 million as of September 30, 2021 and 2020, respectively, which represents advances to Polymax, the Group's unconsolidated special purpose entity incorporated in British Virgin Island solely for the purpose of acquiring the petrochemical plant of NPC Alliance Corporation (NPCA).

*Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)* amounted to ₱20.9 million and ₱21.2 million in September 30, 2021 and 2020, respectively. This account includes shares of stocks owned in publicly listed company and unquoted equity investment carried at cost. During the latter part of

2017, the Parent Company made an investment to a non-listed entity, whose primary activity is to engage in real estate development.

#### *Investment in Debt Security*

The Group invested with Philippine Depository and Trust Corporation (PDTCT) bonds through Security Bank. The bond has a face value of 2,000,000 with an interest rate of 4.50% with maturity date on June 28, 2021. The carrying amount of the bond investment as of September 30, 2021 and 2020 amounted to nil and ₱2,041,795, respectively. At the end of 2020, the Group terminated the bond investment for total proceeds of ₱2,038,632.

*Property and equipment* amounted to ₱80.1 million and ₱80.0 million in September 30, 2021 and 2020, respectively. The Group has no outstanding contractual commitments to acquire certain property and equipment as of September 30, 2021 and 2020 and the Group carried out a review of the recoverable amounts of its property and equipment. The Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

*Other non-current assets* as of September 30, 2021 and 2020 amounted to ₱12.0 million and ₱7.4 million, respectively or an increase by ₱4.6 million due to increase in refundable deposits and decrease in intangible assets. This account consists of intangible asset pertaining to non-exclusive software license cost for use in MCSLI's warehouse management system and the non-current portion of refundable deposits.

#### Liabilities

*The Accounts payable and accrued expenses – current portion* as of September 30, 2021 and 2020 amounted to ₱284.1 million and ₱304.1 million, respectively. The decreased was due to payment of trade payables amounting to ₱18.2 million, decrease in accrued expenses by ₱1.2 million and decreased in other current liabilities by ₱0.6 million. 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. *Accrued expenses – noncurrent portion* amounted to ₱123,438,803 which composed of management fee, reserve for contingency BIR and accrued interest – Unimark (Note 19).

*Lease Liability* is the liability recognized in relation to the adoption of PFRS 16. Current lease liability amounted to ₱34.1 million and ₱25.5 million as of September 30, 2021 and 2020, respectively. Noncurrent portion of Lease liability amounted to ₱34.8 million and ₱49.6 million as of September 30, 2021 and 2020, respectively.

The *Due to related parties - current* as of September 30, 2021 and 2020 amounted to ₱6.1 million and ₱58.9 million, respectively. The decrease was mainly due to the 2020's offset of the Parent Company's collectibles from Polymax (Asset Held for Sale) in the amount of ₱52.8 million, with the Parent Company's payable to the Wellex Group, Inc. Due notice was given to both parties. *Due to related parties - noncurrent* as of September 30, 2021 and 2020 amounted to ₱268.3 million and ₱0, respectively. In 2020, The Parent Company issued a promissory note and unconditionally promise to pay Philippine Estate Corporation, its affiliate, with a total obligation of ₱268.3 million. The other amounts due to related parties pertain to unsecured and noninterest bearing advances provided to the Group to finance its working capital requirements, capital expenditures, petrochemical project support and for other investments and have no definite repayment terms (Note 29).

*Accrued retirement benefit cost* amounted to ₱8.6 million and ₱7.8 million as of September 30, 2021 and 2020, respectively. MAHEC and MCLSI has unfunded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of the fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. There is no provision for retirement benefit for 2020 and 2021 as the management determined that current accrual is sufficient enough to cover retirement benefits of remaining employees. The Group expects no contributions are to be made yet in the future years out of the defined benefit plan obligation. In 2020, the Board of Directors approved to write-off the remaining retirement benefit payable of the Parent Company since it has no longer have employees. (Note 28).

## Summary of Material Trends, Events and Uncertainties

The accompanying consolidated financial statements have been prepared assuming that Group Company will continue as a going concern.

As of September 30, 2021 and 2020, the Group has significant advances to Polymax Worldwide Limited (Polymax), an unconsolidated special purpose entity incorporated in British Virgin Islands, amounting to ₱572.5 million and ₱363.9 million, respectively, relating to the acquisition of the petrochemical plant of Bataan Polyethylene Corporation (BPC) involving a series of acquisition transactions described in the next section below. On the other hand, Polymax (jointly and severally with the Parent Company) has past due liabilities, including interest and penalties, amounting to ₱994.7 million, which were obtained to partially finance the acquisition of the petrochemical plant, resulting from the transfer of past due loans as discussed in the next paragraph.

In 2007, the Parent Company unilaterally transferred to Polymax two significant past due liabilities totaling ₱866.7 million as of December 31, 2006 that were obtained (jointly and severally with Polymax) to partially finance the acquisition of the petrochemical plant, and applied these against the Parent Company's advances to Polymax, in order to reflect the economic substance of the acquisition and related loan transactions. The remaining 20% of Polymax's interest in the petrochemical plant is for sale. The realization of the Parent Company's advances to Polymax (an unconsolidated special purpose entity starting in 2007) and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, depend on whether sufficient cash flows can be generated from the sale of Polymax's remaining 20% interest in NPC Alliance Corporation (NPCA) and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company.

The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. Management's plan is to infuse additional capital to address the going concern uncertainty.

### Legal Cases

Below is the list of legal matters of the Group as of September 30, 2021, which are fully disclosed in Note 32:

- a) Metro Alliance vs. Commissioner of Internal Revenue - Assessment for deficiency withholding taxes for the year 1989, 1990 and 1991
- b) Metro Alliance and Philippine Estate Corporation vs. Philippine Trust Company, et al., Civil Case SCA#TG-05-2519, RTC Tagaytay City Branch 18 - 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
- c) MAHEC, POLYMAX & WELLEX vs. Phil. Veterans Bank., et al., Civil Case #08-555, RTC Makati Branch 145 now SC GR 2405495 and 240513 - Civil Action with Damages to Nullify the Foreclosure of Property
- d) MAHEC, POLYMAX, Renato B. Magadia (Metro Group/plaintiffs) vs NPC International Limited, et al. (NPC Group/defendants) Civil Case No. R-PSG 19-02106, RTC Pasig City Branch 159 - Corporate Mismanagement and Damages with Application for Temporary Restraining Order and Injunction
- e) There are also other pending minor 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.

### Events that will Trigger Direct Contingent or Financial Obligation

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

### Material Off-balance Sheet Transactions, Arrangements, Obligations

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

### Commitment for Capital Expenditures

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

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

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

The Group registered a consolidated net loss of ₱19.4 million for the 3rd quarter of 2021 as against net income of ₱2.7 million for the 2nd quarter of 2020 or a decrease of ₱22.1 million or 815.49% due to higher expenses incurred for the 3rd quarter 2021. Income (Loss) per share attributable to equity holders of Parent Company are (₱0.071) and ₱0.004 for the 3rd quarter of 2021 and 2020, respectively. Since certain subsidiaries have ceased operations, MCLSI is the only subsidiary that contributed to the revenue of the Group.

The Group registered gross service revenue of ₱75.5 million and ₱61.3 million for the quarters ended September 30, 2021 and 2020. Revenue increased by ₱14.2 million or 23.16%.

**Significant Element of Income or Loss That Did Not Arise from Continuing Operations**

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

**Material Changes on Line Items in the Financial Statements**

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

The Group adopted PFRS 16 on the year 2019 which reported a Right-of-Use Asset and Lease Liability (Note17 and 20).

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

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

## PART II – OTHER INFORMATION

### (1) Market Information

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  |
| 2021 | First Quarter  | 4.08    | 1.84 | 4.08    | 1.84 |
|      | Second Quarter | 2.64    | 2.04 | 2.64    | 2.04 |
|      | Third Quarter  | 2.36    | 1.40 | 2.36    | 1.40 |
| 2020 | First Quarter  | 3.30    | 0.89 | 3.30    | 0.89 |
|      | Second Quarter | 3.19    | 1.36 | 3.19    | 1.36 |
|      | Third Quarter  | 2.37    | 1.40 | 2.37    | 1.40 |
|      | Fourth Quarter | 2.37    | 1.62 | 2.37    | 1.62 |
| 2019 | First Quarter  | 2.88    | 1.67 | 2.88    | 1.67 |
|      | Second Quarter | 1.94    | 1.44 | 1.94    | 1.44 |
|      | Third Quarter  | 1.69    | 1.02 | 1.69    | 1.02 |
|      | Fourth Quarter | 1.15    | 0.98 | 1.15    | 0.98 |
| 2018 | Fourth Quarter | 2.46    | 0.92 | 2.46    | 0.92 |

The high, low and close market prices are ₱1.51, ₱1.50, ₱1.51 as of November 10, 2021.

### (2) Holders

There are 306,122,449 shares outstanding: 183,673,470 shares are Class "A" and 122,448,979 shares are Class "B". As of September 30, 2021, there are 607 holders of Class "A" shares and 388 holders of Class "B" shares.

#### List of Top 20 Stockholders As of September 30, 2021

|    | Stockholder's Name                      | Number of Shares |            | Percentage |
|----|-----------------------------------------|------------------|------------|------------|
|    |                                         | Class A          | Class B    | Total      |
| 1  | PCD NOMINEE CORPORATION (FILIPINO)      | 43,096,501       | 30,725,833 | 24.115     |
| 2  | CRESTON GLOBAL LIMITED                  |                  | 56,378,388 | 18.417     |
| 3  | CHESA HOLDINGS INC.                     | 40,500,000       |            | 13.230     |
| 4  | PACIFIC WIDE REALTY & DEVELOPMENT CORP. | 31,498,000       |            | 10.289     |
| 5  | FORUM HOLDINGS CORPORATION              | 14,442,356       | 13,432,644 | 9.106      |
| 6  | PACIFIC CONCORDE CORPORATION            | 6,329,500        | 9,503,908  | 5.172      |
| 7  | REXLON REALTY GROUP, INC.               | 12,200,000       | 2,673,112  | 4.859      |
| 8  | CHARTERED COMMODITIES CORP.             | 11,296,000       |            | 3.690      |
| 9  | MIZPAH HOLDINGS, INC.                   | 10,128,700       |            | 3.309      |
| 10 | WILLIAM GATCHALIAN                      | 2,091,000        | 1,481,500  | 1.167      |
| 11 | PACIFIC REHOUSE CORP.                   | 1,258,000        | 1,670,000  | 0.956      |
| 12 | FORUM HOLDINGS CORPORATION              | 1,934,500        |            | 0.632      |
| 13 | PCD NOMINEE CORPORATION (NON-FILIPINO)  |                  | 1,477,911  | 0.483      |
| 14 | TIN FU OR TRAJANO                       |                  | 820,000    | 0.268      |
| 15 | CTBC TA# 5-C184: ZUELLIG CORP.          | 684,829          |            | 0.224      |
| 16 | VICTOR GAN SY                           | 400,000          | 200,000    | 0.196      |
| 17 | W. DUMERMUTH                            | 472,600          |            | 0.154      |
| 18 | VICTOR G. SY                            | 178,000          | 290,000    | 0.153      |
| 19 | AB CAPITAL & INVESTMENT CORPORATION     | 162,000          | 268,000    | 0.140      |
| 20 | MARY ANGUS BROWN                        | 309,910          |            | 0.101      |

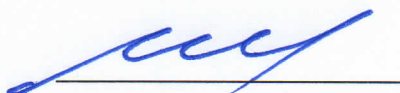
## SIGNATURES

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

Registrant: **METRO ALLIANCE HOLDINGS & EQUITIES CORP.**

Issuer: Richard L. Ricardo

Signature

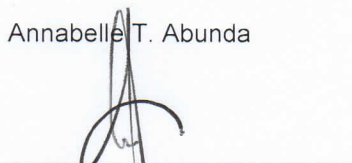


Title Treasurer

Date November 11, 2021

Finance Officer: Annabelle T. Abunda

Signature



Date November 11, 2021

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

**“Annex A.1”**

|                                                                   |    | <b>30-Sep-21</b>     | <b>30-Sep-20</b> | <b>31-Dec-20</b> |
|-------------------------------------------------------------------|----|----------------------|------------------|------------------|
|                                                                   |    | <b>Unaudited</b>     | <b>Unaudited</b> | <b>Audited</b>   |
| <b>ASSETS</b>                                                     |    |                      |                  |                  |
| <b>Current Assets</b>                                             |    |                      |                  |                  |
| Cash                                                              | 11 | <b>₱24,837,614</b>   | ₱30,784,396      | ₱33,101,605      |
| Trade and other receivables                                       | 12 | <b>177,372,770</b>   | 184,574,151      | 169,590,889      |
| Other current assets                                              | 13 | <b>22,700,100</b>    | 26,663,039       | 24,651,968       |
| <b>Total Current Assets</b>                                       |    | <b>224,910,484</b>   | 242,021,586      | 227,344,462      |
| <b>Noncurrent Assets</b>                                          |    |                      |                  |                  |
| Assets held for sale                                              | 14 | <b>572,478,305</b>   | 363,931,556      | 577,074,835      |
| Financial Assets at fair value through other comprehensive income | 15 | <b>20,921,885</b>    | 21,209,285       | 20,921,885       |
| Financial Assets at amortized cost                                | 16 | -                    | 2,041,795        | -                |
| Property and equipment – net                                      | 17 | <b>80,116,484</b>    | 79,988,458       | 72,147,002       |
| Deferred tax assets                                               |    | <b>5,558,432</b>     | 5,410,936        | 5,558,432        |
| Other noncurrent assets                                           | 18 | <b>12,003,956</b>    | 7,415,700        | 11,737,905       |
| <b>Total Noncurrent Assets</b>                                    |    | <b>691,079,062</b>   | 479,997,730      | 687,440,059      |
| <b>TOTAL ASSETS</b>                                               |    | <b>915,989,546</b>   | 722,019,316      | 914,784,521      |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                       |    |                      |                  |                  |
| <b>Current Liabilities</b>                                        |    |                      |                  |                  |
| Accounts payable and accrued expenses                             | 19 | <b>284,060,927</b>   | 304,113,456      | 291,646,159      |
| Lease Liability                                                   | 20 | <b>34,051,307</b>    | 25,452,455       | 34,051,307       |
| Due to related parties                                            | 21 | <b>6,100,760</b>     | 58,860,981       | 6,308,415        |
| <b>Total Current Liabilities</b>                                  |    | <b>324,212,994</b>   | 388,426,892      | 332,005,881      |
| <b>Noncurrent Liabilities</b>                                     |    |                      |                  |                  |
| Accrued expenses, non-current portion                             | 19 | <b>123,438,803</b>   | 123,438,803      | 123,438,803      |
| Lease liability, non-current portion                              | 20 | <b>34,810,789</b>    | 49,633,157       | 34,810,789       |
| Due to related parties, non-current portion                       | 21 | <b>268,260,352</b>   | -                | 268,260,352      |
| Accrued retirement benefit costs                                  | 28 | <b>8,636,254</b>     | 7,760,977        | 8,636,254        |
| Deferred tax liability                                            |    | <b>305,112</b>       | -                | -                |
| <b>Total Noncurrent Liabilities</b>                               |    | <b>435,451,310</b>   | 180,832,937      | 435,146,198      |
| <b>Total Liabilities</b>                                          |    | <b>759,664,304</b>   | 569,259,829      | 767,152,079      |
| <b>Stockholders' Equity</b>                                       |    |                      |                  |                  |
| Equity attributable to equity holders of the Parent Company       |    |                      |                  |                  |
| Capital stock                                                     |    | <b>306,122,449</b>   | 306,122,449      | 306,122,449      |
| Additional paid-in capital                                        |    | <b>3,571,923</b>     | 3,571,923        | 3,571,923        |
| Deficit                                                           |    | <b>(212,234,263)</b> | (210,751,854)    | (214,668,844)    |
| Remeasurement gain on retirement plan                             |    | <b>4,205,315</b>     | 4,204,357        | 4,205,315        |
| Fair value reserve                                                |    | <b>4,650,922</b>     | 4,938,322        | 4,650,922        |
|                                                                   |    | <b>106,316,346</b>   | 108,085,197      | 103,881,765      |
| Non-controlling interests                                         |    | <b>50,008,896</b>    | 44,674,290       | 43,750,677       |
| <b>Total Stockholders' Equity</b>                                 |    | <b>156,325,242</b>   | 152,759,487      | 147,632,442      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                 |    | <b>₱915,989,546</b>  | ₱722,019,316     | ₱914,784,521     |

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

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

**“Annex A.2”**

|                                                                          |    | <b>Unaudited<br/>Jul. - Sep.<br/>2021</b> | <b>Unaudited<br/>Jul. - Sep.<br/>2020</b> | <b>Unaudited<br/>Jan. – Sep.<br/>2021</b> | <b>Unaudited<br/>Jan. – Sep.<br/>2020</b> |
|--------------------------------------------------------------------------|----|-------------------------------------------|-------------------------------------------|-------------------------------------------|-------------------------------------------|
| <b>SALE OF SERVICES</b>                                                  | 24 | <b>₱75,516,312</b>                        | ₱61,326,698                               | <b>₱213,045,650</b>                       | ₱200,709,467                              |
| <b>COST OF SERVICES</b>                                                  | 25 | <b>62,510,951</b>                         | 51,970,455                                | <b>179,459,813</b>                        | 170,372,359                               |
| <b>GROSS PROFIT</b>                                                      |    | <b>13,005,361</b>                         | 9,356,243                                 | <b>33,585,837</b>                         | 30,337,108                                |
| <b>OTHER INCOME</b>                                                      | 26 | <b>209,854</b>                            | 164,927                                   | <b>697,516</b>                            | 1,154,016                                 |
| <b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>                             | 27 | <b>(9,612,218)</b>                        | (6,810,178)                               | <b>(25,590,553)</b>                       | (21,894,493)                              |
| <b>INCOME BEFORE TAX</b>                                                 |    | <b>3,602,997</b>                          | 2,710,992                                 | <b>8,692,800</b>                          | 9,596,631                                 |
| <b>INCOME TAX (EXPENSE) / BENEFIT</b>                                    |    | -                                         | -                                         | -                                         | -                                         |
| <b>NET INCOME</b>                                                        |    | <b>3,602,997</b>                          | 2,710,992                                 | <b>8,692,800</b>                          | 9,596,631                                 |
| <b>Net income (loss) attributable to:</b>                                |    |                                           |                                           |                                           |                                           |
| Equity holders of the Parent Company                                     |    | <b>1,225,248</b>                          | 1,253,749                                 | <b>2,434,581</b>                          | 4,118,313                                 |
| Non-controlling interest                                                 |    | <b>2,377,749</b>                          | 1,457,243                                 | <b>6,258,219</b>                          | 5,478,318                                 |
|                                                                          |    | <b>3,602,997</b>                          | 2,710,992                                 | <b>8,692,800</b>                          | 9,596,631                                 |
| <b>Basic income (loss) per share</b>                                     |    |                                           |                                           |                                           |                                           |
| Income for the year attributable to equity holders of the Parent Company |    | <b>₱0.004</b>                             | ₱0.004                                    | <b>₱0.008</b>                             | ₱0.013                                    |

*\*Based on the weighted average number of shares of 306,122,449  
(The accompanying notes are integral part of these financial statements)*

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**“Annex A.3”**

|                                                                 | September 30,        |                     |
|-----------------------------------------------------------------|----------------------|---------------------|
|                                                                 | 2021                 | 2020                |
| <b>ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY</b> |                      |                     |
| <b>Capital Stock</b> - ₱1 par value                             | <b>₱306,122,449</b>  | <b>₱306,122,449</b> |
| Common shares                                                   |                      |                     |
| Class “A”                                                       |                      |                     |
| Authorized - 720,000,000 shares                                 |                      |                     |
| Issued and outstanding - 183,673,470 shares                     |                      |                     |
| Class “B”                                                       |                      |                     |
| Authorized - 480,000,000 shares                                 |                      |                     |
| Issued and outstanding - 122,449,979                            |                      |                     |
| <b>Additional Paid-in Capital</b>                               | <b>3,571,923</b>     | <b>3,571,923</b>    |
| <b>Deficit</b>                                                  |                      |                     |
| Balance at beginning of the year                                | <b>(214,668,844)</b> | (214,870,166)       |
| Adjustment to beginning balance of retained earnings            | -                    | -                   |
| Net income                                                      | <b>2,434,581</b>     | 4,118,312           |
| Balance at end of the period                                    | <b>(212,234,263)</b> | (210,751,854)       |
| <b>Other Reserves:</b>                                          |                      |                     |
| Revaluation reserve on available-for-sale financial assets      | <b>4,650,922</b>     | 4,938,322           |
| Remeasurement Gain (Loss) on Retirement Plan                    | <b>4,205,315</b>     | 4,204,357           |
|                                                                 | <b>8,856,237</b>     | 9,142,679           |
| <b>EQUITY ATTRIBUTABLE TO HOLDERS OF PARENT COMPANY</b>         | <b>106,316,346</b>   | 108,085,197         |
| <b>MINORITY INTERESTS</b>                                       | <b>50,008,896</b>    | 44,674,290          |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>                               | <b>₱156,325,243</b>  | <b>₱152,759,487</b> |

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

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**“Annex A.4”**

|                                                   | Unaudited<br>Jan. - Sep.<br>2021 | Unaudited<br>Jan. - Sep.<br>2020 |
|---------------------------------------------------|----------------------------------|----------------------------------|
| <b>CASH FROM OPERATING ACTIVITIES</b>             |                                  |                                  |
| Income before income tax                          | ₱8,692,800                       | ₱9,596,631                       |
| Adjustments for:                                  |                                  |                                  |
| PFRS 16 transition adjustment                     | -                                | -                                |
| Write-off of receivables                          | -                                | -                                |
| Provision for probable losses                     | -                                | -                                |
| Provision for impairment on other current assets  | -                                | -                                |
| Amortization of intangible assets                 | 377,048                          | 413,448                          |
| Depreciation                                      | 3,713,290                        | 2,581,565                        |
| Gain on disposal of equipment                     | -                                | -                                |
| Written-off accrued retirement benefit            | -                                | -                                |
| Provision for retirement benefit costs            | -                                | -                                |
| Interest expense paid on lease liability          | -                                | -                                |
| Interest income                                   | (80,844)                         | (156,116)                        |
| Operating income before working capital changes   | 12,702,293                       | 12,435,528                       |
| Changes in assets and liabilities:                |                                  |                                  |
| Trade and other receivables, net                  | (7,781,881)                      | (36,261,708)                     |
| Other current assets                              | (2,138,470)                      | (10,607,637)                     |
| Other non-current assets                          | (266,051)                        | (963,739)                        |
| Accounts payable and accrued expenses             | (7,280,120)                      | 29,493,967                       |
| Net Cash from Operating Activities                | (4,764,230)                      | (5,903,589)                      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>       |                                  |                                  |
| Interest received                                 | 80,844                           | 156,116                          |
| Proceeds from asset held for sale                 | 4,596,530                        | 2,254,272                        |
| Acquisition of equity investment                  |                                  | (3,163)                          |
| Proceeds from disposal of property and equipment  | -                                | -                                |
| Acquisition of asset held for sale                |                                  | -                                |
| Acquisition of financial assets at amortized cost |                                  | -                                |
| Acquisition of property and equipment             | (7,969,482)                      | 1,595,670                        |
| Acquisition of intangible assets                  | -                                | -                                |
| Net Cash from Investing Activities                | (3,292,108)                      | 4,002,895                        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>       |                                  |                                  |
| Interest paid on lease liability                  | -                                | -                                |
| Availment of (payment of) lease liability         | -                                | -                                |
| Advances (repayments) of related parties          | (207,655)                        | (297,566)                        |
| Net Cash from Financing Activities                | (207,655)                        | (297,566)                        |
| <b>NET INCREASE (DECREASE) IN CASH</b>            | <b>(8,263,992)</b>               | <b>(2,198,260)</b>               |
| <b>CASH, Beginning</b>                            | <b>33,101,605</b>                | <b>32,982,656</b>                |
| <b>CASH, End</b>                                  | <b>₱24,837,614</b>               | <b>₱30,784,396</b>               |

*\*See Notes to Consolidated Financial Statements*

## **1. CORPORATE INFORMATION**

Metro Alliance Holdings and Equities Corporation (MAHEC or the Parent Company), is incorporated in the Philippines. The Parent Company and its subsidiaries (collectively referred to as “the Group”) are involved in contract logistics. Certain subsidiaries previously engaged in the importation and distribution of polypropylene resin and pharmacy management have ceased operations.

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

A regular meeting of the stockholders of Metro Alliance Holdings & Equities Corp. was held on November 16, 2018 for the purpose of, among other purposes, securing the consent of the stockholders for the amendment of the Articles of Incorporation, specifically, Article Ninth to declassify common shares class A and B shares resulting to one common shares and also Article Sixth to increase the number of directors from seven to nine. These amendments were approved by the stockholders and/or their represented proxy during said the meeting and was filed to SEC last May 8, 2019. As of September 30, 2021, the amendment is pending for SEC approval.

## **2. STATUS OF OPERATION**

### **Going Concern**

The accompanying consolidated financial statements have been prepared assuming that the Group Company will continue as a going concern.

The Group and Polymax Worldwide Limited (Polymax), its unconsolidated 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, in 2016, resulted in a 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.

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

The Parent Company still holds 20% interest in NPC Alliance Corporation (NPCAC) as of September 30, 2021. While this investment is still realizable at substantially higher value than the stated in the books, sufficient provision for possible loss have already been recorded. Over the past years, it has been determined that the present global petrochemical market conditions have had a dampening effect on the viability of the polyethylene business, especially when coupled with the difficulty in sourcing ethylene feedstock. As a consequence, thereof, and in order to protect our interest, we have filed legal suits against our partners in NPCAC in order to establish full accountability. Among the other options we have presented to our Iranian partners is to consider the take-over of the plant by MAHEC/Polymax together with its potential Chinese partner. The proposal of MAHEC/Polymax is still under consideration by Persian Gulf Petrochemical Industries Corporation (PGPIC), the majority shareholder of NPCA.

MAHEC’s remaining operating subsidiary, Metro Combined Logistics Solutions, Inc. (MCLSI), is steadily growing with additional business from its existing principals. MCLSI is also exploring business opportunities in the transport field, including computer app solutions, warehousing and cold storage; in medical distribution and pharmaceutical business logistics, operation of hospice care and management of medical clinics, importation of medical equipment; and also in document storage, car parking, sea travel, river ferry and airport/seaport terminal management.

### **Actions of the Company**

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

- a) Commitment by the majority shareholders of the Group to guaranty the recoverable value of the remaining “assets for sale” in its books in order that the Group’s equity be preserved;
- b) Pressing the majority shareholders of NPCA to write down the obligation of NPCA to its principal shareholders to pave the way for restructured financial statements;
- c) Increasing the number of Board Directors from 7 to 9 in order to pave the way for a broader representation of stakeholders;
- d) Removing the “A” and “B” classification of the Group shares to integrate common shares into just one class.
- e) Working out a stock rights offer for take advantage of unissued shares from our authorized capital stock.

After the conduct of stock right offering, the Parent Company will pursue its pending application with the SEC to increase its authorized capital stock to ₱5 billion, in order to meet its projected investments. In sum, the Group is expected to satisfy its cash requirements to finance its projected plans and investments in new ventures throughout the calendar year 2020.

While the COVID-19 virus and the curtailment of worldwide mobility have created a difficult business environment, the Parent Company remains positive that a recovery is imminent, given the continuous rollout of vaccines this year.

**Realization of Outstanding Receivables from Polymax Worldwide in the Amount of ₱572,478,305 as of September 30, 2021**

Assuming that the 4-way negotiations with the Chinese bank, the Chinese petrochemical firm and the Iranians will bog down, there are other alternatives to address the issue. In order that this outstanding receivable will be fully recovered, a payment via dacion of the remaining 20% NPCA shares held by Polymax in NPC Alliance may be assigned to Metro Alliance, thus, making the Parent Company the direct shareholders of NPCA.

**Manpower Requirements**

The Group does not expect significant changes in the number of employees as it is still in the stage of exploring new business opportunities. Manpower will be outsourced if needed.

**Capital Asset Acquisition**

The Group will make purchases of equipment and machines in the future if needed especially when investment in mining industry will materialize.

**COVID-19 Impact**

The Group’s management has also considered the consequences of COVID-19 and other events and made an assessment on the Group’s ability to continue as a going concern and is satisfied that it has the resources to continue their business for the foreseeable future. The impact of COVID-19 on future performance and on the measurement of some assets and liabilities might be significant and might therefore require disclosure in the financial statements, but the management has determined that they do not create a material uncertainty that casts significant doubt upon the Group’s ability to continue as a going concern.

Therefore, the financial statements continue to be prepared on the going concern basis.

**Acquisition Transactions**

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

On December 19, 2003, Polymax and IFC entered into an Assignment and Transfer Agreement (the Agreement) for the purchase by the former of the senior secured debt papers of BPC. The Parent Company

advanced to Polymax the initial deposit of US\$5 million, which was remitted to IFC for the assignment payment, pursuant to the terms of the Agreement. On February 11, 2004, IFC confirmed that it has received the full payment for the assignment of the senior secured debt papers of BPC.

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

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 85million common shares of Polymax with par value of US\$1 per share, or a total par value of US\$85million.

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 4.8million shares of common stock of NPCA with a total par value of ₱4.8billion, 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\$85million, 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 ₱1.91billion.

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 ₱954.5million.

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

On August 21, 2007, the petrochemical plant started commercial operations under NPCI and PIIC. Subsequently on August 27, 2013, the Parent Company and Polymax entered into a settlement agreement with NPCI, PIIC and NAC to resolve, fully and finally, the dispute arising from the uncompleted acquisition transactions described above. Under the agreement, NCPI shall, among others, pay Polymax the remaining balance of the purchase price of the 60% NPCA shares net of deductions agreed by the parties. Simultaneous with the execution of the agreement, Polymax shall also sell to NPCI an additional 20% of Polymax's interest in NPCA from the remaining 40% equity holding in NPCA at US\$8million or its equivalent in Philippine peso. In September 2013 and August 2014, the remaining balance due to Polymax was paid by NCPI and the 20% interest of Polymax in NPCA was sold to NCPI, respectively, in accordance with the agreement.

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

### **3. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

#### **Statement of Compliance**

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

#### **Basis of Preparation**

The consolidated financial statements of the Group have been prepared using the measurement bases specified by Philippine Financial Reporting Standards (PFRS) for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### **Going Concern Assumption**

The preparation of the accompanying condensed consolidated financial statements of the Group is based on the premise that the Group operates on a going concern basis, which contemplate the realization of assets and settlement of liabilities in the normal course of business. The management does not intend to liquidate.

#### **Functional and presentation currency**

The consolidated financial statements are prepared in Philippine Peso (₱), which is the Group's functional and presentation currency.

Items included in the consolidated financial statements of the Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Group operates.

All values are presented in absolute amounts and are rounded off to the nearest peso 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 as of September 30:

|                                                                                 | Percentage of Ownership |      |
|---------------------------------------------------------------------------------|-------------------------|------|
|                                                                                 | <b>2021</b>             | 2020 |
| Operating subsidiaries:                                                         |                         |      |
| Metro Combined Logistics Solutions, Inc. (MCLSI) (formerly GAC Logistics, Inc.) | <b>51%</b>              | 51%  |
| Non-operating subsidiaries:                                                     |                         |      |
| Consumer Products Distribution Services, Inc. (CPDSI)                           | <b>100%</b>             | 100% |
| FEZ-EAC Holdings, Inc. (FEZ-EAC)                                                | <b>100%</b>             | 100% |
| Zuellig Distributors, Inc. (ZDI)                                                | <b>100%</b>             | 100% |
| Asia Healthcare, Inc. (AHI)                                                     | <b>60%</b>              | 60%  |

The financial statements of the subsidiary are prepared for the same reporting year as the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances. Intercompany balances and transactions, including intercompany profits and losses, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

### **Investment in subsidiary**

Control is achieved when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).

When the Parent Company has less than majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more elements of control. Consolidation of a subsidiary begins when control is obtained over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

### **Non-controlling interests**

Non-controlling interests represent the portion of net results and net assets not held by the Parent Company. These are presented in the consolidated statement of financial position within equity, apart from equity attributable to equity holders of the Parent Company and are separately disclosed in the consolidated statement of comprehensive income. Non-controlling interests consist of the amount of those interests at the date of original business combination and the non-controlling interests' share on changes in equity since the date of the business combination.

### **Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

#### Transactions with non-controlling interests

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests results in gains and losses for the Group that are also recognized in equity.

#### Loss of control and disposal of subsidiaries

When the Group ceases to have control over a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over the subsidiary, it:

- derecognizes the assets, including goodwill, and liabilities of the subsidiary
- derecognizes the carrying amount of any non-controlling interest
- derecognizes the cumulative transaction differences recorded in equity
- recognizes the fair value of the consideration received
- recognizes the fair value of the any investment retained
- recognizes any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognized in OCI to profit or loss retained earnings, as appropriate.

#### Use of judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Group's financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Group significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an on-going basis. These are based on management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revision 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.

The areas where significant judgments and estimates have been made in preparing the consolidated financial statements and their effects are disclosed in Note 5.

#### **Adoption of new and revised accounting standards**

The Group's accounting policies are consistent with those of the previous financial year, except for the adoption of the following new accounting pronouncements:

#### **New and Revised Accounting Standards Effective in 2020**

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning January 1, 2020:

- *Conceptual Framework for Financial Reporting* – The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements of any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- *Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material* – The amendments clarify the definition of “material” and how it should be applied by companies in making materiality judgments. The amendments ensure that the new definition is consistent across all PFRS standards. Based on the new definition, information is “material” if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

An entity applies those amendments prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

- *IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 (amendments), References to the Conceptual Framework in PFRS* – The amendments include a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance-in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurements uncertainty in financial reporting.

An entity applies those amendments prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

- *Amendments to PFRS 3, Business Combinations - Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

- *PFRS 9, PAS 39 and PFRS 7 (amendments), Interest Rate Benchmark Reform.* – The amendments will affect entities that apply the hedge accounting requirements of PFRS 9 or PAS 39 to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform.

An entity applies those amendments prospectively for annual periods beginning on or after January 1, 2020, with earlier application permitted.

### **New and Amended Standards Effective Subsequent to 2020 but not Early Adopted**

Pronouncements issued but not yet effective as at September 30, 2021 are listed below. The Group intends to adopt the following pronouncements when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new pronouncements to have a significant impact on the consolidated financial statements.

#### Effective beginning on or after June 1, 2020

*Amendments to PFRS 16, COVID-19-related Rent Concessions* – the amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. When there is a change in lease payments, the accounting consequences will depend on whether that change meets the definition of a lease modification, which PFRS 16 Leases defines as “a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)”.

The changes in Covid-19-Related Rent Concessions amend PFRS 16 to:

- 1) provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- 2) require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- 3) require lessees that apply the exemption to disclose that fact; and
- 4) require lessees to apply the exemption retrospectively in accordance with PAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as the adjustment to the opening balance of the accumulated profits or other component of equity, as appropriate.

The amendments have no effect or impact to the Group’s financial statements.

#### Effective beginning on or after January 1, 2021

##### *PFRS 9, PFRS 7, PFRS 4 and PFRS 16 (amendments), Interest Rate Benchmark Reform – Phase 2*

The amendments provide in the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
- Relief from discontinuing hedging relationships;
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Group shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and,
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and must be applied retrospectively.

#### Effective beginning on or after January 1, 2022

*Amendments to PAS 16, Property, Plant and Equipment - Proceeds before Intended Use* - the purpose of the amendments is to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

*Amendments to PAS 37, Onerous Contracts - Cost of Fulfilling a Contract* – the amendment is regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

*Amendments to PFRS 3, Reference to the Conceptual Framework with amendments to PFRS 3 'Business Combinations* – the amendments update an outdated reference in PFRS 3 without significantly changing its requirements. The changes are: update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or IFRIC 21, an acquirer applies PAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and add to PFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

#### Effective beginning on or after January 1, 2023

*Amendments to PAS 1, Classification of Liabilities as Current or Non-current* – the amendments provide a more general approach to the classification of liabilities under PAS 1 based on the contractual arrangements in place at the reporting date. The amendments affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. To:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

*Amendments to PFRS 17, Insurance Contracts* – the amendments' purpose is to address concerns and implementation challenges that were identified after PFRS 17 'Insurance Contracts' was published in 2017. The main changes are: deferral of the date of initial application of PFRS 17 by two years to annual periods beginning on or after January 1, 2023; additional scope exclusion for credit card contracts and similar contracts that provide insurance coverage as well as optional scope exclusion for loan contracts that transfer significant insurance risk; recognition of insurance acquisition cash flows relating to expected contract renewals, including transition provisions and guidance for insurance acquisition cash flows recognized in a business acquired in a business combination; extension of the risk mitigation option to include reinsurance contracts held and non-financial derivatives; amendments to require an entity that at initial recognition recognizes losses on onerous insurance contracts issued to also recognize a gain on reinsurance contracts held; simplified presentation of insurance contracts in the statement of financial position so that entities would present insurance contract assets and liabilities in the statement of financial position determined using portfolios of insurance contracts rather than groups of insurance contracts; and several small amendments regarding minor application issues.

The Group is still assessing the impact of the preceding amendments to the consolidated financial statements.

#### Deferred

*PFRS 10 (amendments), Consolidated Financial Statements, and PAS 28 (amendments), Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

### **Annual Improvements to PFRS**

The annual improvements to PFRSs contain non-urgent but necessary amendments to PFRSs.

#### *2018-2020 Cycle*

The Annual Improvements to PFRSs (2018-2020 Cycle) are effective for annual periods beginning on or after January 1, 2022, with retrospective application. The amendments to the following standards:

- PFRS 1, Subsidiary as a first-time adopter - The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1: D16 (a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1: D16 (a).
- PFRS 9, Fees in the '10 per cent' test for derecognition of financial liabilities - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the consolidated financial statements.

- PFRS 16, Lease Incentives - The amendment removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- PAS 41, Taxation in fair value measurements - The amendment removes the requirement for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

The amendments are not expected to have a material impact on the consolidated financial statements.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **Financial assets and financial liabilities**

*Date of Recognition.* The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of a financial 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 and Measurement.* 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 initial measurement of financial instruments, except for those designated at fair value through profit and loss (FVPL), includes transaction cost.

*“Day 1” Difference.* Where the transaction price in a non-active market is different from the fair value of 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” difference) in profit or loss. In cases where there is no observable data on inception, the Group deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss 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” difference.

*Classification.* The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group’s business model and its contractual cash flow characteristics.

As of September 30, 2021 and 2020, the Group does not have financial assets and liabilities measured at FVPL.

*Financial Assets at Amortized Cost.* Financial assets shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As of September 30, 2021 and 2020, the Group’s cash, trade and other receivables, refundable deposits and investment in debt securities are included under this category.

*Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not SPPI are classified and measured at FVPL, irrespective of business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in the consolidated statements of comprehensive income. As at September 30, 2021 and 2020, the Group has no financial assets at FVPL.

*Financial Assets at FVOCI.* For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For equity instruments, the Group may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the consolidated statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As of September 30, 2021 and 2020, the Group's equity investments at FVOCI are included under this category.

*Financial Liabilities at Amortized Cost.* Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As of September 30, 2021 and 2020, the Group's accounts payable and accrued expenses, lease liability and due to related parties are included under this category.

### **Reclassification**

The Group reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

#### **Impairment of financial assets at amortized cost and FVOCI**

The Group records an allowance for “expected credit loss” (ECL). ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset’s original effective interest rate.

For loan receivables, the Group has applied the simplified approach and has calculated ECLs based on the lifetime expected credit losses. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments measured at amortized cost and FVOCI, the ECL is based on the 12-month ECL, which pertains to the portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since initial recognition, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

At each reporting date, the Group assesses whether financial assets at amortized cost are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

#### **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 right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the financial 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 right to receive cash flows from the financial 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 right to receive cash flows from a financial asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Group’s continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Group could be required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has 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 the consolidated statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Group could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the consolidated statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

#### **Offsetting financial instrument**

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated statements of financial position if, and only if, there is 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 statements of financial position.

#### **Classification of financial instrument between liability and equity**

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

- deliver cash or another financial asset to another entity;
- 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.

#### **Current versus non-current classification**

The Group presents assets and liabilities in the statement of financial position based on current/noncurrent classification.

An asset is current when:

- It is expected to be realized or intended to be sold or consumed in normal operating cycle
- It is held primarily for the purpose of trading
- It is expected to be realized within twelve months after the reporting period, or
- Cash on hand and in banks unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as noncurrent.

### **Foreign currency transactions and translation**

Transactions in foreign currencies are initially recorded by the Group at the respective functional currency rates prevailing at the date of the transaction.

Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the statements of comprehensive income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognized in OCI until the disposal of the net investment, at which time they are recognized in profit or loss. Tax charges and credits applicable to exchange differences on these monetary items are also recorded in the OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the par value is determined.

### **Fair value measurement**

The Group measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Group.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1: quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

### **Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee (ExeCom), its chief operating decision-maker. The ExeCom is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's main service lines as disclosed in Note 6, which represent the main services provided by the Group.

Each of these operating segments is managed separately as each of these service lines require different resources as well as marketing approaches. All intersegment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, Operating Segments, are the same as those used in its consolidated financial statements.

There have been no significant changes from prior periods in the measurement methods used to determine reported segment profit or loss.

### **Cash**

Cash includes cash funds, undeposited cash collections and customers' checks. Cash funds are set aside for current purposes such as petty cash fund. Cash in banks include demand deposits which are unrestricted as to withdrawal.

Cash is valued at face value. Cash in foreign currency is valued at the current exchange rate.

The Group recognized cash as current asset when it is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

### **Trade and other receivables, net**

Trade and other receivables are amounts due from clients for services performed in the ordinary course of business, if collection is expected in one year or less (or in the normal operating cycle of the business longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate (EIR) method, less provision for impairment.

Impairment is considered when there is objective evidence that the Group will not be able to collect the debts.

### **Other current assets, net**

Other assets are recognized when the Group expects to receive future economic benefit from the other party, and the amount can be measured reliably. Other assets are classified in the consolidated statements of financial position as current assets when the cost of goods or services related to the assets are expected to be incurred within one year or the Group's normal operating cycle, whichever is longer. Otherwise, other assets are classified as noncurrent assets.

### **Asset held for sale**

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

### **Property and equipment, net**

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period such costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

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

| Particulars                              | Number of Years                                |
|------------------------------------------|------------------------------------------------|
| Leasehold improvements                   | 5 years or lease term,<br>whichever is shorter |
| Machinery and equipment                  | 3 to 5                                         |
| Office furniture, fixtures and equipment | 3 to 5                                         |
| Right-of-use assets                      | 2 to 5                                         |

Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Further, amortization of right-of-use assets is calculated using the straight-line method to allocate their cost, net of residual values, over their estimated useful lives being the lesser of the remaining lease term and the life of the asset.

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

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

### **Intangible assets**

Intangible assets pertaining to software license costs that are acquired separately are initially carried at cost. Subsequently, intangible assets with definite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, which do not exceed three years.

The remaining useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

### **Impairment of non-financial asset**

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

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

### **Accounts payable and accrued expenses**

Accounts payable and accrued expenses are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced, or formally agreed with supplier including amounts due to employees. It is necessary to estimate the amount of accruals; however, the uncertainty is generally much less than for provision.

### **Equity**

#### **Share capital**

Share capital is determined using the nominal value of shares that have been issued.

#### *Additional paid-in capital*

Additional paid-in capital includes any premiums received on the initial issuance of share capital. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net

#### *Retained earnings (deficit)*

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, prior period adjustments, effect of changes in accounting policy and other capital adjustments. When retained earnings account has debit balance, it is called "deficit", and presented as a deduction from equity of tax, from the proceeds.

#### **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably, regardless of when the payment is being made.

Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, duties and sales taxes. Revenue includes only the gross inflow of the economic benefits received and receivable by the Company on its own account. Amounts collected on behalf of third parties, such as reimbursable transactions are not economic benefits to the Group and do not result in increase in equity; therefore, they are excluded from revenue.

- Logistics and other services is recognized when the related services are rendered.
- 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.
- Other income is recognized when earned.

#### **Cost and expenses**

Costs and expenses are decreases in economic benefits during the year in the form of outflows or decreases of assets or incurrence of liabilities that result in decreases in equity other than those relating to distribution to equity participants. Costs and general and administrative expenses and interest expense are recognized in consolidated statements of comprehensive income in the period these are incurred.

- *Cost of services* - include direct material costs, personnel expenses, depreciation, utilities and other service-related costs. These are recognized when the services are used or the expenses are incurred.
- *General and administrative expenses* - Expenses incurred in the direction and general administration of day-to-day operation of the Company are generally recognized when the services are used or the expenses incurred.

#### **Leases**

At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether the contract meets three key evaluations which are whether:

- a) the contract contains an *identified asset*, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group,
- b) the Group has the *right to obtain substantially all of the economic benefits* from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract,
- c) the Group has the *right to direct the use* of the identified asset throughout the period of use.

The Group shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

#### **As a lessor**

Lease payment received is recognized as income in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

#### As a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### (a) Right-of-use asset

At the initial application date, the Group recognizes a right-of-use asset on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

#### (b) Lease liability

At the initial application date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

#### **Retirement benefits cost**

Employee benefits are all forms of considerations given by the Group in exchange for service rendered by the employees. It includes short-term employee benefits and post-employment benefits.

#### *Short-term benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

#### *Termination Benefits*

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefit, short-term employee benefits, or other long-term employee benefits.

#### *Retirement benefits*

The Group does not have a defined contribution plan or any formal retirement plan that covers the retirement benefits of its employees. However, under the existing regulatory framework, Republic Act No. 7641, otherwise known as the Philippine Retirement Pay Law, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining agreement and other agreements shall not be less than those provided under law. The law does not require minimum funding of the plan.

Republic Act No. 7641 relates to a defined benefit plan. A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service, and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group.

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

### **Income tax**

#### *Current income tax*

Current income tax assets and liabilities for the current period is measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### *Deferred tax*

Deferred tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, when timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits from excess minimum corporate income tax (MCIT) and net operating loss carry over (NOLCO), and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits from MCIT and NOLCO and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination; and at the time of the transaction, affects neither the accounting profit nor taxable profit (or loss).
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle the liabilities simultaneously.

### **Value Added Taxes (VAT)**

Revenue, expenses and assets are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

For acquisition of capital goods over ₱1,000,000, the VAT is deferred and amortized over the useful life of the related capital goods or 60 months, whichever is shorter, commencing on the date of the acquisition.

Output tax pertains to the 12% VAT received or receivable on the local sale of goods or services by the Group. Input tax pertains to the 12% VAT paid or payable by the Group in the course of its trade or business on purchase of goods or services. At the end of each taxable period, if output tax exceeds input tax, the outstanding balance is paid to the taxation authority. If input tax exceeds output tax, the excess shall be carried over to the succeeding months.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of 'other current assets' or 'accounts payable and accrued expenses' in the comprehensive statements of financial position.

### **Related parties**

Parties are considered related if one party has control, joint control, or significant influence over the other party in making financial and operating decisions. The key management personnel of the Group and close members of the family of any individuals owning directly or indirectly a significant voting power of the Group that gives them significant influence in the financial and operating policy decisions of the Group are also considered to be related parties.

An entity is related to the Group if any of the following conditions apply:

- The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member)
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group
- The entity is controlled or jointly controlled by a person identified above
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity)

Close members of the family of a person are those family members, who may be expected to influence, or be influenced by, that person in their dealings with the Group and include that person's children and spouse or domestic partner, and dependents of that person's spouse or domestic partner.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. An entity is related to the Group when it directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the Group. Transactions between related parties are based on terms similar to those offered to non-related entities in an economically comparable market, except for non-interest-bearing advances with no definite repayment terms.

### **Earnings per share (EPS) attributable to equity holders**

Basic EPS is calculated by dividing the profit attributable to the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding and assume conversion of all dilutive potential ordinary shares.

If the number of ordinary or potential shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted EPS for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

The Group has no dilutive potential common shares outstanding.

### **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 Group asset but only when the receipt of the reimbursement is virtually certain.

### **Contingencies**

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

### **Events after the reporting date**

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

## **5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the financial statements in conformity with PFRS requires the Group's management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes.

The estimates and associated assumptions are based on historical experiences and other various factors that are believed to be reasonable under the circumstances including expectations of related future events, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates, assumptions and judgments are reviewed and evaluated 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.

### **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.

#### *Going concern*

As of September 30, 2021, the Group's management has made an assessment on the Group's ability to continue as a going concern in the current evolving environment especially on the impact of COVID-19 pandemic and is satisfied that the Group has the resources to continue their business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### *Determination of functional currency*

The consolidated financial statements are presented in the Philippine Peso, which is also the Group's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### *Fair value measurements*

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

#### *Classifying financial instruments*

The Group exercises judgments in classifying 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 or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

#### *Assessing significant influence and control over investee.*

The Group determines that it has control over its subsidiaries by considering, among others, its power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns. The following are also considered:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual agreements.
- The Group's voting rights and potential voting rights.

#### *Consolidation of SPE*

An entity is considered a SPE and included in consolidation even in cases when the Group owns less than one-half or none of the SPE's equity, when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group. While the Group has no ownership interest in Polymax, this SPE was included in the 2006 consolidated financial statements and prior years. However, in 2007 up to the current year, the SPE was no longer consolidated because it had ceased operating as a going concern.

#### *Determination whether an agreement contains a lease*

The determination of whether a contract is, or contains a lease, is based on the substance of the arrangement at the inception of the lease. The arrangement is assessed for if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has entered into a lease arrangement as a lessor and a lessee.

#### *Accounting for lease commitments*

##### Group as a lessor

Lease payment received is recognized as income in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

The rent income recognized for the 3rd quarters 2021 and 2020 amounted to ₱11,772,392 and ₱9,222,657, respectively (Note 31).

##### Group as a lessee

The Group entered into several lease agreements covering its office premises and warehouses. Terms of the lease agreements range from 1 year to 5 years under renewable options. Other leases entered into include clauses to enable upward revision of the rental charged on an annual basis - based on prevailing market rates.

In 2019, the Group entered into lease agreements with terms ranging from 2 to 5 years, ending April 2020, May 2021 and October and November 2024. All are under renewable options.

Following the adoption of PFRS 16, the Group recognized right-of-use asset and lease liability over the life of the lease. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

Leases are further disclosed in Notes 20 and 31.

#### *Repairs and maintenance*

Costs of repairs and maintenance that do not result in an increase in the future economic benefit of an item of property and equipment is charged to operations in the period it is incurred. Otherwise, it is capitalized as part of the asset.

#### **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.

#### *Fair value of financial instruments*

PFRS requires that financial assets and financial liabilities be carried or disclosed at fair value, which requires the use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, and volatility rates), the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any change in the fair values of financial assets and financial liabilities directly affects profit or loss, equity, and the required disclosures.

Where the fair values of financial assets and financial liabilities recorded in the statements of financial position cannot be derived from active markets, their fair values are determined using valuation techniques that are generally-accepted market valuations including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values.

The fair values of financial assets and financial liabilities by category and their fair value hierarchy are set out in Note 10 to the financial statements.

#### *Impairment of equity investments*

The Group treats equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires judgment. The Group treats “significant” generally as a decline of 20% or more below of the original cost of the investment, and “prolonged” as period longer than 12 months. In addition, the Group evaluates other factors for equity 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.

#### *Assessing ECL on financial assets*

The Group applies the general approach in measuring the ECL. For cash in banks the Group assessed that cash is deposited with reputable banks that possess good credit ratings. For loan receivable, accrued interest receivable, advances to contractors and related parties, the Group considers the financial capacity of the counterparty. No ECL was recognized in September 30, 2021 and 2020. The carrying amounts of the Group’s financial assets are as follows:

|                           | 2021        | 2020        |
|---------------------------|-------------|-------------|
| Cash and cash equivalents | ₱24,837,614 | ₱30,784,396 |

|                     |                     |              |
|---------------------|---------------------|--------------|
| Receivables         | <b>177,372,770</b>  | 184,574,151  |
| Refundable deposits | <b>11,560,996</b>   | 10,992,898   |
|                     | <b>₱213,771,380</b> | ₱226,351,445 |

#### *Estimating allowance for probable losses*

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

Receivables (net of allowance for doubtful accounts of ₱150,522,844 and ₱149,004,715 as of September 30, 2021 and 2020, respectively) amounted to ₱177,372,770 and ₱184,574,151 as of September 30, 2021 and 2020, respectively (see Note 12).

The carrying amount of other current assets amounted to ₱22,700,100 and ₱26,663,039 as of September 30, 2021 and 2020, respectively as discussed in Note 13.

In September 30, 2021 and 2020, impairment loss, mainly pertaining to creditable withholding and input taxes, amounted to ₱14,336,880 and ₱12,886,123, respectively, as shown also in Note 13.

Advances to Polymax (under asset held for sale) amounting to ₱572,478,305 and ₱363,931,556 as of September 30, 2021, respectively, constitute 62.50% and 50.40% of the Group's total assets at the 3rd quarter of 2021 and 2020, respectively. The realization of the Parent Company's advances to Polymax and the settlement of the past due liabilities carried in the books of Polymax, for which the Parent Company is jointly and severally liable, is dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 20% interest in NPCA and from the letter of comfort issued by the Parent Company's major stockholders in favor of the Parent Company, as discussed in Note 14.

#### *Estimating useful lives and residual values of property and equipment and intangible assets*

The Group estimates the useful lives and residual values of its property and equipment and intangible assets based on the period over which the assets are expected to be available for use. The Group reviews annually the estimated useful lives and residual values based on factors that include asset utilization, internal technical evaluation, technological changes, and anticipated use of the assets. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment and intangible assets would increase depreciation and amortization expenses, while an increase in the estimated useful lives would decrease depreciation and amortization expenses.

There has been no change in the Group's estimate of the useful lives and residual values of its property and equipment in 2021 and 2020 of the 3rd quarter.

#### *Evaluation of impairment of noncurrent non-financial assets*

The Group assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash generating unit to which the asset belongs.

Management believes that there was no indication of impairment on property and equipment as of September 30, 2021 and 2020. As of September 30, 2021 and 2020, property and equipment, net of accumulated depreciation, amounted to ₱80,116,484 and ₱79,988,458, respectively, (Note 17) and total depreciation charged to operations amounted to ₱1,406,926 and ₱822,053 (Note 17) for periods ending 3rd quarter of September 30, 2021 and 2020, respectively.

#### *Assessing realizability of deferred tax assets*

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized in the future. The amount of deferred tax assets that are

recognized is based upon the likely timing and level of future taxable profits together with future tax planning strategies to which the deferred tax assets can be utilized.

The recognized net deferred tax assets amounted to ₱5,558,432 and ₱5,410,936 as of September 30, 2021 and 2020, respectively.

The Group did not recognize deferred tax assets of the Group and its non-operating subsidiaries amounting to ₱42,046,706 and ₱51,118,261 as of September 30, 2021 and 2020, respectively, as management believes that the Group and its non-operating subsidiaries may not have sufficient future taxable profits available to allow utilization of these deferred tax assets as discussed in.

#### *Incremental borrowing rate of lease liability*

Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The incremental borrowing rate is determined by the Group on the commencement date of the lease. As a result, it incorporates the impact of significant economic events and other changes in circumstances arising between lease inception and commencement.

This incremental rate is used to measure the lease liability at the present value of lease payments that are not paid at the end of lease term. In 2020 and 2019, the Group's determined incremental rates used to compute the carrying value of lease liability amounting to a total of ₱68,862,096 and ₱75,085,611 is ranging from 3% to 5% (Note 20).

#### *Retirement benefits*

The determination of the obligation and cost of retirement benefits is dependent on certain assumptions used by the actuary in calculating such amounts. These assumptions are described in Note 30 to the consolidated financial statements and include, among others, discount rates, salary increase rates and expected rates of return on plan assets. Actual results that differ from the Group's assumptions are accumulated and amortized over future periods and therefore, will generally affect the recognized expense and recorded obligation in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

Accrued retirement benefits costs amounted to ₱8,636,254 and ₱7,760,977 as of September 30, 2021 and 2020, respectively.

#### **Provision and contingencies**

Judgment is exercised by management to distinguish between provisions and contingencies. The policy on the recognition and disclosure of provisions is discussed in Note 4.

#### *Contingencies*

The Group is currently involved in various legal proceedings, which are normal to its business as discussed in Note 31. 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.

## **6. BUSINESS COMBINATION**

The Parent Company, Metro Alliance Holdings and Equities Corp., owns the following and these are accounted using the acquisition method:

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

MCLSI is 51% owned by the Parent Company, by virtue of a joint venture agreement with Gulf Agency Company (GAC) which owns the other 49%. MCLSI was registered with the Securities and Exchange Commission on September 30, 1998. MCLSI is primarily engaged in carrying on all or part of the business of contract logistics and supply chain management services, including third party warehousing and

distribution, consultancy and project management and value-added services to customers throughout the Philippines. MCLSI's business is steadily growing with the entry of new principals and additional businesses from its existing principals.

#### *Non-operating subsidiaries*

##### Consumer Products Distribution Services, Inc. (CPDSI)

CPDSI is a wholly owned subsidiary of the Parent Company. It was first incorporated on November 11, 1993 as Metro Drug Distribution, Inc. (MDDI). On 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.

FEZ-EAC Holdings, Inc. became a wholly owned subsidiary of the Parent Company on November 11, 2002. It was incorporated on 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.

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

##### Asia Healthcare, Inc.

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

Management is considering a rationalization plan to address the future of these non-operating subsidiaries.

## **7. SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS**

In determining whether an NCI is material to the Parent Company, management employs both quantitative and qualitative factors to evaluate the nature of, and risks associated with, the Parent Company's interests in these entities, and the effects of those interests on the Parent Company's financial position. Factors considered include, but not limited to, carrying value of the subsidiary's NCI relative to the NCI recognized in the Parent Company's consolidated financial statements, the subsidiary's contribution to the Parent Company's consolidated revenues and net income, and other relevant qualitative risks associated with the subsidiary's nature, purpose and size of activities.

Based on management's assessment, the Group has concluded that MCLSI is considered a subsidiary with NCI that is material to the Parent Company.

The ability of the subsidiary to pay dividends or make other distributions or payments to their shareholders (including the Parent Company) is subject to applicable law and other restrictions contained in financing agreements, shareholder agreements and other agreements that prohibit or limit the payment of dividends or other transfers of funds.

## **8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments are composed of cash and cash equivalents, receivable and payables. The main purpose of these financial instruments is to raise finances for the Group's operations. The risks arising from the use of financial instruments are managed through a process of on-going

identification, measurement, and monitoring. This process of risk management is critical to the Group's continuing profitability.

The BOD is ultimately responsible for overall risk management approach, monitoring risk exposures, and approving risk mitigation strategies and policies.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk.

### **Objectives and policies**

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest rate risk
- Liquidity risk
- Credit risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group is cash. This financial instrument is used mainly for working capital management purposes. Trade-related financial assets and financial liabilities of the Group such as trade and other receivables and trade and other payables, excluding statutory liabilities, arise directly from and are used to facilitate its daily operations.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

### **Interest Rate Risk**

The Group's interest rate risk management policy centers on reducing the overall interest expense and exposure to changes in interest rates. Changes in market interest rates relate primarily to the Group's interest-bearing debt obligations with floating interest rate as it can cause a change in the amount of interest payments.

The Group follows prudent policies in managing its exposures to interest rate fluctuation, and constantly monitors its exposure to fluctuation in interest rates to estimate the impact of interest rate movements on its interest expense.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt. As of September 30, 2021 and 2020, the Group has no significant interest rate risk exposures since the interest rates are fixed up to the date of maturity.

### **Liquidity Risk**

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall due under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; (c) to be able to access funding when needed at the least possible cost; and (d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The table below shows the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management as of September 30:

|                                            | 2021               |                       |                       |                       |
|--------------------------------------------|--------------------|-----------------------|-----------------------|-----------------------|
|                                            | On Demand          | Within 1 Year         | More than 1 Year      | Total                 |
| <b>Financial Assets at amortized cost:</b> |                    |                       |                       |                       |
| Cash excluding cash on hand                | ₱24,662,216        | ₱-                    | ₱-                    | ₱24,662,216           |
| Trade and other receivables                | -                  | 177,372,770           | -                     | 177,372,770           |
| Investment in debt security                | -                  | -                     | -                     | -                     |
| Refundable deposits                        | -                  | 124,898               | 11,436,098            | 11,560,996            |
|                                            | 24,662,216         | 177,497,668           | 11,436,098            | 213,595,982           |
| <b>Financial Assets at FVOCI</b>           | -                  | -                     | 20,921,885            | 20,921,885            |
| <b>Total</b>                               | <b>24,662,216</b>  | <b>177,497,668</b>    | <b>32,357,983</b>     | <b>234,517,867</b>    |
| <b>Financial Liabilities:</b>              |                    |                       |                       |                       |
| Account payables & accrued expenses        | -                  | 284,060,927           | 123,438,803           | 407,499,730           |
| Lease liability                            | -                  | 34,051,307            | 34,810,789            | 68,862,096            |
| Due to related parties                     | -                  | 274,361,112           | -                     | 274,361,112           |
| <b>Total</b>                               | <b>-</b>           | <b>592,473,346</b>    | <b>158,249,592</b>    | <b>750,722,938</b>    |
| <b>Net Position</b>                        | <b>₱24,662,216</b> | <b>(₱414,975,677)</b> | <b>(₱125,891,609)</b> | <b>(₱516,205,070)</b> |
|                                            | 2020               |                       |                       |                       |
|                                            | On Demand          | Within 1 Year         | More than 1 Year      | Total                 |
| <b>Financial Assets at amortized cost:</b> |                    |                       |                       |                       |
| Cash excluding cash on hand                | ₱30,578,396        | ₱-                    | ₱-                    | ₱30,578,396           |
| Trade and other receivables                | -                  | 184,574,151           | -                     | 184,574,151           |
| Investment in debt security                | -                  | -                     | 2,041,795             | 2,041,795             |
| Refundable deposits                        | -                  | 4,350,801             | 6,642,097             | 10,992,898            |
|                                            | 30,578,396         | 188,924,952           | 8,683,892             | 228,187,240           |
| <b>Financial Assets at FVOCI</b>           | -                  | -                     | 21,209,285            | 21,209,285            |
| <b>Total</b>                               | <b>30,578,396</b>  | <b>188,924,952</b>    | <b>29,893,177</b>     | <b>249,396,525</b>    |
| <b>Financial Liabilities:</b>              |                    |                       |                       |                       |
| Account payables & accrued expenses        | -                  | 304,113,456           | 123,438,803           | 427,552,259           |
| Lease liability                            | -                  | 25,452,455            | 49,633,157            | 75,085,612            |
| Due to related parties                     | -                  | 58,860,981            | -                     | 58,860,981            |
| <b>Total</b>                               | <b>-</b>           | <b>388,426,892</b>    | <b>173,071,960</b>    | <b>561,498,852</b>    |
| <b>Net Position</b>                        | <b>₱30,578,396</b> | <b>(₱199,501,940)</b> | <b>(₱143,178,783)</b> | <b>(₱312,102,327)</b> |

### **Credit Risk**

Credit risk is the risk of financial loss to the Group when a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy counterparties to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements).

As at September 30, 2020, the Group has no financial assets for which credit risk has increased significantly since initial recognition and that are credit-impaired.

- a. Financial information on the Group's maximum exposure to credit risk as of September 30, 2021, without considering the effects of collaterals and other risk mitigation techniques are presented below.

|                           | 2021                | 2020         |
|---------------------------|---------------------|--------------|
| Cash and cash equivalents | <b>₱24,837,614</b>  | ₱30,784,396  |
| Receivables               | <b>177,372,770</b>  | 184,574,151  |
| Refundable deposits       | <b>11,560,996</b>   | 10,992,898   |
|                           | <b>₱213,771,380</b> | ₱226,351,445 |

The Group does not hold any collateral as security or other credit enhancements attached to its financial assets.

The credit risk for is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of homogenous counterparties. The Group does not execute any credit guarantee in favor of any counterparty.

- b. Credit quality per class of financial assets

Description of the credit quality grades used by the Group follows:

*Financial assets at FVOCI*

High grade - Counterparties that are consistently profitable, have strong fundamentals and pays out dividends.

Standard grade - Counterparties that recently turned profitable and have the potential of becoming a high-grade Group. These counterparties have sound fundamentals.

Substandard grade - Counterparties that are not yet profitable, speculative in nature but have the potential to turn around fundamentally.

*Financial assets at amortized cost*

High grade - High probability of collection (the counterparty has the apparent ability to satisfy its obligation and the security on the receivables are readily enforceable).

Standard grade - Collections are probable due to the reputation and the financial ability of the counterparty to pay.

Substandard grade - The counterparty shows probability of impairment based on historical trends.

The following table show a comparison of the credit quality of the Group's financial assets by class as at the reporting date as of September 30:

|                                           | 2021                             |                    |                                 |                    |
|-------------------------------------------|----------------------------------|--------------------|---------------------------------|--------------------|
|                                           | Neither past<br>due nor impaired |                    | Past Due<br>but not<br>impaired | Total              |
|                                           | High<br>Grade                    | Standard<br>Grade  |                                 |                    |
| <b>Financial Assets at amortized cost</b> |                                  |                    |                                 |                    |
| Cash excluding cash on hand               | <b>₱24,662,216</b>               | <b>₱-</b>          | <b>₱-</b>                       | <b>₱24,662,216</b> |
| Trade Receivables (gross)                 | -                                | 136,529,881        | -                               | 136,529,881        |
| Other Receivables (gross)                 | -                                | -                  | 40,673,877                      | 40,673,877         |
| Investment in Debt Security               | -                                | -                  | -                               | -                  |
| Refundable Deposit                        | 11,560,996                       | -                  | -                               | 11,560,996         |
| <b>Subtotal</b>                           | <b>36,223,212</b>                | <b>136,529,881</b> | <b>40,673,877</b>               | <b>213,426,970</b> |

|                                  |                    |                     |                    |                     |
|----------------------------------|--------------------|---------------------|--------------------|---------------------|
| <b>Financial Assets at FVOCI</b> | <b>20,921,885</b>  | <b>-</b>            | <b>-</b>           | <b>20,921,885</b>   |
| <b>Total</b>                     | <b>₱57,145,097</b> | <b>₱136,529,881</b> | <b>₱40,673,877</b> | <b>₱234,348,855</b> |

|                                    | 2020                             |                   |                              | Total        |
|------------------------------------|----------------------------------|-------------------|------------------------------|--------------|
|                                    | Neither past<br>due nor impaired |                   | Past Due but<br>not impaired |              |
|                                    | High<br>Grade                    | Standard<br>Grade |                              |              |
| Financial Assets at amortized cost |                                  |                   |                              |              |
| Cash excluding cash on hand        | ₱30,578,396                      | ₱-                | ₱-                           | ₱30,578,396  |
| Trade Receivables (gross)          | -                                | 143,965,406       | -                            | 143,965,406  |
| Other Receivables (gross)          | -                                | -                 | 40,439,521                   | 40,439,521   |
| Investment in Debt Security        | 2,041,795                        | -                 | -                            | 2,041,795    |
| Refundable Deposit                 | 10,992,898                       | -                 | -                            | 10,992,898   |
| Subtotal                           | 43,613,089                       | 143,965,406       | 40,439,521                   | 228,018,015  |
| Financial Assets at FVOCI          | 21,209,285                       | -                 | -                            | 21,209,285   |
| Total                              | ₱64,822,374                      | ₱143,965,406      | ₱40,439,521                  | ₱249,227,300 |

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.

## 9. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are:

- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.
- To invest the capital in investments that meet the expected return with the commensurate level of risk exposure.

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, pay-off existing debt, return capital to shareholders or issue new shares.

The Group considers its equity as capital.

The Group monitors its financial leverage using the debt-to-equity which is computed as total liabilities divided by total equity as shown in the table below as of September 30:

|                      | 2021         | 2020         |
|----------------------|--------------|--------------|
| Total liabilities    | ₱759,664,304 | ₱569,259,829 |
| Total equity         | 156,325,242  | 152,759,487  |
| Debt-to-equity ratio | 4.86         | 3.73         |

The Group has remained steadfast to regain its equity funding. Several actions were taken to conserve and manage the capital structure (Note 2).

## 10. FAIR VALUE MEASUREMENT

**Carrying amounts and fair values by category**

The table below presents a comparison by category of carrying amounts and fair values of the Group's financial instruments for the quarters ended September 30, 2021 and 2020:

|                                    | 2021                |                     | 2020           |              |
|------------------------------------|---------------------|---------------------|----------------|--------------|
|                                    | Carrying Value      | Fair Value          | Carrying Value | Fair Value   |
| Financial Assets at amortized cost |                     |                     |                |              |
| Cash excluding cash on hand        | <b>₱24,662,216</b>  | <b>₱24,662,216</b>  | ₱30,578,396    | ₱30,578,396  |
| Trade and other receivables        | <b>177,372,770</b>  | <b>177,372,770</b>  | 184,574,151    | 184,574,151  |
| Investment in debt security        | -                   | -                   | 2,041,795      | 2,041,795    |
| Refundable deposits                | <b>11,560,996</b>   | <b>11,560,996</b>   | 10,992,898     | 10,992,898   |
| Subtotal                           | <b>213,595,982</b>  | <b>213,595,982</b>  | 228,187,240    | 228,187,240  |
| Financial Assets at FVOCI          | <b>20,921,885</b>   | <b>20,921,885</b>   | 21,209,285     | 21,209,285   |
| Total                              | <b>234,517,867</b>  | <b>234,517,867</b>  | 249,396,525    | 249,396,525  |
| Financial Liabilities              |                     |                     |                |              |
| Accounts payable & accrued expense | <b>407,499,730</b>  | <b>407,499,730</b>  | 427,552,259    | 427,552,259  |
| Lease Liability                    | <b>68,862,096</b>   | <b>68,862,096</b>   | 75,085,612     | 75,085,612   |
| Due to related parties             | <b>274,361,112</b>  | <b>274,361,112</b>  | 58,860,981     | 58,860,981   |
| Total                              | <b>₱750,722,938</b> | <b>₱750,722,938</b> | ₱561,498,852   | ₱561,498,852 |

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

***Current financial assets and liabilities***

Due to the short-term nature of the transactions, the carrying values of cash, receivables, refundable deposits, accounts payable and accrued expenses, due to related parties and current portion of long-term debt approximate their fair values.

***Financial assets at FVOCI***

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

***Financial assets at amortized cost***

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

***Due from/to related parties.*** The carrying amounts of these related party transactions approximate their fair values.

**Fair value hierarchy**

Financial assets and financial liabilities measured at fair value in the consolidated statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy Group's financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for asset or liability that are not based on observable market data (unobservable inputs).

The following table summarizes the fair value hierarchy of the Group's financial assets and liabilities, which are measured at fair value or requires disclosure as prescribed by other PFRS, as at September 30, 2021 and 2020:

|                                       | 2021               |                     | 2020        |                     |
|---------------------------------------|--------------------|---------------------|-------------|---------------------|
|                                       | Level 1            | Level 3             | Level 1     | Level 3             |
| Financial assets at amortized cost    |                    |                     |             |                     |
| Cash                                  | <b>₱24,837,614</b> | <b>₱-</b>           | ₱30,784,396 | ₱-                  |
| Trade and other receivables, net      | -                  | <b>177,372,770</b>  | -           | 184,574,151         |
| Debt investments                      | -                  | -                   | 2,041,795   | -                   |
| Refundable deposits                   | -                  | <b>11,560,996</b>   | -           | 10,992,898          |
| Subtotal                              | <b>24,837,614</b>  | <b>188,933,766</b>  | 32,826,191  | 195,567,049         |
| Financial assets at FVOCI             | <b>20,921,885</b>  | -                   | 21,209,285  | -                   |
| Total                                 | <b>45,759,499</b>  | <b>188,933,766</b>  | 54,035,476  | 195,567,049         |
| Financial liabilities                 |                    |                     |             |                     |
| Accounts payable and accrued expenses | -                  | <b>407,499,730</b>  | -           | 427,552,259         |
| Lease liability                       | -                  | <b>68,862,096</b>   | -           | 75,085,612.00       |
| Due to related parties                | -                  | <b>274,361,112</b>  | -           | 58,860,981          |
| Total                                 | <b>₱-</b>          | <b>₱750,722,938</b> | <b>₱-</b>   | <b>₱561,498,852</b> |

As at September 30, 2021 and 2020, there are no financial assets or financial liabilities measured at fair value. There were no transfers between Level 1, Level 2, and Level 3 fair value measurements in 2021 and 2020.

#### Financial instruments not measured at fair value for which fair value is disclosed

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short-term duration.

The fair values of financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability base of the instrument where the significant inputs required to determine fair value of such instruments are not based on observable market data.

### **11. CASH**

Details of cash are as follows as of September 30:

|               | 2021               | 2020               |
|---------------|--------------------|--------------------|
| Cash on hand  | <b>₱175,398</b>    | ₱206,000           |
| Cash in banks | <b>24,662,216</b>  | 30,578,396         |
|               | <b>₱24,837,614</b> | <b>₱30,784,396</b> |

Cash in banks earn interest at the respective bank deposit rates. Interest income from banks amounted to ₱80,844 and ₱156,116 as of September 30, 2021 and 2020, respectively.

### **12. TRADE AND OTHER RECEIVABLES**

Details of receivables are as follows as of September 30:

|                                  | 2021                 | 2020                |
|----------------------------------|----------------------|---------------------|
| Notes receivables                | <b>₱143,865,021</b>  | ₱143,865,021        |
| Trade receivables                | <b>138,048,010</b>   | 143,965,409         |
| Due from affiliates (Note 25)    | <b>5,308,706</b>     | 5,308,916           |
| Others receivables               | <b>40,673,877</b>    | 40,439,521          |
|                                  | <b>327,895,614</b>   | 333,578,866         |
| Less allowance for probable loss | <b>(150,522,844)</b> | (149,004,715)       |
|                                  | <b>₱177,372,770</b>  | <b>₱184,574,151</b> |

Trade receivables are non-interest bearing and are generally on 30 to 60 days' credit terms.

The notes receivable bear interest at 3.5% per annum and are payable in 365 days on demand, subject to renewal upon mutual consent. Notes receivable are considered impaired and covered with allowance for probable losses.

Due from related parties are noninterest bearing and have no fixed repayment terms.

Other receivables pertain to advances subject for liquidation.

The movements in the allowance for probable losses follow:

|                              | 2021                | 2020         |
|------------------------------|---------------------|--------------|
| Balance at beginning of year | <b>₱149,004,715</b> | ₱148,129,986 |
| Provision for the year       | <b>1,518,129</b>    | 874,729      |
| Balance at end of year       | <b>₱150,522,844</b> | ₱149,004,715 |

### **13. OTHER CURRENT ASSETS, NET**

Details are as follows as of September 30:

|                                     | 2021               | 2020        |
|-------------------------------------|--------------------|-------------|
| Creditable withholding taxes        | <b>₱9,301,015</b>  | ₱9,300,295  |
| Input taxes                         | <b>9,046,041</b>   | 8,408,996   |
| Refundable deposits                 | <b>124,898</b>     | 4,350,801   |
| Prepayments and others              | <b>18,565,026</b>  | 17,489,070  |
|                                     | <b>37,036,979</b>  | 39,549,162  |
| Less: allowance for probable losses | <b>14,336,879</b>  | 12,886,123  |
|                                     | <b>₱22,700,100</b> | ₱26,663,039 |

### **14. ASSET HELD FOR SALE**

Asset held for sale amounting to ₱572,478,305 and ₱363,931,556 as of September 30, 2021 and 2020, respectively, which constitutes 62.50% and 50.40% of the Group's total assets as of September 30, 2021 and 2020, respectively, represents advances to Polymax, the Group'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. The realization of the Group's advances to Polymax and the settlement of Polymax's past due liabilities related to the asset for sale, for which the Group is jointly and severally liable, are dependent on whether sufficient cash flows can be generated from the sale of Polymax's remaining 20% interest in NPCA, which is for sale. In this regard and to ensure the recoverability of the Group's advances to Polymax, the Group's major stockholders issued a letter of comfort in favor of the Group on September 30, 2014 and was reiterated on April 10, 2015.

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

In September 30, 2021 and 2020, the Parent Company made additional collections of the advances from Polymax amounting to ₱27,596,530 and ₱2,254,272, 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 pertain to past due liabilities, which were obtained to finance the purchase of 100% ownership interest in NPCA. The Parent Company is jointly and severally liable with Polymax with respect to these past due liabilities.

### **15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

As of September 30, the account consists of:

|                                               | 2021               | 2020        |
|-----------------------------------------------|--------------------|-------------|
| At acquisition cost                           | <b>₱16,270,963</b> | ₱16,270,963 |
| Cumulative fair value gain (loss) – in equity | <b>4,650,922</b>   | 4,938,322   |
| Total                                         | <b>₱20,921,885</b> | ₱21,209,285 |

The investment in securities consists of investment in shares of stock of a publicly listed Group whose fair value is based on published prices on Philippine Stock Exchange; and unquoted equity investment carried at cost.

#### 16. FINANCIAL ASSETS AT AMORTIZED COST

During 2019, the Company invested with Philippine Depository and Trust Corporation (PDTCT) bonds through Security Bank. The bond has a face value of 2,000,000 with an interest rate of 4.50% and will mature on June 28, 2021.

Carrying amount of the bond investment on September 30, 2021 and 2020 amounted to nil and ₱2,041,795, respectively. On 2020, the Group terminated the bond investment for total proceeds of ₱2,038,632.

#### 17. PROPERTY AND EQUIPMENT, NET

As of September 30, this account consists of the following:

| September 30, 2021              | Leasehold<br>Improvements | Machinery<br>and<br>Equipment | Office<br>Furniture,<br>Fixtures &<br>Equipment | IT<br>Infrastructures | Right-Of-Use<br>Asset | Total        |
|---------------------------------|---------------------------|-------------------------------|-------------------------------------------------|-----------------------|-----------------------|--------------|
| <b>Cost</b>                     |                           |                               |                                                 |                       |                       |              |
| Balances at beginning of year   | ₱2,778,558                | ₱28,284,724                   | ₱17,874,494                                     | ₱296,141              | ₱129,512,590          | ₱178,746,507 |
| Additions/(Disposals)           | 2,751,803                 | 6,828,408                     | 2,103,150                                       | -                     | -                     | 11,683,362   |
| Balances at end of year         | 5,530,361                 | 35,113,132                    | 19,977,644                                      | 296,141               | 129,512,590           | 190,429,869  |
| <b>Accumulated Depreciation</b> |                           |                               |                                                 |                       |                       |              |
| Balances at beginning of year   | 2,511,769                 | 24,275,167                    | 16,167,862                                      | 190,342               | 63,454,365            | 106,599,505  |
| Depreciation                    | 582,222                   | 1,982,991                     | 1,095,178                                       | 52,898                | -                     | 3,713,290    |
| Additions/(Disposals)           | -                         | -                             | 589                                             | -                     | -                     | 589          |
| Balances at end                 | 3,093,991                 | 26,258,158                    | 17,263,629                                      | 243,240               | 63,454,365            | 110,313,385  |
| Net book value                  | ₱2,436,370                | ₱8,854,974                    | ₱2,714,015                                      | ₱52,901               | ₱66,058,225           | ₱80,116,484  |

| September 30, 2020              | Leasehold<br>Improvements | Machinery<br>and<br>Equipment | Office<br>Furniture,<br>Fixtures &<br>Equipment | IT<br>Infrastructures | Right-Of-Use<br>Asset | Total        |
|---------------------------------|---------------------------|-------------------------------|-------------------------------------------------|-----------------------|-----------------------|--------------|
| <b>Cost</b>                     |                           |                               |                                                 |                       |                       |              |
| Balances at beginning of year   | ₱2,622,377                | ₱27,759,760                   | ₱17,136,887                                     | ₱296,141              | ₱106,304,776          | ₱154,119,941 |
| Additions/(Disposals)           | 156,181                   | 141,036                       | 689,267                                         | -                     | -                     | 986,484      |
| Balances at end of year         | 2,778,558                 | 27,900,796                    | 17,826,154                                      | 296,141               | 106,304,776           | 155,106,425  |
| <b>Accumulated Depreciation</b> |                           |                               |                                                 |                       |                       |              |
| Balances at beginning of year   | 2,124,403                 | 22,450,810                    | 15,042,518                                      | 119,811               | 32,798,271            | 72,535,813   |
| Depreciation                    | -                         | -                             | -                                               | -                     | -                     | -            |
| Additions/(Disposals)           | 308,908                   | 1,354,424                     | 865,923                                         | 52,898.51             | -                     | 2,582,154    |
| Balances at end                 | 2,433,311                 | 23,805,234                    | 15,908,441                                      | 172,710               | 32,798,271            | 75,117,967   |
| Net book value                  | 345,246                   | 4,095,562                     | 1,917,713                                       | 123,431               | 73,506,505            | 79,988,458   |

For both quarters 2021 and 2020, the Group has determined that there is no indication that an impairment loss has occurred on its property and equipment.

In 2019, the Company sold transportation equipment with a total net book value of ₱89,898 for net proceeds of ₱387,200, which resulted to a net gain on disposal amounting to ₱297,302.

Depreciation expense is recognized under cost of services and general and administrative expense for the 3rd quarter to wit:

|                                             | 2020              | 2019            |
|---------------------------------------------|-------------------|-----------------|
| Cost of services (Note 27)                  | ₱-                | ₱-              |
| General & administrative expenses (Note 29) | 1,406,926         | 822,053         |
|                                             | <b>₱1,406,926</b> | <b>₱822,053</b> |

## 18. OTHER NONCURRENT ASSETS

As of September 30, this account composed of the following:

|                                           | 2021               | 2020              |
|-------------------------------------------|--------------------|-------------------|
| Refundable deposits – non-current portion | <b>₱11,436,098</b> | ₱6,642,097        |
| Intangible assets                         | <b>567,858</b>     | 773,603           |
| Total                                     | <b>₱12,003,956</b> | <b>₱7,415,700</b> |

Intangible assets pertain to non-exclusive software license costs for use in MCLSI's warehouse management system.

The carrying amount of intangible assets as of September 30, 2021 is as follows:

| <u>Particulars</u>               | <u>Beginning Balances</u> | <u>Additions</u> | <u>Ending Balances</u> |
|----------------------------------|---------------------------|------------------|------------------------|
| <b>Cost:</b>                     |                           |                  |                        |
| Short messaging                  | ₱135,135                  | -                | ₱135,135               |
| Warehouse management system      | 1,309,910                 | -                | 1,309,910              |
| Caerus accounting system         | 1,025,000                 | -                | 1,025,000              |
| SAP Business one                 | 2,590,039                 | 75,000           | 2,665,039              |
| <b>Total</b>                     | <b>5,060,084</b>          | <b>75,000</b>    | <b>5,135,084</b>       |
| <b>Accumulated Amortization:</b> |                           |                  |                        |
| Short messaging                  | 135,135                   | -                | 135,135                |
| Warehouse management system      | 1,309,910                 | -                | 1,309,910              |
| Caerus accounting system         | 1,025,000                 | -                | 1,025,000              |
| SAP Business one                 | 1,720,134                 | 377,048          | 2,097,182              |
| <b>Total</b>                     | <b>4,190,179</b>          | <b>377,048</b>   | <b>4,567,227</b>       |
| <b>Carrying amount</b>           | <b>₱869,905</b>           |                  | <b>₱567,858</b>        |

The carrying amount of intangible assets as of September 30, 2020 is as follows:

| <u>Particulars</u>               | <u>Beginning Balances</u> | <u>Additions</u> | <u>Ending Balances</u> |
|----------------------------------|---------------------------|------------------|------------------------|
| <b>Cost:</b>                     |                           |                  |                        |
| Short messaging                  | ₱135,135                  | ₱-               | ₱135,135               |
| Warehouse management system      | 1,309,910                 | -                | 1,309,910              |
| Caerus accounting system         | 1,025,000                 | -                | 1,025,000              |
| SAP Business one                 | 1,825,646                 | -                | 1,825,646              |
| Payroll System                   | -                         | 651,786          | 651,786                |
| <b>Total</b>                     | <b>4,295,691</b>          | <b>651,786</b>   | <b>4,947,477</b>       |
| <b>Accumulated Amortization:</b> |                           |                  |                        |
| Short messaging                  | 135,135                   | -                | 135,135                |
| Warehouse management system      | 1,309,910                 | -                | 1,309,910              |
| Caerus accounting system         | 1,025,000                 | -                | 1,025,000              |
| SAP Business one                 | 1,290,380                 | 341,028          | 1,631,408              |
| Payroll System                   | -                         | 72,421           | 72,421                 |
| <b>Total</b>                     | <b>3,760,425</b>          | <b>413,449</b>   | <b>4,173,874</b>       |
| <b>Carrying amount</b>           | <b>₱535,266</b>           | <b>₱238,337</b>  | <b>₱773,603</b>        |

Intangible assets which have been fully amortized were due to MCLSI's management assessment that these will no longer provide a future economic benefit to the Group.

The Group has no intangible assets pledged as security for any liability and has no outstanding contractual commitments to acquire certain intangible assets.

## 19. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Details of this account are shown below as of Sept 30:

|                           | 2021                | 2020         |
|---------------------------|---------------------|--------------|
| Current Portion           |                     |              |
| Trade Payables            | <b>₱70,060,443</b>  | ₱88,306,287  |
| Accrued Expenses          | <b>176,934,785</b>  | 178,160,535  |
| Other current liabilities | <b>37,065,699</b>   | 37,646,634   |
| <b>Total</b>              | <b>284,060,927</b>  | 304,113,456  |
| Non-Current Portion       |                     |              |
| Accrued Expenses          | <b>123,438,803</b>  | 123,438,803  |
| <b>Total</b>              | <b>₱407,499,730</b> | ₱427,552,259 |

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

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

Provisions relate to pending claims jointly and severally against the Group and Polymax and pending claims and tax assessment solely against the Group. 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.

The Parent Company reclassified to non-current portion the accruals made which pertains to management fee and reserve for contingency BIR amounting to ₱39,685,406 and ₱83,753,397, respectively. These are not expected to be settled within one year or the Group's operating cycle, whichever is longer.

Other liabilities mainly pertain to payable to government agencies.

These liabilities are unsecured and noninterest-bearing.

## **20. LEASE LIABILITY**

Lease liability relates to liability recognized in relation to the adoption of PFRS 16. As of September 30, 2021 and 2020, the Group's determined incremental rate used is 5%.

|              | 2021               | 2020        |
|--------------|--------------------|-------------|
| Current      | <b>₱34,051,307</b> | ₱25,452,454 |
| Noncurrent   | <b>34,810,789</b>  | 49,633,157  |
| <b>Total</b> | <b>₱68,862,096</b> | ₱75,085,611 |

## **21. DUE TO RELATED PARTIES**

Details of this account are as follows as of September 30:

|                               | 2021                | 2020        |
|-------------------------------|---------------------|-------------|
| Acesite Phils Hotel Corp      | <b>₱5,627,202</b>   | ₱5,627,202  |
| The Wellex Group, Inc         | -                   | 52,876,888  |
| Philippine Estate Corporation | <b>268,260,352</b>  | -           |
| Others                        | <b>473,558</b>      | 356,891     |
| <b>Total</b>                  | <b>₱274,361,112</b> | ₱58,860,981 |

The other amounts due to related parties pertain to unsecured and noninterest bearing advances provided to the Group to finance its working capital requirements, capital expenditures, petrochemical project support and for other investments and have no definite repayment terms.

## **22. INCOME TAXES**

On March 26, 2021, the Republic Act (RA) 11534, known as “The Corporate Recovery or Tax incentives for Enterprises Act” (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Company are as follow:

1. Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5,000,000 and with total assets not exceeding P100,000,000, excluding land on which the particular business entity’s office, plant, and equipment are situated during the taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
2. Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 30, 2023;
3. Percentage tax reduced from 3% to 1% effective July 1, 2020, to June 30, 2023; and
4. The imposition of improperly accumulated earnings is repealed.

## **23. SHARE CAPITAL**

The Group’s capital stock as of September 30 consists of the following common shares:

|                                                                  | 2021                | 2020         |
|------------------------------------------------------------------|---------------------|--------------|
| Class “A” – ₱1 par value                                         |                     |              |
| Authorized – 720,000,000 shares with par value of ₱1             | <b>₱720,000,000</b> | ₱720,000,000 |
| Issued and outstanding – 183,673,470 shares with par value of ₱1 | <b>183,673,470</b>  | 183,673,470  |
| Number of equity holders                                         | <b>629</b>          | 629          |
| Class “B” – ₱1 par value                                         |                     |              |
| Authorized – 480,000,000 shares with par value of ₱1             | <b>480,000,000</b>  | 480,000,000  |
| Issued and outstanding – 122,448,979 shares with par value of ₱1 | <b>122,448,979</b>  | 122,448,979  |
| Number of equity holders                                         | <b>404</b>          | 404          |
| Additional Paid-in Capital                                       | <b>₱3,571,923</b>   | ₱3,571,923   |

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

On July 25, 2003, the Group’s stockholders approved the increase in authorized capital stock from ₱1.2 billion consisting of 1.2 billion shares to ₱5 billion consisting of 5 billion shares, both with par value of ₱1 per share. The increase did not push through because of dispute in the acquisition of the Petrochemical Project, which was finally settled in 2013 as discussed in Note 2. After final settlement of the dispute, the Group’s management has decided to pursue the said increase in authorized capital stock of the Group.

A regular meeting of the stockholders of Metro Alliance Holdings & Equities Corp. was held on November 16, 2018 for the purpose of, among other purposes, securing the consent of the stockholders for the amendment of the Articles of Incorporation, specifically, Article ninth to declassify common shares class A and B shares resulting to one common shares and also Article sixth to increase the number of directors from seven to nine. These amendments were approved by the stockholders and/or their represented proxy during said the meeting and was filed to SEC last May 8, 2019. As of September 30, 2021, the amendment is pending for SEC approval.

## **24. SALES OF SERVICES**

For the 3rd quarter ended September 30, 2021 and 2020, the account comprises of sale of services amounting to ₱75,516,312 and ₱61,326,698, respectively.

## **25. COST OF SERVICES**

Details of this account are shown below for the 3rd quarter September 30:

|                                   | 2021               | 2020        |
|-----------------------------------|--------------------|-------------|
| Personnel costs                   | <b>₱30,324,083</b> | ₱24,117,505 |
| Rent and utilities                | <b>16,779,670</b>  | 16,268,742  |
| Transportation and Travel         | <b>8,712,154</b>   | 3,837,381   |
| Outside services                  | <b>3,720,168</b>   | 4,666,369   |
| Security services                 | <b>2,258,388</b>   | 2,296,829   |
| Communication and office supplies | <b>191,306</b>     | 103,153     |
| Repairs and maintenance           | <b>277,703</b>     | 36,785      |
| Others                            | <b>247,479</b>     | 243,689     |
|                                   | <b>₱62,510,951</b> | ₱51,970,455 |

## **26. OTHER INCOME (EXPENSES), NET**

Details of this account are shown below for the 3rd quarter September 30:

|                 | 2021            | 2020     |
|-----------------|-----------------|----------|
| Interest income | <b>₱65,197</b>  | ₱128,927 |
| Other income    | <b>144,657</b>  | 36,000   |
| Miscellaneous   | -               | -        |
|                 | <b>₱209,854</b> | ₱164,927 |

## **27. GENERAL AND ADMINISTRATIVE EXPENSE**

Details of this account are shown below for the 3rd quarter of September:

|                            | 2021              | 2020              |
|----------------------------|-------------------|-------------------|
| Professional fee           | <b>₱1,547,145</b> | ₱637,796          |
| Entertainment              | <b>348,234</b>    | 386,867           |
| Personnel cost             | <b>3,207,098</b>  | 2,720,788         |
| Rent and utilities         | <b>333,086</b>    | 276,450           |
| Amortization               | <b>110,478</b>    | 33,458            |
| Depreciation               | <b>1,406,926</b>  | 822,053           |
| Interest expense           | -                 | -                 |
| Communication and supplies | <b>1,461,935</b>  | 1,181,913         |
| Transportation and travel  | <b>197,748</b>    | 169,464           |
| Taxes and Licenses         | <b>430,916</b>    | 532,185           |
| Insurance                  | <b>35,054</b>     | 61033.07          |
| Miscellaneous              | <b>136,872</b>    | -                 |
| Representation             | <b>54,395</b>     | -                 |
| Others                     | <b>342,332</b>    | <b>(8,330)</b>    |
|                            | <b>₱9,612,218</b> | <b>₱6,813,678</b> |

## **28. RETIREMENT BENEFIT COSTS**

The Parent Company has an unfunded, non-contributory defined benefit retirement plan providing retirement benefits to its regular employee. MCLSI has a funded, non-contributory defined benefit requirement plan providing retirement benefits to all its regular employees. An independent actuary, using the projected unit credit method, conducts an actuarial valuation of MCLSI's fund. The accrued actuarial liability is determined according to the plan formula taking into account the years of service rendered and compensation of covered employees as of valuation date. In 2020, the Board of Directors of the Parent Company approved the write-off of the remaining retirement benefit payable of the Parent Company.

Accrued retirement benefits costs amounted to ₱8,636,254 and ₱7,760,977 as of September 30, 2021 and 2020, respectively.

## **29. RELATED PARTY TRANSACTIONS**

### **a. Due from/to related parties**

In 2020, the Parent Company acknowledged its obligation to PHES, an affiliate who granted an interest-bearing, due, and demandable loan in favor of the Parent Company.

The other amounts due to related parties pertain to unsecured and noninterest bearing advances provided to the Group to finance its working capital requirements, capital expenditures, petrochemical project support and for other investments and have no definite repayment terms.

b. Payables for shared operating expenses

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

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

c. Compensation of key management personnel follows:

Key management personnel are those person having authority and responsibility for planning and directing and controlling the activities of the Group, directly or indirectly.

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

d. The related relationships and amounts applicable to the Group's transactions with related parties as of September 30, 2021 and 2020 are as follows:

| Name of the related party                | Relationship | Nature of transaction                   | Country of incorporation |
|------------------------------------------|--------------|-----------------------------------------|--------------------------|
| The Wellex Group, Inc.                   | Affiliate    | Holding company                         | Philippines              |
| Metro Combined Logistics Solutions, Inc. | Subsidiary   | Third party logistics and warehousing   | Philippines              |
| Polymax Worldwide Limited                | Affiliate    | Series of acquisition transaction       | British Virgin Island    |
| Acesite (Phils.) Hotel Corporation       | Affiliate    | Hotel business and other accommodations | Philippines              |
| Philippine Estate Corporation            | Affiliate    | Holding and developing real estate      | Philippines              |

|                                       |                                                                              | Transactions |             | Outstanding Balance |             |
|---------------------------------------|------------------------------------------------------------------------------|--------------|-------------|---------------------|-------------|
| Terms & Conditions                    |                                                                              | 2021         | 2020        | 2021                | 2020        |
| <b>Due from Related Parties</b>       |                                                                              |              |             |                     |             |
| The Wellex Group, Inc                 | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | ₱-           | ₱-          | ₱5,258,409          | ₱5,258,609  |
| Others                                | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | -            | -           | 50,297              | 50,307      |
| Total                                 |                                                                              | -            | -           | 5,308,706           | 5,308,916   |
| <b>Advances (Asset held for sale)</b> |                                                                              |              |             |                     |             |
| Polymax                               | Represents 20% share investment in NPCA                                      | (4,596,530)  | (2,254,272) | 572,478,305         | 363,931,556 |
| <b>Due to related parties</b>         |                                                                              |              |             |                     |             |
| Acesite (Phils) Hotel Corp            | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | -            | -           | 5,627,202           | 5,627,202   |

|                               |                                                                              |                |                |                    |                   |
|-------------------------------|------------------------------------------------------------------------------|----------------|----------------|--------------------|-------------------|
| Philippine Estate Corporation | Secured, no impairment, no guarantee, interest bearing                       |                |                | <b>268,260,352</b> | -                 |
| Wellex Mining Corp            | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | -              | -              | -                  | -                 |
| The Wellex Group, Inc         | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | -              | -              | -                  | 52,876,888        |
| Others                        | Non-Interest bearing and unsecured borrowing; Expected to be settled in cash | <b>207,654</b> | 297,366        | <b>473,559</b>     | 356,891           |
| <b>Total</b>                  |                                                                              | <b>207,654</b> | <b>297,366</b> | <b>274,361,112</b> | <b>58,860,981</b> |

The Parent Company issued a promissory note and unconditionally promise to pay Philippine Estate Corporation, its affiliate, the principal amount of ₱263,000,345 and its legal interest of 2% per annum.

The aforesaid amount pertains to advances made by the affiliate in favor of the Parent Company. This is an interest-bearing, due, and demandable loan wherein payment was not made until June 2020. Thus, an annual interest was incurred in December 31, 2020 amounting to ₱5,260,007, and totaled to ₱268,260,352 at the end of December 31, 2020, which is payable for five years (Note 21).

In 2020, the Board of Directors approved, the offset of the Parent Company's collectibles from Polymax (Asset Held for Sale) in the amount of ₱52,876,888, with the Parent Company's payable to The Wellex Group, Inc. Due notice was given to both parties. (Note 21).

### 30. BASIC INCOME (LOSS) PER SHARE

Details of this account are shown below for the 3rd quarter of September 30:

| Particulars                                                            | 2021               | 2020             |
|------------------------------------------------------------------------|--------------------|------------------|
| Net income/(loss) attributable to equity holders of the Parent Company | <b>₱1,225,248</b>  | ₱1,253,749       |
| Weighted average number of common shares                               | <b>306,122,449</b> | 306,122,449      |
| Basic income per share                                                 | <b>(₱0.0040)</b>   | <b>(₱0.0041)</b> |

### 31. SIGNIFICANT COMMITMENTS

#### Lease Agreements

##### *As a lessor*

MCLSI, the operating subsidiary of the Parent Company recognized rent income, for the quarter ended September 30, 2021 and 2020 ₱11,772,392 and ₱9,222,657, respectively.

##### *As a lessee*

The Group entered into several lease agreements covering its office premises and warehouses. Terms of the lease agreements range from 1 year to 5 years under renewable options. Other leases entered into include clauses to enable upward revision of the rental charged on an annual basis - based on prevailing market rates.

As permitted by PFRS 16, the Group applied the modified retrospective approach to existing operating leases which are capitalized under the new standard (i.e. retrospectively, with the cumulative effect recognized at the date of initial application as an adjustment to the opening balance of retained earnings with no restatement of comparative information in the financial statements).

Thus, in 2018, no restatement was made to the recognized rent expenses amounting to ₱35,490,383.

In 2019, the Group entered into lease agreements with terms ranging from 2 to 5 years, ending April 2020, May 2021 and October and November 2024. All are under renewable options.

Following the adoption of PFRS 16, the Group recognized right-of-use asset and lease liability over the life of the lease. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

As of September 30, 2021, the Group's right-of-use asset, net of accumulated depreciation, and lease liability amounted to ₱63,454,366 (Note 17) and ₱68,862,096 (Note 20), respectively.

### **Logistics Agreements**

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

### **COVID-19 Impact**

In early 2020, the world was adversely affected by the COVID-19, which was declared a pandemic by the World Health Organization. In a move to contain the COVID-19 outbreak, the Philippine government initiated directives to impose stringent social distancing measures and guidelines under different levels of community quarantine depending on the assessment of the situation in the numerous parts of the country. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve.

The Group's timeline for the commencement of the operations were delayed due to limited movement within the region and the start of monsoon season.

The overall impact of the COVID-19 pandemic is still uncertain and dependent on the progression of the virus and on actions taken by the government, businesses and individuals, which could result in different outcomes. Considering the evolving nature of the outbreak, the Group will continue to monitor the situation in subsequent periods.

## **32. OTHER MATTERS**

### **(a) Metro Alliance vs. Commissioner of Internal Revenue**

*Assessment for deficiency withholding taxes for the year 1989, 1990 and 1991*

On July 5, 2002, the Group received a decision from the Court of Tax Appeals (CTA) denying the Group's Petition for Review and ordering the payment of ₱83.8 million for withholding tax assessments for the taxable years 1989 to 1991. The Group 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 Group then appealed the decision of the CTA to the Court of Appeals (CA), which likewise denied the appeal and upheld the assessment against the Group. The Group, through its legal counsel, filed a Motion for Reconsideration with the CA in December 2003.

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

On April 26, 2006, the Group 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.

To date, the Parent Company has not received any order of Execution relative to this case. Accordingly, the related obligation is not currently determinable

### **(b) Metro Alliance and Philippine Estate Corporation vs. Philippine Trust Company, et al., Civil Case SCA#TG-05-2519, RTC Tagaytay City Branch 18**

*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*

On September 14, 2005, the Group (MAHEC) and Philippine Estate Corporation (PHES) filed a Civil Action for Declaratory Relief, Accounting, Reformation of Contracts, and Annulment in Decrease in Interest rates, Service Charge, Penalties and Notice of Sheriffs Sale, plus Damages with prayer for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction. The case stemmed from imminent extra-judicial foreclosure of four (4) mortgaged Tagaytay lots covered by Transfer Certificate of Title (TCT) Nos. T-355222, T-35523, T-35524 and T-35552 subject to the Real Estate Mortgage executed by MAHEC and PHES securing ₱280 million loan last December 2003.

On October 6, 2005, the Regional Trial Court (RTC) of Tagaytay City issued and granted the Writ of Preliminary Injunction (first injunction). The preliminary injunction issued by the RTC stopping the foreclosure was nullified by both Court of Appeals and Supreme Court, after which Philtrust proceeded to foreclose, and acquired those properties for only ₱165.8 million. When MAHEC and PHES failed to redeem, Philtrust consolidated title and Tagaytay registry issued new TCTs cancelling PHES' TCT. On October 10, 2011, MAHEC filed Notice *Lis Pendens* vs. four (4) new TCTs of Philtrust.

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

The Group was able to get the formal trial started and on-going. The Group's most important move was the presentation of a very competent real estate appraiser, realtor, Cesar Santos, who was able to successfully defend in court his ₱811.6 million valuation of the foreclosed Tagaytay properties. Trial hearings are on-going and it is now defendant Bank's turn to adduce evidence. Plaintiffs have closed their evidence presentation wherein all offered evidences were admitted, over the objections of defendant Bank. At the last hearing held on December 6, 2016, defendant Bank's star witness was subjected to Plaintiff's cross examination wherein they obtained many damaging admissions against the Bank. Plaintiff's counsels' cross-examination resumed at trial hearing last April 25, 2017.

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

On February 21, 2019, the defense presented its second witness, Mr. Godofredo Gonzales, an appraiser of Philippine Trust Group. However, the cross-examination of the witness was reset to June 27, 2019.

On October 17, 2019, Philtrust submitted a Formal Offer of Evidence in Regional Trial Court.

In 2020, the Parent Company already acknowledged the obligation to PHES, which was due and demandable on June 30, 2020. The Parent Company, however, failed to pay the amount on that date, for which, legal interest has been accrued at the end of the year. Total amount due to PHES is ₱268,260,352.

- (c) MAHEC, POLYMAX & WELLEX vs. Phil. Veterans Bank., et al., Civil Case #08-555, RTC Makati Branch 145 now SC GR 2405495 and 240513  
*Civil Action with Damages to Nullify the Foreclosure of Property*

The case is an injunction suit with damages filed on July 23, 2008 in RTC-Makati to nullify the foreclosure of Pasig lot securing a ₱350 million loan obtained by MAHEC, Polymax and Wellex. Initially, Temporary Restraining Order (TRO) and preliminary injunction was issued, but afterwards, it was lifted, enabling Philippine Veterans Bank (PVB) to foreclose. In successive certiorari cases that plaintiffs filed, both Court of Appeals (CA) and Supreme Court (SC) upheld PVB. Worse yet, due to major lapse of the plaintiff's original counsels, *lis pendens* on foreclosed Pasig lot was cancelled, and in March 2012, PVB sold the lots to Zen Sen Realty Development Corporation who got new Transfer Certificate of Title (TCT). The above case was consolidated with other case of affiliated Group with the same RTC. In 2013, Group's legal counsel brought Zen Sen Realty Development Corporation as defendant also, and prayed that the PVB sale to it be nullified. In October 2014, Group's legal counsel dropped Zen Sen Realty as an unnecessary defendant, after which DECISION was rendered vs. PVB

on January 9, 2015, declaring the ₱550M loan (total loan of MAHEC, Polymax, Wellex and other affiliated companies) as fully paid, and even over-paid; discharging all the mortgages, and voiding the 2012 sale made to Zen Sen. PVB was ordered to refund to plaintiffs the ₱3.25 million overpayment. PVB filed a motion for reconsideration which was denied. PVB filed Notice of Appeal to Court of Appeal on May 8, 2015, which the Group's legal counsel questioned as defective, but the RTC ruled against the Group in its May 12, 2015 Order. The consolidated case is now on appeal in the Court of Appeals as CA-GR CV #105323. Appellant-defendant Bank filed last December 2016 its Appellant's Brief. The Group's legal counsel is given 45 days to file their Brief and eventually requested for another 30 days extension to finish and file said Appellees' Brief.

Upon appeal thereof by both parties, the Court of Appeals rendered its Decision dated June 29, 2017, partly granting PVB's appeal, and declared that: (a) the legal interest of 12% per annum be applied to the principal amounts; and (b) that MAHEC, et al. remain liable to pay PVB the amount of ₱69.7 million as of November 2006. MAHEC, et al. filed their "Motion for Reconsideration" dated July 31, 2017. The Court of Appeals rendered its Amended Decision dated February 28, 2018, stating that the outstanding obligation of MAHEC, at al., if any, shall earn interest at 6% per annum from July 1, 2013 onwards, pursuant to Central Bank Circular No. 799. The Court of Appeals denied PVB's Motion for Reconsideration thereof in its Resolution dated July 2, 2018.

On August 24, 2018, MAHEC, et.al filed with the Supreme Court its "Petition for Review on Certiorari" dated August 22, 2018. This was consolidated with PVB's "Petition for Review" dated August 24, 2018, which was previously raffled to the Supreme Court's Third Division.

In G.R. No. 240495, Group received a copy of PVB's 'Comment/Opposition' dated October 30, 2019. On December 4, 2019, MAHEC, et al. filed "Motion to Admit Reply" with attached Reply, both dated November 28, 2019.

In G.R. No. 240513, MAHEC, et al. already "Comment (On the Petition for Review dated August 24, 2018)" dated August 30, 2019.

In a corollary case BCV-2011-175 at RTC Branch 19 of Bacoor, Cavite, the Parent Company sought to prevent the public auction of Real Estate mortgaged to PVB. On February 23, 2021, the case was set for the presentation of plaintiffs' evidence. However, the case was rescheduled on June 22, 2021 due to lack of return card of the notice of the hearing sent to defendant's counsel. It was again reset on September 14, 2021 as the court was placed on lockdown on June 22, 2021 due to COVID pandemic. However, on September 14, 2021, the hearing was cancelled again and the Parent Company is still waiting for notice for the next hearing date.

- (d) MAHEC, POLYMAX, Renato B. Magadia (Metro Group/plaintiffs) vs NPC International Limited, et al. (NPC Group/defendants) Civil Case No. R-PSG 19-02106, RTC Pasig City Branch 159  
*Corporate Mismanagement and Damages with Application for Temporary Restraining Order and Injunction*

On August 1, 2019, the Company filed a case for Mismanagement and Damages. This case stemmed from the gross mismanagement and gross negligence attributable to the NPC Group, in conspiracy with its appointed NPCA directors and management officers.

A joint venture was entered into by Metro Group and NPC Group, sometime in 2003 for the acquisition of the petrochemical plant. However, the joint venture did not make any money from its inception and during all of the 14 years of operation. NPCA, the joint venture company, did not record any net income from the time it was incorporated in 2005 until the present time, notwithstanding the supposed advantage of the parent and affiliates of the NPC Group having ready source of raw materials. The unexplained continuing inaction and nonchalance of the NPCA Management in the face of the mounting losses coupled with the unfettered control of the NPC Group on the operations of the Plant points to gross mismanagement amounting to criminal or reckless imprudence, or at the very least, civil negligence.

On August 13, 2019, the application for the issuance of a Temporary Restraining Order (TRO) filed by the Metro Group against the NPC Group was set for hearing. In support of their application, Metro Group presented its lone witness Mr. Renato Magadia.

On September 18, 2019, the plaintiffs filed an Urgent Omnibus Motion for Production of Documents and Request to Reset Preliminary Injunction Hearing. Thus, the preliminary injunction hearing set on September 26 was cancelled and reset to November 14, 2019. The defendants filed a Motion to Refer Dispute to Arbitration on October 15, 2019 due to the Stockholder's Agreement dated December 16, 2005. On the other hand, plaintiff's comment stated that the Settlement Agreement dated August 27, 2013 superseded the previous Stockholder's Agreement.

In November 11, 2019, Elma M. Rafallo-Lingan, the presiding judge, denied the Motion for Production/ Copying Documents and directed the defendant NPCA to furnish Annual Audited Financial Statements for the last ten years within 10 days from the date of said order.

Further, the defendants filed a Motion *Ad Cautelam* to drop Renato B. Magadia as Plaintiff. Renato B. Magadia, one of the plaintiffs in this case, died on October 18, 2019. Mr. Magadia joined in the action under the reasoning that he is a stockholder of NPCAC.

On February 3, 2020, Elma M. Rafallo-Lingan, Presiding Judge, ordered the Motion for Referral for Arbitration as denied. Meanwhile, the Motion *Ad Cautelam* to drop Renato B. Magadia as Plaintiff was granted.

Subsequently, the defendants filed a Petition for Certiorari and Prohibition with Urgent Application for the Issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction before the Court of Appeals. On December 18, 2020, the plaintiffs have filed their Comment through their legal representative. To date, the Parent Company has not received any order of Execution relative to this case.

- e) There are also other pending minor 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.

**METRO ALLIANCE HOLDINGS & EQUITIES CORP.  
AND SUBSIDIARIES  
APPENDIX A – FINANCIAL SOUNDNESS**

|                                       | <b>Jan-Sep 30<br/>2021</b> | <b>Jan-Sep 30<br/>2020</b> |
|---------------------------------------|----------------------------|----------------------------|
| <b>Profitability ratios:</b>          |                            |                            |
| Return on assets                      | <b>0.95%</b>               | 1.33%                      |
| Return on equity                      | <b>5.56%</b>               | 6.28%                      |
| Net profit margin                     | <b>4.08%</b>               | 4.78%                      |
| <b>Solvency and liquidity ratios:</b> |                            |                            |
| Current ratio                         | <b>69.37%</b>              | 62.31%                     |
| Debt to equity ratio                  | <b>485.95%</b>             | 372.65%                    |
| Quick Ratio                           | <b>7.66%</b>               | 7.93%                      |
| <b>Financial leverage ratio:</b>      |                            |                            |
| Asset to equity ratio                 | <b>585.95%</b>             | 472.65%                    |
| Debt to asset ratio                   | <b>82.93%</b>              | 78.84%                     |
| Interest rate coverage ratio          | <b>NIL</b>                 | NIL                        |

**METRO ALLIANCE HOLDINGS & EQUITIES CORP. AND SUBSIDIARIES****RECEIVABLES AGING SUMMARY****As of September 30, 2021**

|                                 | <b>Current</b>     | <b>0 - 30</b>      | <b>31 - 60</b>     | <b>61 - 90</b>    | <b>91 - 120</b> | <b>121+</b>         | <b>Total</b>         |
|---------------------------------|--------------------|--------------------|--------------------|-------------------|-----------------|---------------------|----------------------|
| Notes receivable                | <b>P-</b>          | <b>P-</b>          | <b>P-</b>          | <b>P-</b>         | <b>P-</b>       | <b>P143,865,021</b> | <b>P143,865,021</b>  |
| Trade receivable                | <b>42,090,507</b>  | <b>32,346,509</b>  | <b>16,642,456</b>  | <b>9,139,225</b>  | <b>773,606</b>  | <b>37,055,707</b>   | <b>138,048,010</b>   |
| Due from affiliates             |                    |                    |                    |                   |                 | <b>5,308,706</b>    | <b>5,308,706</b>     |
| Others                          |                    |                    |                    |                   |                 | <b>40,673,877</b>   | <b>40,673,877</b>    |
| Subtotal                        | <b>42,090,507</b>  | <b>32,346,509</b>  | <b>16,642,456</b>  | <b>9,139,225</b>  | <b>773,606</b>  | <b>226,903,311</b>  | <b>327,895,614</b>   |
| Allowance for doubtful accounts |                    |                    |                    |                   |                 |                     | <b>(150,522,844)</b> |
|                                 | <b>P42,090,507</b> | <b>P32,346,509</b> | <b>P16,642,456</b> | <b>P9,139,225</b> | <b>P773,606</b> | <b>P226,903,311</b> | <b>P177,372,770</b>  |